QUESTIONS (draft)

Q. Why has the President decided that there should not be any new spending programs in FY 1976?

A. We must stop the run-away increase in government spending and the large deficits. The President is not asking for any cutback in the thousands of government programs now on the books. Federal spending will actually jump $80 billion from July 1974 through FY 1976. Much of this increase is caused by programs to aid the unemployed and to expand benefit payments of many social programs. But we need to carefully consider our future priorities. When we close the books on FY 1975 we will have reported a Federal deficit in fourteen out of the last fifteen years. Over this period we have accumulated $160 billion of deficits and the Federal Government has borrowed another $150 billion for other programs not reported in the Federal budget. When the Federal Government requires so much financing it makes it hard for home buyers, consumers and businesses to get the money they need to keep our economy growing. The President is determined to regain control of the Federal budget and the first step is to stop taking on new burdens, which we cannot pay for, until we can determine our future priorities.

Q. In trying to hold down government spending why did the President single out social security benefits and Federal retirement programs?

A. The millions of people living in retirement will continue to receive growing benefits. But they will gain even more from a reduction in the unacceptable level of inflation that is destroying their savings and wiping out any increased retirement income payments. A vital step in reducing inflation is to get government spending under control. The 5 percent limit on retirement benefits this year is part of the general program. Since 1970 prices have increased 30 percent while social security benefits have risen 47 percent. No one wants any group to suffer an unfair share of the job in getting the economy back on the right track and the proposed 5 percent cap is an attempt to spread the burden.

Q. Who will benefit most from the President's proposed permanent tax reductions on incomes of individuals?

A. While everyone will benefit under the President's plan, low and middle-income taxpayers will benefit more than those with higher incomes. Eighty-six percent of the total tax cut will go to persons with adjusted gross incomes below $20,000 and 70 percent to those with adjusted gross incomes below $15,000.

Q. Has the Administration developed contingency plans in the event that the recession deepens and the recovery is delayed?

A. Prompt action by the Congress on the Administration's proposals for energy and the economy are crucial to support the recovery from the recession expected this year. Developments in the economy will be closely monitored by the President's economic advisers to identify any unanticipated deterioration in the outlook.

While no marked deterioration in the economy below current projections is expected, contingency plans are under development to assure that prompt action can be taken to reverse the course of any unexpected and unforeseen developments that increase the risk of a prolonged or deepening recession.

Q. Why does the economic program concentrate on tax cuts rather than increasing Government expenditures?

A. At the present time a tax cut is preferable for two reasons: First, a tax cut will have a much quicker and more immediate impact on the economy. Government spending programs, if they are to be effective, require much time and planning prior to implementation. The recession should be dealt with now. Secondly, and equally important, past history suggests that increased Government expenditures tend to become permanent and place increasing demands on the Federal budget. Even while dealing with recession it is important that we not lose sight of our long-term objectives of bringing Federal expenditures under control to bring the budget into balance when the economy recovers.

It is interesting that in recent weeks opinions among economists are virtually unanimous that under current conditions tax cuts are preferable to an expenditure stimulus.

Q. Some critics say that on balance the proposed economic program will have a negative fiscal impact. What do you say?

A. In broad fiscal terms, there is a temporary anti-recession tax cut of $16 billion. This is coupled with higher energy taxes which will raise $30 billion. But all of that $30 billion is cycled right back into the spending stream. So this leaves, as the main influence on total economic activity, the $16 billion tax cut, which is a sizeable injection of fiscal stimulus.

Q. Won't the President's energy proposals tend to depress economic activity at a time of recession and low business and public confidence?

A. Adjustment to higher energy costs will tend to depress the economy. These strains will be offset, however, by the improvement in business confidence that should result from prompt action which showed the people that the country has begun to move on our long-term energy problem. Delay in moving forward with a comprehensive energy conservation program, or choice of a system of allocation or rationing to conserve energy, would only postpone the problem, reduce business confidence and delay a healthy and constructive recovery from the current recession.

The energy problem has contributed strongly to the current recession and decline in confidence; the energy issue must be faced squarely and acted upon promptly to restore and sustain improved confidence.

