Q's & A's
DOMESTIC ECONOMY

QUESTION - Do you think loan demand is tapering off?

ANSWER - The reports I get suggest that there has been some slowing in loan demand from the very rapid pace earlier in the year. This is encouraging. It suggests that monetary restraint is working.

Change in C&I loans at all large banks plus dealer placed commercial paper in millions of dollars

	1974	1973	1972
Week ended Oct. 2*	1350	687	1332
Last 3 weeks	2910	2016	1995
Year to date	23126	14233	5059

*Latest available

Changes in C&I loans only (in millions of dollars)

	1974	1973	1972
Week ended Oct. 2*	627	116	887
Last 3 weeks	1106	783	1836
Year to date	18883	17196	3748

*Latest available

JA
John H. Auten
Ext. 5914
Home phone:370-3892
08/14/74
10/11/74

P.EP3

QUESTION - WHAT IS THE OUTLOOK FOR THE U.S. BALANCE OF PAYMENTS IN LIGHT OF HIGHER OIL PRICES?

ANSWER - ALTHOUGH A DETERIORATION IN THE TRADE BALANCE SEEMS INEVITABLE, WE CAN BE REASONABLY WELL ASSURED THAT THE OFFICIAL SETTLEMENTS BALANCE WILL BE QUITE MANAGEABLE. SINCE MOST OF THE MAJOR COUNTRIES ARE ALLOWING THE PRIVATE MARKET TO SET THE GENERAL RANGE OF EXCHANGE RATES, WE CAN EXPECT CAPITAL MOVEMENTS TO OFFSET THE BULK OF OUR DEFICIT ON CURRENT ACCOUNT. ALSO, SOME OF THE OIL EXPORTING COUNTRIES WILL HAVE SURPLUS FUNDS WHICH THEY WILL BE INVESTING IN OTHER PARTS OF THE WORLD AND IT CAN BE EXPECTED THAT SOME PORTION OF THESE FUNDS WILL DIRECTLY OR INDIRECTLY FIND THEIR WAY TO THE U.S.

FURTHER INFO - IMPORTS OF OIL ARE LIKELY TO COST THE UNITED STATES NEARLY $18 BILLION MORE IN 1974 THAN THEY DID IN 1973. SINCE THE UNITED STATES IS THE WORLD'S LARGEST IMPORTER OF OIL, THE EFFECT ON OUR IMPORTS WILL BE GREATER IN ABSOLUTE TERMS THAN THE IMPACT ON ANY OTHER NATION, AND EVEN AS A RATIO OF TOTAL IMPORTS THE EFFECT WILL BE GREATER THAN ON ANY OTHER MAJOR COUNTRY WITH THE EXCEPTION OF JAPAN AND PERHAPS ITALY.

IN THE FACE OF AN INCREASE LIKE THIS OUR MERCHANDISE TRADE BALANCE IS BOUND TO DETERIORATE. A DEFICIT IS VIRTUALLY CERTAIN THIS YEAR DESPITE THE PROSPECT OF FURTHER INCREASES IN THE VALUE OF AGRICULTURAL EXPORTS AND A SUBSTANTIAL IMPROVEMENT IN THE BALANCE OF OUR TRADE IN MANUFACTURED GOODS.

DAVID J. KLOCK
EXT. 8263
548-2675
8/1/74
10/11/74

P. EPB

QUESTION - WHY ARE WE SEEING TRADE DEFICITS AND LOOMING BALANCE OF PAYMENTS PROBLEMS WHEN THE DOLLAR DEVALUATION WAS SUPPOSED TO REVERSE THAT TREND?

ANSWER - U.S. IMPORTS OF PETROLEUM AND PRODUCTS COST $16.9 BILLION IN THE FIRST EIGHT MONTHS OF 1974, COMPARED WITH $4.8 BILLION FOR THE LIKE PERIOD OF 1973. FOR THE YEAR AS A WHOLE, U.S. OIL IMPORTS ARE LIKELY TO COST NEARLY $18 BILLION MORE THAN IN 1973. GIVEN AN INCREASE OF THIS MAGNITUDE, A 1974 TRADE DEFICIT IS VIRTUALLY INESCAPABLE DESPITE THE PROSPECT OF FURTHER IMPROVEMENT IN OUR TRADE BALANCE <u>EX</u> OIL, DUE IN PART TO THE CONTINUING FAVORABLE EFFECTS OF DOLLAR DEVALUATION.

ALTHOUGH A DETERIORATION IN THE TRADE BALANCE SEEMS INEVITABLE, WE CAN EXPECT CAPITAL MOVEMENTS TO OFFSET MUCH OF THE RESULTING CURRENT ACCOUNT DEFICITS, SINCE SOME PORTION OF THE SURPLUS FUNDS OIL EXPORTING COUNTRIES WILL BE INVESTING WILL FIND THEIR WAY DIRECTLY OR INDIRECTLY TO THE U.S.

DAVID J. KLOCK
EXT. 8263
548-2675
8/7/74
10/11/74

QUESTION - What is the present status of the Federal Financing Bank?

ANSWER - FFB loans outstanding total over $2.8 billion. Unfilled commitments total $1.9 billion. The Bank has made loans to 8 Federal agencies and other borrowers whose obligations are guaranteed by the Federal Government. The attached table presents the amount of loans and unrealized commitments outstanding to the various borrowers.

The Bank is in the process of negotiating a number of loans with a variety of agencies. We are scheduled in the near future to close a $4 million 17 year loan with the Department of HUD's New Communities Administration for Riverton Properties, Inc., a new community in New York.

The Bank has completed negotiations with the National Oceanic Atmospheric Administration, which guarantees obligations issued by the owners of small fishing boats. Further activity, such as the signing of a commitment and an agreement of understanding between NOAA and the Bank, has been held in abeyance pending resolution of OMB's objections to NOAA's use of the FFB.

The Bank has also begun negotiations with the Maritime Administration which guarantees obligations issued by shipowners to finance or refinance construction of U.S. flagships. Both the Maritime Administration and NOAA operate under Title XI of the Merchant Marine Act of 1936, as amended. Thus, the Maritime Administration is subject to the same OMB restrictions as NOAA.

Preliminary discussions have been held between "Ginnie Mae" and Bank officials concerning the purchase of mortgages presently held in Ginnie Mae's tandem plan portfolio and conventional mortgages which may be purchased if the Brooke-Cranston bill or a substitute Administration housing bill is passed by Congress.

An exploratory session was held with Eximbank regarding the purchase of guaranteed loans.

The Washington Metropolitan Area Transit Authority (WMATA) has indicated a need to use the Bank this fiscal year.

P. EPB

THE BANK HAS FINANCED ITS LENDING ACTIVITY VIA BORROWING FROM THE TREASURY AND ONE SECURITY OFFERING IN THE MARKET. THE BANK SOLD $1.5 BILLIONOF 244 DAY FFB BILLS ON JULY 23, 1974. THE BILLS MATURE MARCH 31, 1975. THE COST TO THE BANK WAS 8.54% ON A COUPON EQUIVALENT BASIS. THE REMAINING $1.3 BILLION OF THE $2.8 BILLION IN LOANS HAS BEEN FINANCED THROUGH THE TREASURY DEPARTMENT. THE WEIGHTED AVERAGE COST OF BORROWINGS FROM THE TREASURY AS OF SEPTEMBER 30, 1974 WAS 8.07%.

Roland H. Cook

ROLAND H. COOK
DEBT MANAGEMENT EXT. 2045
HOME 588-0078
OCTOBER 11, 1974

FEDERAL FINANCING BANK

LOANS AND UNREALIZED COMMITMENTS OUTSTANDING
(Millions of Dollars)

BORROWER	LOANS OUTSTANDING	UNREALIZED COMMITMENTS OUTSTANDING
Department of Health, Education, and Welfare (Medical Facilities Loan Program)	27.6	----
Student Loan Marketing Association	225.0	----
Postal Service	500.0	----
Farmers Home Administration	1,500.0	----
National Railroad Passenger Corporation (Amtrak)	221.0	96.3
General Services Administration	45.0	103.0
Tennessee Valley Authority	320.0	----
Small Business Investment Companies	1.5	198.5
Rural Electrification Administration	----	1,500.0
TOTAL	2,840.1	1,897.8

Office of the Special Assistant
to the Secretary
(Debt Management)

October 11, 1974

QUESTION - What are some examples of legislated budget programs that start off costing little and cost far more in later years? What are the reasons this happens?

ANSWER - Total Federal outlays rise in response to a number of general factors such as expansion of the economy, demand for more public services, and inflation. In addition to these general factors, outlays for individual programs respond to changes in priorities, which may also involve liberalization of program eligibility requirements. For example, Federal outlays for grants for water pollution control facilities, which had averaged just under $100 million annually in the last half of the 1960's,rose to about $500 million in fiscal year 1971, to $700 million in fiscal 1973, and the January budget indicates a further rise to $3,350 million in fiscal 1975, in response to increased concerns for the quality of our environment. This rise was given further impetus by legislation enacted in 1972 which liberalized the Federal share of project costs from an average of about 40 percent to 75 percent of project costs.

Program structure may also contribute to significant increases in Federal outlays. Under several housing assistance programs, for example, the Federal Government enters into long-term contracts to pay part or all of the principal or interest on mortgages to finance new housing units. Because the Government is committed to make these payments over the life of the contract, even if the number of new units financed under the program each year were the same, the Federal outlay would increase in a 100, 200, 300, etc., progression. For example, Federal outlays for housing assistance payments rose generally from about $235 million in 1965 to about $400 million in 1969, $800 million in 1971, $1,600 million in 1973 and the January budget projects these outlays at $2,400 in fiscal year 1975.

Edward Snyder
XT 2026
9/10/74

F
9.E9B

QUESTION - Michigan State economist Robert Rasche says his studies suggest that the government and its off-budget agencies will have to finance about $24.5 billion in new debt in the current fiscal year. Do Treasury economists agree?

ANSWER - The magnitude of Mr. Rasche's figures indicates that he has included the borrowings of Government-sponsored agencies along with Treasury and federally assisted borrowings from the public. The Government-sponsored agencies include the Federal National Mortgage Association, the Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, along with the Farm Credit System. In recent months, heavy demands have been made on these agencies to maintain the flow of funds into the housing and agricultural sectors of the economy.

As Secretary Simon testified before the Senate Budget Committee on August 15, the Federal Government has a greater impact on the financial markets than is indicated by the deficit in the unified budget. The figures he discussed during his testimony, again, excluding the Government-sponsored agencies, were a deficit of $11.4 billion for the unified budget and net borrowings for additional federal credit programs of $14.9 billion for fiscal year 1975 for a total of $26.3 billion.

I intend to hold Federal expenditures in the current fiscal year to less than $300 billion which would entail a reduction in Federal expenditures of $5.5 billion. Accordingly, the fiscal year 1975 unified budget deficit and Treasury demands on financial markets should be significantly less.

Gary Hoge

ROLAND H. COOK
DEBT MANAGEMENT Ext.2045
HOME 588-0078
September 12, 1974

F

P.EPB

QUESTION - Do you think it is wise to sell even more of the strategic materials stockpile for the purpose of cooling inflation?

