The original documents are located in Box 13, folder "Economic and Energy Program (4)" of the John Marsh Files at the Gerald R. Ford Presidential Library.

[Jan. 1975?]

RN

ENERGY STRATEGY

I. The President's Message and Its Problems

A. The Public Reaction

Recent polls have shown that 78% of Americans favor federal fuel rationing over use of the price mechanism. Yet if most of these same people were asked "Do you favor free enterprise or socialism?" they would answer "Free enterprise."

The problem is that the American public does not yet understand that federal rationing and its impact on the economy, our industrial structure and democratic traditions is synonymous with socialism.

Until this point is understood and accepted by the majority of the American public there will be little hope for winning Mr. Ford's battle.

B. The Industrial Reaction

(1) Energy Users

Compounding the problem is the fact that heavy industrial users of fuel (electric utilities, airlines, steel, etc.) are disinclined to support the price mechanism approach suggested by Mr. Ford. Many are taking the short term view of their self-interest, and banking that they have enough institutional clout to influence future FEA price control and rationing regulations so that they can get "plenty of cheap" fuels.

Generally they have either not perceived, or are indifferent to, the intermediate term boomerang consequences of extensive federal regulatory intervention into the distribution and pricing of fuel.

Once that intervention takes place there will be no turning around. Energy supplies will dramatically decrease.

The energy industry in effect will become nationalized. At first the government will not own it, but the government's control of it will intensify, soon evolving into public utility type regulation of the entire energy industries. The government will control fuel markets and market shares. The government will establish federal energy corporations and production boards like the War Production Board of World War II.

By controlling fuel supply and fuel prices the government will control the entire American industrial economy.

There is no other word to describe this process but socialism.

This approach cannot possibly result in attaining American energy self-sufficiency. On the contrary, it will lead us to greater dependence upon imported fuels.

The fuel using industries must be made aware that short term dependence on federal rationing and price controls will mean ultimate federal socialistic control of their economic destiny.

(2) <u>The Energy Producers</u>

The oil industry in particular is deceiving itself that it can successfully fight a windfall profits tax. Because of this self-deception it is trending toward a reluctance to wage a campaign to prevent either House of Congress from passing a resolution vetoing the President's proposed amendment to federal price control regulations which would decontrol old oil. This is because oil companies feel that effective decontrol of old crude would guarantee a windfall profits tax. They feel that they can make more money ($3.4 billion) with old crude controlled and no windfall profits tax. But this is not in the cards.

For reasons set forth below the oil industry must be recruited to wage an all out fight for price decontrols by motivating the fuel using industry to lead the fight.

II. The Strategy - Winning the War

A. The Decontrol Battle

The first major battle could well determine who wins the war. It will be the fight in both Houses to pass a resolution vetoing the President's April 1st decontrol amendment to the oil price regulations and temporarily suspend his power to levy a fee on imports.

(1) Our Strengths

(a) The President by law can act; the Congress must re-act, i.e.--the President does not need affirmative congressional approval; he just needs to prevent congressional disapproval.

(b) The Emergency Petroleum Allocation Act does not contain any provision modifying internal procedural rules of either House (as did the Energy Emergency Bill). Thus, on the Senate side a filibuster could kill the resolution--but in the House it would not be so easy.

(2) Our Weaknesses

(a) Even though under the Emergency Petroleum Allocation Act the President is required only to give each House five working days notice of his proposed decontrol amendment to price control regulations, Senators Jackson and Kennedy are planning to get quick Senate approval of the resolution they are introducing today.

(b) The American public, the energy industry and the energy intensive fuel using industries are now very much opposed to supporting a fight for decontrol and import fees.

(c) The overwhelming majority in both Houses are now inclined to fight against decontrol and against import fees.

(d) The decontrol fight and the import fee fight will be the Administration's first major spearhead. If that fight is lost then further reliance on the "price mechanism" approach may be politically prohibited, forever after. Thus, the outcome of this battle may symbolize whether the price mechanism approach or the mandatory conservation and end use rationing will form the linchpin of the nation's primary energy strategy.

(3) An Action Plan

Unless the American public, the energy producing and energy consuming industries are recruited to fight the decontrol battle, we will lose.

(a) The Argument

The media and grass roots efforts must be couched in "either-or" terms. It is higher prices coupled with the individual personal freedom we enjoy now, or it is price control and government rationing of supply--which means we will lose our personal freedom because the government will dictate to us decisions that we were once free to make for ourselves. . . to repeat, it's either higher prices and freedom or controlled prices and fascist government dictatorship. There is no other choice.

(b) The Energy Industry Must Be Activated to Join the Fight

1. The majors. To supplement the Administration's efforts, you might consider meeting with the Management Committee of the American Petroleum Institute to motivate them to act quickly or suffer the consequences of inaction. This should be preceded by a meeting with Frank Ikard who should be requested to invite the Management Committee to meet with you. The message to be delivered to them would be similar to the thrust of this memorandum.

2. The same types of meetings should be held with top company people in the Independent Petroleum Association of America, the Independent Natural Gas Association of America, the American Gas Association, and the National Coal Association.

(c) The Energy Consuming Industry Must Be Activated to Join the Fight

1. The Peterson "Citizens for a Strong Energy Program" Committee has met with the President and promised to help.

2. The Energy Users Task Force of the Businessmen's Roundtable should be activated. Bill Whyte, Washington Vice President of U.S. Steel serves as local coordinator and his Board Chairman Bill Spear heads the Task Force. Suggest you call Whyte in for a meeting, a la Ikard, and ask him to set up a meeting with you and the Task Force to motivate it to join the fight.

(d) Administration - Minority Senator Coordination Should Be Institutionalized

It would be helpful to stay in close touch to coordinate media, grass roots, industry and congressional strategy. The Administration and we each have to be aware of each other's every move. Regular meetings should be held between you Senators and Morton, Simon and Zarb with follow-up staff level meetings. These meetings should cover not only the decontrol interest but also the remainder of the President's energy program.

(e) The Steering Committee Should Be Brought Into the Act

We need to broaden our base in fighting not only the price decontrol battle but nearly every other energy related battle in the 94th Congress. This will be a delicate operation requiring a very close working relationship with Jim McClure.

(f) A Filibuster Should Be Mounted to Stop the Jackson-Kennedy Resolution

They will move today to take up their resolution. A motion should be made to put off consideration until next week. If this is successful then preparation should be made to filibuster the resolution next week.

(g) Every Legislative Effort Initiated by Senator Jackson Should Be Met By Systematic Harrassment

He cannot afford to waste more than another two to four months on legislative matters before leaving Washington to hit the road to drum up support for his Presidential candidacy. The sooner he is discouraged from trying to move legislation, the sooner he will be inclined to leave town.

FOR IMMEDIATE RELEASE JANUARY 15, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF
WILLIAM L. SEIDMAN
ASSISTANT TO THE PRESIDENT
FOR ECONOMIC AFFAIRS
AND
FRANK ZARB
ADMINISTRATOR, FEDERAL ENERGY ADMINISTRATION

ROOM 450
OLD EXECUTIVE OFFICE BUILDING

9:00 A.M. EST

MR. NESSEN: You have all your fact sheets, and we are going to have an explanation in detail and questions and answers with Bill Seidman, who is Assistant to the President for Economic Affairs and the Executive Director of the Economic Policy Board, and Frank Zarb, who is the Administrator of the Federal Energy Administration and the Executive Director of the Energy Resources Council.

In addition, we have Eric Zausner, who is the Deputy to Frank Zarb. We have Fred Hickman, an Assistant Secretary of the Treasury, and Mike Duvall from the Domestic Council and Roger Porter, who is one of Bill Seidman's assistants.

Just to go over what you should have in your hand, you should have a fact sheet which contains information on both the energy and the economic program. You should have a set of questions and answers relating to energy. You should have a set of charts relating to energy, and you should have the President's State of the Union Message.

If there was some slight delay this morning in getting all this stuff out, it is because our mimeograph machines and staplers and collators were pressed to their maximum limit.

The message you have will be delivered to Congress as a written message, and from that written message, the President will draw excerpts for his speech. At this moment, I can't give you precisely how much of that message will be given in the speech. In fact, we may not have an advance text, so we will give you an as delivered transcript as fast as possible.

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I guess that is enough introduction.

Q Ron, one question. Why isn't the President's chief economic spokesman briefing?