Q. Why are you not recommending the elimination of percentage depletion on oil at this time? I thought you said percentage depletion should go if prices were decontrolled.

A. We have said all along that the best way to capture the windfall profits which were accruing to domestic oil producers was not through the elimination of percentage depletion, but a windfall profits tax.

As a matter of tax reform - which we hope the Congress will take up just as soon as they can following their consideration of these proposals - we are willing to consider the entire subject of percentage depletion for oil, gas and all the other minerals, capital gains for timber, and anything else. But we shouldn't encumber this high priority program with that issue.

Q. How will the Windfall Profits Tax work?

A. The Windfall Profits Tax on crude oil imposes a graduated ~~exercise~~ excise tax (15 percent to 90 percent) on the excess of the sales price per barrel of oil over an amount called the adjusted base price which is set at a level intended to permit a normal, but not a windfall profit. For each month the tax is effective, the adjusted base price increases, thereby reducing the amount subject to tax. This is done to anticipate rising exploration and operating costs and the effects of inflation over a period for which the tax is effective. The adjusted base price and graduated rates operate to leave a reasonable profit for the producer and take away only the windfall profit. To be certain that high cost oil producers never have to pay more in taxes than they have in profits, the tax will never be imposed on more than 75 percent of the producer's taxable income that would exist if there were no Windfall Profits Tax.

Q. If the Windfall Profits Tax phases out over time, will it discourage current production or encourage the holdback of production until the tax declines?

A. No. The rate at which the tax declines is slow enough that producers would be better off to produce and sell the oil, pay the tax and reinvest the proceeds than to leave the oil in the ground. This is especially true if, as appears likely, future oil prices will decline.

Q. Won't the $16 billion tax rebate proposed by the President cause an increase in the inflation rate?

A. While some economists may argue that a tax cut will add to the rate of inflation during the year ahead, others would contend that under present economic conditions - with unemployment high and many factories operating well below capacity - the predominant effect of the tax cut will be to stimulate spending and that additional spending will have only a slight impact on prices.

Whatever the impact of this tax cut during 1975, the most important thing to remember is that it is temporary. After the economy gets well into recovery, too much stimulus would surely reverse the slowing of the inflation rate.

Q: Why are corporate profits so high?

A: A few companies continue to report high profits but the general level of profitability has been hurt by the recession. In the long-term, corporate profitability relative investment has declined steadily since the mid-1960's. Business investment -- and the jobs created -- is dependent upon profitability. The future growth of the economy and job opportunities will depend upon a turnaround of corporate profitability.

Q: Will we have a depression?

A: The real output of the U.S. economy declined about 2 percent in 1974 and will probably be sluggish until at least mid-1975. Depressed automobile sales, low housing starts and reduced consumer buying account for the decline. But these problems are not comparable to the massive economic decline of the 1930's. Rising personal incomes and improvement in the inflation situation will help get the economy moving upward again. Housing will be a particularly important part of the recovery in creating jobs and the sale of appliances and furniture. Business spending to increase capacity and for expanding exports will also contribute. Government spending will continue to provide fiscal stimulus.

Q: The unemployment rate has risen much more rapidly than you expected. Why don't you provide an additional 250, 000 public-service jobs beyond the 500, 000 already authorized for local governments?

A: The public service employment program will be useful to help cushion the effects of the recession. But there are limitations on how quickly and effectively that program can be expanded.

At the last report there were many public service job openings unfilled. We are making a strong effort right now to see that the state and local governments fill those openings as quickly as possible. Before long we will have a better idea of how much need there is under present conditions.

Our first line of defense, however, is the unemployment compensation program. It has been designed expressly to deal with cyclical unemployment. The program triggers in when needed and triggers out when the need has passed.

Q: Why was credit allocation not proposed to channel funds away from speculative and inflationary uses, such as conglomerate takeover and gambling in foreign currencies and gold, toward vital areas such as housing and small businesses?

A: Several reasons can be given:

The judgment of bureaucrats cannot determine "vital" uses of capital as well as the marketplace. Credit allocation would mean that some borrowers could not obtain funds at any price creating serious hardship while others may obtain larger loans than needed. While mandatory allocation of credit is undesirable and inequitable, special programs that give preference have been used, for example in housing, and banks have also been encouraged to examine credit uses and needs carefully. The amount of credit that is used for corporate mergers, specualtion and similar activity is an extremely small fraction of total credit in the economy.