ANSWER - The stockpile was set up to ensure national defense needs were satisfied in the event of armed conflict. Views of what constituted an economically adequate stockpile changed and approximately $2 billion of inventory was sold during fiscal year 1974. I'm sure these sales helped to mitigate inflationary pressures, but the stockpile is a less effective anti-inflationary tool than other measures we have suggested and stockpile sales may interfere with the efficient functioning of the market. But economic stockpiling bears further examination. I consider this area a question of prime interest to the forthcoming joint Executive/Legislative Commission on Supplies and Shortages.

8-14-74

Mark Coler
ext. 8703
Home phone - 965-3596

F

/ P·EPB

QUESTION - Are you going to recommend that Congress be asked to delay the December 31 date when Americans can buy gold?

ANSWER - On August 14 legislation was approved which requires an end to restrictions on the private ownership of gold on next December 31 or such earlier date that we determine would not adversely affect our international monetary position. Careful preparations are being made within the Government to assure that this change can be made without disruptive effect on either the domestic or the world economies. At this time I see no need for an extension of the present terminal date. If there is an unforeseen change in the situation I would, of course, not hesitate to recommend appropriate Congressional action.

Thomas Wolfe
X5965
9-13-74

K

QUESTION - Are you in favor of an excise tax on State operated lotteries or do you favor the bills now in Congress which eliminate a requirement that to be exempt from taxes the ultimate winners must be determined by the results of a horse race?

ANSWER - We support an exemption from the wagering excise tax for State operated lotteries and have so advised the tax writing committees of Congress. We believe this legislation should and will be enacted before Congress adjourns.

FURTHER INFO - We have also proposed the imposition of withholding taxes on large lottery and race track winnings. This proposal has been tentatively approved by the Ways and Means Committee. Withholding on lottery winnings in excess of $1,000 was approved by the Senate Finance Committee in conjunction with approval of the excise tax exemption but the withholding provision was deleted on the Senate floor. The States strongly oppose withholding.

Dale S. Collinson

Dale S. Collinson
Ext. 8647
528-9113
September 5, 1974

K

QUESTION - Do you have any suggestions for improving the statistical data put out by the government to avoid the kind of massive revisions we have seen lately?

ANSWER - No, I do not have any specific suggestions. The revision of the national income accounts last month was certainly troublesome, and I think we ought to try to improve our statistical system.

E

E.R. Fiedler
2551
299-3476
8/14/74

07/29/74

K

P. EPB

QUESTION - Do you think it is a good idea to put back in the budget the off-budget items in order to give the American people a truer picture of what is being spent by the Government?

ANSWER - I believe it is essential that we give the American people a truer picture of what is being spent by their Government. The budget now submitted to the Congress each year is the so-called "unified budget," which was adopted by the President in 1968 at the recommendation of the President's Commission on Budget Concepts. In recent years, however, several Federal agencies and programs have been removed from the unified budget by the Congress or by the Administration, and there are other Federal programs which have never been included in the unified budget but which have a considerable impact on the economy and on the American taxpayer. I will review these programs, and in my first budget presentation to the Congress, in January 1975, I intend to present a truer picture of all Federal spending activities, including those activities which are now excluded from the budget.

Francis X. Cavanaugh
Ext. 2026
652-0777
August 27, 1974

K

P.EPB

QUESTION - Do you believe federal milk price support should be raised to the legal ceiling of 90% of parity? Should dairy import quotas be tightened to boost dairy prices?

ANSWER - No to both questions. We are already making purchases of non-fat dry milk products at the current price to support the price level. To raise the milk price support to 90% of parity would force us to purchase all types of dairy products to raise prices. It would therefore be inflationary.

With respect to quotas, we believe they already provide adequate import protection. We are gratified that the Europeans have suspended their export assistance on cheese to the U.S. Under the circumstances, we do not see tightening of quotas as being necessary.

BACKGROUND - The price of non-fat dry milk is being maintained at the support level by support purchases. The prices of butter and cheddar are about 7 to 8 cents per pound above support. Support prices were set at 80% of parity on March 1, 1974, the beginning of the dairy crop year. Since then, primarily because of increases in costs, the milk price/cost ratio has fallen to about 76% of parity.

WEB

William E. Barreda
ext. 5305
588-0001
October 11, 1974

P·EPB

Q's & A's
TAXES

QUESTION: ARE YOU IN FAVOR OF A TAX CHANGE WHICH WILL INCREASE THE CAPITAL GAINS EXEMPTION? WHAT ARE THE BENEFITS?

ANSWER: YES, I AM IN FAVOR OF SOME ADDITIONAL EXEMPTION FOR ASSETS HELD LONG PERIODS OF TIME.

IN A ROUGH WAY, THAT WOULD HELP COMPENSATE FOR THE FACT THAT WHEN THERE HAS BEEN A LOT OF INFLATION OVER A LONG PERIOD OF TIME, A LOT OF THE APPARENT GAIN IS NOT REAL GAIN.

MORE IMPORTANTLY, A LESSER RATE WOULD ENCOURAGE PEOPLE TO "UNLOCK" ASSETS WITH LARGE GAINS AND THUS STIMULATE ECONOMIC ACTIVITY.

FWH / [illegible]

FREDERIC W. HICKMAN
EXT. 5561
229-7256
OCTOBER 11, 1974

P·EPB

QUESTION: WHAT IS YOUR POSITION ON THE ENERGY TAX BILL WHICH HAS NOW BEEN ADDED TO THE TAX REFORM BILL BY THE WAYS AND MEANS COMMITTEE?

ANSWER: THE ADMINISTRATION PROPOSED LAST DECEMBER A WINDFALL PROFITS TAX TO DEAL WITH THE EXPECTED LARGE PROFIT INCREASES OF OIL PRODUCERS DUE TO INCREASED CRUDE OIL PRICES. THOSE INCREASED PROFITS HAVE, IN FACT, OCCURRED AS PREDICTED AND WE ARE DISAPPOINTED THAT THE TAX IS NOT NOW IN PLACE AND OPERATION -- IT WOULD HAVE CAPTURED MUCH OF THE WINDFALLS WHICH WE ARE NOW READING ABOUT. IT IS NOT TOO LATE FOR CONGRESS TO MOVE ON THIS, HOWEVER, AS THE PERIOD OF OIL PRICE LEVEL STABILIZATION WILL LAST FOR PROBABLY THREE-FIVE YEARS.

THE ADMINISTRATION ALSO PROPOSED IN FEBRUARY OF THIS YEAR IMPORTANT CHANGES IN THE FOREIGN TAX CREDIT FOR FOREIGN OIL PRODUCERS AND AN END TO FOREIGN PERCENTAGE DEPLETION.

THE ENERGY TAX BILL ADOPTED MODIFIED VERSIONS OF THESE ADMINISTRATION PROPOSALS AND ALSO REPEALED THE PERCENTAGE DEPLETION DEDUCTION FOR DOMESTIC OIL AND GAS UNDER A PHASE-OUT BEGINNING JANUARY 1, 1974. THE ADMINISTRATION OPPOSES ELIMINATION OF DOMESTIC PERCENTAGE DEPLETION SO LONG AS THE PRICE OF OIL IS CONTROLLED.

PLM

PHILLIP L. MANN
656-8771
EXT. 2316
OCTOBER 11, 1974

P. EPB ✓

QUESTION: WILL YOU RECOMMEND TO THE PRESIDENT THAT HE SIGN THE NEW TAX BILL IF IT CONTAINS A PHASE-OUT OR REDUCTION OF THE OIL DEPLETION ALLOWANCE?

ANSWER: WE WILL HAVE TO MAKE THAT DECISION WHEN WE SEE THE FINAL FORM OF THE BILL AND CAN WEIGH TOGETHER ALL ITS PROVISIONS. WE HAVE SAID THAT WE ARE PREPARED TO ACCEPT THE PRESENT WAYS AND MEANS BILL AS A WHOLE ALTHOUGH WE WOULD PREFER TO CHANGE SOME OF ITS PARTS. WE OPPOSE REPEAL OF PERCENTAGE DEPLETION FOR DOMESTIC OIL SO LONG AS PRICES REMAIN CONTROLLED. WE BELIEVE THE WINDFALL PROFITS TAX IS A SUPERIOR TOOL FOR DEALING WITH THE SHORT-RUN PROBLEM OF WINDFALL PROFITS. IT WILL EXACT TAXES RELATED TO WINDFALL PROFITS BUT WILL NOT IMPEDE EXPANSION OF THE DOMESTIC INDUSTRY ALONG A PATH THAT WILL ENSURE A HIGH DEGREE OF FUTURE SELF-SUFFICIENCY.

FURTHER INFO: THE ADMINISTRATION LAST DECEMBER PROPOSED THE WINDFALL PROFITS TAX. THE WAYS AND MEANS COMMITTEE LARGELY ELIMINATED ITS AFFECT BY ADDING A "PLOWBACK" CREDIT AGAINST THE TAX FOR THE AMOUNT OF INVESTMENT THE TAXPAYER MAKES IN OIL RELATED ACTIVITY. THE COMMITTEE ADDED TO THE BILL A PHASE-OUT OF PERCENTAGE DEPLETION WHICH THE ADMINISTRATION HAS OPPOSED.

PLM

PHILLIP L. MANN
656-8771
EXT. 2316
OCTOBER 11, 1974

EPB

FRENCH ANTI-INFLATION TAX

QUESTION: WHAT IS YOUR REACTION TO THE PROPOSED NEW TAX WHICH FRANCE PLANS TO IMPOSE ON BUSINESS AS AN INDUCEMENT TO PASS ON PRODUCTIVITY GAINS THROUGH PRICE REDUCTIONS? WHAT DO YOU THINK ABOUT DEVISING A SIMILAR TAX IN THE U.S.?

ANSWER: FROM WHAT WE HAVE LEARNED ABOUT THIS TAX, IT WILL TAKE EFFECT IN 1975 BUT THE FULL DETAILS HAVE NOT YET BEEN DRAFTED. WE ALSO UNDERSTAND THAT THE TAX OPERATES IN A MANNER SIMILAR TO WAGE AND PRICE CONTROLS, EXCEPT THAT IT IS ENFORCED BY IMPOSING A TAX RATHER THAN BY IMPOSING WAGE AND PRICE ROLLBACKS. SINCE WE ARE NOW RULING OUT WAGE AND PRICE CONTROLS IN THIS COUNTRY, I WOULD DOUBT THAT WE WOULD WANT TO ADOPT A TAX WHICH WOULD DO APPROXIMATELY THE SAME THING. NEVERTHELESS, WE WILL BE WATCHING THE FRENCH EXPERIENCE WITH THIS TAX VERY CAREFULLY.