MR. NESSEN: Secretary Simon is involved in the meeting, which you know about, in Washington, of the International Monetary Fund, the Finance Ministers of the 10 countries. He is involved in that.

Q They are not going to be meeting this morning, though, are they?

MR. NESSEN: He has been having some informal meetings at various times with them.

Also, Alan Greenspan will be here as soon as he shaves, showers and gets down here. He overslept a little this morning. (Laughter.)

I think we will start with energy and Frank Zarb.

MR. ZARB: Good morning.

I think it would be most useful if we spend a minimum of time on the gospel according to the press packet, since you have all that material to read, and a maximum of time answering your questions, so I will move quickly with an overview and if you agree and Ron, we will move to Bill Seidman and then both of us can handle questions. Does that make the most sense? Our areas are tied together and much of what we have to say has linkage between them.

In the 1960s' this Nation lost its energy independence. We now import some 40 percent of our total consumption. If we do nothing by 1985, that consumption will be in excess of 50 percent.

The seriousness of the situation, perhaps, can best be demonstrated in dollars. In 1970, our import bill was about $3 billion. In 1974, it is somewhat under $25 billion. In 1985, with a $4 break in price, if you want to be optimistic, it will be $32 billion. I think the significance of that in balance of payments and prices to consumers speaks for itself.

The President's energy plan will seek to achieve some fundamental results. It will return the American economy to the American people. Right now, the American economy, with the insecurity of a potential embargo, is not really under the control of the American people. It will bring back to America a material influence in petroleum price markets and over the long term bring to bear a more reasonable price level.

The plan gets uf freedom in 1985 and attempts to minimize the risks while we get there. There is no easy way to regain our independence, and no matter what alternative we follow in terms of strategy, there is a price to be paid. In this instance, as in any other instance that might have been selected, the American people are called upon to make a sacrifice.

The price that we pay now is not as great as the price that we will continue to pay if we don't take action now. Every family and every business in this Nation depends upon energy for survival, and if we don't have better control over source and over price, that survival is somewhat at stake.

A word on process. The President began by asking for his alternatives or options with respect to the Nation's goals. After a thorough analysis of what those options might be, he selected the goal of becoming independent or invulnerable to foreign cutoffs by 1985. Having made that decision, the next set of alternatives went to what actions are available to the President beginning now to get us to that point by 1985. Having made those decisions, the next subset was a question of strategy, what strategy should be implemented.

His program is set out in three parts -- what we do between now and the end of 1977. He has established a goal, and means to attain it, of one million barrels in consumption savings or import savings by the end of 1975 and two million barrels by the end of 1977.

To do that, he is asking the Congress for a tax package which includes the following: a $2 tax on crude imports, a $2 excise tax on domestic crude and excise tax on natural gas, decontrol of old oil, domestic oil, and decontrol of new natural gas.

On the supply side of the equation, between now and 1977, we have mighty few alternatives. Elk Hills in California -- and he will pursue legislation to have that freed for the commercial market -- will produce approximately 160,000 barrels a day. Coal conversion, if we get the environmental amendments we are asking for, will produce a potential 100,000 barrels a day. The remainder must be achieved through conservation.

I would like to just spend a minute on the alternatives to the tax method of achieving the goals of two million barrels by the end of 1977. The President asked for and received a thorough review of the other options at his disposal. They included an import restriction, one that would happen abruptly or one that would happen gradually, with the shortage to be allocated throughout the economy by the Federal Government. They included the potential of a full rationing system that would attain the same goals, and they included the economic method which allows the economy to take out of the energy stream on a more free and selective basis.

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His conclusion was that the freer and economic method served both our short-term and our long-term purposes better and that the inequities in the other systems were just unacceptable.

To get started immediately before the Congress enacts the full package, the President will put an additional $1 import fee on foreign crude beginning February 1st, an additional $2 -- that is one plus one -- March 1st, and $3 April 1st. He is taking steps to decontrol old oil about April 1st and asked the Congress to enact a windfall profits tax package by that date.

Over the short term, we will step up our public education program by fivefold of its current level of efforts in an effort to get further voluntary conservation.

Between 1977 and 1985, the President has set out a number of actions which will have us become invulnerable to serious disruptions by embargo. I don't mean that to sound like we are weaseling the ultimate goal. In your press package, we have a chart showing where we mean to be by what point in time through what actions. He is asking for authority to tap the Naval Reserve in Alaska, which in our view can bring to the civilian economy two million barrels a day by 1985. He will pursue the outer continental shelf and take whatever steps necessary to overcome the obstacles that face us in that area.

The question of price uncertainty during the process of these deliberations -- this question had to be asked -- as this Nation sets its plan for independence and begins to set in motion various actions that need to be set in motion to accomplish it, what happens if by 1979 the supplying nations say to themselves, these guys are doing too well and the thing to do is to flood the world market with cheap oil.

Question: If that should occur in 1978 or 1979, what would be the United States' reaction? Would we allow our economy to go back on a heavy import stream?

The President has decided to submit legislation which will authorize and require the President of the United States to set domestic price limits to protect the Project Independence plan.

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The Clean Air Act amendments, you are probably all familiar with. The only difference between those that you perhaps have seen before, or the major difference, is that in this Russell Train and I will jointly endorse the same package in total.

We have spent the necessary time together, and I should add that both of us moved somewhat toward the other to reach the agreements that we have reached.

In my view, the compromise agreements will not sacrifice our energy plan, and I am sure he will tell that in his view they do not sacrifice our environmental goals.

The President will resubmit strip mining legislation with some important, but few, changes. We will be doing some work in coal leasing, and there is some information in your packet with respect to that.

Electric utilities, a key constraint to the developments of power, particularly in the nuclear area, relates to the health of electric utilities. The President will propose in his economic package an investment tax credit increase for all of industrial America. That increase will be extended two years specifically for non-oil fired electric generation equipment.

The preferred stock dividend plan that the President is proposing in his economic package will obviously have some effect on utilities.

The President will submit legislation which will require State utility commissions to pass through certain costs that in some instances are not now being passed through. We can get into that during the question and answer period, but this passthrough mechanism is critical to the health and viability of some of the utilities around the country.

Nuclear power.. The President will submit legislation that will not only affect the licensing aspects as we had in the last session, but there will also be siting legislation, which will hasten the siting decisions at the State level.

Conservation. Based upon a modified and also delayed set of environmental emission standards, we will have a 40 percent increase in mileage of new automobiles by the 1980 model cars. Negotiations were held with the big three by the Secretary of Transportation after long discussions with the EPA.

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The nature of that agreement is an environmental standard which accepts the California current standards with 3.1 nox, for those of you who have been following that category of thing. It is a little more stringent than the current standards, but not as severe as the planned standards.

Building thermal standards. The President will propose legislation which will require adjustments to housing codes all over the Nation. These changes will affect the thermal standards only, heating and cooling, within building codes in all parts of the country. I should point out the legislation will include a provision whereby builders, architects and labor will be consulted before those standards are actually promulgated.

There will be a 15 percent tax credit for home owners up to two-family homes for insulation type of equipment, insulation, storm windows and one or two other similar types of equipment.

For those who cannot afford to pay even the 15 percent, there will be a low income program following the main model whereby the Federal Government, funding it at $55 million a year, will buy the equipment and volunteers will see that it is installed.

The appliance efficiency area will be approached exactly the same way we did the automobile industry. The President has set a target of 20 percent savings in appliances between now and 1980.

The Energy Resources Council will seek to obtain from the appliance manufacturers an agreement that can be monitored by the public on an ongoing basis to assure that that 20 percent is achieved. If we are unsuccessful in that endeavor, then the President will ask for legislation.

On a standby basis, the President will ask for authority to set up an emergency storage program that will be 1 billion 300 million barrels of oil. The 300 million barrels of oil will be set aside for the military, and the one billion will be available to the civilian sector in the event of another embargo.

Standby authorities will also include rationing, a broader range of energy conservation steps as well as allocation on a continuing basis, materials allocation, and a few other things which I think you might pick up in reading the packet.

MORE

On the synthetic fuels area and over the longer term, 1985 and beyond, the President has set out a program whereby by the late 1980s we can again become an exporter in the energy business. His synthetic fuels program calls for a one million barrels per day in the commercial market of synthetic fuels by 1985.

The energy research and development program, which is now funded at $11 billion over a five-year period, will be maintained and increased as necessary to ensure that he meets his post-1985 goals.