Q: Why didn't the President come up with a meaningful tax-reform program?

A: At best, tax reform is a lengthy and complicated process. Our present need is for prompt and effective stimulus action to deal with the economic situation. An effort to make a major breakthrough in the tax reform area could imperil the early application of remedies for the current problems of the economy. As the President said, tax reform is on the agenda for later this year.

Q: How will people who pay no income taxes be compensated for their additional energy costs?

A: In order to avoid hardships from higher energy costs, cash payments of $80 will be provided for each adult in the low-income, non-taxpayer category. In addition, very low income persons who now pay some income tax will be eligible to receive cash payments which, when added to their income tax reduction, would give them a total benefit of $80 per adult.

Q: Why is your temporary tax reduction an across-the-board reduction and not designed for lower-income people?

A: The $16 billion temporary tax cut is designed to provide an immediate boost to the economy. Individuals will receive $12 billion and businesses the other $4 billion which will help stimulate current spending and investment to create jobs. The President's proposal limits the total rebate to $1,000 but providing meaningful rebates for a larger number of families will help stimulate retail sales, particularly for appliances, furniture and cars so that employment will increase.

Adjustment of the tax rates is provided in another part of the President's program which will use the revenues raised by the energy taxes to increase the low-income family exemption and to reduce the tax rate. This part of the package is tilted in favor of low and middle-income families as indicated. A special $2 billion package is set aside for people with low incomes who do not pay any taxes.

Q. Can you be certain that people will spend the additional money they receive through tax reductions and provide the hoped for stimulus to the economy?

A. No one can be sure what consumers will do with more money in their pockets. It is our expectation that a substantial part will be spent and in areas where the economy is the weakest. This is based on observations with respect to past tax cuts. If consumers do save a large fraction of the tax reduction, additional funds will be available for investment in housing construction and other job creating activity.

Q: Is there any hope for prices to come down?

A: The rate of wholesale price increases has been improving for several months, particularly for industrial raw materials. Shortages are no longer a problem and capacity is available to produce goods. The sluggish rate of business activity has also put downward pressures on prices and mortgage interest rates are slowly declining as the supply of savings in thrift institutions improves. Most of the price distortions caused by controls and the quadrupling of oil prices last year have worked through the system. The rate of inflation should continue to gradually improve in coming months but the fight against inflation must be continued.

Q: The President has signed a Proclamation which will increase oil prices in February. How are people going to pay for these increased costs when they don't get their rebate back until the Spring or Summer?

A: The oil import fee imposed by the President's order is a vital step in moving ahead on his entire energy policy. The $1 increase scheduled for February 1 will raise approximately $200 million during the first three months of 1975 but the price effects will not occur immediately so consumers will not be directly affected until the oil is converted into products and sold to consumers. By the time the full effects of the energy taxes begin to be felt by consumers, the adjustments to the tax withholding rates should be in place. If Congress acts rapidly on the President's economic and energy programs the economy will receive a stimulus of several billions beginning by Spring which will continue through the year.

Q. Why doesn't the President's program include additional powers to deal with wage and price increases?

A. At this time the monitoring program being conducted by the Council on Wage and Price Stability appears satisfactory. The Council on Wage and Price Stability has experienced no problems in acquiring the data needed to perform this role. Should additional powers be required, they will be requested.

Q. Speaker Albert has indicated that the proposed 12 percent rebate on 1974 taxes is unfair because 43 percent of the rebate would go to the wealthiest 17 percent of the population. If this is true, doesn't this give an unfair share of the tax reduction to high income taxpayers.

A. The numbers Speaker Albert was using do not correspond to our estimates, but the point he made is an important one and deserves clarification.

Under current tax legislation a disproportionate share of total tax receipts comes from high income taxpayers. For example, taxpayers with adjusted gross incomes of over $20,000 account for only 35 percent of total income but pay 52 percent of total taxes. Only 12 percent of the taxpayers are in this category, but they pay over half of the total taxes.

