The View From The Other End Of The Microscope

This is the fifth in the series of discussions on Midcontinent Energy Perspectives. Previous speakers have made a significant contribution toward enlarging our perspectives. One addressed the issues of supply and demand for energy, how those issues impact the region, and how the region might contribute to the solution of those problems. Another dealt with how current policy results in a waste of time, energy and resources. A case study of one energy company depicted its struggle for success by daring to be different. An appraisal of the national gas dilemma was presented that also described the nation’s plight with all forms of energy. One speaker pinpointed the paradoxical situation of a nation hellbent for declaring its independence from foreign energy sources, all the while pressing toward legislative solutions that compound its very dependence. Objectives and deeds are contradictory. The goals are lofty, but the actions self-defeating.

With all this background, with the excellent dialogue that has begun, let us explore one more element of the problem. It is past time to look about us and understand some of the causes of our present situation. Many times the Supreme Court has articulated the profound meaning of the first amendment to the Constitution. It embraces the nation’s commitment to an important principle. The debate on public issues must be uninhibited, hearty, and wide open. Let’s do so now. The energy sector has undergone close scrutiny. Our operations, our philosophies, everything about us has been subjected to close, even microscopic examination. Let me express one view from the other end of the microscope.

I believe that one day in the future historians will look back at us. They will see growth and progress that was beyond even our wildest expectations. I think they will see that this progress was accompanied by crises that were beyond any in previous human history.

Our national history is one of continuous growth during an era of surpluses of all kinds. That has now changed. Even a surface analysis of national resources reveals this to be so. Yet, national attitudes about our situation have not yet changed. We seem unable to face up to an enormous list of threatened scarcities in equipment, personnel, dollars and feedstocks. Shortages seem to have become a way of life. We face shortages in aluminum, copper, steel, zinc, chemicals, plastics, food, concrete, wood and wood products; and the shortage cannot be blamed solely on a threatened shortage in energy, but in the commodities themselves. The result is that we are exposed everyday to a reshuffling of priorities, new surprises and new controls. I doubt that we have ever seen problems of such enormous proportions. As a result, we are tempted to
engage in vigorous debate over the symptoms of our problems while ignoring the real causes. So we are not developing long-term solutions.

The energy problem is certainly equal to any of the problems that now confront man. The story of man’s progress is the story of his capture and use of energy. There is no dispute about this fact. Our own progress and our success have led to an explosion in the economic expectations of every country of the world. Every nation wants more energy, and they want it now, because they have learned that it is the crucial ingredient to progress. Our energy situation and that of the world during the foreseeable future is a very serious matter. The prognosis is not reassuring.

For that reason we are all being badgered with rhetoric; some of it irrational, much of it emotional. There are charges and countercharges of blame. Conflicting views are being advanced every day. Many of the arguments that are being advanced simply are not very convincing in the face of historical fact.

The energy situation has been called many things. Some time ago it was fashionable in polite conversation to describe it as a crisis. Lately it has been relegated to the position of being called a problem, a dilemma. The difference in these points of view is not simply semantic. Those who view our situation only as a problem seem incapable or unwilling to look beyond the immediate present. I submit that our predicament has reached the crisis stage, and it is important to understand that we have not one crisis, we have three. We have a crisis in supply, a crisis in knowledge, and a crisis in institutions.

The crisis in energy supply is very real. The threat is a fact. Our ability to cope at the present time is due in large measure to a lucky combination of weather and a soft economy. We cannot count on them for much longer. The threat of a deepening shortfall will be with us for many years, at least until a dramatic and unpredictable technologic breakthrough provides us with entirely new, even exotic energy forms.

The crisis in knowledge arises from our inability or unwillingness to recognize its condition. Knowledge has grown enormously. Knowledge has become so large, so cheap, and so taken for granted that we waste it. We simply have not gathered existing knowledge to set hard objectives and then put that knowledge to work to solve our toughest problems. In this very institution, The Midwest Research Institute, I sense that government and business have not made fullest use of the knowledge that exists here.

The crisis in institutions arises from a variety of causes. Not the least of these is an upheaval stemming from new and revolutionary social and economic expectations of the people. As it relates to energy, the crisis began when national leaderships began to understand the critical nature of energy in its affairs. When government began to comprehend the threat, the whole matter of energy became politicized. Energy has become a principal element in international relations. It has become a political commodity. This is sad because any thoughtful observer soon understands that when economics and politics clash, economics is the predictable loser.