I think I have covered energy, Ron.

MR. SEIDMAN: Good morning.

I am sorry that Bill Simon can't be here, and I am sure that he would do a better job, but I am really here at the request of Joe Garragiola. I made a remark some time ago that I wasn't appearing on television because I thought bald headed guys didn't look too good, and he wrote me on behalf of himself, Yul Brynner, Telly Savalas, and Mel Laird, saying they would march on the White House unless I reappeared. (Laughter)

I won't go through the whole economic program. I would just like to take a couple of minutes and talk about theory or philosophy, and then we can get right to the questions.

As you know, as far as the economic program is concerned, there are basically two tax programs. I would like to make sure we distinguish those.

First, there is the one-year, temporary tax cut, which is based on 1974 income, which means that it can be done most rapidly, $16 billion, it is a straight 12 percent up to a maximum of $1000.

Our hope is that that money will get back into the spending stream fast and that that will help to produce jobs and start turning the economy around.

The other part is what I would consider a fortunate marriage for making an opportunity out of adversity, and that is the fact we need energy taxes to cut down on our use of petroleum and at the same time we need to correct the malfunctionings of a tax system which have been caused by the inflation.

As you all know, the inflation tends to push people up into higher tax brackets without giving them a more real income. The basic approach in the tax refunds, or changes, have been to change the brackets for individual taxpayers, particularly up to $15,000, to take care of that, and in the same way with corporations.

Corporations also, because of inflation, overstate their profits and, therefore, pay higher taxes than the amounts that they earn in real terms and, therefore, the change in the corporate rate.

In addition to that, there are for the people who do not pay taxes an allowance, which is an attempt to aid them both with inflation problems and increased fuel costs.

I think it is very important, in looking at this package in the tax area, those two kinds of things, that the difference in the two packages be very clear.

The second package does a major job of trying to change the tax structure to take care of the problems that have been caused by inflation. The first is designed for fast, as quick as possible, and on the same progressivities as the taxes that were actually paid to get the money back into the spending stream.

There are a good many other things in the fact sheets. I won't go into those now because I think we ought to go to the questions.

Q Mr. Seidman, in the President's State of the Union, he says some people question the Government's ability to make hard decisions and stick with them. Can you tell us what took place in the economy and why the President has rather drastically shifted his economic plan from the 31-point plan he announced a few weeks ago?

MR. SEIDMAN: First, I think there has been a change in emphasis. A great part of the October 8 speech is still a part of the plan, and there are a great many things in there that need to be done that will be helpful to our economy.

I think it is obvious that the economy has gone downhill faster, as far as I can remember, than anybody predicted when we were at the summit conference.

I think the most vital thing in setting economic policy is to be in touch with what is really going on and design your program to meet the actual facts as they are.

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Q Mr. Seidman, how much money would you start taking out of the economy with the $1 to $3 imposition on the foreign crude? What is that, on an annual basis?

MR. SEIDMAN: About $450 million over the three months that it is in before the new programs hopefully will be enacted.

Q Say Congress doesn't approve it. How much will it take in a year?

MR. ZARB: Well, $450 a month times twelve.

MR. SEIDMAN: It is $450 a month at $3.

Q Why is the tax on barrels $2 for domestic and imported crude rather than changing --

MR. SEIDMAN: You better stand up here, Frank, so you can get your half of the questions.

MR. ZARB: What was the question?

Q Why the same tax on barrels for both imported and domestic?

MR. ZARB: There was a notion to go the other way, and in my briefings on the Hill that has been raised with me. I think we ought to talk about it during our Congressional testimony, the notion being we would favor domestic production more if we had a higher tariff on stuff coming in externally rather than domestic stuff.

The fact is that given our current predicament and between now and 1985 we are going to be consuming everything we can produce domestically plus, and there is an awful lot of incentive to get us there.

Q Mr. Zarb, on the petroleum business, you said two things, it seems to me. One is the President's proposal or program to raise the cost of oil and also how we will offset this proposal in tax cuts to put money back in the economy.

Both of these measures are inflationary. Why didn't he just ration petroleum?

MR. ZARB: You really asked two questions. I am not sure about your conclusions. Did you say inflationary or deflationary?

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Q I said inflationary.

MR. ZARB: Taking it out is not inflationary; that is deflationary. Putting it back is inflationary.

The first question you raise, I think by implication anyway, if you take it out and put it back, you are getting your savings. You have to conclude as the people who have worked on this program, particularly the economic side have concluded, that you change the center of gravity of spending when you take it out in the way of higher taxes by higher product taxes and return it through the tax mechanism that has been constructed by the Treasury people.

Keep in mind what Bill has said and what is in the package: The money coming out of the economy amounts to about $30 billion. When it goes back to the economy, particularly to the individual sector, the emphasis is on restructuring the tax table, particularly favoring middle and lower income people and adjusting for some of the inflationary distortions that have come over the years.

So, the conclusion that you are taking it with one hand and giving it back with the other and therefore, energy will continue to rise, I don't think is a valid one and it doesn't hold up.

Secondly, the President has said he will use his import control authorities to stand behind this program to assure that it works.

Finally, the question of rationing. I would like you just to imagine with me, as I have, getting deep into the conceptualization of the rationing schemes, what this Nation would look like with a 5- to 10-year rationing program. It wouldn't stimulate additional production. It would make the Government make decisions with respect to every home and with respect to every business and just some examples which I read about this morning -- and I think they are good ones -- when you moved your home from one area to another you can imagine the red tape a homeowner would have to go through to reacquire his Government allocation or if a new business wanted to get started what it would have to do to petition the Government for his share of the national allocation stamp program.

And finally, when you really look at the downstream results of a rationing program, it is clear, at least to me, the way the machinery would work is that those that could afford to operate in the white or the black market would do pretty well and the people who would ultimately be hurt would be the poor people and the middle income class people.

MORE

Mr. Cowan?

Q Would you tell us about the price effects on fuels in the President's package and in particular, whether the Federal Energy Administration will limit the pass-through on some fuels and steer it into others?

MR. ZARB: The question was the price effects and I will give you those in macroterms and tomorrow Eric Zausner and others will have a more detailed briefing into a lot of the mechanics.

The price effects are an average of ten cents per gallon and, as you know, the industry is permitted to pass through to the consumer only what is an increase in cost.

Your second question as to whether or not we will mandate a variation product-by-product has not yet been decided. We are examining those alternatives.

Q The price effect is ten cents a gallon. Does that include the effect of the new taxes or is that just the decontrol?

MR. ZARB: No, that is decontrol, the tariff and the excise tax. It is an average across the board.

Q What about the price import on natural gas of decontrol plus the excise tax? What would this be?

MR. ZARB: The price could be different in intrastate and interstate. The gas that has been moving within State boundaries is quite high and the variation there would probably be very minimal. In intrastate, it would be rather significant and I would point this out on that question -- right now, today, we are getting a lot of mail from people, individuals and businesses that have had to put people out of work because of a curtailment of natural gas. If there is any area we need to take steps to affect conservation and promote further production; if there is any priority area right now, it is natural gas.

Q Mr. Zarb, in your fact sheet, you have a base that you have a 31 cent interstate natural gas price in 1974, 35 cents in 1975. It was my impression the Federal Power Commission increased that price from 42 cents to 50 cents. Where did you get these figures?

MR. ZARB: The answer is that those numbers do come out correct when you look at average price and equate the low price of intrastate with that of interstate, or the other way around. Yes, the other way around, and when you average it out that is the way it comes out. We will look at those numbers, but my people who put them together say they are accurate on an average basis.

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Q Without going through the merits of the overall energy package, I am sure you will agree, first, that it is quite controversial; and second, that it is by no means assured a favorable reception with the Congress.

So, my question is, can the administrative actions end of it stand alone in the absence of Congressional cooperation or approval of the remaining proposals, or do you have to rethink the entire thing if Congress doesn't react the way you want it to?

MR. ZARB: I think that is an awfully good question. You say it is controversial. I haven't heard a fully integrated plan from anyone, first, to replace this one on a point-by-point basis, so I would have to look at the alternatives.

Even at that, I think the others, if one were produced, it would be, as you call it, controversial.

I think, no, the ability for this Nation to solve its energy problem -- and honestly and sincerely become independent -- by setting out specific courses of action now with each action having its own value in barrels so we know we are getting there and the public knows we are getting there, that without the Congress working with the Executive, it just can't be done.