Since the tax rebate proposed by the President is subject to a limit of $1,000, higher income taxpayers get a lower share of the rebate than their share of total taxes paid. Thus while taxpayers with adjusted gross incomes over $20,000 pay 52 percent of the total taxes, they will receive only 43 percent of the total rebate.

The share of the total tax burden paid by a relatively small proportion of higher income taxpayers will, in addition, increase further under the other component of the President's program of tax reduction. The permanent tax reductions that he has proposed will benefit mainly low- and middle-income taxpayers through an increase in the minimum standard deduction and reductions in tax rates in the low- and middle-income range of the tax schedule.

Q. Is the Administration seriously concerned about the huge budget deficits for fiscal years 1975 and 1976?

A. The Administration is particularly concerned about the prospective large deficits to the extent that they are a result of excessive growth in long-term Federal spending programs. That is why the President has proposed actions to limit the growth in existing spending programs and asked for a moratorium on major new programs. Bringing the Federal budget into balance when the economy recovers will require a reduction in the trend of Federal spending to avoid the inflation that continuing deficits at that time would cause.

A major component of the large deficits in the immediate future, however, is a result of cyclical increases in unemployment insurance payments and reduced tax revenues. Increases in the deficit from these cyclical sources help to support recovery from the recession and their influence will phase out as the economy recovers. Thus, a temporarily larger Federal budget deficit contributes to stability in the economy under current conditions, but bringing the budget into balance when the economy becomes more prosperous is essential and can only be achieved by restraining long-term Federal spending programs or raising taxes.

Q. Can the large Federal budget deficits in the next 18 months be financed through borrowing by the Treasury without straining financial markets and raising interest rates?

A. Federal borrowing needs can be accommodated during the recession because private credit demands will be low until a recovery from the recession is well underway. Because sales are slow and private credit demands lower when inventories are reduced, there is room for more Federal borrowing without raising interest rates, creating serious congestion in financial markets, or "crowding out" borrowing by private business.

After recovery is underway and demand for credit by the private sector increases, it will become increasingly important to moderate Federal borrowing to avoid straining financial markets and raising interest rates. For these reasons quick action to reduce taxes and stimulate recovery from the recession is important, but avoiding a tax reduction that is too large or continues for too long is also essential to bring Federal borrowing needs down after the economy recovers from recession.

[redacted] Question:

Rog Morton said the target for 1980 is 20 miles per gallon. The Big 3 has pledged only 18.7 miles per gallon. What really is the target?

Answer:

The overall target for all 1980 model year cars sold in the U.S. is 19.6 miles per gallon (which Rog apparently rounded to 20). This is a 40% increase over the 14 miles per gallon average for all 1974 model cars, domestic and foreign, sold in the U.S.

The agreement covers only the big three domestic companies: Ford, GM and Chrysler. It calls for an average of 18.7 miles per gallon by the 1980 model year. The 18.7 figure compares to 13 miles per gallon for Big 3 cars in 1974. This is an increase of 44%.

ENERGY - AIRLINES

Question:

Recently several airline executives have said that the President's energy proposals will require a 20 to 30 percent increase in airline fares. They also indicate that several airlines may not be able to financially survive because of the increased cost of oil due to the taxes and tariffs. Does the President plan to give the airlines a special dispensation from his energy taxes?

Answer:

The airlines consume over a billion gallons of fuel every year. It is essential that they must do their part to reach our energy conservation goals. They must conserve along with the rest of us.

We recognize that we do have a legitimate problem with the airlines. Their costs will go up very substantially. Many of the airlines are currently in financial difficulty, and thus, they will not fully benefit from the President's proposed tax level decrease.

Under the President's energy plan, businesses will be able to recoup their increased costs and we, of course, want to insure that the airlines receive similar treatment. This may mean that the President will propose specific rebate mechanisms to cope with this problem. We are also taking a hard look at other alternatives, and the President has not ruled out any options. Top economists and other advisors point out that even if all these costs had to be taken up in increased fares, it would be nowhere near as large as the number you have used. It would be closer to 10 to 15 percent.

