The original documents are located in Box 7, folder "Economic Program, 1975" of the Loen and Leppert Files at the Gerald R. Ford Presidential Library.

ECONOMY AND ENERGY:

THE PRESIDENT'S PROGRAM IN BRIEF

THE WHITE HOUSE

- FOREWORD -

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

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

ECONOMY AND ENERGY -
THE PRESIDENT'S PROGRAM IN BRIEF

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

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

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

Inflation has resulted from a number of causes, including:

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

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

- Poor harvests leading to higher food prices.

- Two devaluations of the dollar.

This inflation has helped create the recession by:

- Cutting the real purchasing power of paychecks.

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

- Depressing consumer confidence and their willingness to buy.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, the President would require:

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

- A long range synthetic fuels program.

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

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

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

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

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

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

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

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

Ec. file

52 MC's

Proposed House Spear-carriers for P's E+E Program.

LEADERSHIP + STAFF

RHODES	TAYLOR
MICHEL	VINOVICH
ANDERSON	STOCKMAN
DEVINE	HOYT
EDWARDS	?
CONABLE	?
FREY	?
VANDER JAGT	?
QUILLEN	?

2 pm ~~Tues~~ Wed?

I + FC 'RHOB?

Morton intro

Zarb - 1 hr.

1/2 - 1 hr Q+A

~~Simon - 1/2 hr~~

Siedman - 15 mins

Q+A - 15 mins

VL - CL get Rhodes OK by Fri am

see Thurs p.m.

Send out notice 2 Rhodes

WHIP ORGANIZATION

	PETTIS (CALIF)	?
WEST + PLAIN STATES	TALCOTT (CALIF)	?
	LAGOMARSINO (CALIF)	?
	ARMSTONG (COLO)	?
	THONE (NEB)	?
MIDWESTERN STATES	MYERS (IND)	?
	FRENZEL (MINN.)	?
	BROWN (OHIO)	?
	FINDLEY (ILL.)	?
BORDER + SOUTHERN STATES	YOUNG (FLA.)	?
	TAYLOR (MO.)	?
	WHITEHURST (VA)	?
	DICKINSON (ALA.)	?
NEW ENGLAND + MID-ATLANTIC STATES	McDADE (PA)	?
	CONTE (MASS)	?
	MITCHELL (NY)	?
	JOHNSON (PA)	?

Zarb brief ~~GOP Conf.~~

Caucus Rm -

1:30pm. Thurs.

All MC's + staff

VL + CL

Hse GOP conf. - Zarb

~~9:30 a.m. 1-28-75~~

Zarb - mahon - Mike McCormack

* PREVIOUSLY LISTED

COMMITTEES (SHOULD INCLUDE ONE FRESHMAN ALSO).

A. INTERSTATE + FOREIGN COMMERCE — STAFF

* DEVINE (OHIO) LEN BERRY
BROYHILL (NC) TOM GREEN
* BROWN (OHIO)
CARTER (KY)

B. INTERIOR ?

SKUBITZ (KAN.)
STEIGER (ARIZ)
RUPPE (MICH)
KETCHUM (CALIF)

C. WAYS + MEANS

SCHNEEBELI (PA.)
* CONABLE (NY)
* PETTIS (CALIF)
ARCHER (TEX)
STEIGER B. (WISC.)

D. ARMED SERVICES

WILSON (CALIF)
* DICKINSON (ALA)
* WHITEHURST (VA)
* SPENCE (SC.)
TREEN (LA.)
HOLT (MD.)

E. Banking & Currency

* Johnson (Pa) — Orm Fink
Stanton (Ohio)
Brown (Mich)
Heckler (Mass)
Crane (Ill.)
Rousselot (Calif)

F. Appropriations

~~*~~ Cederberg (Mich) — Mike Hugo
* Michel (Ill)
* Conte (Mass)
* Shriver (Kan)
* McDade (Pa)
~~Andrews (N. Dak.)~~
~~Robinson (Va.)~~

G. Rules

* Anderson (Ill) — Bill Crosby
* Quillen (Tenn.)
Latta (Ohio)
Clawson (Calif)
Lott? (

H. Southern Democrats

Waggoner (La)
Montgomery (Miss)
Satterfield (Va)

PROPOSED HOUSE SPEAR-CARRIERS FOR P'S E+E PROGRAM.

LEADERSHIP + STAFF

RHODES	TAYLOR
MICHEL	VINOVICH
ANDERSON	STOCKMAN
DEVINE	HOYT
EDWARDS	?
CONABLE	?
FREY	?
VANDER JAGT	?
QUILLEN	?

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	THONE (NEB)	?
MIDWESTERN STATES	MYERS (IND)	?
	FRENZEL (MINN.)	?
	BROWN (OHIO)	?
	FINDLEY (ILL.)	?
BORDER + SOUTHERN STATES	YOUNG (FLA.)	?
	TAYLOR (MO.)	?
	WHITEHURST (VA)	?
	DICKINSON (ALA.)	?
NEW ENGLAND + MID-ATLANTIC STATES	McDADE (PA)	?
	CONTE (MASS)	?
	MITCHELL (NY)	?
	JOHNSON (PA)	?

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STEIGER (ARIZ)

RUPPE (MICH)

KETCHUM (CALIF)

C. WAYS + MEANS

SCHNEEBLI (PA.)

* CONABLE (NY)

* PETTIS (CALIF) But Bring all GOP's from W&M.

ARCHER (TEX)

STEIGER B. (WISC.)

D. ARMED SERVICES

WILSON (CALIF)

* DICKINSON (ALA)

* WHITEHURST (VA.)

* SPENCE (SC.)

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H. Southern Democrats

Waggoner (La)

Montgomery (Miss)

Satterfield (Va)

→ Burleson (Texas)

→ Landrum (Georgia)

THE WHITE HOUSE

WASHINGTON

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JOHN O. MARSH
MAX L. FRIEDERSDORF

THRU: VERN LOEN VL

FROM: DOUGLAS P. BENNETT DPB

SUBJECT: Democrat Economic/Energy Plan and Ullman Economic/Energy Plan

This afternoon Frank Zarb and I met with Congressman Jim Wright to discuss in strict confidence the preliminary plan being worked out by the Democrat Task Force. Also, I talked at length today with Dr. Larry Woodworth, Chief of Staff of the Joint Tax Committee, about the program being developed by Chairman Al Ullman for Ways and Means consideration. Both Wright and Woodworth asked that the plans be held in strict confidence, not be leaked and not be criticized conceptually as they are not due for release until late next week at the earliest.

I will discuss each plan separately.

Democratic Task Force

The underlying philosophy behind the plan is that the state of the economy is so delicate that any action taken with respect to energy should have a soft effect on the economy. The general attitude is that the President's program would be too traumatic. The elements of the plan are in general terms as follows:

(1) By taking certain steps (described below) oil consumption would be reduced by 350 million barrels per day in 1975, 650 in 1976 and 1 million by 1975.

(2) A gasoline tax would be imposed according to the following schedule: 8¢ in 1975, 12¢ in 1976 and 16¢ in 1977.

(3) A windfall profits tax with some plowback allowed for domestic investment by the oil companies.

(4) Repeal of the foreign oil depletion allowance (this was included in the Ways and Means tax bill last year which never went to the floor).

(5) A graduated tax on vehicles according to gasoline mileage. Any automobile with consumption below 18 miles per gallon would have a stiff tax (perhaps $1000), 18 mpg to perhaps 25 mpg a lesser tax (perhaps $500) and above that a lesser tax phasing out so as not to give inported cars a competitive advantage over U.S. produced autos. This would be started one or two years from now to give U.S. manufacturers an opportunity to redesign and retool.

(6) Oil would be decontrolled on a phased out basis and natural gas probably at once.

(7) A home insulation plan and tax credit similar to the President's.

(8) All proceeds from taxes would go to an Energy Trust Fund for research and development purposes in an effort to find alternative sources of energy.

These constitute the major elements of the package. Some others are still being worked on. One immediate problem with this proposal is that it does little to reduce our economic dependence and vulnerability to imported oil.

Ullman Plan

Al Ullman has established 8 task forces to develop an ecbnomic/energy plan. There has been continuing coordination with the Wright Task Force and Otis Pike a member of Ways and Means has served on the Wright group. The key elements of the Ullman plan are as follows:

(1) An import quota system which will decrease foreign oil by 1 million barrels per day over a two year period and will continue until 2 million barrel reduction is achieved (this means an approximate 400-500 million barrel per day decrease per year). There is a possibility of using a government purchasing unit which would sell the available oil by sealed bids.

(2) FEA would be given allocation responsibility and standby rationing would be authorized to the President.

(3) Establishment of a stockpile reserve of a 6 month supply to be achieved by the early 1980's. Possible resort to the Elk Hills reserve.

(4) A gasoline tax imposed according to the following schedule:

1976-10¢ per gallon
1977-20¢ per gallon
1978-30¢ per gallon
1979-40¢ per gallon

Also, a tax fefund allowance may be included up to no more than 2 drivers per family with 2 cars. It could be in the form of a tax cut. Woodworth estimated the gasoline tax would gross about $10 B and a tax refund allowance costing about $5 B would net the revenue out at approximately $5 B.

(5) An automobile tax starting in model year 1977 to allow for redesign and retooling to go into full effect over a four year period. Autos getting 17 miles per gallon or less would have a $1000 tax applied; 17 to 25 mpg, a $500 tax. This would be phased in at 1/4 of the amount per year over the four year period.

(6) Deregulation of old oil would be phased out over a period of years at $1 per year until the free market price was reached (currently it's about $11 per barrel).

(7) Straight deregulation of natural gas.

(8) A windfall profits tax with plowback which would be limited both to percentage of tax and type of investment. The windfall profits tax would be phased in according to the schedule of decontrol of oil.

(9) Creation of an Energy Trust Fund with the same intent as the Wright plan.

Woodworth estimates that the total program would raise approximately $12 B-$15 B although these are very soft revenue estimates. This also assumes oil depletion will be repealed. Some of this money might be used for pay for a tax reduction for individuals of a lesser degree than the President's.

Ullman is coordinating this plan with the Chairmen of the other respective committees and already has, I understand, a working relationship. He hopes to have the energy tax plan out of committee by mid-April.

cc: Secretary Simon
Bill Seidman
Frank Zarb
Paul O'Neill
Bill Kendall
Pat O'Donnell
Charles Leppert

File

THE WHITE HOUSE

WASHINGTON

January 17, 1975

MEMORANDUM FOR: MAX L. FRIEDERSDORF

THRU: VERN LOEN VL

FROM: DOUG BENNETT DPB

SUBJECT: Questions and Answers for the President

The attached questions have been raised to me by a variety of Ways and Means members. The answers were in part prepared by Treasury - Fred Hickman and may help blunt the problems raised re the President's program.

cc: Counsellor Marsh
Vern Loen
Charlie Leppert
Bill Kendall
Pat O'Donnell
Bob Wolthuis

January 16, 1975

Question: Do you think the tax relief you have recommended for individuals is enough particularly in light of increased fuel costs?

Answer: Yes. There will be increased fuel costs as a result of the excise tax and decontrol. However, the government will return in the form of tax relief the increased amounts that will be paid by individuals, and will provide another $16 billion in temporary tax relief to boot. ~~That~~ Tax relief will go proportionately more to low- and middle-income taxpayers.

January 16, 1975

Question: Will the import fees disadvantage particular areas of the country that rely heavily on imported oil?

Answer: Not when the program is fully in effect. At the present time, areas that rely heavily on imported oil are paying higher prices than those areas that rely on domestic oil. When the entire proposal is in effect, the price of oil should be the same everywhere: there will be a uniform $2 excise-import fee on all oil, and decontrol will remove the price advantage presently enjoyed by those areas relying primarily on domestic oil.

During February and March, it is true that there will be additional costs for imported oil but not for domestic oil. An equalization system will be used to prevent this from impacting on the regions which rely heavily on imported products.

January 16, 1975

Question: Why is the one-shot tax rebate to be paid in two checks?

Answer:

--Part of our recession problem is lack of consumer confidence. We felt that a check of significant size would heighten awareness of the benefit and a second check would reinforce that awareness.

--At the same time, we did not wish to distribute checks so large that people would be unduly tempted to save the rebate (although some saving is desirable). Dividing the payment into two checks seemed to minimize that problem.

--Paying the amount in two checks spreads out somewhat the difficult job which the Treasury will have in financing these enormous deficits. The Treasury's problem is not whether it can raise the money, for it always goes to the head of the line. The problem is to raise the money without creating a major credit drouth for private borrowers and without increasing the money supply so drastically as to set off another inflationary spiral.

January 16, 1975

Question: The wealthy taxpayers in the country are most able to withstand our economic problems. Why are you also cutting taxes for these upper tax bracket individuals?

Answer: Solving our economic problems is everybody's business. We cannot solve every problem by letting upper income persons pay the bill--if for no other reason than the fact that there are not that many upper income taxpayers.

It is our aim to treat everyone fairly. In order to do that, we must keep in mind:

- Only about 12% of all taxpayers have gross incomes above $20,000, and they now pay about 52% of total individual income taxes. They will pay an even higher percentage of individual income taxes if our proposals are enacted.