From an energy standpoint, it is my hope we achieve one major thing and after the Congress has an opportunity to look and we have an opportunity to talk and they have an opportunity to submit alternatives, that we can say to the American people that this Government has a national energy program and I hope that happens mighty quick.

Q Who was the unidentified "I" in the outline of questions and answers?

MR. ZARB: It is a fellow called Harvey and he works in our Public Affairs Department. (Laughter)

I don't know. It is just kind of an editorial goof, I guess.

Q Mr. Zarb, what are the unacceptable or intolerable inequities that you referred to as the reason for rejecting the alternative of restricting imports?

MR. ZARB: You restrict imports as an option, which is an option. You then have a subset of options. Do you restrict it effective immediately one million barrels a day and allocate the shortage, or do you do it gradually? Each one of those has its own set of effects. Let's dispose of the first, first.

If you did the first without the economy making its own selections as to how it was going to take it out of the consumption stream, you would affect our Gross National Product by about $20 billion and put 400,000 people out of work. If you did it gradually, you get the anticipatory action of what is going to happen next month with respect to the Government screwing down on imports, but the most significant question is, "Who makes the decisions as to who gets what after you create the shortage?"

If you conclude that the Government and an expanded bureaucracy -- which would be mine -- would be able to go out and make those decisions on behalf of American industry and the American homeowners, that that would be better than the economy making its own decisions, then you would favor that kind of routine.

I would only remind you to look back at the embargo period and, while we had an awful lot of good people working awfully hard to do a good job, we had some very major difficulties in making those decisions on a basis that let the economy machine move as it should.

Q Mr. Seidman, what research or evidence do you have that indicates that the American people, as they would get this tax rebate for next year, or would have a tax cut, would really go out and spend that money, or might they be so frightened by all these drastic actions that they might not put it back in the economy?

MR. SEIDMAN: There is a good deal of research that has been done in this area, but no one can be sure. The general propensity to spend has been high in the past, and we would expect that when some of the uncertainties which are now around are out, including the ones in the energy area and the longer range package, which I have talked about, is in place, that is the expected result.

Again, we are talking about people and the way people will act. You never can be absolutely sure until the event is over.

Incidentally, while I think of it, on the second page there is an error that says 600 billion where it should say 500 billion. We made a little mistake there.

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Q Second page of what?

MR. SEIDMAN: Of the message, I am sorry.

Q Mr. Seidman, would you give us your analysis of the ripple effect of this sort of price increase on the American economy?

MR. SEIDMAN: Did you get the $600 reduced to $500. That is a typo.

The question is?

Q The ripple effect on the economy in terms of price increases and the impact on the inflation.

MR. SEIDMAN: As you see, if you look in the briefing sheet, there is an inflation impact statement there. The best calculation is that this will cause a one-time, approximately 2 percent increase in the cost of living.

Q Mr. Seidman -- can you explain to us -- Mr. Zarb said that one of the reasons you didn't go to rationing was that rationing doesn't produce any additional supplies of energy. Can you explain how decontrol of old oil produces more energy from the old oil fields?

MR. SEIDMAN: That is Mr. Zarb's area.

MR. ZARB: The talk about decontrol and the windfall profits scheme--and we have some tax help here to help us both better understand how this actually is going to function -- but decontrol lets the old price go to the world price.

The windfall profits program has the total effect of the following: It takes back the first year everything that oil companies would have earned by virtue of this program.

It also, incidentally, goes back into the base and takes back an additional $3 billion, which we calculate would have been in effect if the Congress would have enacted our bill last session.

The program worked out by Ways and Means last year -- and I am sure it will be followed again this year -- has a gradual elimination of windfall profits. It is a little complicated because then you get the depression question and the plowback question that they are debating.

MORE

It has the net effect of allowing the oil price on an average -- we now have one tier -- on an average rising to a level that permits significant exploration and development and also prevents a material windfall profits to the oil industry.

Now, that kind of program, once you set it in place and the law is passed, those who are responsible for going out and developing these sources have some degree of certainty as to what is going to and what prices are likely to look like and they continue their movement.

If you ration, you dampen demand down to some artificial level and keep it at that level and you don't have the normal incentives that work beyond the other problems we have with rationing.

Q How does that apply to old oil?

MR. ZARB: I will get back to you.

Q How much more will the average family be paying in fuel costs when this goes into effect, and how much of an increase will that be over what they are paying now?

MR. ZARB: Including in our best estimate without conservation, today's consumption levels, best estimate, including heating oil, utility bills, gasoline and direct petroleum or utility consumption, an average of $250 per family.

I dislike using those numbers because when you use an average, you are talking about the family that is very wealthy and spend a lot of money, and the very poor.

The calculation, for example, on the no taxpayers -- those who do not pay taxes -- the calculation was that the increase to them would be $44 per adult. Now, the program of return to the nontaxpayer family has been an $80 per adult return.

So, you can see with no numbers there was an attempt to make them hold, plus some. When you really get down into the calculations that we used to get there, you really have to talk to our people who are going to have a technical briefing tomorrow.

Q Can you tell us, you spend $1000 on fuel now and you will spend an extra $250?

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MR. ZARB: The average family spends $950 a year. That number is such a weighted average that --

Q I understand how the price incentive would work on new oil, but I don't understand how taking off the ceilings and letting the price go to the world level does anything for old oil.

MR. ZARB: We are back on the incentive with respect to old oil and decontrol. On new oil, it is already operative, but we are going to take some of that back because it is too operative. On old oil we are going to let the price go to the new world market, and we are going to take a good chunk of that back.

The net effect will be to take everything back that the oil companies would have enjoyed in one year. the Ways and Means Committee, in their discussions last year and with the Administration assistance, developed a program which is a gradual phase-out of windfall profits so that the price of oil gets up to a reasonable level, including inflation and including needs for exploration.

Q On that point, are they going to decontrol the old oil before they pass the windfall tax?

MR. ZARB: The President plans at this moment to decontrol the old oil around April 1 and he is asking the Congress to pass a windfall profits tax by that time.

Q Will he do it in any event? That is what I am asking.

MR. ZARB: I have told you what the President has told me.

Q What is the basis for assuming that the prices of uncontrolled domestic oil will reach world prices when your own figures show right now a $2.50 difference between uncontrolled domestic oil and the imports.

MR. ZARB: The gap has been closing over the last several months. If you say it is $10.50, if you look at the last several months, you can see the gap closing between the two.

Q Why was there no proposal in the message for a tax on automobile horsepower?

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MR. ZARB: That was one of the options we examined pretty thoroughly. I don't remember all the reasons why we came to this conclusion, but we did come to the conclusion it would become a revenue raiser and not have the desired effect.

That implies that those who can buy a big horsepower car, if you put a reasonable tax on it, one that would not be unconstitutional and scandalous, it wouldn't make that much difference.

So, in the alternative, we preferred to go the way we have with the automobile companies, which says this: You show us a plan to get a 40 percent reduction by 1980 model cars, or improvement on miles per gallon. If you don't do it, we will ask for legislation to do it.

We think now we have that plan, and we have their agreement, and we are working out a method where the Department of Transportation will be reporting every six months to the American people on progress.

Q Will you elaborate on that agreement for us? What happens if Congress doesn't relax the Clean Air Act? Will that agreement then be struck?

MR. ZARB: I think in fairness, that is correct. The automobile companies looked at the auto emission requirements and so did EPA, and we all came to the same conclusion that it was a reasonable balance of things to effect the necessary savings.

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Q TWA is saying the price of the passenger ticket will have to go up 21 percent. Does that fit into your calculations, and what does this do to the general idea of mass transportation?

MR. ZARB: Well, mass transportation on a local and municipal basis has been somewhat taken into the calculations, and I will get back to your TWA problem. I don't want to sidestep that.

The general revenue sharing the President proposes will be increased by $2 billion, taking into consideration that communities have to run subways and buses and other calculable energy uses, so we are attempting to make that right because mass transportation is important to energy.

The airlines are a particular area that we are looking at. Let me tell you why it is particular. It is a regulated industry, but that doesn't make it that much particular because during the embargo we did some things with regulated industries and it worked.

The notion of returning certain things to industry by virtue of tax credit and lowering the tax rate, which is occurring here by virtue of the energy program, and the stimulus program, is very operative if you are making money. But if your corporation is not making money, you have a whole new subset of problems.