Another alternative we are looking at is a method to reduce the number of empty seats on airline flights. Increasing the number of passengers per plane will save energy, will help the airlines financial position and, importantly, it can result in lower fares.

We are very confident that we can work out this airline problem in an equitable manner. But the important point is that they must shoulder their fair share of our energy-saving burden.

Question:

How do you think the President's program takes care of the special hardships it creates within various areas of the country?

Answer:

Before the President approved this program, he ascertained that it had the capability of being fair not only in geographical areas of the country but in the disadvantaged groups of our society as well as special industries which are particularly affected.

In the areas of geographical burdens in the Northeast, New England is the best example. This section of the country depends mostly on foreign oil for energy. As a result, these states have had the greatest effect from the recent cartel country increases and are naturally sensitive to any additional increases. We have therefore made a special effort to insure that the Proclamation signed by the President on January 23rd does not have any greater impact in the Northeast than in any other part of the Nation. The President has directed a lower tariff for the special kind of oil which is imported and used by Northeastern utilities.

In the case of the disadvantaged people in our society, the President has submitted a program to the Congress which pays special interest to their needs. The energy tax revenues which will be returned in such a way to benefit those on the low end of the income scale -- that is, on the average they will receive more back in dollars than their increased costs due to conservation taxes.

With respect to special industries, the President has directed the Administrator of the Federal Energy Administration to meet with those special industries which are energy-intensive or have some other special problem concerning this program. We will review their information and where the burden is extreme we will take steps to assure that it is corrected.

In summary, when the President looked at the effects of a rationing program and the problems which come from the approach which he proposed, he concluded that the Administration program has fewer problems to resolve and can be fairer than rationing or any other plan.

Question:

Isn't your program in effect price rationing: As such, wouldn't it be more equitable to impose coupon rationing, so that the poor or moderately poor aren't proportionally overburdened by price increases ?

Answer:

In some ways the program is price rationing, but the crucial difference between coupon rationing and price increases is who makes the decision as to where the consumer's dollar is spent. Under coupon rationing, that decision is made by the Federal Government; under our program, the consumer decides whether he will spend more for gasoline, or other goods and services.

Also, under coupon rationing, the cost for gasoline above the coupon allotment will be higher. FEA estimates that the coupons will sell for about $1.20 per gallon, and for those purchasing above their basic ration, the price could go as high as $1.75/gallon.

Actually, both the President's program and rationing transfer about $2 billon to poor families in the first year, but the inequities that would accompany coupon rationing would fall most heavily on certain segments of the poor. For instance, migrant workers drive large distances each year, and could neither afford the additional coupons nor alternative methods of transportation.

Question:

Following your announced agreement with the automobile manufacturers to improve fuel efficiency by modifying pollution controls, the DOT, FEA and EPA have stated jointly that they believe the Clean Air Act standards of 1977 could be met, and still achieve a 40% fuel economy increase by 1980. Why is there this discrepancy in the executive branch, and who are we to believe?

Answer:

There really is no discrepancy. There are a number of reports prepared in the Executive Branch which indicate that the agencies concerned (EPA, DOT and FEA) believe that, under the most optimistic circumstances, the current clean air act standards for 1977 could be met and still achieve a 40% fuel economy increase by 1980. However, attempting to meet those standards would involve high dollar and energy costs. Specifically, under an optimistic assessment of technology, the following cost and benefits are involved:

1) First, the initial cost of the cars would be between 5% and 10% higher-that is $200 to $400.

2) Second, there would be a large fuel economy loss between now and 1980 (when improved technology might be available). For example, the fuel economy loss in 1977 would be at least 10%.

3) Third, allowing the current Clean Air Act standards for 1977 to go into effect would produce very little improvement in air quality because 1975 nationwide standards are already very low compared to previous years.

This optimistic example illustrates the important point that achieving any particular auto emission standards involves costs -- in terms of initial automobile price and in fuel economy. Less optimistic assessments of the technology that will be available by 1980 indicate that the clean air act standards for 1977 would involve even higher initial costs and fuel penalties.

The task ~~and hard~~ at hand for the Nation is to decide on the best balance between improved air quality in the cities that have an auto-related pollution problem and the price that will be paid nationwide to meet auto emission standards.