- Upper income individuals have been adversely affected by inflation, just as lower income individuals. The prices of the things they buy have increased too, and since they buy more, the increase is greater. Also, inflation causes the income tax system to take an increasingly larger share of taxpayers' real incomes as money incomes (which is what is taxable) are pushed into higher brackets even though real incomes remain the same. This feature of the income tax law has adversely affected high income taxpayers just as it has affected lower income taxpayers. Everybody has had, in effect, an income tax increase because of inflation.

- Finally, we must also keep in mind that upper income taxpayers play a disproportionately large role in providing the investments which help everyone's income to increase.

January 16, 1975

Question: The imposition of an import fee and excise tax on crude oil will cut into individual's pocketbooks in some sections of the country more than others, i.e., the northeast and the northern border states, since they will consume more oil and gasoline. Do you have any plans to relieve this added price burden?

Answer: Some households use relatively more products that reflect the price of oil than do other households and will be affected more by the proposals. It is far from clear, however, that there will be major differences between geographical regions. It is true that winters are more severe in northern states than in the south and heating will cost more for those that heat with oil or with oil generated electricity. On the other hand, air conditioner costs are much higher in the south. And in the west and southwest, it is probably true that people tend to drive much longer distances. So there are many offsetting factors.

In any event, the tax cuts have been designed to be very generous for lower and middle income classes and should be more than ample to compensate for such differences.

January 16, 1975

Question: Why two steps for tax relief? Why not a one-shot permanent relief program?

Answer: We must not give permanent tax relief until we also provide commensurate reductions in expenditures or other sources of revenue. Otherwise, we shall guarantee major deficits for future years.

This year we want a larger deficit than would otherwise occur in order to get the economy started upwards. But a guaranteed escalation of deficits for future years would be a disaster. It would start inflation all over again at higher levels.

THE WHITE HOUSE

WASHINGTON

January 21, 1975

MEMORANDUM FOR: MAX L. FRIEDERSDORF

THRU: VERN LOEN VL

FROM: DOUG BENNETT DB (B)

SUBJECT: Tentative Ways and Means Schedule re President's Economic Program

The Ways and Means Committee intends to begin hearings Wednesday with the Administration leading off. The following week public testimony will be received from leading authorities participating in three days of panel discussions beginning Monday, January 27. Tentative schedule for the above is attached.

If the committee proceeds as it had in the past, the members will meet morning and afternoon, Monday through Friday, taking each conceptual area of the Internal Revenue Code in turn looking to Larry Woodworth, Chief of Staff, Joint Tax Committee, and Fred Hickman, Assistant Secretary for Tax Policy, Treasury Department, for guidance and explanatory advice. In the past the committee has not dealt with draft language but rather considers each policy area of the law and decisions are made conceptually with drafting jointly accomplished by the Treasury Department tax lawyers and the staff of the Joint Committee on Internal Revenue Taxation. This approach is preferable as it avoids the problem of draft language getting into the hands of lobbyists and tax lawyers who then "force" the members to focus on words rather than concepts thus confusing an already highly complex area of the law. (Although draft language may be prepared by the Executive, it should be tightly held and not made "public".)

There is obvious opposition to the energy tax aspect of the President's program and it therefore appears that in an effort to buy time, blunt the energy tax proposals and do the politically popular things, Ullman is considering doing taxes in three steps: (1) Tax cuts, (2) Energy taxes, and (3) tax reform generally. Further, the tax cuts would be skewed further to favor low income individuals "hardest hit by inflation/recession." Ullman is also talking about alternatives - rationing with a tax on gasoline to recover revenues to pay for tax cuts. Committee direction is difficult to sort out but Barber Conable and Joe Waggonner will have a better feel next week.

Lastly, the Committee intends to do the debt limit bill early (this week) as Treasury already faces problems of exceeding present authority.

Attachments

Tentative Committee Schedule

Administration

Wednesday, January 21 (afternoon)

Bill Simon - Treasury

Thursday, January 22 (All Day)

Bill Simon - Treasury (complete questioning from Wednesday and debt limit authorization)

Roy Ash - OMB (Fiscal aspects and debt limit)

Friday, January 23 (All Day)

Arthur Burns - FEO (Monetary Policy)

Public Hearings

The Committee intends to hold three days of public hearings calling upon experts from around the country to serve on three separate panels - one day for each panel. The first panel will discuss the economy in general with respect to economic forcasting, recessionary and inflationary trends, the use of a tax cut for stimulus and how the cut should be apportioned. The second panel will focus on the present recession hearing from industries that are suffering the most. The third panel will present its views pertaining to economic conditions on an overall basis targeting in on present conditions in the capital markets and prices. At the conclusion of these hearings, the committee will probably begin constructing its tax package with a target date of early March for floor action. I have attached a description of the program Al Ullman will probably advocate as an alternative to the President's.

Monday, January 27

General Economic Panel

- Charles Schultz
- Paul Volker
- Robert Gordon - Univ. of California Professor
- Dr. Joseph Pechman
- Herb Stein
- Michael Evans - Chase Manhattan Economist

Tuesday, January 28

Recession Panel

Leonard Woodcock - Autoworkers
Henry Duncombe - GM Economist
Michael Sumichrast - Economist, National Homebuilders
Sherman Maiseil - former FED board
Murray Weidenbaum - Public Utilities
Arthur Okum
Robert Nathan - Public Utilities

Wednesday, January 29

Capital Markets and Prices

Carl Madden - U.S. Chamber Economist
Nat Goldfinger - AFL-CIO
Professor Dusenbury - Harvard Business School
Robert Baldwin - Morgan Stanley
Robert Roosa - Brown Bros. and Harriman
Paul McCracken
Walter Heller
John Dunlop

THE WHITE HOUSE

WASHINGTON

January 22, 1975

MEMORANDUM FOR: CR GUYS

FROM: DOUG BENNETT DRB

SUBJECT: Testimony of Secretary Simon

Attached is a copy of Secretary Bill Simon's testimony before the Ways and Means today. It is a darn good statement that captures the essence of the entire program of the President.

Attachment

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
WASHINGTON, D.C., WEDNESDAY, JANUARY 22, 1975

It is a privilege to appear before this Committee as you begin the work of the 94th Congress. During the next two years, you will be considering many of the most significant issues facing the United States. There will be times when we will differ on those issues, but as in the last Congress, I want to work with you as closely as possible to ensure that those who are served best are those whom we all serve, the people of this country. Toward that end, I pledge to this Committee the full cooperation of my office and of all who work at the Treasury Department.

President Ford, after considerable study and consultation, has proposed to the Congress an integrated and comprehensive program in both the economic and energy fields. In my view, the President's program represents the best means of dealing with those problems. In working with you, my first objective will be to obtain swift passage of legislation that is necessary to carry out our program.

The occasion for my appearance this week is to discuss two items: First, the President's tax proposals and their impact on the economy; and secondly, the need to raise the federal debt limit. With the consent of the Committee, I propose to discuss the first of these items today and to address the second tomorrow.

The President's program is designed to deal with three basic and urgent problems:

WS-200

--inflation;

--recession; and,

--energy independence.

These problems are difficult and complex, and their solutions will also be difficult and complex. To some extent, the remedies work at cross purposes with each other. The answers are neither black nor white, but matters of balance and judgment.

Some say we can't solve all these problems, at least not all at the same time. I believe we can. The President believes we can, and has charted the course to do it. Indeed, we have no other choice, for the penalty for inaction could be frightening. We will ultimately be held responsible for the results, no matter what the pollsters say today about our approach.

The proposal for a temporary tax reduction to stimulate the economy has the very highest priority and we urge that you enact it immediately, even if that means separating it from the other elements of the President's proposals. However, all of the elements in the proposal are interrelated and, therefore, I need to deal with them all here today.

Inflation.

Inflation, like interest, tends to compound. It reached an annual rate of more than 12% in 1974, the highest level in peacetime history. The damage has been extensive. The lifetime savings of many have shriveled in real terms. Interest rates have risen to all time highs, with adverse effects on the livelihoods of millions, on the opportunity for families to own their own homes, and on the ability of others to start or stay in business. The uncertainties created by inflation undermined the confidence of both consumers and investors, with consequent damage to jobs and to the new investment and increased productivity which are required to stem inflation. I do not believe that our economic system, as we know it, could long survive such a trend. In 1919, J. M. Keynes wrote:

> "There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

I'm told that statement was a follow-up by Keynes on a similar remark of Lenin, to the effect that inflation could destroy capitalism.

Inflation is popularly said to be caused by "too much money chasing too few goods." That is an oversimplification, but it captures the essential truth.

There have been many causes for this inflation, but, in my opinion, the biggest single factor has been a prolonged period of large government deficits, including the off-budget lending and loan-guarantee programs.

The momentous growth in federal expenditures and federal deficits has been truly startling. It took 186 years for the federal budget to reach $100 billion, a line it crossed in 1962, but then only nine more years to reach $200 billion, and only four more years to break the $300 billion barrier. Revenues, of course, have not kept up with expenditures, so that when we close the books on fiscal year 1975, we will have had budget deficits in 14 of the last 15 years--and the accumulated debt for that period alone will exceed $130 billion.

There can be no doubt about the inflationary impact of such huge deficits. They added enormously to aggregate demand for goods and services and were thus directly responsible for upward pressures on the price level. Heavy borrowing by the federal government has also been an important contributing factor to the persistent rise in interest rates and to the strains that have developed in money and capital markets--a subject I will address in more detail tomorrow. Worse still, continuation of budget deficits has tended to undermine the confidence of the public in the capacity of our government to deal with inflation. In short, when the federal budget runs a deficit year after year, especially during periods of high economic activity such as the ones we have enjoyed over the past decade, it becomes a major source of economic and financial instability.

When the government runs a deficit--when it spends more than it receives--it must borrow to make up the difference. Under our modern monetary system, that kind of borrowing almost always results, sooner or later, in the creation of too much money. It seldom results in the commensurate creation of additional goods and services.

Government borrowing does not necessarily require the immediate creation of too much money, for the government can borrow existing money in the private capital markets. To that extent, it competes with private demands for capital, preempts funds that would otherwise be used for private investment and, in a period of strong private demand, causes interest rates to rise.

If government borrowing in the private capital market grows so large that it threatens to dry up credit for private borrowers or causes abrupt changes in interest rates, the Federal Reserve customarily steps into the market and purchases government bonds for its own account. The Federal Reserve pays for that purchase not with money already in the system, but by setting up a new credit balance on its books. That almost immediately causes the total money supply to increase by several times the amount of the credit. In this way, the financing of large deficits causes the money supply to increase substantially, which creates more inflation. This has been a major part of the inflation explosion over the past decade.

In times of recession, private borrowing typically slackens as businessmen have fewer needs for credit. If additional government deficits simply take up that slack, it does not jeopardize the needs of the private sector and does not drive up interest rates. In the current recession, however, there may be less slackening in private demands than usual because of the high debt-equity ratios that have become typical, the general illiquidity of business, the inability of corporations to raise capital in the equity markets, and the necessity to finance inventories and capital goods at inflated prices.

If we cannot finance the deficit within the recession induced slack in the capital markets, then we shall have a credit "shortage" that will drive up interest rates significantly. The Federal Reserve could prevent that only by significantly increasing the supply of money. As we assess that situation, we must remember, too, that what appears to be slack at the moment may disappear as business bounces back and its demand for credit returns to normal. When the recession is over, and goods and services have returned to their original pre-recession levels, if the money supply has been significantly increased, we shall have created additional inflation.

There is no way to escape the basic dilemma presented by large government deficits. On the one hand, if the deficits cause a significant increase in the money supply, we shall have further inflation. On the other hand, if deficits are not permitted to increase the money supply, we must be prepared to endure tight credit and high interest rates.

This is a very difficult circle to break. The only solution is to take a long-term view and resist the temptation to deal with each painful aspect of the cure as a crisis to be solved by short-term remedies, i.e., by more deficits.

A most important tool in beating inflation is increased productivity. We need to encourage and facilitate conduct that will increase the supply of goods and services, so that the increased money supply that will surely flow from these deficits will be chasing an amount of goods and services that has also increased. Just getting back to pre-recession levels of goods and services is obviously not enough.

Recession.

We are presently in a full-fledged recession. It is in substantial part attributable to our inflationary excesses. It is the hangover that follows the revelry.

One of the major factors in the current recession is the decline in the housing industry, which is a key component in our economy. The housing industry is especially vulnerable to high interest rates, and was thus hard hit when inflation caused interest rates to rise to all time highs. Thus, so far as housing goes, it is inflation itself which caused the recession. We cannot expect the housing industry to regain its full health until we get inflation under better control.

It is tempting to believe that housing can be helped by driving down interest rates through a more rapid increase in the supply of money. That does not work in an inflationary climate, however, because the increase in the money supply further increases inflationary expectations, sometimes with a lag and sometimes almost immediately, and thereby sends interest rates not lower, but higher. Thus, housing is hurt, rather than helped, by such policies.

