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INTRODUCTION

INTRODUCTION

The United States is now in a situation where major energy policy initiatives must be taken to avoid increasing dependence on potentially unstable foreign oil sources, by decreasing development of new supplies. In starkest terms, oil and gas account for approximately two-thirds of our national energy consumption. Domestic production of these energy sources has been declining in the last several years. If this decline is not checked our dependence on foreign oil will increase from 38% now to approximately 50% by 1985. This degree of dependence is unacceptable because it would threaten our economy and our national security.

This document summarizes the overall philosophy and content of the President's energy program, its impact on various income groups and its regional economic impacts. The following sections detail:

- Program Description -- This section provides a synopsis of all of the elements of the President's program.
- Program Costs and Income Effects -- This section presents relevant statistics on the regional and aggregate economic effects of the President's program.
- Rationing -- This section provides a detailed description and analysis of rationing.
- Allocation and Price Controls -- This section provides an analysis and critique of allocation used in conjunction with price controls.
- Achievement of One Million Barrel/Day Import Savings -- This section explains how the one million barrel/day import savings is achieved in 1975.

PROGRAM DESCRIPTION

SUMMARY OF PRESIDENT'S ENERGY PROGRAM

In the 1960's, the United States lost its leadership in world energy and its own independence, which, in turn, left our economy vulnerable and subject to international coercion. As demand continued to grow and production peaked, import levels steadily increased (see Figure 1). With rising imports and higher prices, our dollar outflow for petroleum increased from $2.7 billion in 1970 to $24 billion in 1974.

The foregoing circumstances have resulted in the development of a comprehensive energy policy which contains the following goals:

- Reduce imports by one million barrels per day (MMB/D) by the end of 1975 and 2 MMB/D by the end of 1977.
- Eliminate the United States' vulnerability to embargoes by 1985. This would be accomplished by cutting imports to 3-5 MMB/D, all of which would be immediately replaceable from emergency storage and by standby measures in the event of an embargo.
- Assure long-run stability of world energy supply and prices by having the capability of supplying a significant share of the free world's energy needs after 1985.

SHORT-TERM ACTIONS

The immediate actions taken by the President include:

- Phased $3 per barrel fee on crude imports.
- Phased $1.20/bbl. fee on product imports, designed to mitigate the Northeast/New England high regional energy costs.

The effects of these actions are to cut imports quickly and to increase the price for all petroleum products by less than 5¢ per gallon after taking full effect (after April). The measures are intended to be temporary, until congressional action on the entire tax package occurs. The FEA is issuing regulations to ensure that increased costs are not borne disproportionately by heating oil or residual fuels. The President also announced that steps would be taken to decontrol old oil by April 1 to further reduce demand and encourage increased production.

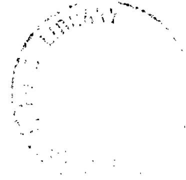


FIGURE 1

PETROLEUM TRENDS

MMB/D

20
15
10
5

DOMESTIC CONSUMPTION

IMPORTS

DOMESTIC PRODUCTION

1950 1955 1960 1965 1970 1974

The short-term legislative proposals requested by the President include:

- $2/bbl. excise tax on domestic crude oil
- $2/bbl. fee on all imports
- 37¢/mcf. excise tax on natural gas (thermal equivalent of $2/bbl. crude oil tax)
- deregulation of new natural gas
- increased coal conversion through amendments to the Energy Supply and Environmental Coordination Act of 1974
- legislation to allow production from Naval Petroleum Reserve-1 (NPR-1) for domestic use

The effect of these actions will be to reduce imports by more than 1 MMB/D in 1975 and 2 MMB/D in 1977 (see Figure 2). Increasing natural gas prices will reduce demand and increase supply and will eliminate the curtailments that have resulted in unemployment.

The program will raise the average family's direct expenses for energy by about $171 per year and could ultimately increase their indirect energy costs by a maximum of $104 per year, although all indirect costs will probably not be passed through. In the low-income and middle-income groups, these increased costs will be more than offset by tax rebates and tax cuts as part of the economic program.

MID-TERM PROGRAM

The President's mid-term program to achieve energy independence by 1985 includes mandatory conservation and new supply actions. Each action is an integral part of the total program.

Conservation

The conservation actions in this program will improve efficiency and reduce consumption of all fuels. They include:

- mandatory national thermal efficiency standards for all new buildings
- 15% tax credit for thermal improvements in existing buildings
- low-income and elderly thermal improvement assistance program ($55 million per year)
- mandatory appliance and automobile efficiency labeling

FIGURE 2

IMPACTS OF SHORT-TERM PROGRAM

	1975 [MMB/D]	1977 [MMB/D]
CONSUMPTION IF NO NEW ACTIONS	18.0	18.3
IMPORTS IF NO NEW ACTIONS	6.5	8.0
	IMPORT SAVINGS	
LESS SAVINGS BY SHORT-TERM ACTIONS:	1975 [MMB/D]	1977 [MMB/D]
PRODUCTION FROM ELK HILLS	0.2	0.3
COAL CONVERSION	0.1	0.3
TAX PACKAGE	0.9	1.6
TOTAL IMPORT SAVINGS	1.2	2.2
REMAINING IMPORTS	5.3	5.8