Q. Why has the Administration not proposed a program to provide financial support for major firms or industries similar to the Reconstruction Finance Corporation?

A. The programs that the President has proposed in his State of the Union message are designed to come to grip with the energy problem and to support recovery from the recession. A healthy recovery in the economy will reduce the potential need for special programs providing emergency financial support for business and industry

We do not at present expect that a program for emergency financial support of business enterprises is necessary. However, if circumstances develop that suggest such a program is necessary, the Administration will be prepared to act.

Q. The Administration has indicated that higher world oil prices set by the cartel have contributed strongly to the current inflation. Won't the energy program have the same effect?

A. The effect of the energy price increases on inflation is expected to be different now than when oil prices were raised at the time of the embargo in 1973. Demand was strong and shortages were widespread at that time, while demand is now weak and there are no shortages.

Q. How did you arrive at your estimate only a 2% increase in the consumer price index and no ripple effect to speak of from the President's program?

A. We are estimating the total oil and gas cost increase to be $30 billion. If you take that total and pour it through the economy, you arrive at a 2% increase in the consumer price index.

Now, if the additional costs are tacked onto additional wages or profits as a result of the increase, then the aggregative effect procedes to be in excess of 2%.

Our econometric models show that the ripple effect will probably not generate increases beyond the 2%. The best historical example of this is the increase in the price of oil in 1973, which do not result in an increase in profits to companies using products manufactured from oil -- in fact, it helped to result in an overall decrease in profits.

There are two major factors that we feel will prevent the ripple effect from occurring. First, there will be a major rebate going to corporations which will reduce their tax bite. Second, in the economy today the demand for petroleum product is very soft and manufacturers will be anxious to maintain their current markets.

Q. Since the oil fees are only for 90 days, why not just wait for Congress to act on the $2 fee?

A. The oil fees will not expire in 90 days unless Congress acts on the tax legislation during that time. The 90 days was was the President's request time for Congressional action. The reason for the fees in the interim is that this problem is so serious that we must take action now -- we cannot wait 10 days (or less or more) for Congressional action if we are to reduce our import-dependence by ~~[illegible]~~ one million barrels per day by the end of 1975.

Q. Why are there no short-term measures other than Elk Hills and coal conversion to increase our domestic supply?

A. In the next few years, there is really very little we can do to increase supply. Domestic oil production is declining and it takes 3-5 years to open a new oil field -- even if drilling equipment were not in short supply. Coal production is limited by our ability to burn coal, and to supply draglines and other equipment. Nuclear powerplants take almost 10 years to build. Thus, we have to rely on energy conservation to reduce our imports in the next few years.

Q. What happens if, after our efforts to save fuel by paying higher prices and living with less energy, the Arab countries turn around and impose another embargo?

A. Though we do not expect another embargo, it could happen. If we have taken no steps to conserve energy and it does happen, we will be worse off than we were last year, or than we would be having taken some such steps. The embargo, coming at a time when our economy has slowed considerably, would be worse in all its effects than the previous embargo.

Q. How much are gasoline and other petroleum products ultimately going to cost, and have you proposed any incentives other than price increases to conserve fuel?

A. Petroleum products will increase on an average of 10¢ per gallon, perhaps a little more. We have proposed regulations that would prevent refineries from passing through costs above 10¢ a gallon on products like heating oil -- for which there are no alternatives. This means that gasoline prices might rise slightly more than 10¢ a gallon but then heating oil increases would be less.

In addition to conservation by pricing, we have proposed legislation making thermal efficiency standards mandatory for new homes and commercial buildings. Such legislation would save us an estimated half a million barrels of oil per day.

Also, the President has proposed a 15 percent tax credit to every American homeowner who installs or improves insulation. This would save us over 500,000 barrels of oil per day by 1985.

Another "incentive" program is our agreement, to be monitored under public scrutiny, to increase automobile miles per gallon by 40 percent by 1980. By slightly modifying our auto emission standards, we can in this way save 1 million barrels of oil per day by 1985.

Finally, we will be working with major appliance manufacturers to develop a 20 percent average improvement in fuel efficiency in home appliances by 1980. This measure would save over half a million barrels of oil per day by 1985, and goes hand-in-hand with the President's proposal to enact a law to make mandatory energy efficiency lables on all autos and appliances.