In the same way, inflation was a major factor--perhaps the major factor--in demolishing consumer confidence. Polls taken by the Survey Research Center at the University of Michigan show that the precipitous decline in consumer confidence began when prices started hitting new peaks--well before the effects of the recession were clearly felt. While the recession has driven confidence even lower, it was inflation that pushed it over the brink. This loss of consumer confidence has caused the biggest drop in consumer purchases since the Second World War and is a significant part of the current recession.

Some part of the recession is also attributable to the program to bring inflation under control. When we embarked on that program, we knew that it would dampen economic activity, for that is an inevitable side effect of the process of slowing inflation. The principal tool in winding down inflation has been a policy of monetary restraint, which was in effect most of last year. If the money supply had been permitted to increase fast enough to accommodate all of the price increases we were experiencing, the additional money would have caused the prices to spiral even faster. Thus, it was necessary to slow down the rate of growth in the money supply. Whenever that is done, some are caught in the crunch.

Those are the hard trade-offs. Inflation causes dislocations. And stopping inflation causes additional dislocations. Dislocations cause the economy to fall off.

To cure our economic problems, we will have to administer the medicine continuously over a period of years. We are a long way from full recovery. And we have to watch the patient carefully all the while, because the side effects of the medicine are strong and we may need to adjust the prescription from time to time.

Our goal must be to keep a balance. We want to do as much as we can to stop inflation without unduly hampering economic activity. At the same time, we all recognize today that recession has become a much more serious problem, causing widespread hardships and unemployment. Moreover, it has developed more rapidly and has been steeper than anyone expected. It is apparent that under these circumstances we must shift the balance of our policies more heavily in the direction of fighting the recession. The President's recommendations for a temporary tax cut are designed to ensure that the recovery we expect in the middle months of the year is sharper and stronger than would otherwise be the case.

We can and must have recovery from the current recession, but we must do that in a way that does not lead to an overheating of the economy again. We will lose the opportunity to achieve stable economic growth if we switch to excessively stimulative policies. That has been the repetitive pattern over the past decade. Every time the economy showed signs of hesitation, there was a pronounced shift to stimulative monetary and fiscal policies.

One of the best examples occurred only a short time ago. After a rapid acceleration in the rate of inflation during the late 1960's, a program of fiscal and monetary restraint was started in 1969. As a result, inflation peaked out at 6% and then declined slowly to about 3-1/2% by 1972. The upward momentum of inflation had been stopped. But then, instead of maintaining the policies of moderation, we became more expansive again and we very swiftly propelled ourselves into the inflation that we are experiencing today.

The result of such stop-and-go policies is that we have pushed the inflation rate up onto higher and higher plateaus. In 1966, the peak inflation rate was about 4%; in 1970, it was about 6%; and now prices are rising at about a 12% rate. The same process ratchetted interest rates higher and higher. In 1966, rates on long corporate bonds peaked at a little over 6%; in 1970, they reached almost 10%; and this past year, the high was 12%.

Energy Independence.

Energy independence is both a political and an economic problem for the United States.

Oil is an extremely important and pervasive commodity in our economy. In recent years, our consumption has risen rapidly but our production has declined. We are now dependent on foreign sources for nearly 40% of our needs. Major foreign suppliers have organized a cartel and, at least at present, have the power to bring about political and economic spasms of the kind which we have recently experienced. In the last year and half, the Arab embargo created major disruptions throughout our economy, and the quadrupling of foreign oil prices has contributed significantly to both the inflation and the recession we are now experiencing.

Our economic system is strong and resilient and can undoubtedly survive almost any unfortunate development that is likely to occur in the near future with respect to oil. But many other nations are less fortunate, and our own economy is so interconnected with that of other nations that their problems are in substantial degree our problems. Trouble in one or more national economies abroad could have very serious effects on our own.

If we are to retain control over our own economic destinies, we must achieve independence. We can do it. And when it is clear that we intend to do it, we will regain a great deal of control over the situation. We will control very little from our knees.

The President's energy program is therefore designed primarily to reduce our dependence on imported oil. In order to do that, we will need to develop alternatives for oil and we will also need to reduce our total demands for energy of all kinds.

We are dealing with a long-term program. We believe we can achieve virtual independence in 10 years, but only if we start promptly, work hard and continuously, and make significant reductions in our demands for energy.

Rationing is one way of curbing demand and a number of national leaders have proposed it. Public polls also show a surprising amount of support for rationing. I cannot imagine, however, that the American public will really want it once they think it through or would live with it if they got it. Remember that we are talking about a permanent program. If we should opt to travel the rationing route, we will not get rid of it. If we were to let it go we would--overnight--be again non-self-sufficient.

We could perhaps live with rationing in a period of temporary emergency. But as a way of life, I suggest it is fundamentally inconsistent with our system and with the spirit of the American public.

Even in times of emergency, rationing has never worked fairly or efficiently. To cut a million barrels a day from our consumption by rationing only gasoline for private households, we would have to hold drivers to an average of less than 9 gallons per week--a reduction of about 25% from today. To reach the 1977 goal of a 2 million barrels a day reduction would require a second 25% reduction. Some persons would obviously need more, which means that the basic ration for ordinary persons would have to be even less. But gasoline accounts for only part of each barrel of oil, and we would clearly need to ration the remaining products, too--fuel oil, jet fuel, diesel fuel, refinery products going into petrochemicals, etc. Who would decide which persons needed more and which needed less of each of these things? Every family, every car and motorbike, every store, school, church, every manufacturer--everything and everybody--would have to obtain a permit for a certain quantity of gasoline, electricity, natural gas, etc. Those allocations would have to be changed every time someone was born or died or moved or got married or divorced, and every time a business was started, merged, sold out or bought another, or the church or school added on a new room. And some government official would have to approve it.

What would the rationing bureaucracy do about such cases as:

- The low-income worker who owns an old car that gets only nine miles per gallon but can't afford to trade it in? His affluent neighbor who buys a new car that gets 22 miles per gallon?

. The low-income family that heats with oil a small but poorly insulated house, while their wealthy neighbor heats a large, well-insulated house with gas?

. The Montana rancher who drives nearly 600 miles per month and the Manhattan apartment dweller who drives less than 100 miles?

. The family that has to move from New York to California and use up several months' coupons in making the trip? One out of every five families moves every year.

. The family with sick members? The family that does turn off the heat in empty rooms and the family that does not? The family with few children and many rooms to heat and the family with many children but few rooms?

. The migrant worker who drives large distances every year but can't afford a more economical car?

. The shortages that would inevitably develop in areas where the coupons happen not to match the gasoline supplies?

. The gas stations, with limited quantities to sell, that maintain only limited services and are always closed on evenings and weekends?

. The collusion, counterfeiting and illegal activities that would inevitably develop?

Last year, when we considered the feasibility of rationing gasoline, we concluded that while it could be implemented, it would take four to six months to set up, employ about 15 to 20,000 full-time people, incur $2 billion in federal costs, use 40,000 post offices for distribution, and require 3,000 state and local boards to handle exceptions. When we consider the problems of just getting the mail delivered, are we really ready to trust an army of civil servants--however able and well-intentioned--to decide who deserves just what of this basic commodity?

People should ask themselves which they prefer: the suggested increase in prices, or a system in which someone else could tell them now and for the indefinite future where and when they might drive or how warm they might keep which rooms.

Does anyone honestly believe that the American public is willing to trade these basic freedoms--in perpetuity--for 10¢ a gallon?

The President has proposed instead that we reduce consumption of oil by the most neutral and least bureaucratic system available--through the price system. The energy proposals would raise the price of oil. At the same time, income tax cuts would increase the disposable incomes of every household. Taxpayers could, if they wish, continue to purchase more expensive oil and oil products. And they would have extra money to do it with. The question they would face is whether they wish to spend that extra money for more expensive oil or whether they wish to use it for some other purpose. A great many will choose to use it for other purposes. That is particularly true of businesses, which alertly switch to alternative products when a price advantage appears. The economic data available, updated by the experience of the last year, indicate that a tax of 10¢ a gallon spread across all the products manufactured from a barrel of crude oil will reduce consumption enough to meet our goals.

There has been a great deal of talk about the public being willing to make sacrifices. I believe they are. But for the average consumer this program should involve little sacrifice. For most, it would not even involve inconvenience or extra expense. The average consumer would be faced with higher oil prices, but he would also have additional money that would fully compensate him. He would retain total freedom of choice.

I realize that it is not immediately apparent to the average citizen how this program as a whole would reduce consumption and yet cost him little or nothing. Education is essential and I am counting heavily on the objectivity and expertise of this Committee and its able staff to achieve it.

The Need for Business Tax Relief.

The proposed program provides tax relief for both individuals and business. Individual income taxes account for about three times as much revenue as corporate income taxes, and relief would be allotted in that same three-to-one ratio.

Businesses, like people, have been badly buffeted by our economic difficulties. Many are in precarious financial situations. One need only look at the unemployment rolls in Detroit to see how important it is to all of us to maintain a healthy climate for business. Surely, the misfortunes of the auto industry have created many more hardships for auto workers than for auto stockholders. We will all be losers if our businesses are unable to earn reasonable profits and thus to make the investments that will mean more jobs and greater productivity in the future.

The suggestion in recent years that businesses have prospered while individuals have suffered is simply untrue. Corporate profits in the aggregate, realistically stated, are at an all time low as a percentage of our total national income.

Reported profits may be higher than in the past, but they do not tell the full story. There are two major elements which substantially overstate reported earnings in periods of inflation. They are inventories and depreciation.

The inventory situation may be illustrated by assuming a company that normally maintains an inventory of 100,000 widgets. If inflation causes the price of widgets to increase by $1, from $2 to $3, under traditional FIFO accounting the $100,000 increase in the value of the inventories is reported as profits, even though the company is no better off in real terms than it was before the inflation. Economists have long recognized that this increase is not a true "profit" and the Department of Commerce national income accounts have, from the inception of those accounts in the 1940's, separated it from profit figures.

For 30 years, business taxpayers have been permitted to exclude these amounts from taxable income, but only if they reported on the same basis to their shareholders and the public. Many businesses have preferred to pay higher taxes rather than report lesser earnings to their shareholders. With the rapid inflation which has occurred in the last year, however, the penalty in increased taxes on unreal income has become so great that there has been a major shift to LIFO accounting. This is long overdue and I regret that it has taken the business world and the accounting profession so long to get there.

A similar situation exists with respect to depreciation. In a period of rapid inflation, depreciation deductions based on historical cost result in reporting as income amounts which do not represent an increase in wealth but which are required merely to stay even. In a period of constant and substantial inflation, this subject urgently needs re-examination. Under current tax and accounting rules, business management is powerless to deal effectively with this problem. Businessmen often complain that depreciation charges are too low for tax purposes because of this factor but their credibility is severely impaired by the fact that, more often than not, they report to their shareholders and the public less depreciation (and therefore more income) than that which they are permitted to deduct for tax purposes.

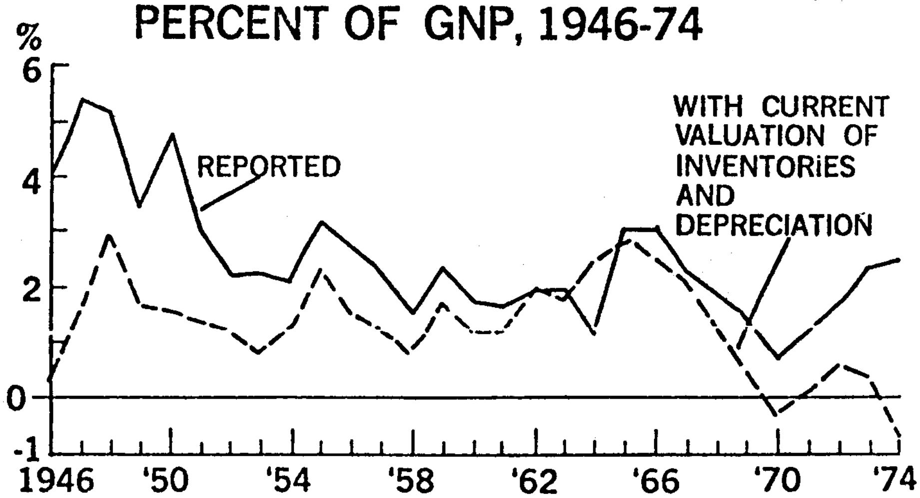
In fairness, I must note that the inventory and depreciation problems are more complex than meets the eye and raise further arguments about whether other items, too, should be adjusted.

Nonetheless, the effects of the inventory and depreciation adjustments by themselves produce dramatic overstatement of real income: Nonfinancial corporations reported profits after taxes in 1974 of $65.5 billion as compared to $38.2 billion in 1965, an apparent 71% increase. But when depreciation is calculated on a basis that provides a more realistic accounting for the current value of the capital used in production and when the effect of inflation on inventory values is eliminated, after-tax profits actually declined by 50%, from $37.0 billion in 1965 to $20.6 billion in 1974. A major factor contributing to this decline is that income taxes were payable on these fictitious elements of profits. That resulted in a rise in the effective tax rate on true profits from about 43% in 1965 to 69% in 1974. Thus, a realistic calculation shows that the sharp rise in reported profits was an optical illusion caused by inflation.

