WHITE HOUSE MINI CONFERENCE ON
A NATIONAL ENERGY POLICY

Financiers, Bankers and Investors -- March 16, 1977
2 – 5 p.m.

Summary

The March 16 afternoon session of the White House energy conference featured financiers, bankers and investors and dealt primarily with the economic aspects of the energy crisis.

The following is a summary of the comments made, organized by the issues outlined in the Public Notice printed in the Federal Register inviting public comment and views regarding a National Energy Policy.

Conservation

In his opening statement, Mr. Ralph B. Gilpatrick of the American Bankers Association urged that conservation measures be "encouraged, rewarded, and compelled." He added that a "realistic price structure" for fuel would be the most effective means of encouraging energy conservation.

Mr. Richard Knight of the National Savings and Loan League said his organization has a "real stake" and "strong interest" in home conservation measures, since savings and loan institutions finance about 60 percent of all residences. He noted that in many cases mortgage payments now exceed utility payments, which is of some concern.

Mr. Thomas Dolle, of the same organization, elaborated on Mr. Knight's last point. He explained that many families, faced with rising energy costs (of roughly 10 percent a year), cannot pay both their mortgages and utility bills, so they pay only the latter to avoid a cut-off of service. He said the bad collection rate on mortgages and home improvement loans is increasing and while there have not been massive defaults, this is what potentially could happen.

Financing home insulation prompted many comments.

On this, Mr. Dolle said that insulation is a big investment for consumers ("it's not something someone's just going to go down to a hardware store on a Saturday and buy"), but he pointed out that the cost would mean a relatively small loan for the financial community.

Mr. Gilpatrick of the American Bankers Association said that financial institutions are "ready, willing and able" to finance loans for installation of energy conservation equipment.

Mr. David Goodman of the Morgan Stanley Company (who is also on the financial advisory committee of the Federal Energy Administration) noted that not many consumers have actually made the investment to insulate their homes. He said that although consumers would get the $300 to $500 it costs to insulate a home back in a couple of years (considering the prices of fuel), "it hasn't worked on people's initiative."

Mr. Dolle of the National Savings and Loan League pointed out that consumers who "did their part" and have put insulation in their homes are now "furious" since they expected their heating bills to drop. "But that's garbarge," he said, noting insulation serves only as an "arrestive factor." Consumers' bills will still go up, but not as much as would otherwise have been the case, he explained.

Reacting to the idea of federally-guaranteed loans for home energy conservation improvements, Mr. Goodman of Morgan Stanley said he advised relying on free market mechanisms instead. He did not feel that people would want to borrow to insulate their homes.

Also on the idea of federally-guaranteed loans, Mr. Dolle said that any Federal plsn should be flexible enough to take account of Federal as well as state regulations regarding savings and loan institutions, which he said "vary all over the map."

If the National Energy Policy were to contain federally-guaranteed loans, Mr. Knight of the National Savings and Loan League believed that a 10-year pay back period was reasonable, but he added there are many variables to consider.

On the extent of government involvement in encouraging home insulation be installed, Mr. Goodman of Morgan Stanley reiterated his position that "the free market and industry are more likely to be successful, rather than low-cost government loans, because people will not take them up." He urged giving industry a "profit incentive" to handle the problem.

The participants seemed to be more in favor of Federal assistance for energy conservation improvements to public schools rather than to individual citizens. Mr. Goodman thought it was a "perfect" situation for Federal assistance, "particularly if the school can't finance itself." He felt that the aid would be analogous to the Federal hot lunch program.

Mr. Dolle of the National Savings and Loan League agreed, saying there is a tie between the public sector and education which could be exercised, while the relationship between homeowners and the government is different.

Mr. Knight of the same organization and Mr. Reynolds Young of the American Bankers Association, who noted that the 14,000 banks his organization represents make over half of the construction loans and are involved in mortgage loans as is the National Savings and Loan League, both said the institutions they represent would go along with financing home improvements to meet any energy conservation standards for residences that might be imposed. However, both men did not feel it was the role of a financial institution to see that the standards were actually met. As Mr. Knight put it, "There should be no inspection responsibility for the lender."

Although there was some doubt expressed about the ability of the Department of Housing and Urban Development (HUD) to administer a Federal program for home energy conservation improvements, Mr. Knight of the National Savings and Loan League urged working with the agencies available and certainly in this case with HUD since it is "in the housing business." Mr. Knight did not believe that utility companies should have to shoulder the job of providing insulation (one alternative), noting that many have gotten out of the business of selling heating appliances to avoid additional loss if the customer defaults on his bill.

Mr. Goodman of Morgan Stanley believed that "a kernel of a business" exists involving energy conservation. (Consultant firms and selling conservation mechanisms were two kinds mentioned in the course of the discussion.) However, Mr. Goodman pointed out the Internal Revenue Service regulations might hamper such an industry and that "a lot more coordination" in the Federal Government would be needed than just by the proposed Energy Department.

In response to questioning on when industry would install more energy-efficient machines and processes, Mr. David LeFeve of Merrill-Lynch Corporation did not think this would occur until the price of fuels increases to the point where it is necessary to do so in order to maintain a profitable return. "It won't happen until it's worth it," he said. As it now is, Mr. LeFeve argued, energy is still relatively cheap for industry. "It's not a major part of their budgets." He said there would have to be higher prices before capital is put into energy-efficient industrial processes.