FURTHER INFO: THE PROPOSED NEW TAX WOULD IMPOSE A TAX OF UP TO 75 PERCENT ON INCOME EARNED BY FRENCH COMPANIES THAT IS ATTRIBUTABLE TO PRODUCTIVITY GAINS; THUS, IN ORDER TO AVOID THIS TAX, THE AMOUNT OF THE EXTRA INCOME WOULD PRESUMABLY BE PASSED ON BY FRENCH COMPANIES TO THEIR CUSTOMERS IN THE FORM OF LOWER PRICES TO REFLECT SUCH PRODUCTIVITY GAINS. THE AMOUNT OF INCOME SUBJECT TO THE TAX WOULD BE COMPUTED BY COMPARING THE COMPANY'S "VALUE ADDED" (NORMALLY EQUAL TO ITS OVERALL PROFIT) DURING A CALENDAR QUARTER WITH ITS VALUE ADDED FOR THE SAME QUARTER IN THE PRIOR YEAR. IF THE AMOUNT EXCEEDS A PERCENTAGE EQUAL TO THE TOTAL OF THE FRENCH GROWTH RATE PLUS THE FRENCH RATE OF INFLATION, THE EXCESS WOULD BE SUBJECT TO TAX, ALTHOUGH CERTAIN EXEMPTIONS AND ALLOWANCES ARE MADE.

D S Foster

D. S. FOSTER
EXT. 5992
229-5189
10/11/74

P. EF

QUESTION: Would any increased revenues from a gasoline tax go into the highway trust fund or general revenues?

ANSWER: The revenues from the present Federal excise tax on gasoline are dedicated to the Federal Highway Trust Fund which presently is in surplus. If there were to be any increase in the Federal gasoline tax, that would be for a different purpose and we would not propose that the revenues be added to that special fund for highway use.

E. Christian

H

P.EPB

QUESTION - What do you think of removing the depletion allowance?

ANSWER - We favor retention of percentage depletion for domestic production at the present time.

1. Percentage depletion for oil and gas has been provided in the Internal Revenue Code for nearly 50 years. It has thus become embedded in the price/cost structure of the domestic oil industry. Eliminating it at this time, notwithstanding the temporary excessively high prices of oil, would cause some elements of the industry, particularly the independent oil producers, to have to seek alternative sources of finance to carry out the high rate of discovery and development of reserves we wish to encourage. The strains now apparent in capital markets would make this shift difficult.

2. At the present time, more than 60 percent of domestic production is sold at a fixed, controlled price. Elimination of percentage depletion therefore would particularly offset producers of the price-controlled oil.

3. Over the longer term, the absence of percentage depletion will mean that domestic producers will have to receive higher prices in order to produce a given amount of oil.

For these reasons, we believe that enactment of the Windfall Profits Tax as previously proposed by the Administration is a superior tool for dealing with the short-run problem. It will exact taxes related to windfall profits but will not impede expansion of the domestic industry along a path which will ensure a higher degree of future self-sufficiency.

Seymour Fiekowsky
X8282
8-21-74

H

P·EPB

QUESTION - WHAT DO YOU THINK OF MILTON FRIEDMAN'S SUGGESTION THAT THE TAX SYSTEM BE INDEXED SO HIGH INCOMES WOULD NOT PUSH TAXPAYERS INTO HIGHER BRACKETS AND PROVIDE GOVERNMENT WITH MORE MONEY TO SPEND?

ANSWER - DR. FRIEDMAN IS CORRECT THAT INFLATION CAUSES THE RATIO OF TAX TO INCOME TO INCREASE. WE HAVE OFFSET THAT EFFECT BY PERIODIC TAX CUTS. WE BELIEVE THAT THIS IS A BETTER APPROACH THAN THE AUTOMATIC INDEXING SUGGESTD BY DR. FRIEDMAN BECAUSE IT IS MORE FLEXIBLE. WE HAVE IN THIS WAY KEPT INDIVIDUAL INCOME TAXES AT A FAIRLY CONSTANT LEVEL OF ABOUT 10 PERCENT OF PERSONAL INCOME.

IN THE REVENUE ACTS OF 1969 AND 1971 WE PROVIDED REDUCTIONS IN RATES WHICH HAVE MADE THE 1974 INDIVIDUAL INCOME TAX BILL ABOUT $12.8 BILLION SMALLER THAN IT WOULD HAVE BEEN. THIS IS ABOUT 10 PERCENT OF THE ESTIMATED PERSONAL TAX LIABILITY FOR 1974. FOR THE SIX CALENDAR YEARS 1969 THROUGH 1974, WE HAVE DECREASED INDIVIDUAL INCOME TAXES BY AN AGGREGATE OF ABOUT $40 MILLION.

AT THE SAME TIME THAT INDIVIDUALINCOME TAXES WERE DIMINISHED, THE LEVEL OF CORPORATE TAXES WAS INCREASED BY NEARLY $5 BILLION FOR THE FOUR CALENDAR YEARS, 1969-72.

THE TENTATIVE DECISIONS THAT THE WAYS AND MEANS COMMITTEE HAVE MADE THIS SUMMER WOULD PROVIDE FURTHER CUTS FOR INDIVIDUALS OF ABOUT $1.7 BILLION AND NET INCREASES FOR CORPORATIONS THAT ARE OF ABOUT THIS SAME MAGNITUDE. (MOST OF THE INCREASES BEING A RESULT OF THE ENERGY BILL.)

Ford

HICKMAN
EXT. 5561
229-5276
8/7/74

H

P. EPB

QUESTION: Do you believe there should be a minimum income tax for all taxpayers?

ANSWER: The present minimum tax on individuals does not work well. On April 30, 1973, the Administration submitted to the Ways and Means Committee a proposal for a tax on an individual's Minimum Taxable Income (MTI). The MTI proposal would require every individual to pay tax on not less than 50 percent of his expanded adjusted gross income (adjusted gross income plus (i) the excluded 50 percent of long term capital gains, (ii) percentage depletion in excess of basis, (iii) the bargain element in certain stock options and (iv) exempt foreign earnings). The MTI proposal was coupled with the proposal for a Limitation on Artificial Accounting Losses (LAL) to eliminate tax shelters for individuals. Ways and Means has adopted a modified form of our proposal which is not as strong as the Administration's proposal.

PLM

Phillip L. Mann
Ext. 2316
Home: 656-8771
8-14-74

H

P.EPB

QUESTION - On tax reform, Mr. Secretary -- the AFL-CIO has issued a "tax justice" statement, calling on Congress to enact legislation to increase taxes on the wealthy and on business. Their Executive Council admitted the Reform Act of 1969 helped the individual, but the process was reversed in the Revenue Act of 1971. What are the facts on this?

ANSWER - The facts are that Treasury estimates show both the Tax Reform Act of 1969 and the Revenue Act of 1971, together, have favored the individual taxpayer and have increased taxes for the wealthy and for corporations.

In combination, both tax laws passed in this Administration have had the following effect:

For the five calendar years 1969-1973, they will have

-- increased corporate income taxes by $5.5 billion over what they would have been had no changes been made;

-- decreased individual income taxes by $30.2 billion; and

-- decreased excise taxes on autos and telephones, mostly affecting individuals, by $4.9 billion.

It is clear that it cannot be said that the benefits of the 1969-1971 tax changes favored corporations, or that the 1971 reforms negated the 1969 reforms. Substantially, all the reductions have gone to individuals.

Hickman
Ext. 5561
Phone 229-5276
8-28-74

6/12/74
06/19/74

H
P.EPB

PRESIDENT'S
ECONOMIC PROGRAM

GENERAL STATEMENT

A PROGRAM TO CONTROL INFLATION IN A HEALTHY AND GROWING ECONOMY

Although our economic system remains sound and strong, with its basic vitality intact, the economy is experiencing severe difficulties. Inflation is far too high. Too many people are having trouble finding employment. The financial markets are out of kilter. Interest rates are exorbitant. Housing is suffering badly. The productive capacity of the economy is expanding too slowly.

The origins of these problems are complex. Part of the problem grew out of several international shocks:

-- The disastrous world-wide drop in crop production in 1972, which sent food prices soaring.

-- Two international devaluations of the dollar, which made the United States a more attractive source for other countries to buy scarce materials.

-- The tripling of crude oil prices, which exerted a powerful and pervasive effect on our entire price structure.

Here at home, a long period of excessively stimulative policies created inflationary pressures that gradually and inexorably mounted in intensity. With that condition prevailing, the economy could not absorb the outside shocks; rather, those have now been built into the system, deepening and extending our problem.

Twice within the past decade, in 1967 and in 1971-72, we let an opportunity to regain price stability slip through our grasp. Thus inflation has gathered momentum and has become the chronic concern of producers and consumers alike. Indeed, today inflation is the primary cause of our recession fears.

-- Consumer confidence has been shaken, causing most families to hold back on spending, as clearly indicated by the lack of growth in the physical volume of retail sales for the past year and a half.

-- An "inflation premium" has been added to "true" interest rates, so that we now have mortgages at 9-10 percent and corporate bonds at 10-12 percent. This has warped our financial markets, including the stock market, which were structured for an economy with a relatively stable price level.

Another development that has created a serious economic imbalance is the fact that our civilian labor force has been expanding rapidly. For the size of our labor force, therefore, we are short on capital equipment. During this same period, the effectiveness of price controls in certain sectors -- e.g., steel, paper and other basic materials -- created specific bottlenecks that limited the production capacity of the entire economy. As a result, unemployment was higher than it otherwise would have been. Also, the dampening impact of price controls on profits held back new capital expansion programs in some of these vital industries.

Thus, because our problems are complex, it is clear that our program to deal with them must be comprehensive. It is also clear that the solution cannot be achieved quickly. There are no simple, instantaneous cures for our difficulties. Discipline and patience are the watchwords.

We must, therefore, have a strong policy of budgetary and monetary restraint to work down the rate of inflation. At the same time, we must provide the means for a healthy long-run growth in the capacity of the economy, correct the imbalances that have developed in recent years, and see to it that the burdens of this effort are shared on an equitable basis. Some further rise in unemployment appears probable, and we will take steps to deal with it. However, we can and will achieve our goals without a large increase in unemployment. There will be no economic depression in the United States.

TALKING POINTS

Date: October 7, 1974

MEMORANDUM FOR: SECRETARY SIMON

From: Gerald L. Parsky

Subject: Talking Points for Briefings on Economic Message

I. Opening Statement

I am delighted to be here to discuss with you the Ford program to control inflation and maintain a healthy and growing economy. Some may be expecting a real "blockbuster" -- an instant cure to inflation. The fact of the matter is that there are no instant cures -- no magic formula that will make inflation disappear overnight.

One very basic reason for this is that our current inflation did not develop from one cause but rather from a combination of factors: in addition to pressures emanating from cartel pricing practices in oil, we have suffered from misfortune -- including bad weather affecting crops around the world; bad timing -- in the cyclical covergence of a worldwide boom; and bad policies -- reflected in years of excessive government spending and monetary expansion. We must now accept responsibility for government policies, and recommend policies that take fully into account the circumstances of the world in which we find ourselves.

I believe the program presented today does just that. It will be a disappointment to those who argue for increased government regulation -- those who argue for wage and price controls, for credit allocation or for gasoline rationing will not be happy with this program. Instead, we are presenting a program aimed at minimizing government controls. It represents a balanced approach to fiscal and monetary policy. It includes firm and persistent restraint of both public and private demand.