Since, in our economy, corporate profits are the major source of funds for new investment in productive capacity, all of this has grave implications for investment and growth. That is perhaps seen best in the figures for undistributed profits of nonfinancial corporations, restated on the same basis to account realistically for inventories and depreciation. It is the undistributed profits that corporations have left to fund additional <u>new</u> capacity (as distinguished from the replacement of existing capacity). In 1965, there were $20 billion of undistributed profits. By 1973--after eight years in which real GNP (the rest of the economy) grew 36%--the undistributed profits of nonfinancial corporations had dropped to $6 billion. And for 1974, our preliminary estimate is that the figure for undistributed profits is a minus of nearly $10 billion. That means that there was not nearly enough even to replace existing capacity, and nothing to finance investment in additional new capacity.

The following chart shows with dramatic--and frightening--clarity the true state of affairs.

UNDISTRIBUTED PROFITS OF NONFINANCIAL CORPORATIONS AS A PERCENT OF GNP, 1946-74



The business community is properly distressed that the public does not realize the seriousness of this situation. I have to say, however, that at least a portion of the blame can be laid at the door of business itself. Businesses like to report high earnings to their shareholders and to the public. Reported earnings are the "report card" for management. The willingness of business to continue using methods which overstate real economic incomes in an inflationary period leads the public to believe that business is a major beneficiary of rising prices. That causes the man in the street to believe that the total income pie is larger and that he has a legitimate claim on it, which, in turn, heightens the wage spiral and intensifies the squeeze on corporate profits and the difficulty of capital formation.

The fact that these overstated profits are also subject to tax presents a serious problem that we hope you will look into when you turn to tax reform later this year. The problem is too complex to deal with quickly, but it may affect the ultimate use of the revenues allotted to business relief.

While the deterioration of business profits may not be apparent to the man in the street, or even in the stockholders' reports, the professionals have not been fooled. The devastating effect of inflation on business profits has been reflected in sharp price drops in the equity markets. This decline in the stock market has rendered it practically impossible for most companies to raise money on favorable terms in the equity markets. As a result, corporations have been forced to rely more heavily on borrowed money, thus raising their debt-equity ratios to unusually high levels and driving up interest rates. Such interest rates become a major depressant on corporate earnings. Equally important, the lessening of the equity "cushion" leaves businesses inflexible and very vulnerable to bankruptcies in a business downturn.

The oil and environmental problems have been a further and major exacerbation. The past year's increase in the cost of petroleum products has rendered many business operations substantially less profitable, if not unprofitable. The airline, auto, travel, and electric utility industries--which are all closely related to oil usage--were hard hit. Increased oil prices have caused lower profits, lesser incomes, and fewer jobs in many businesses--which, stated another way, means that businesses were not able to pass on fully increased energy costs, and were required to absorb a significant portion in the form of lesser profits.

All of these developments argue strongly that tax relief for business is both deserved and required. We should also keep in mind that our system of business taxation bears more heavily on corporations than do the tax systems of almost every other major industrial nation. Our provisions for capital recovery are more restrictive than those in most other countries. More importantly, almost all our major trading partners have in the last few years largely eliminated the classical two-tier system of corporate taxation in which income is taxed once at the corporate level and again at the shareholder level. Through a variety of mechanisms they have adopted systems of "integrating" the personal and individual income taxes so that the double taxation element is eliminated or radically lessened. This has occurred in Canada, the

United Kingdom, France, Germany, Japan, and Belgium. The European Economic Community is asking that all of its members adopt such a system. While the complexities of this subject are best left for another occasion, the point I am making does bear on the general question of whether the tax burden on our corporations is excessive and should be relieved in some degree.

The Need for Anti-Recession Stimulus.

The need for some form of stimulation must be apparent to every member of this Committee. The recession is already serious and it will get worse before it gets better. Our latest estimates indicate that the rate of unemployment should rise to approximately 8%. We continue to believe, in fact, that even in the absence of further stimulation the economy should bottom out in the middle months of the year and that we should begin a recovery phase thereafter. The temporary tax cut would be of significant help in making the recovery more solid and more certain. It would also help to reduce the unemployment rate from what it might otherwise be. Moreover, since we are likely to have a margin of slack in the economy for some time, taxes can be cut temporarily without seriously compromising our efforts against inflation. Under these circumstances, we should do what we can to strengthen the economy through a temporary reduction in taxes.

$16 Billion Temporary Anti-Recession Tax Cut.

In order to provide the needed economic stimulus, the President proposes a one-time, temporary tax reduction of $16 billion, to be placed in effect within the next 90 days. Making it temporary avoids building into the system the larger deficits that would later refuel inflation.

The temporary tax reduction will be an across-the-board refund or tax reduction for all taxpayers. The total of $16 billion is allotted $12 billion to individual taxpayers and $4 billion to business taxpayers, which is the same 3 to 1 ratio that individual income taxes bear to corporate income taxes.

Refund of 1974 Taxes to Individuals.

Individual taxpayers will receive a refund of 12% of their income taxes for 1974, with a maximum refund of $1,000 per tax return. The great majority of taxpayers would thus benefit in proportion to the income taxes they pay for 1974, but high-income individuals would not receive excessively large refunds.

Taxpayers are now filing their income tax returns for 1974 and nearly all will be filed by April 15. All taxpayers will continue to file their returns and pay income tax in accordance with present law. After their returns are filed, the Internal Revenue Service will calculate the amount of their refund, which will then be paid to them by checks in two equal installments.

I cannot emphasize too strongly the point that individuals should continue to file their tax returns in accordance with existing law. The sooner they do that, the sooner the system will be able to process their returns and mail their refunds. They should, under no circumstances, try to compute and deduct their own refunds. If they do, they will face possible fines and penalties and, at a minimum, an Internal Revenue Service examination of their return will probably be necessary to straighten out their final liability.

If, as requested by the President, the 12% refund is enacted by April 1, 1975:

--refund checks for the first installment--in total about $6 billion--would begin to be mailed in May and would continue through June as the later filed returns are processed; and

--refund checks for the second installment of the remaining $6 billion would be mailed in September.

The effect of the tax refund can be illustrated for a family of four as follows:

Adjusted Gross Income	Present Tax	Proposed Refund	Percent Saving
$ 5,000	$ 98	$ 12	-12.0%
7,000	402	48	-12.0
10,000	867	104	-12.0
12,500	1,261	151	-12.0
15,000	1,699	204	-12.0
20,000	2,660	319	-12.0
40,000	7,958	955	-12.0
50,000	11,465	1,000	- 8.7
60,000	15,460	1,000	- 6.5
100,000	33,340	1,000	- 3.0
200,000	85,620	1,000	- 1.2

Taxpayers with incomes of less than $15,000 now pay 31% of the income tax, and they will receive 36% of the refund. Eighty percent of the refund will go to taxpayers with less than $30,000 of income who pay 68% of the income tax. At the upper extreme, 24% of the income tax is paid by taxpayers with incomes in excess of $40,000. These taxpayers will receive only 11% of the refund.

Adjusted Gross Income Less Than:	Percent of 1974 Tax Liability Before Refund	Percent of Refund
$ 10,000	13.0%	15.1%
15,000	30.8	36.0
20,000	48.4	56.6
30,000	68.5	80.0
40,000	76.3	89.1
50,000	80.8	93.4
100,000	90.8	98.7

This proposed method of tax relief has the following advantages:

- Larger amounts can be returned faster by mailing refund checks based on 1974 taxes, than by reducing tax liabilities for the year 1975.

- A reduction in 1975 tax liabilities would be achieved through reductions in withholding. It would not occur for at least a month after enactment of the tax reduction and then only in relatively small weekly or biweekly amounts stretching all the way through December of this year.

- With a refund based on 1974 taxes, taxpayers will know more precisely the total reduction they will receive and can plan accordingly, thus accelerating the stimulative impact.

- Receipt of two relatively large refund checks should have a greater psychological effect on family budget decisions and consumption attitudes than receiving the same total a few dollars at a time, thus increasing the impact of the $12 billion temporary tax reduction. This should also help the sales of cars, furnishings and other big ticket items that have been depressed by the recession.

- With a refund based on 1974 taxes, taxpayers will be assured of getting the refund whether or not their incomes may be reduced or uncertain in 1975. Thus, taxpayers who had jobs in 1974 but are now unemployed would be assured of refunds; they would not receive such refunds if they were applied only to 1975 income.

- Paying the refund in two checks rather than one will ease the strains on the capital markets that would be caused by the Treasury's financing of the entire amount all at once.

Emergency 12% Investment Credit.

The remaining $4 billion of the total $16 billion temporary tax refund and reduction will go to corporations, farmers and other business firms in the form of a one-year increase in the investment tax credit. That should stimulate the demand for capital goods and help increase productivity and employment.

The investment tax credit would be increased temporarily to 12% for qualified machinery and equipment placed in service in 1975 or ordered by the end of 1975 and placed in service by the end of 1976. As under existing law, special rules apply to property constructed by the taxpayer or to his special order.

We propose that this increase in the investment credit be effective beginning January 1, 1975. That is extremely important, as we want businesses to move ahead promptly with new investment, and it would be most undesirable if they were to suspend purchases and orders until Congress has finally acted. For this reason, Congress has in the past adopted a retroactive effective date like that proposed, and based on our conversations with members of the tax writing committees we are confident that it will do so here, too, if the proposal for an increase is ultimately enacted.

Because of the need for speedy enactment and because this emergency increase in the rate of the investment tax credit is for only one year, no other changes or restructuring of the present investment tax credit are proposed at this time, except for utilities. Because of the particular plight of the Nation's regulated public utilities, we recommend that the following additional changes be made:

- The discrimination against public utilities, which under current law are allowed only a 4% investment credit, would be eliminated permanently. Under the temporary emergency investment tax credit, and thereafter, public utilities would receive the same general investment credit rate as other businesses.

- The provision of present law which limits the maximum credit to 50% of liability for tax in excess of $25,000 would be modified in the case of regulated public utilities. The limitation would be increased to 75% in 1975, and be reduced by 5 percentage points each year through 1979, returning to 50% in 1980.

The proposed 12% rate would be extended for two additional years, through 1977, for property, not fired by oil or gas, that provides power to electric generating facilities, including property converted from oil or gas use. This two-year extension will provide significant incentives for the development and use of nuclear, geothermal, coal, hydro, solar and other petroleum-saving power sources.

Increasing the rate of the investment tax credit has proved very helpful in reversing adverse economic trends. When the investment tax credit was repealed and other provisions increasing the tax burden on business were enacted in 1969, there followed a period of rising unemployment and business stagnation. Subsequent to the reenactment of the credit in 1971, new investment increased by 9% in 1972 and 13% in 1973. Further, in the period 1972-1973 industrial production increased 19% and there was a significant decline in unemployment.

Energy Taxes in General

The goal of the energy tax package is to reduce total consumption of oil and natural gas, which will reduce imports in like amount.

The package has three parts:

(1) An import fee increase ultimately settling at $2 per barrel on crude oil and products and a corresponding excise tax on domestic crude oil.

(2) Decontrol of crude oil prices and a Windfall Profits Tax.

(3) Price decontrol of new natural gas and the equivalent of the $2/bbl. oil excise tax (namely, 37 cents/thousand cubic feet) on all natural gas, to curtail its use and discourage switching from fuel oil to natural gas.

This combination of fees, taxes and decontrol will raise the prices of oil, and gas and related products relative to other prices. That will discourage their unnecessary use, encourage the substitution of other energy sources, and induce the replacement of existing energy-using devices.

Gasoline Tax as Alternative.

Many persons have suggested that a gasoline tax would be preferable to taxes on crude oil.

There are several reasons for preferring a tax on crude oil to a gasoline tax:

- A price increase in crude oil is far more effective in reducing consumption than a gasoline price increase. The increased prices under the proposals amount to about 10¢ per gallon, distributed across all of the products that come from a barrel of crude. It would take a gasoline tax of 45¢ to 50¢ per gallon to achieve the same reduction in consumption. There are two explanations for that. First, since the price of gasoline is higher than for other refinery products, a larger cents per gallon change is required to get the same percentage change. Second, gasoline accounts for only about 40% of the barrel of crude and a tax on only 40% must obviously be higher than a tax on 100%.

- With a 45¢ to 50¢ gasoline tax, gasoline prices would rise an aggregate of $45 billion. That compares with oil price increases of only $21 billion under the proposed program.

- Crude oil--not gasoline--is the problem. We want to reduce consumption of each of the elements in a barrel of crude.

- There is just as much opportunity to conserve other petroleum products and other forms of energy and energy intensive products as there is to conserve gasoline. For example, many thermostats could be turned down with no real discomfort. Our trash cans are heaped with direct petroleum products such as plastics, and other products that require large amounts of petroleum related energy to create, such as aluminum. We can conserve a little on a wide range of items and save a lot in total.