Q. Why not tax new automobiles on a horsepower basis, to discourage purchase of "gas-guzzlers" and induce people to buy smaller cars with smaller engines?

A. The immediate problem is to reduce gasoline consumption, not to ban large cars from the road. Taxes on new cars based on horsepower would not affect the majority of cars on the road until 1980, at the earliest, and our critical conservation needs are now. Large cars are needed by large families, by people who use their cars in business, and for large car pools. In these applications, and some others, use of one large car can frequently be more efficient than the use of several smaller cars. It is unfair to penalize large car owners who maintain their cars well and use them efficiently. Purchasers of large cars are the least sensitive to price increases, and a reasonable tax would be unlikely to deter many purchases. Also, prices of used cars would be driven up, artificially penalizing low-income families. The Administration carefully considered a horsepower tax, and concluded that the President's proposals to increase gasoline cost and require auto manufacturers to increase gasoline mileage by 40 percent meet energy conservation goals more quickly and equitably than horsepower taxes.

Q. How do you know your measures are going to work?

A. Our proposal will work because people will find it preferable to use less energy rather than pay more. Our figures show, and there is relative unanimity in the experts' opinion, that for each 10 percent increase in price, the demand for petroleum drops by about 1 percent.

We believe that the American people are smart enough to decide how to allocate their increased expenses for energy rather than have the government decide for them. Thus, rather than impose a quota, which causes disparities in the marketplace, our program allows free choice by all our citizens.

Q. Why do we need to conserve energy when gasoline is plentiful and we have the resources to make this country energy independent in the next decade?

A. The United States is rapidly running out of oil and gas resources and unless we take immediate steps to reduce our consumption of fuel, we will experience greater imports, more severe balance of payments problems, and be subject to the interruptions and blackmail of oil producers. Further, there is little we can do to increase supply in the next few years. By the end of 1977, we will be importing 8 million barrels of oil per day -- 25 percent more than today and more than double our dependency only 4 years ago.

Even if the cartel countries do not impose another embargo, their ability to control prices gives them leverage over our entire economy, and represents a tremendous drain on our national wealth. In 1970, we spent less than $3 billion on oil imports; in 1974, we spent roughly $25 billion, and by 1977, it is estimated that we will pay $32 billion to the oil-producing countries. And with those import dollars go the jobs that they would otherwise create.

Our specific goal is to reduce, rather than increase, our imports by 2 million barrels a day. 1.6 million barrels of that will come from conservation, but the rest will come from increasing domestic supply, through coal conversion and development of Elk Hills Reserve.

Q. Some critics have called for a gradually imposed conservation program, including the phasing in of oil and gas taxes over 2 years, the gradual lifting of price controls, and no oil import fee. Wouldn't this be more easily absorbed in a soft economy than what you have proposed?

A. The President's energy program takes immediate and direct steps to reduce our dependence on foreign oil and to cut energy demand. While a more gradual program would be easier for the economy to absorb, it would postpone attainment of the goals set forth by the President. (And nobody has yet disagreed with these goals).

Q. What is going to be done about low-income persons and the increased rates that they will have to pay?

A. The President's tax-rebate and tax structure reforms will provide low-income people with more money than they will spend on the increased energy bills. Further the insulation program will be Federally financed, and will result in lower heating bills for those who could not otherwise install those energy efficiency devices.

Question:

Recent opinion polls indicate that the American people favor coupon rationing to increases in the price of gasoline. Wouldn't rationing be just as effective as price increases, and easier to legislate?

Answer:

First of all, rationing is a one-sided coin - controlling gasoline consumption - whereas our plan will reduce consumption of all fuel products, and at the same time stimulate an increase in supply. Second, coupon rationing requires the establishment of a cumbersome bureaucracy. It would take 4-6 months to implement, require 15,00 - 25,000 full-time people to run and an additional $2 billion in Federal costs.

Yet, given the fluid nature of our society, it is probably limited to a useful life of no more than two years. The longer a rationing program is in place, the more ways people find to get around it.