The first session of the 94th Congress convened on January 14th last year. In that first session, there were over 1,000 bills proposed that would have an effect on energy. It almost seems that if anything could have been proposed about energy, it was. The net result was that Congress avoided establishing a comprehensive energy policy because it was unable to rise above regional and special interest controversies.
We should remember that the United States Senate began hearings on the nation’s energy situation in 1969. It was the electric brownouts during the summer and fall of 1970 that dramatized the problem. Senate Resolution No. 45 was adopted in May 1971. A Presidential Energy Message, the first time in history, along with proposals to Congress, occurred in June 1971. What I’m saying is that Senate awareness dates back 6 years. Presidential proposals are 4 years old. Yet, even today, what we have is mostly rhetoric and very little action.

The current administration submitted 13 bills in February 1975, as a part of an omnibus energy proposal that was to move us towards greater energy independence. It is of no consequence whether we agree or disagree with the proposals. Alternates, substitutions and compromises were possible. The fact remains that not one of those bills has been enacted. The only significant piece of legislation that was passed by both houses was a punitive act – the abolishment of depletion allowance for the oil and gas industries. The recent House action on wellhead price gas deregulation also seems to be a reflection of punitive intent.

Then again, there are numerous other proposals that would not only endanger the energy industries, but all business as well. Proposals compelling the horizontal and vertical divestiture of energy businesses reached Senate vote. In one bill, for example, oil companies would have had to divest themselves of holdings in coal or nuclear materials. In another, oil companies could not have engaged in production, refining, transportation and retailing. They would have been compelled to choose one principal business activity and divest themselves of the others. These Senate proposals were defeated by only a handful of votes. The slight vote margin was a surprise, but more shocking was the fact that both proposals were advanced to the floor without adequate hearings or debate.

Despite the defeat of these proposals by the barest of margins, there have been some hearings on another proposal that would break up large companies into small ones. Oil and gas companies would be targets, as would steel and automobile. Embodied in this proposal is the provision that penalties would be imposed on any business whose after-tax profits on net worth exceeded 15 percent for a period of five consecutive years. What all of this foretells for the future, I do not know. It does tell us, however, that there has been a change in the Congressional mood and goals.

In part, at least, the change reflects a general malaise of the citizenry and a search for new institutional forms, new governmental structures and new social patterns that eventually would guarantee not only the satisfaction of one’s needs, but one’s wants as well. This arises from government promises made during the last generation that could not be kept by this one. It is founded also on discontent with the status quo, fear of the future, distrust of government and disenchantment with business.

There have been other proposals that are a cause for deep concern. One promotes the concept of a federal oil and gas corporation that would preempt the field in the exploration and development of oil and gas. The advocates claim that this would stimulate competition but would serve mainly as a yardstick against which to measure the proficiency of private initiative. The bill, however, would provide the government corporation enormous funds and give preemptory rights to the most promising resource potentials. When this is coupled with the fact that 34 percent of the United States land area is owned by the federal government, one wonders what the real purpose is. That proposal has not been brought to the floor for debate. Its proponents have it in the wings, perhaps waiting for the right moment to bring the matter to a conclusion.
Then again, there is a proposal to establish a central federal government planning agency, complete with 5-year plans, to set goals and objectives for economic and technologic progress. The proponents claim that this would be simply an advisory body. That may be, yet its implications for the future are a grave concern.

In addition to these formal proposals, there are some Congressional opinions, only privately uttered, that could lead to tragedy. Some members of Congress say that the energy industries have had 30 years to provide adequate energy and have failed; that there is absolutely no concern about further cutbacks in exploration since this will simply prove to the public that the government must take over; that the public is not yet ready for government takeover, but industry activities will be drastically curtailed through legislation and fail to supply the country’s energy needs. Congress will then be free to respond to the demands of the public.

Now to all of this we must add the growth in hostility toward private initiative. In mid-1975, studies of student attitudes on the university campus produced some interesting and frightening results. Here we should remember that in a few short years these young people will have grown into positions of authority in society, business and government.

Students were asked to rate the honesty and ethical standards of people in various fields. Their views are illuminating and a little disturbing. Nearly 70 percent of them rated medicine, college teaching and engineering as high or very high. People in business were ranked third from the last with less than 20 percent giving a favorable rating. Ironically, people in business barely eeked out their rating ahead of people in public office. Two-thirds believed that government should place stricter controls on business. They were in favor of greater governmental intervention in business. They favored a return of price and wage controls. They favored the breakup of large companies into small ones. They said that business was too concerned with profits and not enough with public responsibility.