- 40% increase in gas mileage by 1980 model year (19.6 mpg. on a sales-weighted average)

- appliance efficiency standards

Supply

To achieve energy independence, domestic supply must be increased, with proper consideration to environmental goals. The actions are targeted towards particular fuels:

Coal:

- Clean Air Act amendments

- surface mining legislation

- coal leasing

Oil:

- OCS leasing program in frontier areas

- development and production from NPR-4 in Alaska

Nuclear:

- nuclear licensing legislation

- increased funding of safety and waste management

Utilities

- state utility commission reforms

- extended higher investment tax credit directed towards all but oil and gas fired powerplants

- facility siting legislation (also for other energy facilities)

Emergency Preparedness

- development of a large new emergency petroleum storage program

- standby rationing, conservation, and allocation authorities

These programs can achieve energy independence by 1985 and reduce petroleum import dependency from over 50 percent to about 20 percent of consumption (see Figure 3). These actions are all basically economic and will reduce total energy costs.

LONG-TERM PROGRAM

The President's long-term program will enable the United States to supply energy to other parts of the free world. The program consists of:

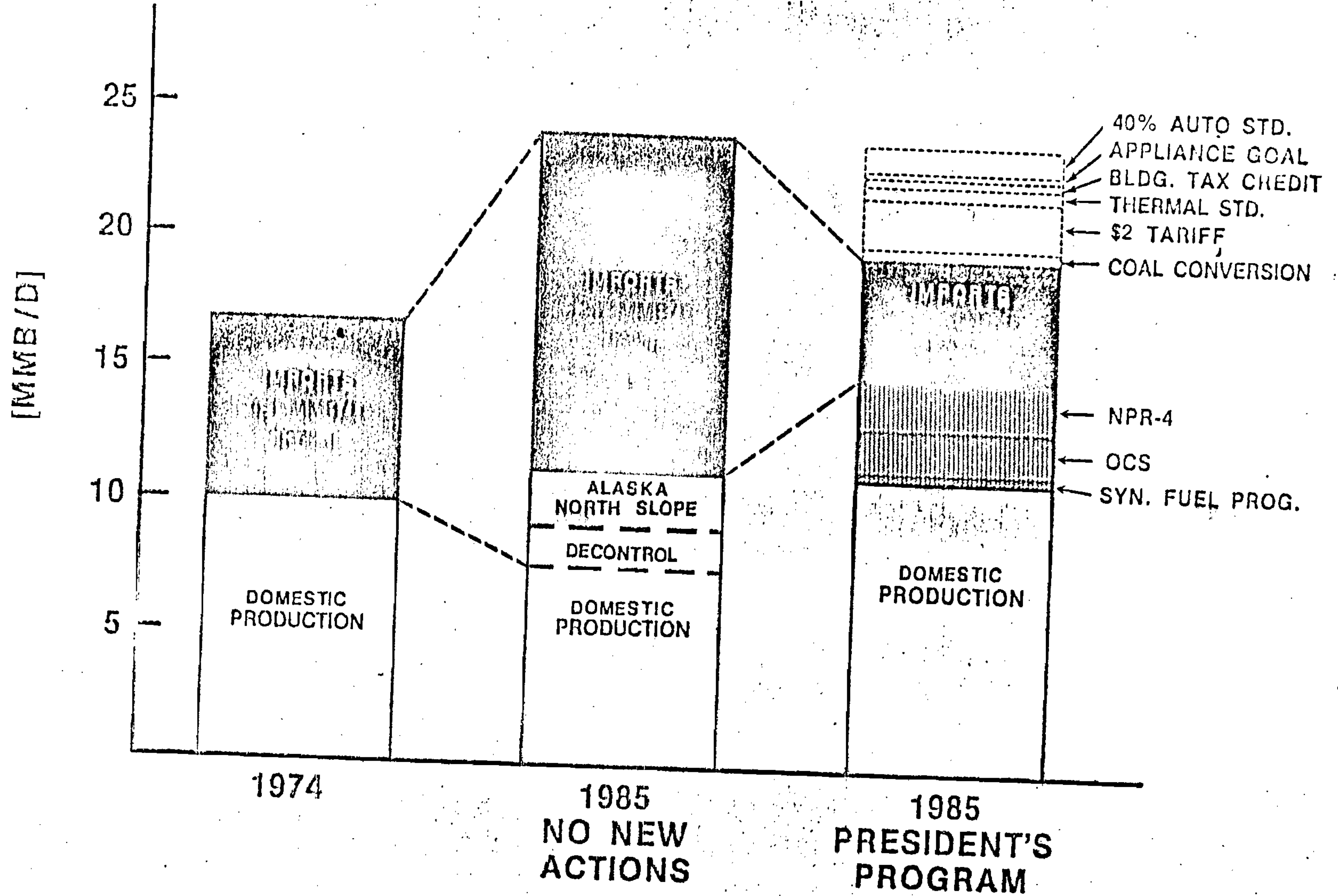
- strong commitment to energy research and development and to continue the $11 billion, 5-year R&D program.