Also, there would be gross inequities under rationing that could not be resolved by any classification system we have yet devised. For instance, a family of four, with 2 teenage children would have a ration of approximately 36 gallons per week, whereas a family of four with 2 infants would receive only 18 gallons a week at week at the coupon price.

Another victim of the rationing proposal is the GNP. An allocation/ rationing program would create a drop of nearly $13 billion in the GNP and would place several hundred more workers on unemployment.

We feel that the only reason rationing is popular is that the facts on it are not fully known; anyone who studies it carefully will, we think, find it infavor to the President's program.

Question:

Why, when you have proposed a windfall profits tax on oil, have you neglected to propose a tax on coal profits, especially since coal prices have risen so rapidly in the last year ?

Answer:

It is unlikily that coal profils will increase substantially, especially since much of the recent price increase was prompted by the new United Mine Workers' contract.

More important, however, is the fact that approximately 80% of all coal is under long-term contract, where it is not possible to raise the price equivalent to the $2 varrel excise tax on oil. As for the remaining 20%, the price is restricted by the limited market for coal, and its producers many simply be unable to renegotiate any increases.

However, the FEA is currently conducting a study on coal companies' profits, and if they are found to be excessive, measures will be taken to limit them.

Question:

More than 60% of nuclear and coal-fired power plants have been delayed within the last year. How will the President's program turn that around?

Answer:

First, for the first time we are going to have facility siting legislation, so that the states will have the capability to make siting decisions for the whole state or region and can oversee local zoning so that their decisions will not be overridden.

Secondly, we have proposed a series of ineasures that would improve the ulitities' financial situation. That includes raising the investment tax credit from 4 to 12% for all ulitities for 1 year and extending that dredit to coal and nuclear plants for two years. All of this taken together Oil & gas platns, in the second year, will have their investment credit rate to 7% return in the second year, putting them on a par with other industries.

Q. Your originally calculated that the average family would pay an additional $275 per year under the President's program. Then you revised the figure to $345 per year. Meanwhile, critics have charged that the average family will pay an additional $800 per year. Why did you revise upward your own figure, and why are some saying that the cost will be nearly 2 1/2 times as great?

A. The $275 figure is still the most we feel the program will cost the average family in the first year. This includes a direct cost -- in petroleum products - of $171 and an indirect cost of $174. The $345 figure represents what we feel is under the worst possible situation, with the highest possible number of indirect costs being passed through to the consumer. It represents an additional $70 in increased costs that we don't think will ever reach the consumer's pocket. We are basing our figures upon historical data, which indicates that most businesses and industries -- one example is the auto industry -- do not pass through 100% of cost increases.

The $800 figure mentioned is based upon a different set of statistical data, some of which is either erroneous or irrelevant. For instance, one calculation used our $345 figure, and then added to that the $174 indirect cost which we had already included and arrived at a total of $519.

Another calculation, the $800 one, included cost pass throughs on coal and natural gas, which we don't think will occur.

Q. What is Northeast dependency on oil products?

A. Northeast depends on petroleum for approximately 85% of its energy requirements versus a United States average of 46%.

Q. What are the long run and short run effects of the President's program on the regional costs of energy?

A. The uneven regional effects will be dealt with through the existing cost equalization program and lower product import fees. In the longer term, regional effects will be handled by decontrolling the price of crude oil and thus eliminating any petroleum price differentials.

These measures will mean somewhat higher, but equal, energy costs for all sections of the country.

Q. What is the Administration's plan to help such areas as the Northeastern States?

A. The President has established a lower import fee for petroleum products that the one to be levied on crude oil imports. While the import fee schedule for crude oil would rise by $1 on February 1, $2 on March 1, and $3 on April 1, there would be no rise in the product import fee in February, a 60¢ rise on March 1, and a $1.20 rise on April 1. Since New England and the other Northeastern states use a far greater proportion of imported petroleum products to imported crude than does the rest of the country, the effect of the differential in import fees will be to make the increase in energy costs more equal for New England and the Northeastern states.

WHO TO CALL (draft)

WHO TO CALL

If there are questions about the information contained in this book, or if other questions arise, please feel free to call any of the following experts for guidance:

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