Another factor hindering this, Mr. LeFeve explained, is the lack of a definite energy plan by the Federal Government which, he said, "has impeded all kinds of capital investment." He said businessmen plan ahead and operate on their best guess of what the future will hold and so they would like to see a more predictable energy plan. "Then you would see capital movement."

Mr. Charles MacGuire of Merrill-Lynch expanded on this comment later, saying there is a capital shortage in this country which would exist even if there were no energy problem. He urged that there be a presidential advisor to deal with this problem.

Imported Energy

Mr. Gilpatrick of the American Bankers Association touched upon this point in his opening statement. He said his greatest concern is the United States increasing dependence on foreign oil, noting that before the 1973 Arab embargo, oil imports accounted for 35 percent of domestic consumption while they made up 42 percent of it last year and may be over 50 percent by the next decade. He believed this situation has a major impact on national defense and the country's economy.

On the question of building a reserve stockpile, Mr. LeFeve of Merrill-Lynch believed that it would not solve the long-term problem.

Supply Development

Mr. Gilpatrick commented on this point in his opening statement as well. He advocated accelerating production of oil resources which he believed had the potential for additional development. He said it is necessary to surmount environmental and government regulations, which he felt have hindered production. "We must sort out the real environmental concerns from obstructive ones."

Many of the participants in the panel discussion felt that production and supply of energy had been adversely affected by Federal price controls on petroleum and natural gas. Mr. LeFeve of Merrill-Lynch urged that controls be lifted. "Incentive is the answer on the supply side," he said. "Industry has learned from bitter experience to stay away from (governmentally-regulated fields)."

Mr. Goodman of Morgan Stanley also blamed government regulation and price controls for supply problems. He did not believe there had been any appreciable withholding of fuel by the industry, but there was "some slowness by industry to spend the dollars for exploration" since costs outweighed the return possible under regulated prices, he said. "It's not economicaly feasible at this point (for exploration and development of new fields) and it won't be until the price is higher." Mr. Goodman summed up his point by saying that through the elimination of the oil depreciation allowance, oil company taxes and price controls, the Federal Government had "disincentivized an incentive industry."

While arguing against price controls, Mr. Goodman did urge that there be a mechanism so that the impact of higher prices would not hit the consumer with a "bang" right away. One idea he mentioned was a windfall profits tax which he said would generate revenue that could be "plowed back" into stimulating energy production. He noted that even with controls, consumers would be hurt -- indeed, "a lot worse off" -- through a higher balance of trade and a higher rate of inflation which he believed would result. While urging some such mechanism "to get us over the two- to three-year gap," Mr. Goodman pointed out that the end result would have to be higher energy prices.

Mr. LeFeve of Merrill-Lynch echoed this point. He said that fuel prices would go up sooner or later. He added that while “we can’t protect the consumer indefinitely,” price de-control should be gradual.

Regarding governmental policies to stimulate production, Mr. Goodman felt that it would be appropriate for the Federal Government only to get involved to stimulate new “exotic technologies,” such as development of shale and coal gasification, through government-guaranteed loans. It is most important, he said, “to be tough with government” itself. “If energy is important and we have an Energy Department, then it should be a traffic cop to expedite (energy development) through other agencies.” He added, “Let’s keep priorities straight and make compromises to get the job done.”

<u>Environmental Considerations</u>

As Mr. Goodman’s comment above and one by Mr. Gilpatrick of the American Bankers Association on supply development (page 4) indicate, there was some feeling that environmental considerations should not be allowed to impede energy production. However, this was not extensively discussed.

<u>Federal Regulation</u>

As reported above, there was extensive discussion of the impact of Federal price controls on the supply of energy (see Supply Development).

In addition, several participants commented on the need for a definite, predictable Federal energy policy (see Mr. LeFeve’s comment on page 3).

Mr. Dolle of the National Savings and Loan League also commented on this. “Everyone is talking about energy, problems and conservation, but what is lacking is a national energy plan to identify with.” Then, Mr. Dolle said, people would know “what the Federal Government is thinking about” and so they “would be more inclined to take the next step forward.”

On the need for a definite energy policy, Mr. LeFeve of Merrill-Lynch noted that one form of certainty is that the industry might decide it’s not economical to produce some forms of energy. “That’s not what you want, though,” he told members of the Energy Policy and Planning Staff. But, he went on, that would be the result unless business is given a signal that the Government will make it feasible for industry to spend the money necessary to produce.

Mr. Goodman of Morgan Stanley agreed with the need for a predictable energy policy. Referring to the April 15th deadline for the Administration to announce price regulations on oil from the Alaskan pipeline, Mr. Goodman said this would give an indication of the Administration’s energy policy five days before it is announced. He said it would be a mistake if price restrictions and controls are placed on the Alaskan oil so it cold not compete with world oil. He said doing so would discourage industry, which “went way out on a limb” to build the Alaskan pipeline, from building future investment.

It would not, he added, give the industry a signal that the Government wants to develop domestic reserves.

Mr. MacGuire of Merrill-Lynch complained that the President and his advisors have not yet “talked tough and talked turkey” to key decision-makers. He felt this is important because among “sophisticated groups” there is a feeling that the energy crisis “is going to go away.” Mr. MacGuire added that they do not believe the need for conservation anymore than the homeowner. Since there has been no tough talk, MacGuire felt that April 20 (when the Administration will unveil its energy proposals) “will not mean much to business.”

Note: There were no comments on the other issues listed in the Federal Register notice.