At the same time, it provides the means for healthy long-run growth in the capacity of the economy. The program is aimed at correcting imbalances that have developed in recent years and alleviating inequitable hardships that have been imposed on the poor. Some further rise in unemployment is inevitalbe, and we will take steps to deal with it. However, we can and will achieve our goals without a large increase in unemployment.

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec
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Form OS-3129
Department of Treasury

The Ford economic program consists of the following:

II. Amending the Employment Act of 1946

-- The American people have a right to receive from their government stronger assurances that policies will be followed to safeguard the purchasing power of their money along with abundant job opportunities and a rising level of living, and therefore we are proposing that the words "maximum purchasing power" in the Employment Act of 1946 be clarified so that they mean price level stability.

III. International Cooperation

-- Our policies to reduce inflation and restore satisfactory growth are intended to contribute to the strengthening of the international economy. We intend, further, to work with others so that:

(a) We can ensure secure and reasonably priced goods, particularly food and fuel, for all nations.

(b) We can minimize national policy conflicts or distortions that direct resources away from their most productive uses.

(c) We can provide early warning of potential shifts in supply and demand so that nations can avoid potential disruptions.

(d) We can try to harmonize national efforts in such areas as conservation, investment and balance of payments management.

-- A small delegation led by Ambassador Eberle departed today for Canada, Europe and Japan to discuss the policies described herein and to explore how we can better address and resolve common problems in a mutually supportive fashion.

-- A cornerstone of our international efforts is the multilateral trade negotiation scheduled to begin this fall. Passage of the Trade Reform Act now in the Senate will provide the U.S. with an opportunity to help improve the international trading order and to ensure that United States interests are well served therein and we must have this bill.

IV. Food and Fiber

-- Food prices are of major concern in our fight against inflation. Because of weather problems and heavy demands from around the world, current forecasts of food prices antificipate increases at an annual rate of 10 percent or more over the next 18 months. Only by maximizing farm production, improving productivity, and reducing foreign demand can we hope to reduce the rate of increase.

-- We are committed to a program of all-out food production. There are presently no government restrictions on wheat, feed grain and soybean planting. To remove restrictions on rice production, we support H.R. 15263, but with a noninflationary support price. In addition, we will promptly offer new legislation to remove restrictions on peanuts and long-staple cotton.

-- Farmers must be assured of adequate supplies of fertilizers and fuel. The Secretary of Agriculture has been directed to work with the interagency Fertilizer Task Force to establish a reporting system. Fuel will be allocated if necessary. Authority will be sought to allocate fertilizer, if that is needed. We will work with fertilizer companies to initiate voluntary efforts to reduce nonessential uses of fertilizer. We call on the American people to cut back by at least 50 percent the application of fertilizer for lawns, parks, golf courses, etc. A 50 percent reduction will be ordered in the use of fertilizer by all Federal agencies for all purposes except experimental food programs.

-- We also assure farmers that they will be able to dispose of their entire output at reasonable prices whether in the domestic market, foreign markets, or through government programs.

-- The Federal Government will monitor food exports to assure that we retain adequate supplies at home while doing our best to meet the needs of our friends abroad. Over this past weekend, we initiated a voluntary program to limit grain exports. A committee of the Economic Policy Board will be responsible for determining limits on export shipments under this program. In addition, we will ask the Congress to immediately extend the Export Administration Act, so that authority may be used if needed. We will also ask for legislation to allow shipments under Public Law 480 in appropriate circumstances.

-- The U.S. Department of Agriculture and the Council on Wage and Price Stability have been directed to help reduce the cost of food by improving efficiency in the agricultural sector. Marketing orders will be reviewed to insure that they do not reduce food supplies. Government regulations will be reviewed to eliminate those that interfere with productivity in the food processing and distirubtion industries.

-- Upward pressure on U.S. food prices will be reduced by helping developing nations to become more self-sufficient. We will share our advanced agricultural technology and aid in the construction of new fertilizer plants. We will support food reserve and emergency food aid programs. We are also taking steps to assure that the burden of the current tight feed grain situation is equitably distributed.

-- While increased food supplies are the only effective weapon against higher food prices in the long run, it takes time to grow those supplies. We cannot expect to see immediate benefits from the initiatives outlined here. We can, however, be confident that policies to maximize food and fiber production and to restrain food price increases are being pursued vigorously.

. Energy

-- Expensive petroleum from insecure foreign sources jeopardizes national security, increases worldwide inflation and places strains on the international financial system. Therefore, in order to reduce our dependence upon foreign supplies of energy, we have decided upon the following program to meet the current energy challenge. Our immediate objective is to reduce oil consumption one million barrels per day by the end of 1975 below what it would have otherwise been. I am confident that this target can be achieved without affecting industrial output. This energy program calls for both mandatory and voluntary action.

-- If immediate reductions are not achieved through the energy program presented today, we will seek more stringent means to insure that our dependence is reduced.

-- Develop a new conservation ethic

As part of our continuing effort to conserve energy, the individual American and the American Industry and Government must develop a new conservation ethic to think and act conservation, of not only energy but also resources and commodities that are used in our day to day life.

-- <u>Submit legislation to Require Use of Coal and Nuclear for New Electric Power Generation and Conversion for Existing Plants</u>

We are setting a target date to eliminate oil-fired plants from the Nation's mainland base-loaded electric capacity where it is feasible to convert to coal without endangering public health. We are calling a meeting of representatives from the utilities, the coal and nuclear industries, state regulatory commissions and the relevant Federal agencies. They are to establish within 90 days a schedule for phasing out enough oil-fired plants to save 1.0 million barrels per day and to provide a list of actions required to ensure that the schedule is met. Any legislation necessary to accomplish this goal will be submitted thereafter. Cost savings from this program are estimated to be $2.2 billion per year.

-- <u>Defense Production Act</u>

The Defense Production Act will be used selectively to ensure sufficient supplies of scarce materials needed for energy development projects. This Act was recently invoked to give priority to the delivery of supplies to expedite construction of the Trans-Alaskan pipeline.

-- <u>Automobile Industry to Develop Program for Gasoline Savings</u>

During the past two sessions of Congress, legislation to require fuel saving on new automobiles has been considered. Unfortunately, the nature of legislative requirements on automobile manufacturers has often caused confusion, additional cost to the consumer and unworkable deadlines. Therefore, we are requesting the major automobile manufacturers to submit to the President a five-year schedule of their plans to produce more efficient automobiles. Goals on efficiency for industry to meet will then be established. If necessary, the President will present legislation to the Congress for consideration.

-- <u>Industry to Conduct Energy Audit and Develop Savings Programs</u>

The President has requested the Secretary of Commerce to develop energy use guidelines which will suggest ways for industry to use energy more efficiently. The Secretary will also report on energy savings in specific industries and communicate that information to businessmen across the nation so they are aware of what conservation methods are available. In addition, the Commerce Department will monitor areas of energy misuse within industry and suggest alternatives to stop such waste.

-- More rigid compliance with the maximum speed limit of 55 miles per hour; suggest new traffic control measures

The 55 mile speed limit set by Congress earlier this year has saved at least 250,000 b/d of petroleum. The Administration will request rigid enforcement of the limit by State and local law enforcement agencies. In addition, the Secretary of Transportation will work with State officials in suggesting additional traffic control measures for conserving gasoline.

-- Further Conservation within Government

Governmental conservation programs will be made stricter and enforced more vigorously. As a top priority, a review will be made of all governmental imposed impediments to energy conservation both as they adversely affect the day-to-day programs of the government and the private/industry operations.

Specific conservation actions to be strictly enforced:

- -- Thermostats lowered to 68 degrees in the winter and raised to 78 degrees in the summer.
- -- Lighting reduced in public buildings.
- -- Speed limits on government vehicles reduced.
- -- Cut back the number of trips taken, including miles driven and miles flown.
- -- Car pooling locators within metropolitan government bases.
- -- Allocate parking spaces on a priority basis to car poolers.
- -- Purchase smaller automobiles to replace the larger cars.
- -- Reduce decorative lighting.
- -- Reduce outside lighting.

-- <u>Voluntary Conservation Actions</u>

We are seeking to reduce energy consumption in commercial buildings and in residences. In addition, we are seeking significant reductions in gasoline consumption.

If each commuting passenger vehicle would carry one additional person, a reduction in gasoline usage of well over 500,000 barrels per day could be achieved.

We are asking the American people to cooperate in the following specific areas:

-- Lower thermostats in the home in the winter and raise them in the summer.

-- Architects to design buildings with conservation in mind.

-- Motorists to keep cars tuned and maintain proper tire pressure.

-- Temperature settings reduced on hot water heaters.

-- Pilot lights on furnaces turned off in the summer.

-- Cold water used for laundry.

-- Use of public transportation increased.

-- Use of car pools increased.

-- Use of nonessential home appliances eliminated.

-- Use of stoves, refrigerators, televisions, electric lights, washing machines, etc. reduced.

-- Insulate and put on storm windows in homes.

-- Outside gas lights turned off.

-- The commercial sector to reduce the use of space heating, lighting and office equipment.

-- Industrial plants to pay particular attention to energy consumption.

-- Airline flights to increase load factor.

-- Encourage recycling of recyclable materials.

-- Request state and federal regulatory authorities to eliminate rate schedules which encourage excessive energy consumption

-- We are also asking for legislation that will increase domestic supplies of energy

A Natural Gas Supply Act -- the only real solution to our gas supply problem lies in deregulation of new gas, so as to stimulate production. Legislation to achieve this result has long been stalled in the Congress. This logjam must be broken, so that domestic gas reserves may be identified and brought into production as quickly as possible.

-- Naval Petroleum Reserves -- permit maximum production from reserve #1 (Elk Hills) and implement full scale exploration and development of production capability of reserve #4 (Alaska)

The estimated potential of NPR #1 runs as high as 1.7 billion barrels. The vast tract in Alaska, NPR #4, is largely unexplored but offers a significant potential for development. Recoverable reserves are estimated to be as much as 30 billion barrels.

The legislative action needed will provide that these reserves are brought to their maximum efficient production capability as rapidly as possible.

-- Clean Air Act

Under the Clean Air Act, restrictions upon the burning of fuel now prevent the use of many of our abundant domestic energy reserves. At least some of these restrictions can be relazed or restructured, without any sacrifice of our environmental goals or jeopardy to the Nation's health.

The Administration has proposed legislation to achieve this result, but the Congress has not acted.

Specifically, the Act should be amended so as to permit the use of intermittent control systems that will allow the burning of higher sulfur content fuel when atmospheric conditions are favorable and no unhealthy concentrations will result.

In addition, some state regulations impose restrictions that amount to "overkill," and are more stringent than are actually needed. In such cases, the nation's needs should prevail, and overkill should be eliminated as a matter of federal law.

Finally, we should have federal authority to require and permit the conversion of existing power generation facilities to the use of coal, and to insure that new plants are built so as to do so from the start.

-- <u>Surface Mining</u>

The Administration has proposed and long supported surface mining legislation that would allow continued and accelerated development of domestic coal reserves while ensuring full reclamation and appropriate protection of environmental values.