- It is fairer to let all petroleum users make a moderate adjustment than to impose a drastic increase on just gasoline users. And it is easier for the economy as a whole to accommodate a moderate, broadly distributed increase than a very large, more narrowly based increase. The proposals avoid devastating the automobile industry, the travel industry, and others which depend on gasoline for survival.

$2 License Fee and Excise.

The U.S. now imports about 4.1 million barrels per day of crude oil and about 2.6 million barrels per day of fuel oil and other refinery products. An additional import fee of $2 per barrel on crude and product is to be imposed in stages of $1 each on February 1 and March 1 by Presidential Proclamation under the authority of the Trade Expansion Act of 1962. In addition, if Congress has not enacted the excise tax on domestic oil by that time, the import fee will be raised another $1 on April 1, for a total increase of $3. Adjustments in the fees on imported products will be made to reflect obligations under the old entitlements program.

The $2 per barrel increase in the fee will raise the average price of imported crude oil and its products by $2 per barrel. In the case of crude oil, that means an increase from around $11 per barrel to $13 per barrel. Domestic crude would also sell at about $13 per barrel, and the excise tax of $2 would leave the effective price to domestic producers also at $11 per barrel.

The import fees will bring in revenues of $3.2 billion in 1975 and $4.1 billion in 1976 and the excise tax will raise $4.8 billion in 1975 and $7.2 billion in 1976.

Decontrol and Windfall Profits Tax.

Last year the United States produced 9.2 million barrels of crude oil per day. We now produce only about 8.8 million barrels of crude oil per day, approximately 60% of which, or 5.3 million barrels, sell at an average price of $5.25 per barrel because of price controls. If present controls continue, this year's production will decline further to perhaps 8.6 million barrels per day. Our system of price controls is seriously counterproductive to our need for greater domestic supplies.

An illustration of the way that price controls discourage production occurs in connection with the "stripper well" exemption, which permits oil produced from leases which average fewer than 10 barrels per day per well to sell at the world price. The exemption encourages producers to let their wells decline from 15 or 16 barrels a day to 9.9 barrels per day. They actually make money by suffering a production decline.

Another illustration arises in connection with secondary and tertiary recovery processes, which are used to stimulate additional production after original production has declined. Those processes are costly and part of our production decline is attributable to the fact that they are uneconomic at controlled prices. Money will not be invested to produce more controlled oil at $5.25 per barrel if it can be invested in producing uncontrolled oil at $11 per barrel, or in some completely unrelated business at a higher rate of return. Regulation of prices drives people out of the regulated business and into other lines of business not so subject to uncalculable, nonmarket risks. Price controls were imposed as a means of preventing windfall profits, but clearly we must find a more sensible approach.

The combination of price decontrol and the Windfall Profits Tax is a workable solution to the problem. In 1975, we estimate that a producer of controlled oil would receive $11 per barrel after decontrol (net of the $2 excise), or an increase in price of $5.75 per barrel ($11.00 - $5.25 = $5.75). The Windfall Profits Tax proposed would average $4.53 per barrel, reducing the producer's net price increase to $1.22 per barrel. That $1.22 translates into about 76¢ per barrel after tax.

After decontrol, the price for all oil will be the same, thus eliminating all the inefficiencies of the two-tier pricing system. Producers of uncontrolled oil will begin to pay a windfall tax on the increased prices they have enjoyed for more than a year. As a result, they will pay $2.81 per barrel more tax on those increased profits than they paid last year. Producers of controlled oil will begin to receive the same increased prices but will be permitted to keep only 76¢ of that increase. Both controlled and uncontrolled oil will receive the same prices and pay the same taxes.

	Uncontrolled Oil	Controlled Oil
Price per barrel	$11.00	$11.00
Former price	(11.00)	(5.25)
Net price increase	-0-	5.75
Windfall Profits Tax	(4.53)	(4.53)
Gain (loss)	(4.53)	1.22
Income tax at 38%*	1.72	(.46)
Net effect after tax	($ 2.81)	$ .76

*Corporate rate of 48% adjusted for percentage depletion and minimum tax.

Most significant producers have both controlled and uncontrolled oil and, compared with last year, they will net less on the uncontrolled oil and net more on the controlled oil. For the industry as a whole, net after-tax income will be reduced by $2 billion, which means that the benefits from decontrol will be more than offset--by $2 billion--by additional taxes paid to the Treasury. Those Treasury revenues are among those to be returned to taxpayers in the form of tax reductions.

The concept of the proposed Windfall Profits Tax is the same in general as the Windfall Profits Tax proposed last year, although the new proposal has been structured to raise substantially higher revenues. In summary, the tax is designed to capture a windfall profit--that is, one which results from a sudden change in price caused by a circumstance which is accidental and transitory. It is difficult to separate ordinary market prices from prices which permit windfall profits (or "excess" profits if one wishes to think of it that way). We have made an estimate--a judgment--as to the "long-term supply price," i.e., the minimum price to producers that will be sufficient to induce an increase in our supplies of oil sufficient to make us energy independent by 1985. Our judgment is that the price required for this is around $7 to $8 at today's price levels, assuming the continuation of percentage depletion. The tax is designed to permit producers to retain an amount equal to the long-term supply price by the time additional oil supplies will be coming on line three to five years from now.*

*If percentage depletion should be eliminated, the net to producers from a $7 to $8 price would be reduced, a higher price would be required to produce the same net return and the same oil production, and the proposed Windfall Profits Tax base and brackets would need to be revised upwards accordingly.

The proposal does not include a credit for so-called "plowback" investments, nor does it include exemptions for certain classes of producers. Plowback is not justified because the amounts oil producers will retain, after the tax as it is structured, will provide a price incentive sufficient to attain our energy independence goals. To put it another way, there is no convincing evidence that permitting a plowback credit will produce significantly more energy than not doing so. Further, a plowback credit means that persons already engaged in oil production can make investments with tax dollars supplied by the government, while new investors must use their own money. We do not believe that kind of discrimination and anti-competitive effect can be justified.

In the case of different classes of producers, we simply believe that a windfall produced by cartel prices is a windfall to large and small producers, high- and low-cost producers and producers located everywhere. Producers all receive a cartel price and not a free-market price.

The issue of plowbacks and special exemptions ultimately boils down to whether windfall profits should go to oil producers or to the public in the form of tax reductions. The permanent tax reductions proposed depend upon the government receiving these revenues. If the revenues are curtailed, the tax reductions will need to be curtailed, too. We have tried to design a tax that will not inhibit those investments in oil production which are economic and which are needed to reach our goals. If we believed that the tax would inhibit needed investment, we would not propose it. Plowback credits and special exemptions would undoubtedly make existing oil producers wealthier than they would otherwise be, but would not significantly increase oil production. It is taxpayers generally who pay the prices that produce the windfall, and the revenues should go for the benefit of taxpayers generally.

Decontrol of New Natural Gas and Excise Tax.

Natural gas shortages last year forced major curtailments of supplies to many industrial firms and denial of service to many new residential customers. Curtailments and denials are much greater this year and are causing not only extra costs and hardships, but, in many cases, business close-downs and loss of jobs.

New natural gas goes primarily into intrastate, uncontrolled markets where prices range around $1 per thousand cubic feet ("m.c.f."). Gas in the interstate market averages less than 40¢/m.c.f. The result is that interstate supplies are insufficient, and the energy gap in nonproducing states is made up with imported oil, which on a BTU equivalent basis costs about $2.00, and with imported liquefied natural gas at $1.80/m.c.f. Deregulation will permit new domestic gas to flow into the interstate markets with an aggregate savings to existing customers in those markets, an end to curtailments, and a net saving in national resources.

Whether or not new natural gas is deregulated, the President proposes an excise tax of 37¢/m.c.f. on natural gas. That is equivalent, on a BTU basis, to the proposed $2.00 excise tax on oil and will prevent fuel oil users from switching to gas. It will also bring the average interstate price close to the market clearing price (the price at which supply and demand will coincide), and end the careless use of this fuel by those for whom it is cheap at present prices.

An equivalent tax, based on BTU content, will also be placed on natural gas liquids. Gas wells produce about 86 percent "wet" gases and 14 percent "dry" gases. The wet gases are treated to remove the natural gas liquids, such as propane and butane, and the dry gas goes on into the natural gas pipeline. The dry gas and liquids will thus be treated consistently. For example, the tax on natural gas liquids sold in mixed stream would be $1.43 per barrel.

The liabilities for this tax would be $6.3 billion in calendar 1975 and $8.5 billion in calendar 1976.

Effectiveness of Energy Package.

The energy package will reduce consumption significantly, with modest adjustments by most of our citizens.

It is natural for businessmen and consumers to react to a sudden increase in price of particular goods with the thought: "This will merely increase my costs. It won't cause me to reduce my purchases." That reaction reflects the fact that we are creatures of habit. But we are also rational beings who adapt our habits to changing circumstances.

When meat prices rose sharply in the early months of 1973, the instantaneous response was a loud complaint as each of us found his grocery bill inflated. In time, we adjusted to the higher price by buying less meat. There is no doubt that the portions of meat being served by many families today are smaller than they were only three years ago. We didn't like it, but it had to be done. There was no other way to adjust to the new situation--no way that was better.

So it will be with energy. None of us relishes the prospect of higher oil and gas prices. We have all developed habits of energy use conditioned by two decades of declining relative prices of energy. As in the recent experience with meat, after the initial shock of resentment at the higher prices of petroleum products and gas, our rational selves will take over and we individually and collectively will find ways to reduce our useage of energy.

Immediately, we will slice smaller portions of the energy pie for ourselves:

- We will turn off the lights when we leave the room to save electricity bills.

- Thermostats will be adjusted downward in winter, upward in summer, and heat will be turned off in rooms not in use.

- Marginal trips in cars will not be taken; some second and third cars will be scrapped.

- Married couples will look closer-in for their first home, and possibly settle for an apartment instead of a detached home; and owners of homes and buildings who formerly considered the fuel savings from insulation, weather-stripping, and otherwise improving the thermal efficiency of structures too costly to obtain will now reconsider.

Equally important, over the longer run:

- Industrial firms, ever on the lookout to cut costs, will speed-up the replacement of energy-using machinery and processes that were perfectly adequate in the days when oil cost $3 a barrel and gas only a few cents per thousand cubic feet, with substitute equipment and processes that may have higher initial costs but which consume less energy and thus have lower over-all costs of operation.

- Families will replace their present autos featuring comfort and speed at the expense of low mileage with lighter and more utilitarian cars that use less of the now expensive energy; and they may eliminate some of their most frivolous appliances while replacing others with initially more costly but more energy-efficient substitutes.

- Materials which require large amounts of energy to produce will be displaced by substitute materials which have become relatively cheaper because their production consumes less energy.

- More recycling will occur.

- The higher relative cost of oil and gas as energy resources will stimulate the development of other energy sources. Oil and gas will fill a smaller share of energy requirements. Just as coal displaced wood as our basic energy source, and oil and gas displaced coal, oil and gas will be displaced.

All of these examples are illustrations of what in the technical jargon of economics is known as "price elasticity of demand": quantities of things consumed decrease when their prices rise <u>relatively</u> to other prices. Every food merchant knows he <u>will sell</u> more bananas and oranges when a crop failure causes the prices of apples and pears to be high, and vice-versa. He may not have heard the term "price elasticity," but he knows how it operates.

Yet many remain skeptical that there is price elasticity in the demand for oil, or that if there is any, whether it is sufficiently large to make any difference in the volume of our oil imports. Experience since 1973 should put doubt to rest even if the findings of such major research efforts as those of the Ford Foundation Energy Project and the Federal Energy Administration do not.

For example, during the decade prior to 1974 when utility rates were steady, consumption of electric energy increased at a rate of 7.4%. Normally, one would expect any given period in 1974 to be 7.4% higher than the comparable period of 1973. But for the six-month period April through September, 1974 consumption was not 7.4% above 1973, it was one percent <u>less</u>, a swing of 8.4 percentage points below expectation. Some of this reduction in consumption could be attributed to the then just perceptible slowing-down of the economy, but a major portion of the reduction can be attributed to the energy price effects on electric utility rates. Experience with oil demand and prices is similar. During the decade prior to 1974, total U.S. petroleum demand increased at an annual rate of just over 5%. But the April-September 1974 petroleum demand was <u>under</u> the comparable 1973 period by 2.7%, a swing of 7.7 percentage points below expectation.

We need another reduction in petroleum useage of about 5% in order to reduce consumption by a million barrels a day. All of the econometric data indicates that the proposed price changes are on target.

Econometric models of the economy, such as those underlying the Ford Foundation Energy Project report, <u>A Time To Choose</u>, and the <u>Project Independence Report</u>, suggest that the short-term responses to energy price increases that we have already seen are half, or less, of the long-term response we can expect after households and business firms have had an opportunity to adapt fully to the higher costs of energy.

Thus, we have confidence that the President's energy program will easily achieve the one million barrel reduction in consumption by the end of this year and an additional one million barrel reduction by 1977.

Permanent Tax Reduction and Restructuring.