When you say 27 or 28 percent, you are using a rather high elasticity rate, because when you use that number, you are saying because of this increase fewer people are going to buy tickets and as a result you are going to lose those revenues. We are looking at the airline numbers along with them and seeing whatnot.

But let me say one more thing on that question. If we had gone a different route, as some of our friends here this morning suggest that we might think about, including rationing, the thing we would be talking about this morning is who is going to get a 100 percent of requirements and who is going to get 90 percent of requirements and who is going to get 80 percent of requirements and the same kinds of industries would be in for that kind of a discussion.

Q A question about the $30 billion figure you are using here as the cost of increasing energy prices. Does that include such things as the likely effect on air fares, the spillover of just the plane fuel oil costs?

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MR. ZARB: The question is, "The residual increases by virtue of the $30 billion increase in taxes --" and I am going to have to be less than precise on this answer, but keep in mind a couple of things. The oil industry is allowed to pass through only that much which they incur in extra cost. There is no markup on an excise tax as some have implied.

Two, industry in total gets returned approximately $6 billion from that $30 billion in other kinds of revenue improvement measures directly from the energy package, not including the stimulus package. Now, those kinds of activities will have an effect on pricing. So, to come to the automatic conclusion as some have that there is a geometric increase based on this first set of price increases is technically and otherwise incorrect, and we have to look at it from industry to industry.

Q Mr. Zarb, can you give us some idea of what you anticipate the floor price would be which the President would have to protect synthetics and other types of fuels?

MR. ZARB: The question is, "What type of floor price would we have to set to protect synthetics and other types of fuels?"

I would answer that question by saying there are two numbers you would have to look at. When you look at the outer continental shelf, Alaska exploration and development and those kinds of near-term and realizable energy sources, you are probably looking at -- I am not saying he is going to set this floor price, because he hasn't decided to do it yet -- you are probably looking at about $7.70.

If you are talking about shale and liquefaction and coal and coal gassification, if you are talking about solar or geothermal, then you are talking about a whole new set of measures, and you don't go with those disciplines using a floor price. Instead, you look at each individual development and determine whether the Government can help by way of some form of guarantee, perhaps, area by area, some form of subsidy, some form of stepped up research and development.

So, the two categories, which some have called the exotics and what I consider the mainstream of the future, including OCS and Alaska oil, you just look at with a different set of numbers and come to different conclusions.

Q I would like to ask a question concerning the possible recessionary effects of the energy plan. You spoke of a loss of 400,000 jobs if import quotas were placed on the amount of oil coming in, and since the tariff is designed to limit the amount of foreign oil coming in, how do you prevent the same job loss effect?

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MR. ZARB: The conclusions we reached on the job loss effect were based on an immediate and abrupt limitation starting tomorrow of one million barrels a day less allowed into the country. Now, the benefit of the program that the President will outline is a more gradual, freer and economic program for withdrawing it from the economy and you don't have the same effect. It is the abruptness of the change that causes the kind of effect it did.

Somebody wants to talk to Bill Seidman.

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Q Mr. Seidman, the Congressional package announced earlier this week contains a variety of measures --

MR. SEIDMAN: It is a Democratic package. We have a few people up there yet, you know.

Q -- it contains a variety of methods or proposals to stimulate the economy, including low interest rates, allocation of credit, emergency housing programs. The President's program is entirely in the tax stimulus. How does he feel about these other measures?

MR. SEIDMAN: I think an important part of the program, which I am sure you have seen, is the question of Federal spending. When you go to stimulation, there are two ways to do it, obviously. That is, for Government to spend more or take in less in taxes. I haven't costed out that Democratic program yet, but I wish some of you would.

It looks now like the deficits that we are looking at are $30 billion to $50 billion for the two years -- 30 and 50 or 30 and 45 -- and those are very substantial by any measure.

Adding any number of those kinds of programs that have been suggested, I think would clearly put the budgetary deficits at the kind we have not seen in this country and I think in the long-run, would have to be very inflationary.

Saul?

Q In the State of the Union and in the fact sheet you talk about high energy prices being passed through and being largely responsible for the recent inflation. Now, you are saying that the higher energy prices are not going to be passed through but by about two percent and the geometric progresses that others have sought are a mistake. What is the basis of that?

MR. SEIDMAN: First, I don't believe the Message says oil prices are largely responsible for our inflation. They say they are a substantial factor in it. That is a different thing.

I think if you read the Message as a whole, it says that past budgetary deficits are a very substantial part of the reason for the inflation. Certainly the oil is. You have all seen the arguments among economists and there is no question but what this increase, though it is nowhere near as big as we have recently experienced, it will cause an increase in the cost of living.

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Q But only by two percent.

MR. SEIDMAN: That is right, by its direct pass-through and roughly that two percent would be $25 billion.

Q I have a question for both you and Mr. Zarb. In the long-term energy package -- looking ahead -- why is there nothing in there that would increase the use of mass transit? And I wondered in the economic incentive proposals that you have put together, why is there nothing in terms of specific economic incentives designed to help the most depressed industries instead of across-the-board incentives?

MR. SEIDMAN: First, we do have a very substantial mass transit program, as you know, which the President signed last year.

Secondly, you always get down to the question, if you are going to try to give the consumer more to spend, do you want to direct him where to spend it or do you want to allow him to exercise his own judgment and will he be more likely to spend it if you make it so he gets it only if he buys a car or will he be more likely to spend it if you say, "Here is the money and you can buy whatever you want, really."

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Q But you are directing him on the basis of the price incentives?

MR. SEIDMAN: We are, because for the longrun, fuel and energy is one of the very finite resources on this globe. Somehow or other we have to use less of it. It is a nasty business. We are used to going the other way.

Neither way, whether you go the rationing way or the pricing method, is going to be pleasant, but you are allowing the individual the freedom if you go the price method.

Q Why wouldn't a new Federal program to stimulate massively a depressed housing industry create more jobs, quicker, since that is the goal of your program, than this tax cut when you don't know how people are going to spend their money?

MR. SEIDMAN: Let's take a look at some of the numbers. In the first place, the only thing that will really get the massive housing industry going again is lower interest rates. As you know, that is our longest term purchase and, therefore, interest rates are the largest part of the purchase price.

There is no way really to get that industry going without a fall in the long-term interest rates. We have had what you might call pretty massive housing subsidy plans, over $20 billion in the last 17 or 18 months.

This is a $16 billion tax cut. That industry is so large that, in terms of the kind of numbers you are talking about, it appeared to us--and again giving the consumer his right to decide where he wants to use the money--that that was the better way to go.

Q There are no guarantees, as I see your plan with the automobiles, that Congress is going to give the auto industry -- I guess this is for Mr. Zarb -- Congress is going to give the auto industry the extension on the emission requirements.

What assurances are there the auto industry is going to deliver and why not put nonperformance penalties into your arrangements with the auto industry?

MR. ZARB: The original deal that was presented, or the original program (Laughter), the original program or the original deal was simply this: We asked the automobile companies to come to town.

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We said we want a couple of things, we want your plan as to how you are going to get the 40 percent and then we want to develop a monitoring program that would be made public on a continuing basis by the Department of Transportation so the Government can analyze what you are doing and assure the public that you are keeping your word.

I am not implying that they wouldn't, but that was in comparison to a fiscal or other kind of penalty mechanism.

I would say this, Ed: If this works and we do get the kind of reductions that we seem to have agreement on, and we do it in this way, that seems to be more like the American way than the old two by four.

Q If it doesn't work?

MR. ZARB: The President has already said if it doesn't work he is going to ask for legislation.

Q How much basis is there for your belief that we are going to get a million barrel a day decrease in imports at the end of the year through this series of energy tax measures if in the past year you have had a far larger proportionate price increase and have not gotten it?

MR. ZARB: I would challenge a little your conclusion based on the fact. Nineteen seventy-four was about flat with 1973. In some products they were under 1973, which was unheard of in the history of the Republic.

We think if you took 1974 and 1975 together, we would be up by about 10 percent, as I recall, or more based on the rate of increase that was occurring in the consumption price.

If you take a look at what was happening, and what did happen, and what you thought would happen if you continued down that road, you would come to the conclusion as we did, that we could save between 800,000 and 900,000 barrels a day based on these price changes alone.

I think they are valid and I think we will get them.