Severe problems still remain with some of the provisions of the legislation which has passed both houses of the Congress. Its enactment as now drafted could involve not only serious production losses but inflationary cost impacts throughout the entire economy.

These problems can be resolved, and our need for speedy and increased coal production appropriately reconciled with our need for strict, enforceable reclamation and environmental protection requirements.

-- <u>Nuclear Plant Licensing Bill</u>

We urge Congress to pass the Nuclear Plant Licensing Bill which will expedite licensing and construction of nuclear power plants, help offset rising electric power costs, and accelerate U.S. energy self-sufficiency.

-- <u>Other Energy Related Legislation that is Needed</u>

<u>Windfall Profits Tax.</u> We must maximize our domestic production, without undue enrichment of industry. To do this, we must have speedy enactment of a windfall profits tax, which prevent sudden profit increases resulting from crude oil prices.

-- <u>Deepwater Port Facilities Act</u>

Would authorize the Federal Government to grant permits for the construction and operation of oil terminating facilities on the Outer Continental Shelf.

-- <u>Energy Research and Development Administration, ERDA</u>

Congress is being asked to speed consideration of legislation to create ERDA so that the President can sign the bill before the end of the year. All of our energy research programs will then be consolidated so that they can be managed more efficiently.

-- <u>In addition, we are taking Administration Act to Increase Supplies</u>

-- <u>Accelerate Oil and Gas Leasing of Federal Lands on the Outer Continental Shelf</u>

Prospects for large, new discoveries of onshore oil and gas deposits in the lower 48 states are small. For this reason, leasing of the Federal OCS will be greatly accelerated with a target of ten million acres annually in 1975 and beyond. To sustain this schedule it will be necessary to lease frontier areas off Alaska, southern California and the Atlantic coast. The accelerated leasing program will comply with all provisions of the National Environmental Policy Act and every step will be taken to insure that development will be carried out under environmentally safe practices.

-- <u>Incentives to Secondary and Tertiary Production</u>

Existing price controls have a tendency to discourage increased production from existing oil fields, especially decline fields. I am directing adjustment of these controls so as to maximize incentives to use secondary and tertiary production methods in such cases.

-- Coal Leasing of Federal Lands

We will resume leasing of federal lands in 1975 to develop the vast coal resources underlying these lands. Increased world oil prices have forced us to look to alternative supplies of energy.

-- Leasing Public Lands for Oil Shale and Geothermal Development

We will immediately re-evaluate our oil shale and geothermal leasing programs with a view toward more rapid development of these resources.

Early this year, the government leased 18 tracts in known geothermal areas. Ten of these tracts, located in the Geysers Field of Northern California, can supplement efforts on private lands that have already proven to be of commercial value. The remaining tracts, in the Imperial Valley of California, offer a testing opportunity -- tapping hot, mineralized water for commercial use as an energy source.

Early this year, four oil shale tracts were leased in Colorado and Utah which are expected to be of commercial value. Developmental work, already underway, will assess the economic and environmental feasibility of exploiting this vast oil shale resource -- estimated as containing 400 billion barrels of oil in the western United States.

-- Completion of Plans to Bring Alaskan Gas to Market

Both environmental and economic analysis to determine how Alaskan gas should be brought to U.S. will be completed as quickly as possible. With the completion of these studies, we will determine what legislation is needed to expedite the access to this large source of environmentally clean energy.

VI. Increasing Productive Capacity

-- Increasing Investment

To accelerate the growth of capital investment, the President is calling for an increase in and a restricturing of the investment tax credit. The credit will be increased from 7 to 10 percent; for utilities the increase is from 4 to 10 percent. The restructuring of the credit will eliminate existing restrictions that now limit the incentive value of the credit and that discriminate unfairly between types of taxpayers and investments that qualify for the credit.

-- Strengthening the Capital Markets

The most important thing that we can do to restore the glow of health to our capital markets is to get control of inflation. A rapidly rising price level is the bitter enemy of savings and investment.

As part of this anti-inflation effort, we will take a step that will also have, of itself, a direct beneficial impact on our financial markets. That step is to balance the budget, and to keep it balanced on average over the years, which will end the drain that past deficits have made on our capital markets. A balanced budget would mean that all of the savings generated by our economy could be used for new productive investment.

And when we think about a balanced budget in this context, we must also take account of the off-budget agencies of the Federal Government, and the credit guarantees (for housing, student loans, etc.) as well.

We must create a better environment in the financial markets for equity capital. In recent years, corporations have been unable to raise adequate new equity capital. They have been adding heavily to their debt, however, and as a result the capital structure of business has been getting out of balance, with too much debt and too little equity. This is especially true for our electric utilities.

To meet this problem and also to improve the health of our financial markets and to encourage investment, the President has proposed tax legislation to provide that dividends paid on qualified preferred stock be allowed as a deduction to the paying corporation. This new provision of the tax laws would be a first step toward the desirable goal of eliminating double taxation of corporate earnings.

The Administration also supports strongly the Financial Institutions Act of 1973 (see Thrift Institutions), and the securities reform legislation (H.R. 5050) pending in Congress that would authorize the Securities and Exchange Commission to establish a national market system for securities transactions. We are also working with the Congress to revise the treatment of capital gains and losses in such a way as to increase efficiency in the flow of capital.

In addition, we support pending legislation to eliminate the withholding tax on interest and dividend income accruing to foreign holders of U.S. securities. Elimination of this tax would stimulate a larger flow of funds to capital markets in the United States.

VII. Credit Allocation

In our view, Government intervention in the allocation of credit would be highly undesirable. First, there is no basis for believing that the Government could in fact allocate credit in a way that was more acceptable to the American people than our present system does now. Second, mandatory allocation would probably be as ineffective and counterproductive as the briefly tried price controls on food were in the Summer of 1973. Credit allocation would be ineffective because the credit markets are so fluid -- even more so than food -- that most regulations could probably be circumvented easily. Alternatively, if the regulations were effective, they would produce the same kind of serious economic distortions that price controls produced in those areas where prices were effectively suppressed. Therefore, the Administration vigorously rejects mandatory credit allocation.

VIII. Antitrust

The elimination of outmoded government regulation must of course be accompanied by dedicated and vigorous enforcement of the antitrust laws.

To support this intensified enforcement effort, we are asking for legislative enactments in two areas. First, we must increase the penalties associated with antitrust violations -- for corporations the maximum fine should be increased from $50,000 to $1 million while for individuals it should be increased from $50,000 to $100,000. Second, we must strengthen the investigation power of the Antitrust Division of the Department of Justice. This can be accomplished by speedy passage of the Administration legislation now pending before the Congress that would amend the Antitrust Civil Process Act, and to provide laws which would give enforcement agencies greater capability to detect bid rigging.

IX. Government Regulation

The Federal Government imposes many hidden and inflationary costs on our economy. A broad program will be undertaken to attack this problem and to identify opportunities for change.

-- The Council on Wage and Price Stability will act as a continuing watchdog on the inflationary actions of the Federal Government to uncover laws and regulations that raise costs and stifle economic flexibility and initiative. We need to eliminate or alter many restrictive practices of the Federal Government in areas such as transportation, labor and agricutlure -- practices that unnecessarily increase the overall costs of goods and services. The Council will devote half of its effort to this function.

-- National Commission on Regulatory Reform. The President will submit legislation to create a National Commission on Regulatory Reform to examine the policies, practices and procedures of these Agencies and develop appropriate legislative and administrative recommendations. Its membership should include Executive Branch, Congressional, and private sector representation.

-- Inflation and Job Impact Statement. The President will require all executive agencies to develop Inflation Impact Statements to assess the inflationary and employment consequences of major legislation or regulations prior to the agency taking action.

The President recommends that the Congress set a similar requirement for itself.

-- Speedier Adjudication and Proceedings. New approaches are required to eliminate the interminable delays often created before regulatory matters are resolved. The courts and the independent regulatories are urged to develop new approaches to assure prompt resolution of pending matters. The Executive Branch will undertake a similar effort.

-- States and Local Governments. Other governmental units are urged to undertake a similar broad program to bring under control the pervasive influence of government at all levels.

-- Enactment of Pending Legislation. There are several important pieces of legislation now pending before Congress, whose enactment would help to reduce the burdens now imposed on the economy by government activities. These include the Surface Transportation Act, the Financial Institutions Act, Trade Reform, and the creation of a Paper Work Commission to review the administrative "bookkeeping" requirements levied by government on the private sector. Congress is urged to move swiftly to enact these measures.

X. Council on Wage and Price Stability

The Council on Wage and Price Stability will devote primary emphasis to two functions: first, it will act as a watchdog on the actions of the Government that raise costs and impede competititon. It will recommend needed changes in legislation to correct these practices.

Second, it will monitor wage and price movements in the private sector. In general, the Council will carry out this function by seeking the full, voluntary cooperation of labor, industry, and the public to solve problems of mutual concern. The Council will cooperate fully with the President's new Labor-Management Committee. In addition, the Council has the power to conduct public hearings and intends to use it to explore the justification for price increases, as appropriate.

Among other duties the Council on Wage and Price Stability will work with the Cabinet Committee on Food, the Interagency Fertilizer Task Force and a new construction industry labor-management group. In the longer run, the Council will get into some problems of industrial capacity, and into the serious problem of costs and prices of medical care.

The Council, however, will not be a wage and price control agency. Controls do not stop inflation; they did not do so the last time around nor even in World War II when prices increased despite severe rationing.

Indeed, controls make inflation worse. They create shortages, hamper increased production, stifle growth and cause unemployment. Ultimately, they cause the fixer and balk marketeer to flourish while decent citizens confront empty shelves and long waiting lines.

XI. National Commission on Productivity

The Commission will spend approximately one-half of its energies to extend and deepen the drive to increase productivity in government -- Federal, state and local. The rest of its effort will be in the private sector, with primary emphasis on meaningful programs at the plant level. Special attention will be devoted to the construction and health-services industries.

XII. Employment Assistance

We are proposing the National Employment Assistance Act of 1974. It will provide standby authority to help alleviate the impact of unemployment should unemployment rates rise. This Act would authorize during the next 18 months two programs which would begin to operate should the national unemployment rate reach 6 percent for 3 months:

(1) Temporary program of income replacement known as Special Unemployment Assistance Program for experienced unemployed workers in areas of high unemployment who have exhausted all other unemployment compensation or who are not eligible for such compensation; and

(2) A program of employment projects for these same areas, known as Community Improvement Program.

While the primary purpose of the two programs is to alleviate the hardships of unemployment upon individuals, it will also alleviate the adverse impact on those local economies hardest hit by unemployment.

The unemployment assistance benefits serve to cushion the effects of protracted unemployment by providing additional income replacement to workers who have either exhausted their regular unemployment compensation benefits or to individuals with a demonstrated labor force attachment not otherwise eligible for UI benefits. Not only does this replace lost income, but it provides workers with the time and opportunity to look for work consistent with their skill and experience.