The Treasury will collect an additional $30 billion in taxes from the windfall profits tax and the excise taxes and fees on oil and natural gas. The private sector will bear an estimated $25 billion of that in the form of higher costs of energy related items they buy, and Federal, state and local governments will bear the remainder.

The $25 billion paid by individuals and businesses will be returned to the economy by the permanent reductions in individual and corporate income taxes. Like the temporary anti-recession tax cut, the $25 billion total is divided in approximately the ratio of individual and corporate income tax payments generally, so that about $19 billion is allocated to individuals and $6 billion to corporations.

These are major income tax reductions. They accomplish multiple purposes, rest on multiple foundations, and should be considered in that way.

First, the changes proposed in the individual and corporate income tax structures are desirable on their own merits. They have heretofore been too expensive to accomplish within existing revenue constraints.

Second, these tax reductions return to the economy the energy conservation taxes. Thus, the energy conservation measures reduce energy consumption without reducing the aggregate purchasing capacity of the private economy.

Third, these income tax reductions will provide energy consumers with additional after-tax spendable income to help meet higher energy costs if they still wish to consume the same amount of energy as before. Alternatively, they can buy more of other products and cut back on their energy consumption--and many will do that. The income tax reductions are such that most individuals in the lower and middle income range, up to about $15,000, will receive tax reductions greater than their increased energy costs even if they should choose to continue consuming the same amount of higher-cost energy. Taxpayers in higher income brackets will receive significant income tax reductions also, but generally less in proportion to their greater expenditures for energy.

Fourth, these permanent income tax reductions are approximately similar to what is required to offset the so-called "bracket and deduction compression" caused by inflation over the last three years. Because deductions and rate brackets are stated in dollar terms, when inflation causes money incomes to rise, deductions offset a lesser portion of the same real incomes and the remainder is taxable in higher brackets.

Benefit for Individuals.

For individuals, the President proposes an income tax reduction of $16-1/2 billion beginning in 1975. This will be accomplished--

- By increasing the Low Income Allowance from its present level of $1,300, to $2,600 for a couple and $2,000 for single taxpayers, which will provide benefits of------------------------- $5 billion
- And by cutting in half, from 14 to 7%, the tax rate for the first taxable income bracket and making substantial, but smaller, reductions in tax rates in the next four brackets,1/ which will provide additional benefits of------- $11-1/2 billion

Low Income Allowance.

The Low Income Allowance is the minimum standard deduction allowed to everyone regardless of his income level or the amount of deductions he actually has. In combination with the $750 personal exemption, the Low Income Allowance determines the minimum or base income on which no income tax is levied. In 1969, Congress defined the threshold taxability level by reference to so-called "poverty level" data, the assumption being that families with "poverty level" incomes did not have the requisite ability to pay and should be excused from liability. The Low Income Allowance was the mechanism adopted to achieve that result.

The Low Income Allowance is now $1,300. That means that a family of four with four $750 personal exemptions for a total of $3,000, plus a $1,300 Low Income Allowance, currently does not pay income tax if its income is $4,300 or less.

1/ Illustrates rate changes for married persons filing jointly. Comparable changes are made in other rate schedules.

Because of inflation, the poverty level for a family of four is now estimated to be about $5,600. Nevertheless, under present law, this family would in 1975 be required to pay income tax of $185.

The proposed increase of the Low-Income Allowance to $2,600 on a joint return will bring the nontaxable level for the family of four up to the new poverty level of $5,600, which is $3,000 of personal exemptions plus the new Low-Income Allowance of $2,600. The proposed increase in the Low-Income Allowance will also make comparable changes for single persons and families of other sizes, as shown by the following table.

No. in the Family	Estimated 1975 Poverty Level	Tax-Free Income Level	
		Present	Proposed
1	$2,850	$2,050	$2,750
2	3,686	2,800	4,100
3	4,382	3,550	4,850
4	5,608	4,300	5,600
5	6,618	5,050	6,350
6	7,446	5,800	7,100

Increasing the Low-Income Allowance to the levels proposed will provide benefits of about $5 billion to low-income taxpayers and relieve from income tax altogether over 5 million presently taxable returns.

Reduction of Tax Rates.

In addition to the change in the Low-Income Allowance, which benefits the lower income taxpayers, the proposals will reduce income tax rates for the 62 million remaining taxpayers in a generally progressive manner.

The present income tax rates for married persons filing jointly would be reduced as follows: The 14% rate reduced to 7%; the 15% rate reduced to 10%; the 16% rate reduced to 13%; the 17% rate reduced to 15%; and the 19% rate reduced to 17% for part of the present bracket and the balance of that bracket to remain at 19%. Rates for other income brackets would remain the same, except that the present 28% and 32% rates would be increased 1 percentage point each. Taxpayers with incomes falling in those brackets would still have a substantial net reduction in liability because a part of their income will also be taxed in the brackets in which rates have been reduced. Comparable reductions will be made in the tax rates for single returns and other types of returns also. The revised rate schedules are set forth in the appendix.

Progressive Income Tax Reduction.

The effect of the two elements of the proposed income tax reduction for individuals, both singly and in combination, is progressive. The proposed tax reductions are proportionately greater in both dollar amounts and percentages toward the lower end of the income spectrum. Nevertheless, taxpayers at all income levels share significantly in the proposed reductions.

The benefits from doubling the Low-Income Allowance are heavily concentrated in the adjusted gross income classes below $5,000, $10,000 and $15,000. The benefit of the reduction in tax rates goes 96% to persons with adjusted gross incomes below $20,000 and 89% to those below $15,000. When the two tax reductions are combined, 41% goes to persons with adjusted gross incomes below $10,000, 70% to persons with adjusted gross incomes below $15,000 and 86% to those below $20,000.

The following table shows the percentage reduction in the income tax by income class:

1975 Levels

Adjusted Gross Income Class ($000)	Income Tax Paid Under Present Law ($ billions)	Amount of Income Tax Reduction ($ billions)	Percentage Reduction in Income Tax
0 - 3	$ 0.3	$- 0.25	-83.3%
3 - 5	1.8	- 1.20	-66.7
5 - 7	4.0	- 1.96	-49.0
7 - 10	8.9	- 3.38	-38.0
10 - 15	21.9	- 4.72	-21.6
15 - 20	22.8	- 2.70	-11.8
20 - 50	44.4	- 2.15	- 4.8
50 - 100	13.5	- 0.11	- 0.8
100 and over	13.3	- 0.03	- 0.2
Total	130.9	-16.50*	-12.6

*Does not include payments to nontaxpayers.

Some have suggested that there is no reason to cut taxes at all for upper bracket taxpayers. We believe, however, that fairness requires some--though lesser--relief in the upper brackets. It is important to remember that:

- Only about 12% of all taxpayers have gross incomes above $20,000, and they now pay about 52% of total individual income taxes. They will pay an even higher percentage of individual income taxes if our proposals are enacted.

- Upper income individuals have been adversely affected by inflation, just as lower income individuals. The prices of the things they buy have increased too, and since they buy more, the increase is greater. Also, "bracket and deduction compression" has adversely affected high-income taxpayers just as it has affected lower income taxpayers. Everybody has had, in effect, an income tax increase because of inflation.

- Upper income taxpayers play a disproportionately large role in providing the investments which help everyone's income to increase.

The following table illustrates the tax reductions that will be received by a typical family of four at various income levels.

Adjusted Gross Income	Present Tax 1/	New Tax	Tax Saving	Percent Saving
$ 5,600	$ 185	$ 0	$185	100.0%
7,000	402	110	292	72.6
10,000	867	518	349	40.3
12,500	1,261	961	300	23.8
15,000	1,699	1,478	221	13.0
20,000	2,660	2,450	210	7.9
30,000	4,988	4,837	151	3.0
40,000	7,958	7,828	130	1.6

1/ Calculated assuming Low-Income Allowance or itemized deductions equal to 17% of income, whichever is greater.

Increased Energy Costs Compared with Tax Reductions.

The proposed changes in the structure of the individual income tax stand on their own merits and were not designed primarily to offset increased energy costs.

Solving the oil problem will require the public, and particularly large energy users, to make adjustments that will be unpopular and which in some cases will cost money. Nonetheless, the proposed tax reductions are very substantial for low and middle income taxpayers below the $15,000 income level and we believe are, on average, sufficient to more than offset the average increases in their energy costs. The Council of Economic Advisers has calculated that the increase in the Consumer Price Index attributable to this program will be 2% or less. Others have suggested different percentages.

The following table provides some guidance, by indicating how much the tax reductions add to after-tax disposable income. It is after tax income which individuals have at their disposal to buy goods and services, including energy. If the cost of living goes up 1%, a 1% increase in after-tax income should leave the average taxpayer even. The table indicates that with a rise in prices of 2% or less, average taxpayers through the $15,000 AGI class will be ahead.

Adjusted Gross Income Class	After-tax Income	Proposed Tax Reduction	Reduction as a Percent of Present After-tax Income
($000)	(.........Billions	......)	(.....Percent......)
0 - 3	21.7	0.3	1.2 1/
3 - 5	33.2	1.2	3.6 1/
5 - 7	46.0	2.0	4.2
7 - 10	86.1	3.4	3.9
10 - 15	183.1	4.7	2.6
15 - 20	162.2	2.7	1.7
20 - 50	235.6	2.2	0.9
50 - 100	36.5	0.1	0.3
100 and over	21.7	*	0.1
Total	826.1	16.5	2.0

*Less than 50 million

1/ Many taxpayers in the two lowest income classes will benefit from the $80 special distribution.

<u>$2 Billion for Payments to Nontaxpayers</u>.

Individuals whose incomes are so low that they do not pay any income tax will not benefit from the income tax reductions. Because of their low incomes, these persons are likely to have the least flexibility in shifting their consumption patterns as energy becomes relatively more costly.

In order to avoid hardships from higher energy costs, an additional $2 billion of the energy tax revenues has been allocated to provide cash payments of $80 to each adult in this low income, nontaxpayer category. These persons will thus not be forced to reduce their energy consumption, although they, like others, will have the choice. In addition, very low income persons who now pay some income tax and who will receive some benefit from the proposed tax reductions will also be eligible to receive distributions in amounts approximately sufficient, when added to the income tax reduction, to give them a total benefit of about $80 per adult. In total, this payment system is estimated to involve about 26 million adults, 21 million of whom are nontaxpayers under present law, and to provide a total benefit to them of about $2 billion.

Payments will be made as early in 1975 as possible, and if the energy taxes are enacted by April 1st, as the President requests, we believe that payments can be made in the summer. The payments will be made by the Internal Revenue Service and will be based on a return--comparable to a very simple income tax return--filed by those persons eligible. In designing this system for payments, emphasis has been placed on making it simple and speedy. While we should be generous in order to be certain that we have avoided genuine hardships, we should not create an additional welfare system or bureaucracy.

The essential details of this system for cash payments are as follows:

- Adults 18 years or older and not eligible to be claimed as a dependent on an income tax return would file with the Internal Revenue Service a simple income tax return showing their name, social security number and their adjusted gross income for 1974.

- Adults are eligible to file and receive a payment if they are married persons filing a joint return and their adjusted gross income is less than $5,500 and if they are single persons and their adjusted gross income is less than $2,750.

To take account of the fact that some persons eligible for payments will also receive income tax reduction, payments will be made under the following schedule:

For Married Persons Filing Joint Returns

If their income is $4,500 or less, the payment is------------------------ $160

If their income is more than $4,500, the payment is reduced by $4 for every $25 of income over $4,500

For Single Returns

If their income is $2,250 or less the payment is------------------------ $ 80

If their income is more than $2,250, the payment is reduced by $4 for every $25 of income over $2,250

This schedule of payments will result in phasing-out the payments as income rises to the level where the amount of income tax reductions that have been received equal $80, or $160 on a joint return. For example, a married couple with two children and income of $5,600 would have received $185 of income tax reduction and would therefore receive no additional cash payment.

Because the payment system is simple and distinguishes only between single returns and joint returns, there cannot be complete precision and some persons will receive payments which, when combined with income tax reductions, will vary somewhat from the $80 per adult minimum. Imprecision is the price of simplicity. Precision can be obtained only with returns that report the number of personal exemptions and itemized deductions--i.e., a full tax return. Exemptions and deductions are major problems, even with higher income persons, and, as a practical matter, would be unpoliceable on these returns. The $80 per adult minimum is an average and somewhat arbitrary (though generous) figure in the first instance, and it would be quixotic to construct a second and complicated tax system to see that no family, regardless of size or need, varied slightly from the figure.

The amount of $80 per adult appears adequate to compensate individuals in these low-income classes generally, with a margin for extraordinary situations. The total increase in energy cost for the households represented by the about 26 million adults who will participate in the $80 payment system is estimated to be $1.3 billion, an average of $50 per adult. This group includes 17 million single adults and 9 million married persons who would file jointly. Thus, the average increase in energy cost per filing unit, or roughly speaking, "household," in this category is about $60. Looked at another way, the increase in energy cost may induce an increase in the Consumer Price Index of as much as 2%. A 2% increase for a person with $2,000 income would be only $40, and for a family with an income of $5,000 would be only $100.