They expressed these opinions while displaying a shocking lack of knowledge. They guessed that the cost of labor was only 33 percent of the cost of finished goods. They guessed that the typical profit of a large corporation on its total business was 45 percent. They guessed that a corporation pays roughly 10 percent of its earnings in the form of income taxes.

Accepting these as generally held views, one begins to wonder if business is really contributing to advancing the cause of free enterprise or actually contributing to its decline. Could some businessmen be their own worst enemies? Some extol the virtues of free enterprise while seeking out a little subsidy here or there. They tend to attack government intrusion when things are going well, but then search it out when problems appear. Only too often they seem to talk only to each other. When they do speak to the public, one wonders if the issues are stated in terms that the public can easily understand. If not, they fail to gain acceptance and support. Businessmen should not look so much to be comfortable in what they say, as they should be sure the public is comfortable in what they hear.

Shortly after the report on university student opinions, a study was made of Washington thought-leader views on business, regulatory controls, antitrust and monopoly. Here again, the results were far from encouraging, especially in the segment made up of public interest leaders, unions, and press and media representatives. I emphasize these only because this sector is a source of immense influence on legislation and regulation.
A scant minority, only 10 percent, had the overall impression that the business system could be characterized as very good or needing very little change. They felt that big business would not make a major contribution to the country’s future progress. The majority believed that future progress would be due to big government and big labor.

They were unanimous in their opinion that business has an obligation to help society even if it means making less profit. A large majority, 75 percent, were of the opinion that business today does not have a social conscience and was motivated only by the profit motive. An even larger majority believed that government regulation is a good way of making business more responsive to people’s needs. That same large majority said that change was needed because current government regulation of business was inadequate. They claimed that the country’s antitrust laws, as originally enacted, are inadequate in today’s business environment and the enforcement of antitrust laws were the effective way to hold down prices. In a related inquiry on their attitudes about governmentally mandated divestiture of large corporations, two-thirds favored its passage.

So the nation seems to be suffering from a lack of confidence and credibility. It makes people feel fearful. We seem to have developed a suspicion that “bigness” is evil. Unfortunately, business falls into that characterization. The profit motive is suspect. The role of profits in today’s business enterprise simply is not understood. Too many believe that profits simply are the monies left over from the operations of a business. These monies are thought to be surplus and not really needed. As a consequence profits can be reduced without harm. Obviously there are dominant forces in society today, along with others who are seeking positions of dominance, who do not understand free enterprise. They do not understand the profit motive and apparently are unwilling to learn.

In the public arena I am more than a little perplexed by the aggressiveness and the extreme reactions of many of the public interest groups, particularly in the field of energy. There are those who claim that the existing system of controls, exhaustive as they are for the gas industry, simply have not worked. They charge that regulatory agencies are powerless, that industry continues to take advantage of its enormous power and monopolistic position, and continues to exploit the consumer.

One would suspect they should logically conclude that there is something inherent in the political process that permits this to happen. They ought to conclude that it is the free market system, with appropriate legislative safeguards, that better protects the consumer. But no, their solution is that the nation needs even more agencies to regulate business – new agencies that are more explicitly directed. Those who call out for more control, and those who design government controls, cannot believe that the controls themselves may be the problem. Instead, they leap to the conclusion that controls just need a little more fine tuning or that more activities should be placed under governmental control. Their logic escapes me.

I am a little more than concerned when, at the other extreme, debate centers on the concept of economic equilibrium; that is, the need to establish a no-growth economy. The prospects for this are frightening. Stopping economic growth is not merely a matter of the already affluent giving up their battery-powered watches. Sacrifices would have to be made by the disadvantaged who have not yet begun to enjoy the fruits of our economic progress. Economic growth does not guarantee that they will one day enjoy a balanced diet and decent housing, but stopping growth would certainly foreclose that possibility.
The most damning argument may be that in a no-growth economy it would be extremely
difficult, if not impossible, to insure social justice and personal freedom. For every potential
business activity that would need to expand, another would have to contract. Personal integrity
and security would probably vanish. I might add, as an aside, that the lack of coherent national
policy on energy could inadvertently lead us dangerously close to an era of no growth.

I realize that what I have said may not be encouraging. Also, I have to confess that I do
not have the answers to all the questions I have posed or any of the others that flow from them.
In this brief interval of time, I wanted only to share some perspectives from, so to speak, the
other end of the microscope. I wanted to offer an umbrella of ideas that would provoke still
further discussion. As you do discuss these matters, I hope you will keep in mind that the
treatment of the subject of energy is not simply an intellectual game. We can afford to make
mistakes in formulating national policy on frisbies and the length of women’s dresses. We
cannot on energy.