Funds for both the Special Unemployment Assistance Program and the Community Improvement Program become available when the national unemployment rate reaches 6.0 percent for three consecutive months. For the Special Unemployment Assistance

Program, such funds as are necessary are authorized if unemployment is above this level. For Community Improvement Program, successive increments of funds are authorized if the national unemployment level reaches, for three consecutive months:

-- 6.0 percent -- $500 million authorized;

-- 6.5 percent -- another $750 million authorized; and

-- 7.0 percent -- an additional $1 billion authorized.

When the national unemployment rate recedes below these respective levels for three consecutive months, no additional Federal funds for new projects will be provided.

XIII. Health Costs

Rising expenditures and inflation in the health industry have reached unprecedented levels. The primary solution for long-term improvement is a major restructuring of the system of health care financing, which I believe can best be accomplished by a universal, comprehensive health insurance plan. However, we cannot wait for implementation of such a system before taking action to correct these and other problems.

Therefore, the Secretary of HEW is instructed to aggressively implement all cost containment provisions of existing authorities. In addition, we will continue to develop mechanisms to assure the receipt of effective and high-quality services, enhance consumer information, and improve reimbursement systems. These actions will enable us to get more out of our dollars -- not less out of our programs.

XIV. Housing

President Ford today proposed extending, on a temporary basis, the advantages offered by the Government National Mortgage Association (GNMA or Ginnie Mae) to mortgages which are not Federal Housing Administration (FHA) insured or Veterans Administration (VA) guaranteed -- so called "conventional" mortgages. Initially at least $3 billion -- an amount sufficient to finance about 100,000 new homes -- would be available.

The proposed program will be in addition to the over $19 billion of Federal funds that have been made availalbe over the past year for the purchase of mortgages to supplement the buying power of hard-pressed thrift institutions. It is important to realize that the level of commitments provided by the new program "isn't going to lower interest rates much for homebuyers nor will it immediately reverse the decline in housing starts. Rather, it is a temporary cushion for an industry that has perhaps suffered most from credit supply reductions."

By making conventional mortgages on new homes eligible for purchase by GNMA, builders and homebuyers will be assisted where home mortgage credit is scarce or non-existent.

Authority would expire in 12 months. GNMA would offer to make commitments to purchase conventional mortgages upon publication of regulations; program could be terminated at any time.

Aggregate amount of commitments and mortgages which GNMA could hold at any time, i.e., have purchased and not resold, could not exceed $7.75 billion. An initial program of not less than $3 billion of mortgage commitments, or enough to finance about 100,000 new homes, is contemplated. The precise amount would be determined on the basis of market conditions at the time the new authority becomes law, and additional programs would be activated as circumstances require.

Subject to Congressional approval, the program would provide for a maximum mortgage amount of $45,000, would permit an origination fee and would require mortgage originator certification that excessive discount points were not exacted. There would be no restriction on whether seller or mortgagor may absorb discount points. The effective interest rate would be determined on the basis of market conditions at the time the program went into effect and would be somewhat above the rate offered on GNMA tandem programs for FHA/VA mortgages -- presently 8-3/4 percent.

XV. Public Utilities

Our public utilities are suffering from the effects of inflation -- in particular the explosion in oil prices but also from high interest rates. Their inability to raise all the capital they need is forcing them to reduce construction plans, which causes unemployment today and the real threat of brown-outs tomorrow.

The most fundamental part of the solution to these problems is for the real costs of supply of electricity to be paid by the consumers. Inevitably, this means rate increases, as painful as they are. The Federal Government will not pre-empt the regulatory functions of the States' however, the States must meet their responsibilities fully.

In addition, the restructuring of the investment tax credit and its increase from 4 percent to 10 percent for the utilities will assist these companies in overcoming their financial problems. The new proposal that dividends paid on qualified preferred stock will be allowed as a deduction to the paying corporation will help the utilities improve their capital structure. The energy conservation measures, mandatory and voluntary, will hold down future financing requirements of utilities.

.VI. Thrift Institutions

We must restructure the thrift institutions to give them the ability to compete on an equal basis in the financial markets. To this end, we urge prompt passage of the Financial Institutions Act of 1973.

In addition, we support the proposals now under consideration in both the House and Senate to increase Federal insurance on private deposits. We recommend an increase from $20,000 to $40,000. Such an increase will reinforce public confidence in our financial system.

XVII. The Budget

Control of the Federal budget is a vital component of our anti-inflation efforts. Reducing the fiscal 1975 budget will not have a major immediate impact on the rate of inflation. It would, however, be the first step in reducing the powerful momentum of our rapidly climbing Federal budget and thereby gain the spending control so necessary for 1976 and beyond. And this extended budget control will substantially reduce inflation over the longer term.

Budget control also has short-run benefits. A reduction in the deficit for fiscal 1975 would reduce pressures in the financial markets, lower interest rates and provide more credit for housing and other new capital investment. It would mean that monetary policy would not have to bear the full burden of economic policy restraint. And it would reduce inflationary expectations by demonstrating convincingly that the Federal government is putting its own financial house in order.

Our program for fiscal discipline has elements on both sides of the budget. On the revenue side we have proposed a tax surcharge on high-income taxpayers and corporations. The increased revenues from the surcharge will pay for the additional unemployment insurance, the Community Improvement Program, the increased and restructured investment tax credit and the revised tax status of preferred stock dividends. In fact, there will be little left over to help balance the budget.

On the expenditure side, the President has reaffirmed his intention to hold budget outlays for fiscal 1975 to below $300 billion. Cutbacks of over $5 billion will be needed to reach the goal. We are already in the fourth month of the fiscal year; thus reductions of the amount required will be difficult to obtain. There is need for rapid action, and the Congress and Executive branch together will need to work together quickly and effectively to put expenditures on a long-term track that is consistent with the productive capacity of the American economy and with what the American people are willing to pay for.

The President has asked the Congress to enact a bill setting a budget outlay target for fiscal year 1975 of less than $300 billion. In establishing that target, the bill outlines a plan for a set of actions which would result in the necessary outlay reductions for FY 1975. These actions would be transmitted to Congress for its consideration when it returns in November. The actions to hold down spending will concentrate on those programs that serve special interests, create inequities, or are less essential at this time when fiscal discipline is so important. Concurrence of the Congress in these proposals before the beginning of calendar year 1975 is essential if the $300 billion target is to be achieved.

The Administration together with the Congress has already begun to take action on this outlay control program in defense. The Congress has passed, and the President has today signed, a defense appropriation bill that will reduce defense outlays in FY 1975 by about $2 billion. This is the largest single cut we will be making and is a good start toward the $300 billion goal.

We also have to improve the content of the budget. As now stated, the budget -- because it does not adequately show the impact of the Government's credit program -- does not present to the American people a complete picture of Federal activities and their effect on the economy. The Federally sponsored credit agencies and the many guarantee programs must be brought into the budget more directly.

XVIII. Tax Policies

A. Surcharge

1. Corporations

A 5 percent corporate tax surcharge will be imposed effective January 1, 1975, and continuing through December 1975. The surcharge will be computed by multiplying the corporate tax (before credits against tax, but including the additional tax for tax preferences) by 5 percent. For corporations with taxable years ending in 1975 or beginning in 1975 and ending after 1975, the surcharge will be computed on a pro rata basis according to the number of days of the taxable year in 1975.

2. Individuals

A 5 percent individual tax surcharge will also be imposed for 1975 on income tax liabilities attributable to income above an upper income threshold.

In general, the proposal is designed to exclude from surcharge families with adjusted gross incomes below $15,000 and single persons with adjusted gross incomes below $7,500. However, because income tax liabilities are based on "taxable income" rather than "adjusted gross income," it is necessary to translate, on some average basis, the $15,000 and $7,500 into comparable "taxable income" figures. That was done as follows:

	Families	Single persons
Adjusted gross income	$15,000	$7,500
Standard deduction	-2,000	-1,300
Exemptions (assuming 4 for families 1 for single person)	-3,000	- 750
	$10,000	$5,450

B. Investment Tax Credit

The proposal to change the investment tax credit has three principal parts: (1) the elimination of existing limitations and restrictions on the credit which tend to discriminate unfairly between the types of taxpayers and investments which qualify for the credit, (2) an increase in the rate of the present credit from 7 percent to 10 percent, and (3) making the credit a reduction in basis for depreciation purposes.

-- Proposed changes

-- Increase the rate from 7 percent to 10 percent. This will increase cash flow for all companies in the immediate future. It will be offset in future years by lesser depreciation deductions.

-- Eliminate the limitations based on useful life so that all property with a life in excess of three years will qualify for the full credit.

-- Eliminate the discrimination against public utility property so that it will qualify for the full rate and otherwise be treated the same as other qualifying property.

-- Replace the present limit on the maximum credit which may be claimed with eventual full refundability for the excess of credits over tax liability. Credits in excess of the present limitations may be carried back three years and then to the succeeding three years to offset tax liability, after which time any remaining excess credits will be refunded directly to the taxpayers. This will

  -- Help growing companies which have present investments which are large in comparison with their current incomes.

  -- Help companies in financial difficulties, which get no benefit from credit because they have little or no income tax liability against which to apply it.

  -- Help small businesses, which under present law are more severely affected by the restrictions and limitations.

-- The three-year rule postpones adverse budget impact until revenues from basis adjustment are sufficient to offset revenue loss from this refundable feature.

-- Require the taxpayer to reduce the cost of qualifying property for depreciation purposes by the amount of the investment tax credit. This makes the credit neutral with respect to long-lived and short-lived assets and removes the present discrimination against long-lived assets.

-- Retain the present $50,000 per year limitation on qualifying used property.

-- The revenue cost of the increased and restructured credit (over and above the cost of changes in the credit incorporated in the tax reform bill) will be about $2.7 billion in 1975.

C. Deduction for Dividends Paid on Certain Preferred Stock

To encourage expansion of corporate equity capital and increase the effectiveness of capital markets, it is proposed that dividends paid on qualified preferred stock be allowed as a deduction to the payor corporation. The provisions of the Internal Revenue Code providing for exclusions for dividends received by corporations would not be applicable to these dividends.

The deduction would only be available for cash dividends paid on preferred stock issued after December 31, 1974, for cash or pre-existing bona fide debt of the issuing corporation. For these purposes, preferred stock would be required to be non-voting, limited and preferred as to dividends and entitled to a liquidating preference. The intention to qualify preferred stock under this new provision of the Internal Revenue Code would be required to be clearly indicated at the time the stock was issued.

D. The Tax Reform Bill

1. Low-income taxpayer relief

We support the Tax Reform bill now pending in the Ways and Means Committee. It provides about $1.4 billion of tax relief for individuals with incomes of less than $15,000. In addition, the Tax Reform bill would produce a long-term revenue gain of about $500 to $600 million per year beginning in FY 1976 and we support using those revenues when received also to provide further income tax reductions for lower income families.

The principal individual tax reductions provided in the bill are increases in the minimum standard deduction, the standard deduction and the retirement income credit and a new simplification deduction which for most taxpayers will be larger than the miscellaneous, hard-to-compute deductions which it would replace.