- new national synthetic fuels program to achieve an equivalent of 1 MMB/D from synthetic fuels by 1985. This would involve Federal incentives to produce these fuels commercially.

- international cooperation on R&D programs.

FIGURE 3

IMPACT OF THE PRESIDENT'S PROGRAMS ON PETROLEUM IMPORTS



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FACT SHEET

THE PRESIDENT'S STATE OF THE UNION MESSAGE

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The President's Economic and Tax Program

The President's State of the Union Address outlined the nation's current economic situation and outlook, and his economic and tax program which are designed to wage a simultaneous three-front campaign against recession, inflation and energy dependence.

BACKGROUND

The U.S. economy is faced with the closely linked problems of inflation and recession. During 1974, the economy experienced the highest rate of inflation since World War II. Late in 1974, when a recession set in, unemployment rose sharply to over 7 percent, the highest level in 13 years.

Accelerated inflation had its roots in the policies of the past and several recent developments not subject to U.S. control. Specifically:

-- Excessive Federal spending and lending for over a decade and too much money and credit growth.

-- Unusually poor harvests contributed heavily to world-wide food shortages and escalating food prices.

-- World petroleum product prices increased dramatically due to the Arab nations' embargo on shipments of oil to the U.S., the quadrupling of the price of crude oil by the OPEC nations, and their sharp reductions in crude oil production to maintain higher prices. Higher energy prices were passed through in the prices of other products and services.

-- The decline in U.S. domestic production of oil and natural gas that began in the 1960's also contributed to higher energy prices.

- An economic boom occurred simultaneously in the industrialized nations of the world.

- There were two international devaluations of the dollar.

Inflation contributed strongly to the forces of recession:

- The real purchasing power of workers' paychecks was reduced.

- Inflation also reduced consumer confidence, contributing to the most severe slump in consumer purchasing since World War II.

- Inflation forced interest rates to very high levels, draining funds out of financial institutions that supply most mortgage loans and thus sharply reducing construction of homes.

- Federal Government spending and lending programs, accounting for over half the funds raised in capital markets, reduced the amount of money available for capital investments needed to raise productivity and increase living standards.

CURRENT SITUATION AND NEAR-TERM OUTLOOK

The economy is now in a full-fledged recession and unemployment will rise further. Inflation continues at a rapid pace and the need to take immediate steps to conserve energy will further complicate the problem initially.

There are no instant cures. A careful and balanced policy approach is required. It will take time to yield full results. There is, however, no prospect of a long and deep economic downturn on the scale of the 1930's.

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MAJOR ELEMENTS OF THE PRESIDENT'S ECONOMIC AND TAX PROGRAM

I. A $16 Billion Temporary, Anti-Recession Tax Reduction. This major reduction in taxes proposed for individuals and businesses is designed to restore consumer confidence and promote a recovery of production and employment. The recession is deeper and more widespread than expected earlier, but the tax reduction -- together with the easing of monetary conditions that has already taken place -- will support a healthy economic recovery. The tax reduction must be temporary to avoid excessive stimulus resulting in a new price explosion and congested capital markets. The temporary nature of the reduction is consistent with the long-term economic goals of achieving and maintaining reasonable price stability and raising the share of national output devoted to saving and capital formation.

II. Energy Taxes and Fees. Energy excise taxes and fees on petroleum and natural gas will reduce use of these energy sources and reduce the nation's need for importing expensive and insecure foreign oil. Removal of price controls from domestic crude oil (together with other energy actions) will encourage domestic oil production. A windfall profits tax would recover windfall profits resulting from crude oil decontrol. Energy taxes and fees are expected to raise $30 billion in new Federal revenues on an annual basis.

III. Permanent Tax Reduction Made Possible By Energy Taxes and Fees. The $30 billion annual revenue from energy conservation excise taxes and fees and the windfall profits tax on crude oil would be returned to the economy through a major tax cut, a cash payment for non-taxpayers, and direct distribution to governmental units. Tax reductions are designed to go mainly to low-and middle-income taxpayers.

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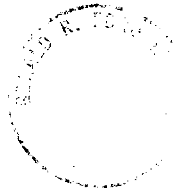

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IV. <u>One Year Moratorium on New Federal Spending Programs</u>. The moratorium on new spending programs proposed by the President will permit the Federal Government to move toward long-term budget responsibility and to avoid refueling inflation when the economy begins rising again.

V. <u>Budget Reductions</u>. The President will propose significant spending reductions in his Fiscal Year 1976 Budget. The reductions total more than $17 billion, including $7.8 billion savings from reductions proposed last year and $6.1 billion from the 5 percent ceiling to be proposed on Federal employee pay increases and on Federal benefit programs that rise automatically with the Consumer Price Index.