Energy by its nature and pervasiveness is a crucial element in our lives. Energy affects
our way of life, its general purpose, life style and living standards. It can shape personal
integrity, political and economic progress, and even the security of nations. What we envision as
threats should not necessarily be the cause of panic. By nature I am optimistic, difficult though it
may be at times. We should remember that man’s most splendid achievements have often arisen
from crisis conditions. I, for one, am fascinated by the challenge and I hope that you are also.

**QUESTIONS AND ANSWERS**

QUESTION: You spoke about the need for something beyond what we now have in the
way of providing us with energy for growth. Coal, uncapping the coal, doing that is not enough.
Is a solution going to be found? I assume that it will be found as a result of private research,
government-sponsored research, NEEDA, ADC-type things, project Manhattan things. What
about it? Are you at Northern working on that answer?

STRAUSS: Let me go back to the beginning. The only condition I set was predicated on
a 3 to 4 percent growth in the economy of this country. As I extrapolate forecasts, I take a
composite of the many studies that have been made to see how much gas, coal and oil (domestic
and foreign) are going to be needed up to the year 2000. Every study is always a little more
optimistic. Even so, they show about 50 percent of our electric energy coming from nuclear in
the year 2000. I am troubled. That’s not going to occur with today’s conditions. The lags we’re
experiencing in nuclear construction, for example, are just setting everything back to
where we can expect we will be unable to do it all.

In building those projections, it was assumed we’re going to get back to maybe finding
20 trillion cubic feet of gas a year. That’s the amount we’re using up in this country each year,
while we are discovering less than an average of 10 trillion cubic feet. These are facts. You’ve
read in the paper within the last 2 or 3 weeks that some Congressman has said, “They’re lying,”
but these are the facts.

Therefore, if we are going to grow in this country, some new energy form is going to
have to be developed. But, it’s not going to come in time; hence, I believe our standard of living
will decline.
Your question also addresses the question of how it will occur. Will it come about by Manhattan projects, etc.? Industry is not so sure that it wants handouts. There is no free lunch. There is an ERDA organization now. It seems to be having a tough time. This administration has been working very hard on the principle that it is not going to be the government moving alone. Somehow, somewhere, government has a friendly armlock and utilizes business in every step, getting business to take the leadership role, and government stays more in the financial or backup guarantee role. That’s the way ERDA is moving forward, but it hasn’t gotten off the ground yet. So we’re some ways away.

Now this gets further complicated by the political implications of having an energy czar. Now, as energy has become a political matter, there is the strategy of who will call the shots on energy. We went through the breakup of AEC. The remnants of that agency now feel that they are best equipped. The FEA administration thinks they are best equipped. I think the Secretary of Commerce will argue that he’s best equipped. So we have been served up a whole potpourri of political agencies debating and delaying things. In turn, this will delay the direction ERDA will take.

I don’t know how to answer you. I can offer a personal opinion. Business cannot walk away from this problem. I have tried to convince myself that I would prefer not doing business with government, ever. I’ve not been successful in converting myself. We’re talking energy. We just have to find the right formula. Business and government are going to have to find the right answers. I don’t think business can do it alone.

Look at the capital needs for energy during the next 25 years. Look at it for the electric industry alone – it’s impossible. Add that to the growth that has to occur for oil and gas. Add on to that the money that has to be spent on liquefaction and gasification processes, whether coal, shale, or what have you. Add to that the development that has to transpire in Alaska. There is a lot of potential in Alaska, but it’s a long way there and it’s expensive. Still, it’s energy, and it will be very costly. This is expensive business. Let’s not trap ourselves by saying, “They’ve wasted $7 billion building that little 800-mile pipeline across Alaska.” That doesn’t include the $2-1/2 billion sitting up there where a few wells have been drilled.

Northern has been participating in proposing to build a line from Prudhoe Bay across Canada. We are part of that venture because transportation costs are 50 percent less than the so-called all-American route. We’re talking $10 billion and that won’t solve the energy picture, just a fraction. The capital needs are enormous, and we have capital delays in addition to this. The coal companies and the above-ground manufacturers of coal equipment, faced with all of the anti-pollution regulations are reluctant to add on to their plants because they don’t know what the rules of the game are going to be. So they’re not adding to their productive equipment capacity. The same is true of the below-ground equipment manufacturers. So the manufacturers are at a kind of standstill. There is tremendous need for energy direction and policy.