The tax reductions in the bill are made possible primarily by revenues gained from tax reform measures and by increased taxes on oil producers. The tax reform proposals are based on Administration proposals advanced a year and a half ago. The two main features are: (1) a minimum tax, designed to ensure that all taxpayers pay some reasonable amount of tax on their economic income, and (2) a provision (known as "LAL", i.e., limitation on artificial accounting losses) designed to eliminate tax shelter devices under which tax is avoided through the deduction of artificial losses which are not real losses.

The Committee bill raises less revenue from tax reform and oil taxes for calendar years 1974 and 1975 than the Administration proposed. The Administration hopes that Congress will restore some of the reform which the Administration proposed. However, it is most important that tax reform and tax reduction legislation be enacted as promptly as possible and the Administration will support the bill in its present form.

2. Savings and investment proposals

Greater productivity in the next several years will be critical in winding down the wage-price spiral. That will require major new investments.

The Tax Reform bill now pending makes an important contribution by (i) bringing the investment credit for utilities up to the credit generally applicable for other industries, (ii) liberalizing the treatment of capital gains and losses, and (iii) eliminating U.S. withholding tax on foreign portfolio investments, thus encouraging investment by foreigners in the United States.

. Voluntary Program

The President has called upon all of the people to join with him to help return the American economy to a healthy growth with price stability. Throughout our history when there has been a genuine need, the American people have always responded to a clear call for action. The President has issued such a call today.

Restraint, self-discipline and patience are the watch words of a return to price stability. The President asks each of us to enlist as an Inflation Fighter and Energy Saver for the duration. We will all be asked to sign a pledge to do the very best we can for America.

To: Work Better
Buy Smarter
Balance Your Own Budget
Borrow Less; Invest More
Drive Less; Walk More
Grow More
Waste Less
Guard Your Own Health
Share with Others
Ration Your Own Resources.

THE EMPLOYMENT
ACT OF 1946

AMENDING THE EMPLOYMENT ACT OF 1946

The Employment Act of 1946 makes it the policy of the Federal Government to "promote maximum employment, production and purchasing power." Although the words "purchasing power" have sometimes been interpreted as meaning price-level stability, it would nevertheless be helpful to clarify the term and make explicit in the Employment Act the goal of stability in the general price level. The American people have a right to receive from their government stronger assurance that policies will be followed to safeguard the purchasing power of their money in addition to policies that will provide abundant job opportunities and a rising level of living.

We, therefore, suggest that the section of the Act referred to above be amended to read as follows: ". . . for all those able, willing, and seeking to work, to promote maximum employment, maximum production, and stability of the general price level."

INTERNATIONAL
COOPERATION

INTERNATIONAL COOPERATION

There is much that we and other nations can do to restore the health of the international economy. The economic problems of one nation, as well as its policies for dealing with them, affect other nations. Governments thus have the responsibility not only to maintain healthy economies but also to formulate policies in a way that complements, rather than disrupts, the constructive efforts of others.

This is particularly true for major economic powers such as the United States. Our policies to reduce inflation and restore satisfactory growth are intended to contribute to the strengthening of the international economy. We intend, further, to work with others so that:

-- We can ensure secure and reasonably priced goods, particularly food and fuel, for all nations.

-- We can minimize national policy conflicts or distortions that direct resources away from their most productive uses.

-- We can provide early warning of potential shifts in supply and demand so that nations can avoid potential disruptions.

-- We can try to harmonize national efforts in such areas as conservation, investment and balance of payments management.

A small delegation led by Ambassador Eberle departed today for Canada, Europe and Japan to discuss the policies described herein and to explore how we can better address and resolve common problems in a mutually supportive fashion.

A cornerstone of our international efforts is the multilateral trade negotiation scheduled to begin this fall. Passage of the Trade Reform Act will provide the United States with an opportunity to help improve the international trading order and to ensure that United States interests are well served therein. Without this bill, the United States will be regarded abroad as lacking the tools or the interest to build multilateral solutions to pressing economic problems. With it, the United States can play a leadership role in negotiating guidelines to reduce distortions of trade and investment that force workers or farmers in one nation to pay for the economic policies of another nation. We can also work toward a multilateral system of safeguards that provide for temporary -- but only temporary -- limits on imports when there is a need for certain industries to adjust smoothly to economic shifts.

FOOD

FOOD AND FIBER

Food prices are of major concern in our fight against inflation. Because of weather problems and heavy demands from around the world, food prices are anticipated to increase at an annual rate of 10 percent or more over the next 18 months. Only by expanding farm production, improving productivity, and containing foreign demand can we hope to reduce the rate of increase.

Increased production offers our brightest hope for combating inflation, and we are committed to a program of all-out food production. There are presently no government restrictions on planting of wheat, feed grains, soybeans and cotton (excluding extra-long-staple cotton). To remove restrictions on rice production, we support pending legislation, but with a noninflationary target price. In addition, new legislation, which we support, has just been introduced to remove restrictions on the production of peanuts and extra-long-staple cotton.

Farmers must be assured of adequate supplies of fertilizers and fuel. The Secretary of Agriculture has been directed to work with the interagency Fertilizer Task Force to establish a reporting system. Fuel will be allocated if necessary. Authority will be sought to allocate fertilizer, if that is needed. We will work with fertilizer companies to initiate voluntary efforts to reduce nonessential uses of fertilizer.

Over the past weekend the Federal Government initiated a voluntary program to monitor grain exports. We can and shall have adequate supplies at home, and through cooperation meet the needs of our trading partners abroad. A committee of the Economic Policy Board will be responsible for determining policy under this program. In addition, in order to better allocate our supplies for export, the President has asked that a provision be added to Public Law 480, under which we ship food to needy countries, to waive certain of the restrictions on shipments under that Act on national interest or humanitarian grounds.

The U. S. Department of Agriculture and the National Commission on Productivity have been directed to help reduce the cost of food by improving efficiency in the agricultural sector. The Department and the Council on Wage and Price Stability will review marketing orders to insure that they do not reduce food supplies. Government regulations will be examined to elimiate those that interfere with productivity in the food processing and distribution industries.

Upward pressure on U. S. food prices will be reduced by helping developing nations to become more self-sufficient. We will share our advanced agricultural technology and aid in the construction of new fertilizer plants. We will support food reserve and emergency food aid programs. We are also taking steps to assure that the burden of the current tight feed grain situation is equitably distributed.

While increased food supplies are the only effective weapon against higher food prices in the long run, it takes time to grow those supplies. We cannot expect to see immediate benefits from the initiatives outlined here. We can, however, be confident that policies to maximize food and fiber production and to restrain food price increases are being pursued vigorously.

ENERGY

ENERGY

I. General Statement

Expensive petroleum from insecure foreign sources jeopardizes national security, increases worldwide inflation and places strains on the international financial system. Therefore, in order to reduce United States dependence upon foreign supplies of energy, the President has decided upon the following program to meet the current energy challenge.

The immediate objective is to reduce oil consumption one million barrels per day by the end of 1975 below what it would have otherwise been without affecting industrial output. This energy program calls for both mandatory and voluntary action.

If immediate reductions are not achieved through the energy program presented today, the President will seek more stringent means to insure that United States dependence is reduced.

II. Develop a new conservation policy

During the embargo last winter, Americans responded to energy conservation voluntarily. Now, though the crisis is less obvious, Americans must continue to apply voluntary restraint in the use of energy. As part of our continuing effort to conserve energy, the individual American and the American Industry and Government must think and act conservation, of not only energy but also resources and commodities that are used in our day to day life.

III. Specific Program

A. Submit Legislation to Require Use of Coal and Nuclear for New Electric Power Generation and Conversion for Existing Plants

The Administration's policy is to eliminate oil and natural gas fired plants from the Nation's mainland baseloaded electric capacity where it is feasible to convert to coal or nuclear without endangering public health. A meeting of representatives from the utilities, the coal and nuclear industries, state regulatory commissions and the relevant Federal agencies will be called by FEA to establish within 90 days a schedule for phasing out enough oil-fired plants to save 1.0 million barrels per day and to provide a list of actions required to ensure that the schedule is met. Any legislation necessary to accomplish this goal will be submitted afterwards.

Relevant considerations inherent in such a program are as follows:

-- Potential for Conversion

Existing oil and gas plants that are convertible		.75 MM b/d
Future plants (before 1980) scheduled for oil or gas (30,000 MW)		1.0 MM b/d
	Total	1.75 MM b/d
Goal (allowing for cases where conversions will not be attempted)		1.0 MM b/d

-- Costs

A. Because future plants are in varying stages of planning and development, total cost of one million barrels per day conversion is not known.

B. However, report from utilities included in "existing plants" category above indicates that 750 thousand b/d conversion costs total $106 million. It should be noted that these costs are considerably lower than what it would cost to continue burning oil at current world prices.

--Illustrative Comparison of Cost of Using Coal vs. Oil (based on 1 million barrels/day)

1	Cost of coal	= $ 6 million (at $25 ton)
2	Cost of residual	= $12.0 million/day (at $12.00 barrel)
3	Savings	= $6.3 million/day or $2.2 billion/year

-- There are approximately 500 coal fired units that will not meet state regulations as of June of next year. However, most of these could meet the primary air quality standards (i.e. standards to protect human health). These plants use 185 million tons (1/3 of the nation's total coal consumption) of coal per year. This program would allow these plants to continue to burn coal, thus easing additional pressure on oil supplies.

B. Defense Production Act

The Defense Production Act will be used selectively to ensure sufficient supplies of scarce materials needed for energy development projects. This Act was recently invoked to give priority to the delivery of supplies to expedite construction of the Trans-Alaskan pipeline terminal facilities.

C. Automobile Industry must Develop Program for Gasoline Savings

During the past two sessions of Congress, legislation to require fuel saving on new automobiles has been considered. Pursuant to the Energy Supply and Environmental Coordination Act of 1974 a specific study of one aspect of this question is now underway. Unfortunately, the sum total of legislative requirements on automobile manufacturers has often caused confusion, additional cost to the consumer and unworkable deadlines. Therefore, the President is requesting the major automobile manufacturers to submit a five-year schedule of their plans to produce more efficient automobiles. Goals on efficiency for industry to meet will then be established. If necessary, the President will present legislation to the Congress for consideration.

D. Industry must Conduct Energy Audit and Develop Savings Programs

During the last six months, it has been demonstrated time and again that individual companies can cut energy usage dramatically. Nationwide, the potential savings for all industries under a strict conservation program can be significant. The President has requested the Secretary of Commerce to develop energy use guidelines which will suggest ways for industry to use energy more efficiently. The Secretary will also report on energy savings in specific industries, and communicate that information to businessmen across the nation. In addition, the Commerce Department will monitor to determine areas of energy misuse within industry, and suggest alternatives to stop such waste.

E. More rigid compliance with the maximum speed limit of 55 miles per hour; suggest new traffic control measures

The 55 mile speed limit set by Congress earlier this year has saved at least 250,000 b/d of petroleum. The Administration will emphasize the importance of rigid enforcement of this limit by State and local law enforcement agencies. In addition, the President is directing the Secretary of Transportation to work with State officials to suggest additional traffic control measures for conserving gasoline.