In contrast, total benefits of $2.1 billion are proposed for this group by the combination of cash payments and income tax reductions. The basic benefit will be $80 for a single adult and $160 for a married couple.

In addition there are another 7 million adults whose adjusted gross incomes are below $5,000, but who will receive $80 or more entirely through income tax reductions.

Residential Conservation Tax Credit.

To complete the total of $19 billion of tax and cash payment benefits for individuals, a residential conservation tax credit will be allowed for expenditures for thermal efficiency improvements for existing homes. Such improvements include storm windows and doors, and insulation and weather-stripping. The credit will be effective for years 1975, 1976 and 1977 and the maximum credit allowed over that three-year period will be $150 per family. It is estimated that at least 18 million homes will be eligible for the credit and that the total credits will be $500 million annually for the three years.

Corporate Tax Rate Adjustment.

The President proposes that the corporate tax rate, which is now 48%, be reduced to 42%. This will provide benefits of approximately $6 billion. This reduction will be accomplished by reducing the corporate surtax rate on taxable income in excess of $25,000 from the present 26% to 20%. The basic or normal rate applicable to all corporate taxable income will remain at the present 22%. Thus, the first $25,000 of a corporation's taxable income will continue to be taxed at a rate of 22%. The balance will be taxed at a total normal and surtax rate of 42%. We propose that the reduction be made in the high surtax rate because that is where the excessively heavy double tax burden on corporate earnings falls. Corporations that pay only the normal tax rate of 22% are paying tax at about the average top marginal tax rate of individuals.

The reasons for recommending reduction in corporate taxes by means of a rate reduction instead of by some other means are as follows:

Rate reduction is the most neutral way of reducing corporate taxes. Neutrality means that all corporations now paying at a 48% rate will share in the tax reduction, will have maximum flexibility in making business and investment decisions, and can therefore operate most efficiently without regard to tax consequences.

Reduction of the presently high corporate tax rate will be the most meaningful and symbolic signal to business, to investors and to the market of a serious intent to assist business. This type of tax reduction will provide corporations the maximum assurance of continued more favorable climate for the long-term investment decisions that are necessary to ensure prosperity and control inflation.

Rate reduction has a character of permanence. We have proposed to make the permanent tax reduction for individuals in large part by rate reduction. We should do the same for corporations.

The amount of the proposed corporate tax reduction of about $6 billion is approximately the 25 percent corporate share--when divided in the 75%-25% ratio of corporate and individual tax payments--of the total of $25 billion of permanent tax reductions and payments we propose to make. This proposed corporate tax reduction of $6 billion reflects the fact that corporations, too, will have an additional burden from higher energy costs. Corporations will bear these additional costs in a variety of ways--higher energy costs reflected in costs of equipment they buy, not all of which they will be able to pass on to consumers; reduced sales and lower prices for some products as demand for energy is reduced; and the additional capital equipment and other costs that will be involved for many corporations in shifting over to lesser energy using processes and products.

As their energy costs increase, business will be under pressure to pass these costs through to consumers and they will be successful in varying degrees. To the extent that this increase in cost is offset by a decrease in income tax cost, a part of that pressure to pass through energy costs to consumers will be relieved.

Corporate tax reduction is seldom politically popular, because it is levied against an inanimate entity. But corporate taxes are borne by people--in part by people generally in the cost of what they buy from corporations, and in part by shareholders in the form of a reduced return on the capital they have invested in the businesses.

In recent years other nations, including our principal trading partners, have recognized this and adopted various "integration" plans which move towards eliminating the double tax on income earned in corporate form. But the United States still imposes a double tax on income earned from a business conducted in corporate form, thus taxing that income more heavily than other income.

As you consider the President's proposal to reduce the corporate rate from 48% to 42%, you should have firmly in mind that income earned in a corporation would still be taxed at 42%, and then taxed again at rates going up to 70% when paid out as a dividend--producing a maximum tax of 82.6%.

I have already discussed the compelling reasons for a reduction in corporate taxes wholly apart from any increase in energy costs. These reasons are real and serious. While corporate tax reduction may be unpopular, the consequences of increasing unemployment and declining productivity will be even more unpopular. They already are.

Conclusion.

It is clear that our country faces serious economic problems. I am confident that we can solve them. They are complicated problems and their solutions will require painstaking attention and balanced judgments. The President's program, which I have outlined to you, provides an integrated blueprint for action. I am confident that as we consider the problems in the objective and professional manner for which this Committee is distinguished, we will be able to reach joint decisions that will set us back on the path to continued prosperity. I look forward to working with you.

o 0 o

to: DOUG BENNETT

Department of the Treasury

Assistant Secretary (Enforcement, Operations, and Tariff Affairs)

room: date: 1/27/75

FYI.

David R. Macdonald
room 3442
ext. 2033

At the hearings before the House Ways and Means Committee held on January 23, 1975, Congressman Green referred to the prior finding in 1959 that petroleum was being imported in such quantities as to impair the national security as follows:

> "Mr. Green. I think I remember that.
>
> "Isn't that when the plane went down and the fellow from Cities Service had $120,000 on his way to Washington?"

While it is irrelevant, in the event of further discussions with Mr. Green on this subject you may want to know that his comment was wholly inaccurate. The finding to which he referred was made on February 27, 1959 and the Presidential Proclamation was issued in March 1959.

It was three years later in March 1962 when W. Alton Jones, Chairman of the Executive Committee of Cities Service Company was killed in a plane crash, and according to press reports was carrying $55,690 in cash and $7,000 in travelers checks. The attached clippings are from the March 2 and March 3, 1962 New York Times.

The implication of Mr. Green's remarks was that a Cities Service officer was improperly bringing cash to influence a Presidential decision. Although Jones was on his way to meet former President Eisenhower at the time of the plane crash, they were planning a fishing trip to Mexico and Jones reputedly often carried substantial amounts of cash. Further, Eisenhower had not been President for over two years, and the Proclamation had been in existence for three years.

01 March 2 '62 THE NEW YOR[illegible]

W. Alton Jones and Admiral Conolly

SKETCHES OF DEAD IN JETLINER CRASH

Several Couples and Three Brothers Perish—Friend Was Joining Eisenhower

Following are sketches of passengers killed in the airliner crash here yesterday:

W. ALTON JONES

The chairman of the executive committee of the Cities Service Company, Mr. Jones was a close friend and frequent golfing and quail-shooting companion of former President Dwight D. Eisenhower. Mr. Jones was 70 years old and lived at 1 Sutton Place South.

Mr. Jones was going to California to join General Eisenhower on a fishing trip into Mexican waters. At Palm Springs, Calif., a spokesman for the former President said he was too "shocked and distressed" to issue a statement on the death of Mr. Jones, who was described as "one of his dearest, closest and best friends."

A pioneer in the development of the natural gas and petroleum industries, Mr. Jones rose from a job as a $15-a-month janitor to become one of the nation's highest paid executives. Cities Service is a billion-dollar oil producing, refining and marketing organization.

Mr. Jones also was chairman of the board of the Richfield Oil Corporation and a director of the Chrysler Corporation and the Tiffany Corporation. He was a member of the directors advisory council of the Morgan Guaranty Trust Company.

In World War II he ended the dynamite shortage by building a secret plant at [illegible], Ark.; constructed an aviation gasoline refinery at Lake Charles, La.; and when the Government was [illegible] over building an oil pipeline from Texas to the [illegible], Mr. Jones ended the indecision [illegible]

W. Alton Jones

Adm. Richard L. Conolly

Irving R[illegible]

also managed to take a correspondence course in bookkeeping.

In World War I, Mr. Jones served as secretary of the Empire District Gas and Electric Company in Joplin, Mo., a company formed by a merger with the Webb City concern.

In 1920, he was transferred to New York, where he became an assistant to Frank W. Frueauff, a partner of Mr. Doherty and first vice president of Cities Service. When Mr. Frueauff died eighteen months later, Mr. Jones succeeded him.

In 1929, on the eve of the Depression, Mr. Jones had plunged the company $500,000,000 in debt. By 1935, when the Public Utilities Holding Company Act threatened to break up the nation's electrical utilities, including Cities Service, the company's common stock had dropped to 75 cents from a 1929 high of $68.

Instead of panicking, Mr. Jones won an extension of time and for the next seventeen years followed a policy of selling power companies at a profit and expanding the concern's gas and oil operations.

In 19[illegible], following the death

service from his own Government and twelve from foreign countries.

On two occasions he was Deputy Chief of Naval Operations. At the 19[illegible] Paris Peace Conference, he was commander of United States Naval Forces, Eastern Atlantic and Mediterranean.

He served during the Eisenhower Administration on the Hoover Task Force that assessed the work of the Central Intelligence Agency.

He was born in Waukegan, Ill., and attended Lake Forest Academy before his appointment to the Naval Academy, from which he was graduated in 1914.

His wife was the former Helen Jacobs of Boston. Their Long Island home was in Old Westbury.

They had three children: Mrs. George H. Hughey, Lieut. Richard L. Conolly Jr. of the Army and Lieut. Robert C. Conolly 2d of the Navy, who was graduated from the Naval Academy in 19[illegible].

Brooklyn Borough President Abe Stark asked his borough's Department of Public Works

part in a nonst[illegible] trip from Chicag[illegible] Fla.

Mr. Kirkeby als[illegible] dent collector of [illegible] The sale of his [illegible] the Parke-Bernet [illegible] November, 1958, [illegible] 548,500. Among t[illegible] that were auction[illegible] Picasso's "Mother[illegible] which was sold fo[illegible]

Other painting[illegible] Kirkeby collected [illegible] modern French n[illegible] the works of Mo[illegible] and Matisse.

Las December [illegible] $350,000 worth of [illegible] his home in Bel-[illegible] Los Angeles. The [illegible] ed a diamond neck[illegible] ing a pendant in w[illegible] Carlotta's portrait [illegible]

He owend exten[illegible] ty on the West Co[illegible] developed the mult[illegible] lar Kirkeby Cent[illegible] wood, Calif. He als[illegible] a home here.

Besides his widow [illegible] vived by a son, [illegible] daughter, Carl[illegible] Mrs. Signe Kirk[illegible] Mrs. Jane L[illegible] Margaret Kirkeby [illegible] Chicago, and a bro[illegible] who lives in Miami.

Jones ended ... observing: ... pipeline."

He then ... Little Inch pipelines in time for the Normandy invasion. Jones was awarded the Presidential Certificate of Merit in 1948.

Up From the Farm

Mr. Jones—his first name was William, but he did not use it—and was called Pete—was born April 20, 18.., near Webb City, Mo. He was the youngest of seven children of farm parents who could barely scratch out an existence on their rocky farm.

He supported himself by working in a ... days and in a bookstore nights. The bookstore proprietor once became irked over young Jones's diffidence with a prominent customer and gave him this advice:

"Never let any man overawe you. Just picture him standing there in his long winter underwear, and you won't take him seriously."

In later years Mr. Jones was noted for his combination of shyness and aggressiveness.

As president of Cities Service, Mr. Jones covered as much as 150,000 miles a year in the company plane, a silver-winged DC-3 that carried the company's green and white insignia. He was once described by his pilot as the calmest passenger he had ever known. "... never bother him," the pilot said. "He seems to enjoy them."

Mr. Jones earned enough money to attend Vanderbilt University to study chemical engineering but had to leave at the end of his freshman year because of his mother's sudden illness and the family's need for his support.

His first full-time job was as janitor and meter reader for the Webb City and Carterville Gas Company, a unit of the Henry L. Doherty public utilities system, which became the foundation of the Cities Service Company. At the same time he

... Mr. Doherty, Mr. Jones became president of the company ... became chairman of the board in 1953, relinquishing the ... years later to become chairman of the executive committee.

Surviving are his widow, the former Nettie Marie Marvin, and two daughters, Mrs. Roy Hamilton Ott Jr. and Mrs. Milton Thomas Edgerton Jr.

... AND MRS. RICHARD L. CONOLLY

Admiral Conolly was scheduled to retire next October as president of Long Island University. He and his wife were killed while going to La Jolla, Calif., for a vacation.

During the administration of the 69-year-old former Navy officer the university grew from 2,000 to 10,000 students. He had gone to the university on Nov. 1, 195., the day after he retired from the Navy after forty-three years of service. His last Navy post was president of the Naval War College at Newport, R. I.

Under his administration, the university occupied the ten-acre Zeckendorf Campus in downtown Brooklyn and established a 126-acre suburban center, C. W. Post College at Brookville, L. I.

In World War II, Admiral Conolly was a destroyer commander in attacks on numerous Pacific islands and frequently acted as task force commander. He commanded a destroyer escort for the aircraft carrier Hornet in 1942, when Gen. James H. Doolittle made the first air strike against Tokyo.

Frequently Decorated

While attached to a destroyer in World War I he was awarded the Navy Cross for service connected with salvaging a transport torpedoed by a German submarine.

In recognition of his services, Admiral Conolly received fifteen campaign medals, eight decorations for distinguished

... Conolly.

In Washington, Admiral George W. Anderson, Chief of Naval Operations, said that Admiral Conolly's "outstanding qualities of leadership contributed greatly to the success of amphibious operations in the Mediterranean and Pacific during World War II."