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SPECIFIC PROPOSALS ANNOUNCED BY THE PRESIDENT

I. A Temporary, Anti-Recession Tax Cut of $16 Billion. The President proposed a temporary, tax reduction of approximately $16 billion to provide prompt stimulus to consumer spending and business investment. The tax cut is divided 75 percent to individuals and 25 percent to corporations, which is approximately the ratio that individual income taxes bear to corporate income taxes. The cuts would be:

A. A Tax Reduction for Individuals of $12 Billion.

1. Individuals will receive a cash refund equal to 12 percent of their 1974 tax liabilities, as reported on their 1974 tax returns now being filed, up to a limit of $1,000. Married couples filing separately would receive a maximum refund of $500 each.

2. The temporary reduction will be a uniform 12 percent for all taxpayers up to about the $41,000 income level where the $1,000 maximum takes effect, and will then be a progressively smaller percentage for taxpayers above that level.

3. The refund will be paid in two equal installments in 1975 with payments of the first installment beginning in May and the second in September.

4. The proposal does not affect in any way the manner in which taxpayers complete and file their 1974 tax returns. They will file and pay their tax in accordance with existing law, without regard to the tax reduction. Later they will receive their refund checks from the Internal Revenue Service. Because no changes in deductions and other such items are involved, the Internal Revenue Service will be able to determine the amount of the refund and mail the checks without requiring further forms and computations from taxpayers.

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5. 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%

Although the taxpayer will not figure his own refund, it is a simple matter for him to anticipate how much the Internal Revenue Service will be sending him, by calculating 12 percent of his total tax liability for the year (on Form 1040 for 1974, it is line 18, page 1, and on Form 1040A, line 19).

B. A Temporary Increase in Investment Tax Credit for Business and Farmers of $4 billion.

1. There will be an increase for one year in the investment tax credit to 12 percent for all taxpayers, including utilities (which presently have, in effect, a 4 percent credit). Utilities will continue to receive a 12 percent credit for two additional years for qualified investment in electrical power plants other than oil- or gas-fired facilities.

2. This increase in the credit will provide benefits of $4 billion in 1975 to immediately stimulate job-creating investment. (In view of the need for speedy enactment and the temporary nature of the increased credit, this change does not include the basic restructuring of the credit as proposed on a permanent basis in October, 1974.)

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3. With respect to utilities, it includes a temporary increase in the amount of credit which may be used to offset income tax. Under current law, not more than 50 percent of the income tax liability for the year may be offset by the investment credit. Since many utilities have credits they have been unable to use because of this limitation, under this proposal utilities will be permitted to use the credit to offset up to 75 percent of their tax liability for 1975, 70 percent for 1976, 65 percent for 1977 and so on, until 1980, when they will in five annual steps have returned to the 50 percent limitation applicable to industry generally.

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4. The 12 percent credit will apply to property placed in service during 1975 and to property ordered during 1975 if placed in service before the end of 1976. The credit will also be available to the extent of construction, reconstruction or erection of property by or for a taxpayer during 1975, without regard to the date ultimately placed in service. Similar rules will apply to investment in electrical power plants other than oil- or gas-fired facilities, for which the 12 percent credit will continue through 1977.

II. Energy Conservation Taxes and Fees. Energy taxes and fees, in conjunction with domestic crude oil price decontrol and the proposed windfall profits tax, would raise about $30 billion on an annual basis. The fees and taxes and related actions (discussed more fully in Part Two of this Fact Sheet) include:

A. Administrative Actions.

1. Import Fee -- The President is acting immediately within existing authorities to increase import fees on crude oil and petroleum products. These new import fees will be modified upon passage of the President's legislative package.

(a) Import fees on crude oil and petroleum products will be increased by $1 effective February 1, 1975; an additional $1 effective March 1; and another $1 effective April 1, for a total increase of $3.00 per barrel. Currently existing fees will also remain in effect.

(b) FEA's "Old Oil Entitlements" program will be utilized to spread price increases on crude among all refiners, and to lessen disproportionate regional effects, such as New England, or in any specific industries or areas of human need where oil is essential.

(c) As of February 1975, product imports will cease to be covered by FEA's "Old Oil Entitlements" program. In order to overcome any severe regional impacts that could be caused by large fees in import dependent areas, imported products will receive a fee rebate corresponding to the benefit which would have been obtained under that program. The rebate should be approximately $1.00 in February, $1.40 in March, and $1.80 per barrel thereafter.

(d) The import fee program will reduce imports by an estimated 500,000 barrels per day and generate about $400 million per month in revenues by April.

2. Crude Oil Price Decontrol -- To stimulate domestic production and further cut demand, steps will be taken to remove price controls on domestic crude oil by April 1, 1975, subject to congressional disapproval as provided by §4(g) of the Emergency Petroleum Allocation Act of 1973.