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Q Mr. Seidman, will you please give us a little better explanation of this two percent a year inflationary factor? Are you talking about on an annual basis in your inflation impact statement? Does this just apply to the pricing of fuels or does it take into consideration the ripple effects this will have on other industries?

MR. SEIDMAN: This takes into effect, as best we can calculate it, the total one-time increase that this one-time increase in price will have on the cost of living.

Q By "one-time," do you mean on an annual basis?

MR. SEIDMAN: Yes, I guess so, if you want to say that. It means when you put this in if it all happened at once, prices would go up two percent.

Q The fact you did not include any reference in the message to a new wage-price council, should we interpret that to mean that you think the present authority of the Wage and Price Council would be capable of dealing with any inflationary prices that arise in the coming year?

MR. SEIDMAN: We think the Council is doing a good job now. They feel they can do the job they have with their current powers. At any time that that does not appear sufficient, we will ask for more. But at this time, it looks like it is doing the job.

Q I would like to ask a question on the price pass-through and whether there is going to be any multiplication effect. Companies don't price products generally on the basis of after tax income. They price it on the basis of cost and mark-ups and this sort of thing, and in addition, you have a circumstance in which you are raising the CPI, which is going to result in wage increases through escalator clauses.

Why, under those circumstances, do you argue that this will be just a two percent direct effect and there will be no later indirect effects?

MR. SEIDMAN: I didn't say that that was so and if you take the two percent and multiply it out, it comes to more than the 18, but the point of the matter is how companies cost depends entirely on what their markets are.

In many cases, if the market does not allow for that increase, the companies may absorb some of it. The other side may be that they will get it with their normal mark-up. Often they will get it with no mark-up. There is in the figure that we have some 20 or 30 percent excess there.

MR. NESSEN: We have been at it about an hour and I think a lot of people will want to file. There are a whole series of briefings.

MORE

Q I have waited a long time to ask a question.

MR. NESSEN: Ted, everybody has had it for about an hour or more.

There will be a whole series of briefings actually stretched over the next month. If everybody wants to go file, you can go file and maybe we will take another five minutes of questions. Let's let the people who want to file go and then we can quiet down a little bit.

Ted is striving desperately to get his question in. Let's have about another five minutes and let a little bit of this sink in. These people are going to be available and a lot of other experts are going to be available. We are going to have a whole series of briefings.

Q The question is for Mr. Seidman. With the stimulative effects of the $16 billion 1974 rebate, will the effects be greater, less or about the same if it is concentrated in the lower and middle income families rather than 12 percent across-the-board?

MR. SEIDMAN: First, it is 12 percent, as you know, up to $40,000.

Again, you have to study what has happened in the past, looking at what our problems are in the economy. Obviously, the slowest industries, the ones hardest hit are the big ticket industries -- the appliance, automobiles, television, many others, housing -- and therefore, going higher on the economic brackets may well produce more purchasing in those areas than some of the purchasing that might be done in the other areas.

I think, in looking at the tax packages, you have to look at the fact that the second, the energy-related package which adjusts for this inflation and which is longer term, not just this one-shot, and would go in with the withholding tables being changed as soon as it went in, would move very strongly in the direction of helping the lower income people where spending would be perhaps on a different type of product.

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Q Mr. Zarb, how much do you expect this to increase domestic production of oil and why?

MR. ZARB: That is a very good question, and I will ask you to refer to the charts in your package, which I haven't used, and the chart maker is very unhappy with me because I was supposed to. You all have one of these.

We have set out a chart, both short-term and long-term effects of the actions we intend to take. If you will look at the long-term effect chart, which starts out "affects midterm program, 1985," there is the answer to your question. If you want to know why, I will have to get into each individual area.

Q Does your excess profits tax, does it not take away from the producer who would otherwise want to produce more oil? Doesn't it leave him making the same profit and, therefore, why would he expand his production?

MR. ZARB: It does year one, as I have said. I will bring it back again to last year's discussion with Ways and Means. The ultimate conclusion was that over some unit of time -- and you can pick four years or eight years that have been under discussion -- windfall profits would phase out and the world price would prevail.

Obviously, the conditions of the world price are going to effect when that ultimately occurs, but the mechanism provided a means by which the price of domestic oil from $5.25 to go up to $7, $7.70, and whatever the appropriate equilibrium price was.

The certainty of whatever those numbers are, the certainty of depletion questions, the certainty of plowback, which is a factor, once those issues are settled and are written into law, then we are going to get people out there putting money into more exploration.

As it is now, we are getting a lot of exploration. We have more wells drilled than we have had for a long, long time. The curve on the chart went way up. when the price changed. I have given you these numbers and they are based upon the kinds of actions we have taken.

Mr. Seidman would like to talk about that.

Q One question. Why would a further increase in prices increase the amount of exploration? There is already a limitation on the amount of equipment available now.

MR. SEIDMAN: That is a fair question. There is a fair amount of restriction with respect to constraint with respect to equipment. That principally runs to rigs and pipe. I think pipe is coming under control and we are going to be doing some things here in short order to help the rig situation.

I think we can remove that restraint with some good actions over a period of time.

I will ask the question: How much does it cost to go out and drill a lot of dry holes in the Atlantic outer continental shelf? As you go further into these frontier areas and begin to question the current cost, today's cost of drilling to explore and to find oil, I think the ratio now is ten holes, one wet and nine dry -- that's pretty close -- the costs have increased substantially and when you do it in less and then have to deliver it down here from PET-IV, for example, the price changes.

Q You said that if the world price of petroleum falls, we would set a price to protect Project Independence. How high do you expect that floor will have to be?

MR. SEIDMAN: I can't give you a technical answer to that question that I could now defend based on good economics because that work is not yet completed. However, the President has asked for a paper on that issue as soon as the work is completed.

But he does want the authorities to require the President to set that price. We have had testimony over the last year, pretty much, by our economic people who envision that number being somewhere between $7 and $8.

I think the $7.70 was one somebody settled on because they didn't want to make it $7.50 because it sounded made up.

Q Could you go a little bit deeper into the natural gas deregulation and what the 37 cents excise tax would mean? We all want average figures today, so if you have got it, fine.

MR. SEIDMAN: I think the average means something like about a 30 percent increase for natural gas.

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Q Can I get back to a question about whether a 10 percent increase in retail prices will really save a million barrels a day? Are you talking about saving a million barrels of the current level, or what some projection is for the end of the year? Can you guarantee a hundred percent that a 10 percent increase will make that savings, or do you have some reservations about that?

MR. SEIDMAN: You have two questions there. We talked about this before. The savings were set at a level of anticipated consumption based upon real Troika estimates so everybody could see exactly what formula was being used to achieve what level.

The first cut was an anticipated level of 6.7 million barrels by the end of 1975, meaning our target would be 5.7. But, in our first generation of reports, we had a footnote that said we would readjust that target based on new issues of the Troika estimate.

Obviously, if the economy turns around like that, we may want to readjust that target level, but it will be a real million dollars from a point which we would be at if we didn't take these specific actions.

Q Are you positively convinced that this small price increase, relatively speaking, will cut a million barrels?

MR. SEIDMAN: I am convinced these actions in total, including our Elk Hills, including our coal conservation activities, will conserve us a million barrels by 1975, if we get the total package. I really am.

I pointed out earlier that the President is committed to stand behind that program by having us fine tune the system using export controls if they are necessary to make the program successful and somebody has import controls.

Q Mr. Seidman, in your budget estimate, sir, on page 20, which has spending at 314 and 349 respectively, do these spending estimates include all of the net savings you propose from the October 8th message and from the subsequent proposals that the OMB made and the ones that you say you are going to make?

MR. SEIDMAN: They are the President's budgets.

Q They would be 17.1 billion higher if you don't get any of that?

MR. SEIDMAN: That is right, you would have a $360 billion expenditure. The speech points that out specifically.

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Q Seventeen would get you to 366?

MR. SEIDMAN: Well, about that.

Q The President is asking standby authority for gas rationing, among other things?

MR. SEIDMAN: Yes.

Q Why didn't he mention that in the State of the Union Message?

MR. SEIDMAN: Because there has to be some limitation on the many, many things he is doing in both the economic and energy area, and in good conscience, we thought maybe we shouldn't subject people to the total load, as they say.

Q Why is he suggesting rationing completely?

MR. SEIDMAN: No, he has not. The rationing is there in the event of an embargo. That is the reason, and he says that.