William Zeckendorf, president of Long Island University's board of trustees, said the institution had suffered "irreplaceable loss" with the death of Admiral and Mrs. Conolly. He said the admiral had brought about expansion, growth and scholastic improvement "beyond our fondest hopes."

ARNOLD S. KIRKEBY

The president of the Kirkeby-Natus Corporation, Mr. Kirkeby had been in the hotel field for more than a quarter of a century.

The 61-year-old executive was born in Chicago, where he once worked as a messenger boy in the LaSalle Street. Among the hotels in which he held an interest were the Hampshire House and Warwick and Gotham Hotels in New York, the Beverly-Wilshire in Beverly Hills, Calif.; the Kenilworth Hotel in Miami Beach, and the Warwick in Philadelphia.

In recent years, the Kirkeby interests had disposed of all hotels except the Warwick Hotel here and the Warwick Hotel in Philadelphia. Mr. Kirkeby continued substantial interests in real estate, commercial and industrial financing.

In 1946, it was estimated that the hotels he owned were worth $30,000,000 and had a gross income of $20,000,000. In the Depression, when Mr. Kirkeby decided to go into the hotel business, he leased two small hotels in Chicago and used them to learn the business.

He also was an early aviation enthusiast and in 1928 took

... Columbia Pictures ... ing to Hollywood at 420 East F... for conferences w... man, who heads ...

He entered ... field as a report... Island Daily Pr... subsequently w... New York Ever...

He left newsp... public relations ... Shubert theatre... here.

Mr. Rubine beca... with the motion ... try in 1934 when ... umbia Pictures. L... as head of War... West Coast exp... radio departments ... rected publicity ar... activities for man... independent com... produced. "The S... morrow the Worl... Story of G. I. Joe...

In September, ... named vice presid... road after having ... president and part... fair Productions.

As an executive ... he supervised th... campaigns for the ... edy, "The Mou..." and "The Curs..."

Mr. Rubine is su... widow, the former ... man; three sons, St... is a teacher in San ... Arthur, 25, a repo... Town and Village c... and George, 2., a st... Jose State College; ... sons, Ronald and ... mother, Mrs. Ha... and three sisters, ... Wolf, Mrs. Murray ... and Mrs. Sol Jacio...

MR. AND MRS. ... FELBEC...

Dr. Felbeck retir... president of Uni...

Airliner's Crew of Eight Based in California;

Following are biographies of the eight members of the crew of the American Airlines jet that crashed here yesterday. All eight were based in the Los Angeles area.

CAPT. JAMES T. S. HEIST

Captain Heist, the ..-year-old He became qualified as a Boeing 707 captain in April, 1960.

A graduate of Pennsylvania State University, Captain Heist was trained as a Navy pilot in 1930 in Pensacola, Fla. He did three tours of duty in the Navy, counting his service during World War II. He returned to

4,800 hours—900 of them on Boeing jets. A native of Kingston, Pa., he studied at Pennsylvania State University and was graduated from the University of Washington, Seattle.

A former Air Force mechanic, he studied at technical schools ... the West Coast ...

Bernice and three ... through 10 years ol...

ROBERT J. F...

Second Officer F... a former Air Force ... joined American ... 1957. His total comm... time was 3,400 hou...

$55,690 IN CASH CARRIED BY JONES

Executive Killed in Crash Also Had $7,000 in Checks

W. Alton Jones, executive committee chairman of the Cities Service Company, was carrying $55,690 in cash and $7,000 in travelers checks when he was killed in the American Airlines jet crash here Thursday. The bills ranged in denominations up to $10,000.

A spokesman for Cities Service said it was not unusual for Mr. Jones to carry large amounts of cash when he traveled.

"He was a very wealthy man," the spokesman said. "He liked to have lots of money with him when he went anywhere. In fact, he was sometimes called 'the last of the big-time spenders.'

"He was the kind of man, who, if he passed an art shop and a painting caught his eye, he would go in and buy it no matter what it cost."

The police said they found $7,290 in a wallet in his pocket. This included some bills in denominations of $500, $1,000, and $5,000. A gold money clip in another pocket had a $10,000 bill folded in it, they said.

A black leather bag that Mr. Jones carried to his seat also contained $38,400 in cash, including a number of $500 bills, and $7,000 in travelers checks. The cash and travelers checks were enclosed in a plastic bag with a passport and inoculation records necessary for international travel.

Going to See Eisenhower

The 70-year-old millionaire was on his way to California for a fishing trip to Mexico with former President Dwight D. Eisenhower, a longtime friend.

A spokesman for the Internal Revenue Service had no comment on the money, but he said it was always customary procedure to investigate the appearance of any large amounts of cash in an air crash.

Funeral services will be held Monday for Mr. Jones and for Admiral and Mrs. Richard L. Conolly, who also died in the crash.

General Eisenhower's personal secretary, Mrs. Ann Whit-

Failure of Jetliner's Controls Called Possible Cause of Crash

Continued From Page 1, Col. 4

Mr. Jones carried with him to his seat. The police found $7,290 in cash in his wallet, which was in his pocket. There also was a $10,000 bill in a money clip.

Mr. Jones had been on his way to California to join former President Dwight D. Eisenhower on a fishing trip to Mexico.

Early in the day, it looked as though Civil Aeronautics Board investigators might have come up with strong evidence of the cause.

They had found a jack screw from the system for electronically moving the tail stabilizer up and down. First examination indicated it was in the full "up" position — one that would have forced the plane's nose sharply down.

This initial finding prompted Najeeb E. Halaby, head of the Federal Aviation Agency, to say publicly that mechanical failure apparently had caused the crash.

Later, Edward E. Slattery, spokesman for the C. A. B., said that while the jack screw would be studied with great care, it had "not been found to be in an extreme position up or down."

Proof Wanted

Mr. Halaby had stressed from the first that his suggestion of control-system failure was only a theory that had to beproved.

After the C. A. B. clarification of the jack-screw report, he was understood to be still leaning to his theory, though no longer with a strong notion of specifically where the trouble lay.

Searchers finally were able to locate the crew compartment. It was in water about nine feet deep and efforts were to be made to bring it out when the tide receded last night.

There was no sign yet of the yellow spherical flight recorder that has been a prime object of the search from the start.

The recorder should enable investigators to reconstruct the exact flight path and altitude changes of the airliner in the two minutes from the start of its roll down runway 31 L until

ican Airlines, C. R. Smith, and the Secretary of the Air Force, Eugene M. Zuckert.

He asked each of them to report "any and all incidents involving the stability and control" of the Boeing transport plane. The Air Force uses a version known as the KC-135 for aerial refueling.

The F. A. A., which owns three of the 707 jets, said it would immediately conduct a series of flight tests at its Oklahoma City center to see "whether control trouble could have developed in take-off through any combination of regular operations and maneuvers."

The F.A.A. statement said all other Boeing 707 operators were being asked to report any incidents. It said all the reports would be analyzed as soon as possible to "see if there is any pattern that needs to be corrected."

The statement repeated Mr. Halaby's statement made the afternoon of the crash that there was, at the moment, "no rational basis for grounding" the nation's fleet of Boeing airliners.

A total of 265 of the planes, in the varying versions, are in service with twenty-four airlines here and abroad.

The F. A. A. again ruled out weather, runway condition, and traffic control as contributing factors.

No Sabotage Evidence

"There is no indication of sabotage either," the statement said.

The teams of investigators at the scene are working under the direction of George Van Epps of the C. A. B.

It was one of Mr. Van Epps' teams that fished from the water the jack screw of the horizontal stabilizer.

This had been a high priority item because of some previous incidents where it had given trouble and because of the strong suspicion that it might have caused the crash near Brussels last year in which a number of United States skating stars were killed.

Attention shifed to the plane's ailerons—the wing panels that are used for banking. There had evidence ... not yet

A.B.C.-TV T... A NEW OR...

Easter Work Bas... Revelation Set

By RICHARD F. ...

An oratorio, said ... first written especia... vision, will be perfor... American Broadcas... pany network Sunda...

Earl Wild, the p... written the three-p... presentation based... Revelation of St. ... Divine. Mr. Wild said ... that he had com... oratorio for televisio... for possible perfor... churches or at conc...

"I always had a b... with most religious ... said. "So much of i... old-fashioned or ou... have put a lot of... background in mine."

The presentation ... taped within the ... weeks for showing on ... Sunday afternoon ser... tion '62" in an hour ... cast at 2:30 P.M.

The cast will incl... Bonelli, soprano; Rob... baritone; John Macu... William Lewis, teno... chorus of twenty. Th... will be staged by ... Eaton. Such works ... usually designed as st...

Wiley Hance will be ... and Lloyd Tweedy w... Aida Lioy will choreo... dances that she will ... with Nancy Fenster ... Bonelli.

Mr. Wild will condu... B. C. Symphony Orch... said that he had appe... concert pianist on telev... radio but never as a fu... composer. He had pla... Aurturo Toscanni and ... Symphony Orchestra ... years on radio. His c... positions for TV were t... take-off on Italian 'op... petrated by Sid Caesa... shows several years a...

*

Barry in New Role

Gene Barry, better k... viewers as Bat Mast... Western superman, will ... part of an "inquirin... writer" in a television ... Mr. Barry has been ... star in "The Roman...

THE WHITE HOUSE

WASHINGTON

February 3, 1975

MEMORANDUM FOR: MAX L. FRIEDERSDORF

THRU: VERN LOEN

FROM: DOUG BENNETT DPB

SUBJECT: Anticipated Ways and Means Action

In my opinion Ways and Means decisions of this week are critical with respect to the President's economic/energy program. The tax bill Al Ullman introduced last Tuesday could be the cornerstone of diffusing the President's plan. I have reached this conclusion for the following reasons:

(1) The Ullman package (description attached) contains approximately $12 B of permanent relief for individuals and corporations. Ullman claims it will become permanent only when the "energy tax bill" is acted upon but it will be most difficult, judging from past experience, to repeal any of these "temporary" decisions, particularly in light of their appeal to individuals and business (low and middle income taxpayers, business generally, small business and utilities - a broad political base of support). This package has considerable momentum and may well be fundamentally approved this week.

(2) The President's energy package on the tax side will be difficult to get anyway and with $12 B of the available revenue already given away by virtue of the Ullman package, the revenue will not be available to offset the price impact of the import/excise taxes and decontrol of oil and gas by cutting both individual and corporate tax rates. In other words, the hard part - asking people to pay more for their energy needs - will not be offset by the "goodie" - individual and corporate tax relief. The "liberals" on the committee are well aware of this and fear there will never be an energy package of any degree (windfall profits tax will be diffused by substantantial plowback provisions and exemptions for independents and stripper wells). . . hence, they want repeal of the oil depletion allowance attached to this "quick relief" bill.

(3) Thus Ullman will have, in effect, separated the individual and business tax relief from an energy tax package and make it extremely difficult to find fiscal and political incentive to support the President.

(4) I understand Ullman has in mind, on the energy side, repealing the oil depletion allowance, imposing a windfall profits tax with some plowback for investment, possibly phased in decontrol of oil and gas in order to lessen the blow on individuals and business and an import quota system with allocation. In addition, there may be included a tax on gasoline and some form of tax on automobiles according to weight, horsepower or gasoline consumption.

(5) If no incentive exists for a strong energy tax package and the President decontrols oil and gas giving the companies an extraordinary "windfall" (price of domestic oil will go from $5.25 a barrel to approximately $11.00), while this would place some pressure on the Congress to act, with the rise in the price of petroleum products to consumers, the President might be subjected to criticism and be unable to have tax revenues available to offset the rise in the Consumer Price Index. Congressman Jim Corman suggests the President delay for a limited period of time decontrol of oil so as to mellow oil industry opposition to an energy tax bill and still give incentive for Congressional action.

RECOMMENDATIONS

(1) I think among the Republicans, Southern Democrats and responsible liberals the votes are in the committee to keep the permanent tax relief out of this first bill but it will take some real salesmanship. This position should be advocated strongly by the White House and Treasury.

(2) Recognize the possibility of a modified import quota system as a compromise for raising the tariff to the $2 and $3 levels (assuming the tariff delay bill is not approved). The Ways and Means Committee seems inclined to do this although it is still early to access this accurately.

(3) Consider in place of a cut in corporate tax rates the "integration concept" which replaces present law taxation of corporations and dividends received by shareholders with a unified tax structure whereby shareholders do not pay taxes on dividends received to the extent that corporations have already paid taxes. This helps greatly capital formation as it serves as an incentive for equity investment and has positive corporate financial results. This concept is advocated by the Joint Tax Committee staff, the committee itself generally (those who have thought about and understand the concept), almost all economists and tax lawyers and the Treasury Department. This would be a very positive step in tax law and would provide the corporate tax relief of the nature the economic/energy program seeks. This decision should be made very soon so that Treasury witnesses can advance it with the committee this week before final action is taken on the "temporary" tax package.

cc: Counsellor Marsh, F. Zarb, P. O'Neill, C. Leppert, M. Duval