3. Control of Imports -- The energy conservation measures to be imposed administratively outlined above, the energy conservation taxes outlined below and other energy conservation measures covered in Part Two below, will be supplemented by the use of Presidential power to limit oil imports as necessary to fully achieve the President's goals of reducing foreign oil imports by one million barrels a day by the end of 1975 and by two million barrels before the end of 1977.

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B. <u>Taxes Proposed to the Congress</u>. The President asked the Congress to pass within 90 days a comprehensive energy conservation tax program which will raise an estimated $30 billion in revenues on an annual basis. The taxes proposed are:

1. <u>Petroleum Excise Tax and Import Fee</u> -- An excise tax on all domestic crude oil of $2 per barrel and a fee on imported crude oil and product imports of $2 per barrel.

2. <u>Natural Gas Excise Tax</u> -- An excise tax on natural gas of 37¢ per thousand cubic feet (mcf), the equivalent on a Btu basis to the $2 per barrel petroleum excise tax and import fee.

3. Windfall Profits Tax -- To ensure that the end of controls on crude oil prices does not result in one sector of the economy benefitting unfairly at the expense of other sectors, a windfall profits tax will be levied on the profits realized by producers of domestic oil. This tax is intended to recapture excessive profits which would otherwise be realized by producers as a result of the rise in international oil prices. This tax does not itself cause price increases, but simply recaptures the profits from price increases otherwise induced. It will, together with the income tax on such profits, produce revenues of approximately $12 billion. In aggregate, the windfall profits tax is sufficient to absorb all the profits that would otherwise flow from decontrolling oil prices, plus an additional $3 billion. More specifically the tax will operate as follows:

(a) A windfall profits tax at rates graduated from 15 percent to 90 percent will be imposed on that portion of the price per barrel that exceeds the producer's adjusted base price and therefore represents a windfall profit. The initial "adjusted base price" will be the producer's ceiling price per barrel on December 1, 1973 plus 95 cents to adjust for subsequent increased costs and higher price levels generally. Each month the bases will be adjusted upward on a specified schedule, which will gradually raise the adjusted base price to reflect long-run supply conditions and provide the incentive for new investment in petroleum exploration. Percentage depletion will not be allowed on the windfall profits tax liability.

(b) The windfall profits tax rates will be applied to prices per barrel in excess of applicable adjusted base prices as follows:

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Portion of price per barrel in excess of base and subject to tax	Amount of tax
Less than $0.20	15% of amount within bracket
$0.20, under $0.50	$0.03 plus 30% of amount within bracket
$0.50, under $1.20	$0.12 plus 60% of amount within bracket
$1.20, under $3.00	$0.54 plus 80% of amount within bracket
$3.00 and over	$1.98 plus 90% of amount within bracket

(c) The windfall profits tax does not include a "plowback" provision, nor does it contain exemptions for classes of production or producers. It does, however, include the limitation that the amount subject to tax may not exceed 75 percent of the net income from the barrel of crude oil. The tax will be retroactive to January 1, 1975.

(d) The windfall profits tax reduces the base for the depletion allowance.

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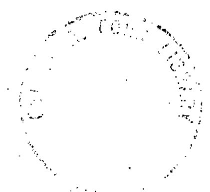

III. Permanent Tax Reductions and Payments to Non-Taxpayers Made Possible by Energy Conservation Taxes.

Of the $30 billion in revenue raised annually by the proposed conservation taxes outlined above, about $5 billion is paid by governments through the higher costs of energy in their purchases. This $5 billion includes:

$3 billion by the Federal government.
$2 billion by state and local governments.

The President is proposing to the Congress that $2 billion of the revenues be paid to State and local governments, pursuant to the distribution formulas applicable to general revenue sharing. The other $25 billion will be returned to the economy mostly in the form of tax cuts. As in the case of the temporary tax reduction, this permanent change will be divided between individuals and corporations on a 75-25 percent basis, about $19 billion for individuals and about $6 billion for corporations. Specifically, this would include:

A. Reductions for Individuals in 1975 -- Tax cuts for individuals will be achieved in two ways: (1) through an increase in the Low Income Allowance and (2) a cut in the schedule of tax rates. In this way, tax-paying individuals will receive a reduction of approximately $16 1/2 billion, with proportionately larger cuts going to low-and middle-income families. The Low Income Allowance will be increased from the present $1,300 level to $2,600 for joint returns and $2,000 for single returns. That will bring the level at which returns are nontaxable to what is approximately the current "poverty level" of $5,600 for a family of 4. In addition, the tax rates applicable to various brackets of income will be reduced. The aggregate effects of these changes are as follows:

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(1975 Levels)
($billions)

Adjusted Gross Income Class ($000)	Income Tax Paid Under Present Law	Amount of Income Tax Reduction	Percentage Reduction in Income Tax (....... % ....)
0 - 3	3	- .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	- .11	- 0.8
100 and over	13.3	- .03	- 0.2
Total	130.9	-16.50*	-12.6

*Does not include payments to nontaxpayers

The effect of these tax changes can be illustrated for a family of 4, as follows:

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 percent of income, whichever is greater.