QUESTION: When you were talking about the newspapermen, who incidentally are both here, you mentioned that there had been 3 years in a row of mild climate, causing about a 30 percent reduction in fuel consumption. Let’s assume that we had 3 to 5 years of severe weather in the U.S., just the reverse of what we’ve had. Since the political people can’t seem to be aroused by rhetoric, would that have a chance of bringing this to a focus? Is there going to perhaps be some natural occurrence?
STRAUSS: Yes, I suppose such a natural occurrence might make the problem more real. We’re getting by this year; we’re producing every gallon of oil and every foot of gas we can produce, and we’re getting by. If it was colder and if the economy was on the upswing, we couldn’t get any more out of the wells than we’re getting today. As to the coal business, you couldn’t go out and buy 100,000 tons on an annual basis today and get delivery next year. There is no more gas and no more oil. The electric industry has its problems. Suddenly their 8 percent annual growth disappeared. Tomorrow they may find that 8 percent growth on their back again. Then they brown out.

QUESTION: Since you’re drilling deeper and deeper for gas, is that going to help our situation today?

STRAUSS: We don’t know. This is one of the terrible dilemmas that has developed around the tough political word “deregulation.”

QUESTION: Can you tell us what happens to costs when you go down to say 25 to 30 thousand feet?

STRAUSS: All I can tell you is that costs go up geometrically. We just hit a dry well at 22,000 feet, to the tune of $2 million. When we deregulate, is that going to insure that we get more gas? We’ve been through the theories and everything else. No one can give you any assurance. I always use the phrase the Lord provided us with some great resources, but He didn’t tell us where they were.

Don’t we owe it to the next generation to try to see if the gas is there?

Is the record going to show that we’re not even going to try? When we say “no” to deregulation, that’s what we’re saying. We’re saying we’re not going to try because the reward system isn’t going to stimulate the drilling. To me, that is the political question to think about. Are we going to try, without the assurance, because nobody can give us that assurance? This generation has to try!

COMMENT: Bill, I know you well enough to know you’ll make these observations. Historically, this is not the first crisis we’ve ever had on resources. It’s not the first time we’ve ever thought we were running out of them and that the end was about to come. Perhaps the combination is that we have lost faith in ourselves and lost confidence in our own system. Not in our government or business, but in ourselves. There are answers, if we’ll let them come out, and I’ll cite you one of them. They’re going to use two-thirds less power per call than we use today. It’s going to use two-thirds less space per call than we’re using today, that’s going to use half the people.

Bill, there are ways to grow and not consume energy. We’ve got to have faith in ourselves and our system. We’ve got to put risk money into doing it. There is risk money available, if we only have the faith to use it.

STRAUSS: Very good. Perhaps this is a good way for me to close. We’re living in a technological world. There is no question about that in the energy situation. Every piece of mechanical equipment in this country will be redesigned. We’re moving into a whole new era of better energy utilization.

I would like to put a plug in here, a point I feel very seriously about. Wrapped up in MRI is a lot of knowledge, and the knowledge is very well organized. The opportunities for improved
energy efficiency are enormous. I would really hope you would consider, and consider very seriously, utilizing this MRI organization to see what can be done. Energy is going to be priced five times higher than it is today, and sooner than you think, so it makes it good business to improve our respective operations.
WILLIS A. STRAUSS, Chairman of the Board, President and Chief Executive Officer of Northern Natural Gas joined the company in 1948. His career includes several years as Staff and Administrative Assistant before he was named Director of the newly created Certificate Department in 1955. He was promoted to Administrative Vice President in 1957; elected Executive Vice President in March of 1959; President in 1960; and on August 1, 1966, became Chairman of the Board, Chief Executive Officer and President.

Mr. Strauss is active in industry affairs. He is presently a director of the Interstate Natural Gas Association and among his previous positions are president of the Midwest Gas Association and the Group to Advance Total Energy, and Director of the American Gas Association and the Institute of Gas Technology. He has served on a number of advisory committees for several federal agencies – Treasury Department, Federal Power Commission, Interior Department, National Institutes of Health, and the Federal Energy Administration.

His continuing concern for education matters is reflected by his service as Director or Trustee with the Iowa State University and University of Nebraska Foundations, the Board of Directors of Creighton University, and the Committee for Economic Development. His long list of civic contributions includes membership on the Boards of Trustees of Midwest Research Institute and the Mayo Foundation.

Born April 15, 1922, in Omaha, Mr. Strauss attended Iowa State University at Ames, and in 1947 received a B.S. Degree in Engineering. His college work was interrupted during World War II when he served in the Army from 1942 to 1946.