MR. ZARB: Let me add to that. He did address the rationing question in his speech. He said that he looked at rationing, it didn't achieve the desired results and it had inequity and residual results that he just thought were unacceptable.

MR. NESSEN: The thing about the standby on the rationing bill, that is a whole little package to deal with emergencies like a new embargo. And I think he mentioned in general terms that he was going to ask for steps to deal with a new embargo. It is not to deal with the day-to-day or year-to-year problem of cutting down on imports. It will deal with an emergency.

Thank you.

Everybody here will be available and their staffs will be available and my office will be to help you in further ways.

END (AT 10:13 A.M. EST)

THE WHITE HOUSE

WASHINGTON

FEB 4 1975

February 3, 1975

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MEMORANDUM FOR: MEMBERS OF THE WHITE HOUSE STAFF

FROM: DONALD A. WEBSTER DW

The attached booklet provides a brief and fairly simple explanation of the President's economic and energy proposals. If you would like additional copies in order to answer inquiries which you have received on the program, please call John Unland of Bill Baroody's office on extension 6262.

Attachment

ECONOMY AND ENERGY:

The President's Program in Brief

THE WHITE HOUSE

- FOREWORD -

Immediately following the State of the Union message, over one thousand leaders from every segment of American society came to the White House for a series of briefings and discussions on the economic and energy proposals in President Ford's message. In the course of this series of discussions, certain basic questions kept recurring.

The purpose of this pamphlet is to answer many of the most commonly-asked questions by presenting a brief overview and highlights of the President's program.

ECONOMY AND ENERGY -
THE PRESIDENT'S PROGRAM IN BRIEF

President Ford's comprehensive economic and energy proposals are designed to respond to one of the most complex and serious challenges in American history. This paper provides a brief and frank discussion of the situation.

The problem can be simply stated: We are experiencing the highest rate of inflation since World War II and a recession with unemployment already over seven percent. On top of this, the United States is faced with a growing dependence for oil on unreliable foreign sources at prices that pose very serious national security, financial and economic problems.

Each of these problems is closely linked to the others. Because of that linkage they must be treated together.

Inflation has resulted from a number of causes, including:

- Many years of excessive Federal spending and too rapid growth of money and credit.

- The quadrupling of oil prices by the major foreign producing countries.

- Poor harvests leading to higher food prices.

- Two devaluations of the dollar.

This inflation has helped create the recession by:

- Cutting the real purchasing power of paychecks.

- Pushing interest rates to high levels that work severe hardship on many sectors of the economy, particularly homebuilding.

- Depressing consumer confidence and their willingness to buy.

Higher oil prices imposed by the oil exporting countries contributed directly to both recession and inflation. This increase in the price of energy and energy-related products works like a tax levied by a foreign power. It reduces the cash an individual or a family has available for other spending, but also removes these revenues from our Nation as a whole because, unlike domestic taxation, they are not even available for public spending here at home.

The higher energy bill has thus resulted in a massive flow of dollars to the oil exporting countries. Other industrialized countries are also paying very high oil bills, threatening the stability of world financial markets and their ability to pay for the energy they need.

The Arab oil embargo brought home forcefully to every American what this dependence could mean to our economy and to our national security, and yet our dependence steadily increases. Domestic oil and gas production is falling and imports are rising. Today, imports account for about 40% of our petroleum consumption. If present trends continued, we would be importing 50% of our oil by 1985.

Unless we take immediate steps to reduce our consumption of fuel and increase our self-reliance, we will experience greater imports, have more severe balance of payments problems, and be subject to major interruptions and price manipulation by oil exporting countries.

The control of the oil cartel countries over oil supply and prices gives them leverage over our entire economy, and represents a tremendous drain on our national wealth.

To put the situation in perspective: In 1970, we spent less than $3 billion on oil imports; in 1974, we spent roughly $25 billion; and by 1977, if we fail to take action now, it is estimated that we will pay $32 billion to the oil-producing countries. And with those import dollars go the real income and wealth we could otherwise enjoy.

The President believes we must cut our oil imports by about one million barrels per day by the end of this year and by two million barrels per day by the end of 1977.

President Ford, after wide consultation, has developed a three-pronged attack on the challenges of recession, inflation and energy dependence. Since it is designed to deal with a wide range of very difficult problems, his program is complex. As a result, the program can be judged fairly only by viewing it as a whole since the various parts are closely interrelated to achieve the desired objectives.

The goals of the President's program may be summarized as follows:

- <u>To hasten recovery from the recession</u>, the President sees the need for an immediate, across-the-board tax rebate of $12 billion for individual taxpayers on 1974 taxes, returning to them up to 12 percent of their taxes in May and September of 1975. An additional $4 billion would be in the form of a one-year increase to 12% in the investment tax credit, thus spurring industrial expansion and creating new jobs. The intent of the tax refund is to give the economy a sharp, one-time stimulus ($16 billion total) that would speed recovery without causing more inflation.

- <u>To curb inflation</u>, the President will attempt to effect a moratorium on <u>new</u> spending programs outside the energy field and a five percent limit on automatic cost of living increases in social security benefits, military retirement pay and the like. The program also includes a five percent limit on Federal pay increases in 1975. Inflation is showing some signs of abating, but the President believes it is critical to restore long-term discipline to our fiscal and monetary policies in order to eliminate this continuing threat.

- <u>To free us from dependence on foreign energy sources</u>, the President has designed a tough new program to encourage conservation and greater domestic energy production.

<u>Energy conservation</u> would be achieved through a series of import fees, excise taxes and decontrol of domestic oil and gas prices with the increased costs recaptured through tax revenues that would raise the price of most petroleum products on an average of 10 cents a gallon. This will reduce demand for these products sufficiently so that, together with increased domestic production, the President's goals can be met.

As part of a longer run solution, the President has an agreement with the major domestic auto makers to improve gasoline mileage by 40% on the average by 1980, compared to 1974 cars. He is also working to change building standards to improve insulation and other building practices so as to reduce energy needs. Efforts are also under way to substantially improve the energy efficiency of major appliances.

Increased energy production in the United States would be achieved through a number of measures. These include oil production from Naval Petroleum Reserves and higher production from existing wells in response to improved incentives because domestic oil prices will no longer be below prices we must pay for imported oil. These policies will be supplemented by actions to encourage faster development and production of our domestic energy resources.

In addition, the President would require:

- Such adjustments as are necessary to permit expanding use of our domestic energy supplies to produce electric power.

- A long range synthetic fuels program.

- A continuation of the accelerated program of research and development in the energy area.

A question that is often raised is whether this program contributes both to inflation and recession by increasing energy costs to consumers.

The President felt that the costs could not be avoided if the economy was going to reduce its demand for petroleum products and become less dependent on foreign energy sources by 1985. The alternative would have been a system of rationing that would not solve our energy problem and would be unfair to the average American.

The President's total energy program will have a one-time effect of increasing prices by about 2%. The estimated increased cost of petroleum and petroleum-related products to all segments of society will be about $30 billion a year. Estimate of the average annual cost per family is about $275.

The President's total program will not depress the economy because higher energy costs will be offset by the permanent reduction of taxes. This program of tax reduction includes $16.5 billion for individuals that will show up as an immediate reduction in taxes withheld from current earnings. Seventy percent will go to persons with incomes of less than $15,000 per year. Individuals who pay no taxes at all will receive $2 billion annually - or about $80 per person. Corporate taxes will be cut by $6 billion. State and local governments will also receive added funds under the General Revenue Sharing formula. In addition, individuals who install insulation in their homes will receive a tax credit for a portion of those costs.

In summary, higher energy taxes will increase energy prices, but these higher prices will be an incentive for all energy users to look for ways to reduce their own use of energy, whether for gasoline, heating oil, electricity, etc. Some businesses or individuals will find that they can reduce their use of energy, while others will decide to pay the higher price. Under the President's program everyone can make his or her own decision.

In order to avoid hurting average and lower income people most, because of higher energy costs, a disproportionate share of the reduction in taxes will go to low and middle income families. For many families, the tax cut will restore a part of the purchasing power that has been lost as a result of inflation. Higher income people, however, will receive permanent tax reductions that do not fully offset their higher energy costs.

The President contemplates a tough, comprehensive, and integrated program. It would help protect our national security. It would stimulate the economy through tax cuts to get us out of the recession. It would keep a lid on Federal spending to prevent a new round of inflation, and bring the Federal budget into balance when the economy recovers. It would raise petroleum prices in order to encourage conservation and increase domestic production. And it would recapture excessive oil company profits through a windfall profits tax. On balance, it would deal fairly and equitably with consumers and producers alike.