B. Residential Conservation Tax Credit (Discussed in the Energy Section of this Fact Sheet). The President seeks legislation to provide incentives to homeowners for making thermal efficiency improvements, such as storm windows and insulation, in existing homes. This measure, along with a stepped-up public information program, could save the equivalent of over 500,000 barrels of oil per day by 1985. Under this legislation:

1. A 15 percent tax credit retroactive to January 1, 1975 for the cost of certain improvements in thermal efficiency in residences would be provided. Tax credits would apply to the first $1,000 of expenditures and can be claimed during the next three years.

2. At least 18 million homes could qualify for these tax benefits, estimated to total about $500 million annually in tax credits.

C. Payments to Nontaxpayers of $2 billion. The final component of the $19 billion distribution to individuals is a distribution of nearly $2 billion to nontaxpayers and certain low-income taxpayers. For this low-income group, a special distribution of $80 per adult will be provided, as follows:

1. Adults who would pay no tax even without the tax reductions in A above, will receive $80.

2. Adults who receive less than $80 in such tax reductions will receive approximately the difference.

3. Persons not otherwise filing returns but eligible for these special distributions will make application on simple forms provided by the Internal Revenue Service on which they would furnish their name, address, social security number, and income.

4. For purposes of the special distribution, "adults" are individuals who during the year are at least 18 years old and who are not eligible to be claimed as a dependent under the Federal income tax laws.

5. Since most taxpayers will receive their 1975 income tax reductions in 1975 through reductions in withholding on wages and estimated tax payments, the special distribution to non-taxpayers and low-income -

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taxpayers will also begin in 1975. It is anticipated that disbursement, based on 1974 income can be made in the summer of 1975.

D. Tax Reductions for Corporations. The corporate rate will be reduced by 6 percentage points, effectively lowering the corporate rate from 48 percent to 42 percent for 1975. The resulting benefit in 1975 is estimated at about $6 billion.

IV. Moratorium on New Federal Spending Programs. The President announced that he would propose no new Federal spending programs except for energy. He also indicated that he would not hesitate to veto any new spending programs passed by the Congress. The need for the moratorium is demonstrated by preliminary FY 1976 Budget estimates:

	Fiscal Years			Percent Change	
	1974	1975	1976	75/74	76/75
Revenues	264.9	280	303	5.7%	8.2%
Outlays	268.4	314	349	17 %	11.1%
Deficit	-3.5	32-34	45-47	--	--

NOTE: Estimates for 1975 and 1976 are subject to a variation of $2 billion in the final budget.

V. Budget Reductions.
The budget figures shown above assume that significant budget reductions proposed by the President are effected. Including reductions proposed in a series of special messages sent to the last session of Congress, these budget reductions total more than $17 billion. Of this total, over $6 billion will result from the proposed 5% ceiling on Federal pay increases and on those Federal benefit programs that rise automatically with the Consumer Price Index.

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The following summarizes reductions in 1976 spending to be included in the upcoming budget:

	(Outlays in billions)
Effect of budget reductions proposed last year (including administrative actions)	$8.9
Amounts overturned by the Congress	-1.1
Remaining savings	7.8
Further reductions to be proposed:	
Ceiling of 5% on Federal pay and programs tied to the CPI	6.1
Other actions planned . . .	3.6
Total reductions	17.5

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The following lists those programs to which the 5% ceiling will apply and shows spending amounts for them:

Effect of 5% Ceiling on Pay Increases
and Programs Tied to CPI
(Fiscal year estimates; Dollars in billions)

Programs Affected	1975 Outlays	1976 Outlays Without ceiling	1976 Outlays With ceiling	Difference 1975-1976 (with ceiling)
Social security ..	64.5	74.3	71.8	+7.3
Railroad retirement	3.0	3.4	3.3	+0.3
Supplemental Security Income	4.7	5.5	5.4	+0.7
Civil service and military retirement payments	13.5	16.2	14.9	+1.4
Foreign Service retirement ...	.1	.1	.1	*
Food stamp program	3.7	3.9	3.6	-0.1
Child nutrition	1.3	1.8	1.6	+0.3
Federal salaries:				
Military	23.2	23.1	22.5	-0.7
Civilian	35.5	38.9	38.0	+2.5
Coal miner benefits	1.0	1.0	1.0	*
Total	150.5	168.2	162.1	+11.7

* Less than $50 million.

The 5% ceiling will take into account increases that have already occurred since January 1, 1975. Under the plan, after June 30, 1976, adjustments would be resumed in the same way as before the establishment of the 5% ceiling. However, no catchup of the increases lost under the ceiling would take place.

