The original documents are located in Box C13, folder "Presidential Handwriting, 2/18/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

2-18-75

THE WHITE HOUSE

WASHINGTON

Don R & Bill Walker

info etc

2-18-75

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Don R

Most helpful.

FEB 17 1975

THE WHITE HOUSE
WASHINGTON

2/17/75

Jerry -

make sure that
our briefers have
the attached.

Dick

THE WHITE HOUSE

WASHINGTON

Date 2/12/75

TO: DON RUMSFELD

FROM: JERRY H. JONES

For your information.

Dick handle?

From Don Sheehan

NEWS

For immediate release:

(020675)

For information,call:
William M. Alrich
Tel. (215) 243-5742

Will President Ford's energy package send inflation roaring through the U.S. economy again?

Two economists from Wharton Econometric Forecasting Associates, at the University of Pennsylvania have evaluated -- through a large scale computer model of the U.S. economy -- all of the major economic measures proposed by President Ford, including the tariff on oil and other energy-related plans.

Professors Lawrence R. Klein and Ross S. Preston report that the overall price index could be pushed up at most 2 percent -- as President Ford predicted -- but that the energy measures will not set off another major inflationary spiral.

"The tariffs on imported oil, the freeing of prices on old oil, the freeing of natural gas prices, and the increased excise taxes on domestic oil" may increase gasoline and oil prices as much as 9.4 percent (or upwards of five cents a gallon at the gas pump), Drs. Klein and Preston predict, but that will be the only sector of the economy in which President Ford's program pushes the price level up

(more)

much above two percentage points. The rises in the price indices (deflator) for various sectors of the economy, as results of President Ford's proposals, may be:

Overall Gross National Product up 2.0%

Consumer spending up 1.5%

Consumer durable goods prices up 1.3%

Nondurable goods prices up 2.3%

Consumer services up 0.9%

Household operation services up 3.5%, and

Transportation services up 2.4%.

"We do not think that (President Ford's) program will meet its stated objective of reducing oil use (domestic and imported) by one million barrels per day in 1975," Drs. Klein and Preston concluded, "nor do we think that rationing by price is optimal or effective for the best performance of the American economy. Yet we do not agree with other reports that estimate inflationary impacts of more than 2 percent in the consumer price index as a result of the adoption of the President's program."

Full Statement Attached

NEWS

For immediate release

(020675)

For information, call:
William M. Alrich
Tel. (215) 243-5742

The Inflationary Imapct of President Ford's Energy Conservation Policies

Statement by:
Ross S. Preston and Lawrence R. Klein, Wharton Econometric Forecasting Associates, Inc., University of Pennsylvania.

In view of the intense public interest in a careful assessment of the inflationary effects of the various measures that the President introduced in his State of the Union Message for restrictions on oil imports and total energy use, we have made an entirely new and detailed set of calculations, using the large Wharton Annual and Industry Model of the American Economy. This model combines all the inter-industry flows of intermediate material, including oil, gas and other energy products; among 63 different sectors of the economy together with relationships for final spending, income generation, foreign trade, pricing, and money market activities. The complete system consists of about 1000 equations that are simultaneously solved on the computer facilities at the University of Pennsylvania.

The President's entire policy package is detailed and complicated. It consists of income tax rebates, income tax reductions, tariff increases, excise tax increases, an excess profits tax, some "negative" tax payments. Some stimulate the economy, some restrain it. The tariffs on imported oil, the freeing of prices on old oil, the freeing of natural gas prices, and the increased excise taxes on domestic oil are of particular interest. They will increase final prices of fuels and effect many other prices according to the fuel and energy content of the associated products. It is difficult to make a simultaneous assessment of the effects of the program on final prices that consumers and businesses pay and on overall economic performance in the country at large. Accordingly we have factored the entire program of the President through the Wharton Model and can compare the resulting estimates with those that would follow if the program were not to be adopted. We did not break up the President's program into compartmentalized segments and look at each isolation; we looked at the entire

(more)

policy package of rebates, statutory tax decreases, statutory increases, duties, excises, etc.

There is, indeed, an inflationary impact that partially restrains the whole economy as well as the energy using/producing sectors. On balance, the program is stimulative, but how much does it add to our already astronomical inflation rates? That is the main question that has been debated in several national media and forums. We estimate, for 1975, according to Wharton Model calculation, that

1. The overall deflator (price index) of GNP will be 2.0% higher
2. The consumer expenditure deflator will be 1.5% higher.
3. The consumer durable foods deflator will be 1.3% higher.
4. The nondurable goods deflator will be 2.3% higher.
5. The deflator for gasoline and oil will be 9.4% higher (more than 5 cents at the pump)
6. The consumer services deflator will be 0.9% higher.
7. The deflator for housefold operation services will be 3.5% higher.
8. The deflator for transportation services will be 2.4% higher.

In subsequent years (1976-77) the inflationary effects would build up but by no more than a small fraction of a percent. These calculations take account of consumer and producer sensitivities to price changes as they have been estimated in past relationships. They allow for substitution in both production and consumption in response to the new final prices.

We do not think that the program will meet its stated objective of reducing oil use (domestic and imported) by one million barrels per day in 1975 nor do we think that rationing by price is optimal or effective for the best performance of the American economy. Yet we do not agree with other reports that estimate inflationary impacts of more than 2 percent in the consumer price index as a result of the adoption of the President's program. Needless to say, our entire set of estimates and appraisals are based on the assumption of no outbreak of war in the Middle East or other large disturbance to the world economy in 1975.

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THE WHITE HOUSE

WASHINGTON

February 18, 1975

MEMORANDUM FOR: JERRY WARREN

FROM: JERRY JONES

The President has seen the attached news release and thought it to be quite helpful. Would you ensure that this material is made available to Administration spokesmen also. Thank you.

Attachment