Energy

FEB 21 1975

THE WHITE HOUSE

WASHINGTON

February 14, 1975

MEMORANDUM FOR: JACK MARSH

FROM: JERRY H. JONES

The attached material is forwarded for your information and use.

Thank you

R - This is a very good memo. Please read, reproduce and send to

1. Barowsky
2. Ruff
3. others you suggest.

M

all rec'd

Nessen

THE WHITE HOUSE

WASHINGTON

January 17, 1975

MEMORANDUM FOR: KEN COLE

FROM: KEN LAZARUS KL

SUBJECT: Distribution of Information Relating to President's Economic and Energy Programs

You asked me to explore any legal restrictions which may be relevant to the printing and distribution of certain materials elaborating upon the President's economic and energy programs as recently discussed in the State of the Union Message.

Introductory Note

It is anticipated that the packet would include the Message itself, ~~fact sheets and a series of Q and A's.~~

My understanding of the available avenues of distribution may be summarized as follows:

1. Press: Mailings are routinely made to the approximately 250 largest newspapers and 300 TV stations. Frequently, this list is expanded to cover an additional 1,000 daily newspapers. On rare occasions, mailings are also made to some 5,000 weekly publications.

2. Special Interest Groups: Bill Baroody apparently has compiled a list of some 2,000 special interest groups which have been invited to participate in White House briefings on the subject proposals -- some lesser number will actually participate. I am advised that this list of 2,000 represents but a fraction of potential special interest recipients.

3. State and local government officials: Jim Falk would anticipate a distribution covering approximately 350 state and local government officials.

4. Citizen distributions: The extent to which you are considering distributions to individuals, e.g. RNC mailing lists, is unknown.

Legal Authorities

There are two statutory provisions which bear on the use of appropriated funds in this context. 18 U.S.C. §1913, in pertinent part, provides that:

* * *

> "No part of the money appropriated by any enactment of Congress shall, in the absence of express authorization by Congress, be used directly or indirectly to pay for any personal service, advertisement, telegram, telephone, letter, printed or written matter, or other device, intended or designed to influence in any manner a Member of Congress, to favor or oppose, by vote or otherwise, any legislation or appropriation by Congress, whether before or after, the introduction of any bill or resolution proposing such legislation or appropriation . . ."

* * *

In addition, a direct appropriation restriction is found in the Treasury, Postal Service, and General Government Appropriation Act of 1974, (Pub. L. 93-143) which includes the appropriations for the White House Office of the President. Section 607(a) of Title VI of that Act states:

* * *

> No part of any appropriation contained in this or any other Act, or of the funds available for expenditure by any corporation or agency, shall be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress.

* * *

Provisions similar to Section 607 have been attached to appropriation acts since 1951. These provisions clearly signify Congressional sensitivity to the use of appropriated funds to pay for lobbying activities of government officials.

The distinction between the President's responsibility to inform the public regarding his legislative programs, for which appropriated funds may be used, and proscribed lobbying activities is difficult to draw. Generally, the transformation from "information and explanation" to "publicity and propaganda" would occur at the point where an honest evaluation of the activities involved requires the conclusion that the activities are primarily designed to influence Congress with respect to specific legislation under consideration.

Discussion

In applying the standards noted above to the situation at hand, the following distinctions can be drawn:

1. It would appear that the bulk of the materials intended for distribution relate not to Presidential action but to proposals for legislative action. Therein lies the basic rub. In order to contain the effort within the "information and explanation" function as opposed to "publicity and propaganda", your efforts should be carefully circumscribed.

2. As a general rule, you would be operating within the "information and explanation" function in responding to any express or implicit inquiry for elaboration on the President's proposals. Clearly unsolicited mailings (other than distributions to the media) would tend to draw your effort outside permissible boundaries.

3. Quantitative distinctions, although not very helpful, have also been made. Although evidence of an actual criminal violation could not be established, Congress has objected to efforts to "saturate public opinion" in favor of particular programs pending in Congress as violating the spirit of the anti-lobbying provision. Investigations of such efforts have been conducted in the past both by the Congress [H.Rept. 2474 (1948) and H.Rept. 3239 (1951)] and by GAO at its request [Hearings Before House Select Committee on Lobbying Activities, 81st Cong. 2d Sess. (1950)].

4. The nature of a group of recipients obviously could be reflective of the intent of the distributor. Thus, a mailing to a group of Washington "representatives" would likely run afoul of the statute.

5. Distributions to the media would clearly appear to be authorized, assuming the scope of the distribution is not extraordinary and is not based on any prior commitments which may have been received.

6. Obviously, in any distribution that is made, readers should not be asked to communicate with Congress to support the President's program.

Recommendations

Based upon the foregoing discussion, it is my opinion that appropriated funds could be used to cover the costs of printing and distributing an appropriate packet of information to: (1) customary media recipients; (2) the state and local government leaders suggested by Jim Falk; and (3) those special interest groups which explicitly request the material or implicitly indicate an interest in the subject matter by virtue of their attendance at White House briefings.

Beyond these groups, any distributions at public expense would be questionable. Of course, such additional bulk mailings could be relegated to the Republican National Committee. The RNC would have to absorb the costs of printing, envelopes, postage, etc. The documents would be commercially printed. The envelopes could be imprinted with some indication of presidential origin but official White House envelopes paid for from appropriated funds should not be turned over to the Committee.

#

[March 1975?]

THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

THE PROGRAM AT A GLANCE

I. Major Objectives

- Begin an early recovery from the recession.
- Begin bringing Federal spending and budget deficits under control.
- Reduce sharply the growth in oil imports and dependence on foreign energy sources.
- Offset higher energy costs and restore purchasing power and growth in jobs and production.
- Achieve the capability for energy independence by 1985.
- Maintain energy independence beyond 1985 and develop capacity for energy supply and technology export.

II. Major Presidential Actions and Proposals to the Congress

A. To begin an early recovery from the recession:

1. A $12 billion rebate in 1974 income taxes for individuals.

2. A $4 billion tax cut for corporations through increase in investment tax credit.

B. To begin bringing Federal spending and budget deficits under control:

1. A moratorium on new Federal spending programs.
2. Selected Federal budget reductions.

C. To reduce sharply the growth in oil imports and U.S. vulnerability to another embargo (1975-1977):

1. Encourage energy conservation, through:

   a. Increased oil import fees.
   b. Excise tax and import fee on oil.
   c. Excise tax on natural gas.
   d. Public education.

2. Encourage domestic energy production, through:

   a. New natural gas deregulation.
   b. Crude oil price decontrol.
   c. Elk Hills Naval Petroleum Reserve production.
   d. Conversion to the use of domestic coal.

3. Recapture windfall profits from oil companies.

D. <u>To offset the impact of higher energy costs and restore purchasing power and growth in jobs and production</u>:

1. Individual tax cuts of $16.5 billion beginning in 1975.
2. Payments to non-taxpayers of $2 billion.
3. Home energy conservation tax incentive of $.5 billion.
4. Corporate tax cuts of $6 billion.
5. Payments of $2 billion to State and local governments.
6. $3 billion Federal energy cost offset.

E. <u>To achieve the capacity for energy independence by 1985</u>:

1. Increase domestic energy production:

   a. Naval Petroleum Reserve No. 4 (Alaska) production.
   b. Outer Continental Shelf (OCS) leasing for oil and gas.
   c. Reducing domestic energy price uncertainty.
   d. Clean Air Act amendments.
   e. Surface mining legislation.
   f. Coal leasing on Federal lands.
   g. Assist electrical utilities.
   h. Expediting nuclear power.
   i. Expediting energy facilities siting.

2. Encourage energy conservation:

   a. Auto gasoline mileage increases.
   b. Building thermal standards.
   c. Low-income home energy conservation program.
   d. Appliance energy efficiency standards.
   e. Appliance and auto energy efficiency labelling.

3. Emergency preparedness:

   a. Strategic Petroleum Reserves.
   b. Energy emergency standby and planning authorities.

F. <u>To maintain energy independence beyond 1985 and permit export of energy supplies and technology</u>:

1. Synthetic Fuels Program.
2. Energy Research and Development Program.
3. Energy Research and Development Administration (ERDA).

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