SUMMARY OF THE BUDGET IMPACT OF THE NEW TAXES AND FEES AND THE TAX CUTS

The following table summarizes the estimated direct budget impact, on a full-year-effective basis, of the tax and related changes proposed by the President to deal with the economic and energy situations:

Revenue Raising Measures	Estimated Amounts ($ billions)
Oil excise tax and import fee	+ 9 1/2
Natural gas excise tax	+ 8 1/2
Windfall Profits tax	+12
Total	+30

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Revenue Disbursing Measures	Estimated Amounts ($ billions)
Energy rebates:	
Income tax cuts, individuals	-16 1/2
Residential tax credit	- 1/2
Nontaxpayer distribution	- 2
Corporate tax cut	- 6
State and local governments	- 2
Federal government costs	- 3
Subtotal	-30
Temporary economic stimulus:	
Individual tax refunds	-12
Investment credit increase	- 4
Subtotal	-16
Total Revenue Disbursing Measures	46

The tax and related changes will go into effect at different times, but all of them during the year 1975:

-- The energy conservation taxes are proposed to go into effect April 1.

-- The increase in import fees would go into effect

- $1 per barrel February 1.
- To $2 per barrel March 1.
- To $3 per barrel, if the energy taxes have not been enacted, April 1.

-- The windfall profits tax on crude oil would be effective as of January 1, 1975. First payments of the tax would be made in the third quarter.

-- The permanent tax cuts for individuals and corporations made possible by the revenues from the energy conservation taxes would be effective as of January 1, 1975. The changes in withholding rates for individuals are expected to go into effect on June 1. The withholding changes will be adjusted so that 12 months reduction is accomplished in the 7 months from June through December.

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-- The tax credit for energy-saving improvements to existing residences would go into effect as of January 1, 1975.

-- The special distribution to nontaxpayers is expected to be paid out in the summer of 1975.

-- The $2 billion distribution to State and local governments would be effective with the second quarter of 1975.

-- The temporary anti-recession tax cut for individuals will be paid out in two installments, in the second and third quarters.

-- The one-year increase in the investment tax credit becomes effective retroactively to January 1, 1975.

The timing of the various changes suggests a pattern of direct budget changes as follows. The timing of the economic stimulus or restraint will depend, as well on such factors as the indirect effects of the budget changes, the timing of the pass-through of higher energy costs to final users, the extent to which the changes are anticipated, and a variety of monetary and financial developments that arise out of these changes.

Timing of Direct Budget Impact

($ billions)

	Calendar Years							
	1975				1976			
	I	II	III	IV	I	II	III	IV
Energy Taxes	+0.2	+4.1	+12.6	+7.6	+7.6	+7.5	+7.5	+7.5
Return of Energy Revenues to Economy								
Tax Reduction	.0	-3.2	- 9.0	-9.0	-5.6	-7.9	-6.3	-6.4
Nontaxpayers			- 2.0				-2.0	
S&L Gov'ts	.0	-0.5	- 0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Federal Govt.	.0	.0	- 0.8	-0.7	-0.8	-0.7	-0.8	-0.7
Temporary Tax Cut	.0	-6.1	- 7.9	-0.6	-0.8	-0.9	0	0
Net Effect	+0.2	-5.7	- 7.6	-3.2	-0.1	-2.5	-2.1	-0.1

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INFLATION IMPACT

Both major parts of the tax package require inflation impact analysis. The excise taxes on crude oil and natural gas, combined with the tariff and decontrol of prices of both "old" oil and new natural gas, will add to the general price level immediately. The consumer price index is expected to rise by about two percent when these tax and price increases go into effect. However, this increase has a one-time impact on the price level that, with exceptions in some areas, should not add materially to inflationary pressures in future years.

The inflationary impact of the $16 billion anti-recession tax cut is more difficult to assess. While some economists may argue that a tax cut will add to the rate of inflation during the year ahead, others would contend that under present economic conditions, with unemployment high and many factories operating well below capacity, the predominant effect of the tax cut will be to stimulate spending, and that additional spending will have only a slight impact on prices.

Whatever the precise price impact of this $16 billion tax cut during 1975, the most important fact about it from the standpoint of inflation is that it is temporary. With the recession still under way, the rate of inflation will be coming down -- it will be too high, but nevertheless moving in the right direction. After the economy gets well into recovery, however, too much stimulus would be sure to reverse the slowing of the inflation rate and, indeed, start a new acceleration. Thus, the tax stimulus must be temporary rather than permanent.

The President has declared a moratorium on new Federal spending programs for this same reason. Budget expenditures are rising rapidly this year, in part, because of programs to aid the unemployed. That is acceptable and highly desirable in a recession to relieve the burden on workers who are affected. It is also desirable because spending under those programs phases out as the economy recovers and unemployment falls. The increased Federal spending is only temporary.

Over the long-term, however, both Federal spending and lending have been rising much too fast, a fact that accounts for a substantial part of our current economic problems. A new burst of expenditure programs cannot

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help the Nation recover from the current recession -- the impact would come much too late -- but it would surely do much inflationary harm as the economy returns to prosperous conditions in the years ahead. Therefore, at the same time that taxes are being reduced to support a healthy recovery, policies that would revive inflationary pressures must be avoided after the recovery is underway. The size of currently projected Federal budget deficits precludes introduction of new spending programs now that would raise inflationary pressures later. For this reason, the President requested that no new spending programs, except as needed in the energy area, be enacted so that we can regain control of the budget over the long-run and permit a gradual return to reasonable price stability.