F. Further Conservation within Government

The effects of energy conservation efforts within government has been dramatic. Most agencies have far exceeded their goals. However, governmental conservation programs will be made stricter, and enforced more vigorously. As a top priority, a review will be made of all governmentally imposed impediments to energy conservation, in so far as they adversely affect the day-to-day programs of both the government and the private industry operations.

Specific actions mandated and underway, or to be taken :

-- Thermostats lowered to 68 degrees in the winter and raised to 78 degrees in the summer.

-- Lighting reduced in public buildings.

-- Speed limits on government vehicles reduced.

-- Cut backs ordered in the number of trips taken, including miles driven and miles flown.

-- Car pooling locators to be set up within metropolitan government bases.

-- Parking spaces to be allocated on a priority basis to car poolers.

-- Smaller automobiles to be purchased to replace larger cars.

-- Decorative lighting to be reduced.

-- Outside lighting to be reduced.

-- Voluntary Conservation Actions:

G. Reduce energy consumption in commercial buildings

The commercial sector of the economy accounts for almost 15% of our total energy use. Studies have shown that commercial energy requirements can be significantly reduced by improved efficiency measures, and by taking positive steps to reduce lighting, heating and air conditioning. A 10% reduction in this sector can save the equivalent of approximately 500,000 barrels of oil per day.

H. Reduce energy consumption in residences

Residential consumption of energy accounts for approximately 20% of total energy use. Prudent use of heating and air conditioning, reduced usage of hot water, lighting and appliances, and improved home insulation has the potential for saving the equivalent of well over one million barrels of oil per day. These steps would also, of course significantly reduce energy costs for the consumer.

I. Reduce gasoline consumption

About one third of all automobile travel consists of commuting to and from work. If the average number of passengers per commuter auto were to increase by one, a reduction in gasolin usage of well over 500,000 barrels per day could be achieved. The resulting lower consumption would also reduce the commuters out-of-pocket costs for high priced gasoline.

Regarding specific voluntary actions relating to (a), (b) and (c), the Administration will:

-- Encourage everyone to lower thermostats in the home in the winter and raise them in the summer.

-- Ask architects to design buildings with energy conservation in mind.

-- Ask motorists to keep cars tuned and maintain proper tire pressure.

-- Ask everyone to reduce temperature settings on hot water heaters.

-- Ask everyone to turn off pilot lights on furnaces in the summer.

-- Encourage everyone to use cold water for laundry.

-- Encourage the use of public transportation.

-- Urge an increase in the use of car pools.

-- Urge reduction in use of nonessential home appliances.

-- Urge reduced use of stoves, refrigerators, televisions, electric lights, washing machines.

-- Encourage home owners to insulate and install storm windows.

-- Urge turning off outside gas lights.

-- Urge measures to increase the load factor on airline flights.

J. <u>Request state and federal regulatory authorities to eliminate rate schedules which encourage excessive energy consumption</u>

The utility industry, under both state and federal regulations, have often developed rate structures that encourage increased energy consumption. Regulatory authorities should seek to design rate structures that encourage maximum energy conservation, promote use of generation capacity in off-peak periods, and only charge individual categories of users the cost of the power they actually consume.

K. <u>Natural Gas Supply Act</u>

Natural gas is an invaluable source of clean, environmentally sound energy. For fifteen years, the Federal Power Commission has controlled and kept low its wellhead price, and thus reduced incentives to the development of new domestic supplies. In 1957, new discoveries of natural gas totalled approximately 22 trillion cubic feet. By 1972 this had fallen to less than three trillion cubic feet. In 1955 the U. S. had a 22.5 year supply of gas reserves, and in 1972 only 10.7 years.

The nation is now importing foreign liquefied gas (LNG) at prices three times controlled domestic price. The nation faces continued and increasing rates of curtailment of gas being supplied to current users, including gas for agricultural production.

The only real solution to the supply problem lies in deregulation of new gas, so as to stimulate production.

Legislation to achieve this result has long been stalled in the Congress. This logjam must be broken, so that domestic gas reserves may be identified and brought into production as quickly as possible.

L. Naval Petroleum Reserves - permit maximum production from reserve #1 (Elk Hills) and implement full scale exploration and development of production capability of reserve #4 (Alaska)

At the present time, two Naval Petroleum Reserves, Elk Hills, California (NPR #1), and NPR #4 in Alaska, could, if fully developed, provide significant production capability. Elk Hills is about 50% developed but needs further development to place it in a state of readiness. It is estimated that production capability of 160,000 barrels per day could be achieved within two months, with the long term maximum efficient rate of production at about 267,000 barrels per day. The estimated potential of NPR #1 runs as high as 1.7 billion barrels. The vast tract in Alaska, NPR #4, is largely unexplored but offers a significant potential for development. Recoverable reserves are estimated to be as much as 30 billion barrels.

The statutory authority for the naval petroleum reserves, and oil shale is included in Chapter 641, Title 10, U.S. Code. Key provisions in the authority provide that the reserves shall be used and operated for:

(1) The protection, conservation, maintenance and testing of the reserves.

(2) The production of petroleum, gas, oil shale or products thereof, whenever and to the extent the Secretary of the Navy, with the approval of the President, finds that it is needed for national defense and production is authorized by a joint resolution of Congress.

The President is directing the Secretaries of Defense, Navy and Interior, within the next 90 days, to develop proposals (including any needed legislation) directed toward the exploration and development of NPR #4 as rapidly as possible.

M. Clean Air Act

The Clean Air Act Amendments of 1970 represent a landmark in our progress toward environmental protection, and definite progress is being made in cleaning up the Nation's air.

The Act describes very stringent guidelines for compliance by mobile and stationary sources. Many of these goals are achievable as drafted. In some cases, however, more flexibility is needed to achieve the objectives of the Act and to allow use of coal, the nation's most abundant domestic energy source. The amendments that have been transmitted to the Congress by the Administration would provide this needed flexibility to effectively respond to the nation's energy problems without jeopardizing the Act's health related requirements. Passage of all of these amendments will not diminish continuing efforts for a cleaner environment.

N. Surface Mining

Coal is the nation's most abundant and available energy resource. The Administration has proposed and long supported surface mining legislation that would allow continued and accelerated development of domestic coal reserves with appropriate protection of environment values.

Severe problems still remain with some of the provisions of the legislation which has passed both houses of the Congress. Its enactment as now drafted could involve not only serious production losses but inflationary cost impacts throughout the entire economy.

Secretary Morton and his staff have been working closely with the committee to resolve the most important of these problems, including surface owner protection provisions, funding absolute prohibitions of mining in certain areas, unnecessarily broad statements of purposes, and provisions for multiple litigation that could delay or halt ongoing production efforts.

O. Nuclear Plant Licensing Bill

The 9-10 years now required to bring nuclear power plants on line must be reduced. Towards this end, Congress should pass the Nuclear Plant Licensing Bill which will expedite licensing and construction power costs, and accelerate U.S. energy self-sufficiency.

P. Windfall Profits Tax

Since 1973, the prices that may be charged for domestic crude oil production have been strictly controlled by the Cost of Living Council and the Federal Energy Administration (formerly the Federal Energy Office).

Various measures are available to stimulate production from our existing fields by adjusting these controls. Such adjustments are needed on a priority basis, but they could generate sudden profit increases for companies producing oil.

The Administration has proposed a windfall profits tax that would cushion this shock and reduce such profits, and this requires prompt action by the Congress. Expeditious enactment of this tax measure is necessary to maximize production without undue enrichment of the industry.

Q. Deepwater Port Facilities Act

Pending legislation would authorize the Federal Government to grant permits for the construction and operation of offshore oil terminal facilities. Such facilities would allow imported oil to be transported more safely and economically on very large crude carriers, and reduce tanker traffic in the nation's already overcrowded harbors. It would encourage the construction of domestic refineries and thus lessen U.S. dependence on imported products from foreign refineries. An extensive environmental impact statement already prepared indicates that the amount of oil spilled in the nation's harbors and coastal regions will be reduced by these facilities.

R. Energy Research and Development Administration, ERDA

The President is urging to complete consideration of legislation to create ERDA before the recess. ERDA's mission will be to develop technologies for efficiently using fossil, nuclear and advanced energy sources to meet growing needs and in a manner consistent with sound environmental and safety practices. The agency will have responsibility for policy formulation, strategy development, planning, management, conduct of the energy R&D and for working with industry to assure that promising new technologies can be developed and applied.

S. Accelerate Oil Leasing of Federal Lands on the Outer Continental Shelf

Prospects for large, new discoveries of onshore oil and gas deposits in the lower 48 states are small. For this reason, leasing of the Federal OCS must be greatly accelerated with a target of ten million acres annually in 1975. This is an amount 5-times larger than the 2 million acres expected to be leased during 1974; and 1974 in turn is twice the acreage leased during 1973. To sustain this schedule it will be necessary to lease frontier areas off Alaska, California and the Atlantic coast. The accelerated leasing program will comply with all provisions of the National Environmental Policy Act, and every step will be taken to insure that development will be carried out under environmentally sound conditions. The President has directed the Secretary of Interior to meet with coastal state officials to establish the program needed to rapidly develop Outer Continental Shelf resources.

T. Incentives to Secondary and Tertiary Production

Under current technology, 65 billion barrels of oil would be left in the ground in known reservoirs. Some existing price controls have a tendency to discourage increased production from existing oil fields, especially declining fields. The President has directed the adjustment of these controls so as to maximize incentives to use secondary and tertiary production methods in such cases.

U. Coal Leasing of Federal Lands

The government intends to complete steps to resume leasing of federal lands in 1975 to develop the vast coal resources underlying these lands. Increased world oil prices have forced the nation to look to alternative supplies of energy. The nation's most plentiful resource is coal, with over 1.5 trillion tons beneath the surface of America; public lands alone contain 200 billion tons. The President has directed Secretary of the Interior Rogers C.B. Morton to complete the requisite environmental impact statements and move to establish a program for leasing coal on Federal lands in 1975 that will insure the availability of this resource when needed for immediate production.

V. Leasing Public Lands for Oil Shale and Geothermal Development

Early this year, the government leased 18 tracts in known geothermal areas. Ten of these tracts, located in the Geysers Field of Northern California, can supplement efforts on private lands that have already proven to be of commercial value. The remaining tracts, in the Imperial Valley of California, offer a testing opportunity--tapping hot, mineralized water for commercial use as an energy source.

Early this year, four oil shale tracts were leased in Colorado and Utah which are expected to be of commercial value. Developmental work, already underway, will assess the economic and environmental feasibility of exploiting this vast oil shale resource--estimated as containing 400 billion barrels of oil in the western United States.

The Administration will immediately re-evaluate the government's oil shale and geothermal leasing programs with a view toward encouraging more rapid development of these resources.

W. Completion of Plans to Bring Alaskan Gas to Market

Exploration and development of natural gas in Alaska is moving very rapidly. By next year, the basic information will be available to determine whether Alaskan gas should be brought to the U. S. via a pipeline across Alaska or a pipeline across Alaska and through Canada. In response to a congressional mandate, environmental and economic analysis for each alternative is under way, and should be completed early next year. With the completion of these studies and plans, the President will determine whether and what legislation is needed to expedite access to this large source of environmentally clean energy.