PRESIDENTIAL PROPOSALS OF OCTOBER 8, 1974 RESUBMITTED FOR CONGRESSIONAL ACTION

In addition to the comprehensive set of economic and energy policies discussed in the State of the Union Message, the President asked that the new Congress pass quickly certain legislative proposals originally requested in his October 8, 1974, message. Those proposals would:

1. Remove restrictions on the production of rice, peanuts, and extra-long-staple cotton.

2. Amend P.L. 480 to waive certain restrictions on shipments of food under that Act to needy countries for national interest or humanitarian reasons.

3. Amend the Antitrust Civil Process Act to strengthen the investigation powers of the Antitrust Division of the Department of Justice.

4. Eliminate the U.S. Withholding tax on foreign portfolio investments to encourage such investment.

5. Allow dividends paid on qualified preferred stock to be an authorized deduction for determining corporate income taxes to increase incentives for raising needed capital in the form of equity rather than debt.

6. Create a National Commission on Regulatory Reform and take prompt action on other reforms of regulatory and administrative procedures that will be recommended in the future.

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7. Strengthen our financial institutions and provide a new tax incentive for investment in residential mortgages.

8. Permit more competition between different modes of surface transportation (The Surface Transportation Act).

9. Amend the Employment Act of 1946 to make explicit the goal of price stability. (Substitute "to promote maximum employment, maximum production, and stability of the general price level" in place of the present language, "to promote maximum employment, production and purchasing power.")

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The President's Energy Program
(including energy taxes and fees)

The President's State of the Union Address outlined the Nation's energy outlook, set forth national energy policy objectives, and described actions he is taking immediately and indicated proposals he is asking the Congress to pass.

BACKGROUND

Over the past two years, progress has been made in conserving energy, expanding energy R&D and improving Federal government energy organization. Despite such accomplishments, we have not succeeded in solving fundamental problems and our National energy situation is critical. Our reliance on foreign sources of petroleum is contributing to both inflationary and recessionary pressures in the United States. World economic stability is threatened and several industrialized nations dependent upon imported oil are facing severe economic disruption.

With respect to the U.S. energy situation:

-- Petroleum is readily available from foreign sources -- but at arbitrarily high prices, causing massive outflow of dollars, and at the risk of increasing our Nation's vulnerability to severe economic disruption should another embargo be imposed.

  - Petroleum imports remain at high levels even at present high prices.

  - Domestic oil production continues to decline as older fields are depleted and new fields are years from production; 8.8 million barrels per day in 1974 compared to 9.2 million in 1973.

  - Total U.S. petroleum consumption is increasing, although at slower rates due to higher prices.

-- Natural gas shortages are forcing curtailment of supplies to many industrial firms and denial of service to new residential customers. (14% expected this winter versus 7% last year.) This is resulting in unemployment, reductions in the production of fertilizer needed to increase food supplies, and increased demand for alternative fuels -- primarily imported oil.

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-- Coal production is at about the same level as in the 1930's.

-- Nuclear energy accounts for only 1 percent of total energy supply and new plants are being delayed, postponed or cancelled.

-- Overall energy consumption is beginning to increase again.

-- U.S. vulnerability to economic and social impact from an embargo increases with higher imports and will continue to do so until we reverse current trends, ready standby plans, and increase petroleum storage.

Economic impacts of the four-fold increase in OPEC oil prices include:

-- Heavy outflow of U.S. dollars (and, in effect, jobs) to pay for growing oil imports -- about $24 billion in 1974 compared to $2.7 billion in 1970.

-- Tremendous balance of payments deficits and possible economic collapse for those nations of Europe and Asia that must depend upon expensive imported oil as a primary energy source.

-- Accumulation of billions of dollars of surplus revenues in oil exporting nations -- approximately $60 billion in 1974 alone.

U.S. ENERGY OUTLOOK

I. Near-Term (1975-1977): In the next 2-3 years, there are only a few steps that can be taken to increase domestic energy supply particularly due to the long lead time for new production. Oil imports will thus continue to rise unless demand is curbed.

II. Mid-Term (1975-1985): In the next ten years, there is greater flexibility. A number of actions can be taken to increase domestic supply, convert from foreign oil to domestic coal and nuclear energy, and reduce demand -- if the Nation takes tough actions. Vulnerability to an embargo can be eliminated.

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III. Long-Term (Beyond 1985): Emerging energy sources can play a bigger role in supplying U.S. needs -- the results of the Nation's expanded energy research and development program. U.S. independence can be maintained. New technologies are the most significant opportunity for other consuming nations with limited domestic resources.

NATIONAL ENERGY POLICY GOALS AND PRINCIPLES ANNOUNCED BY THE PRESIDENT

I. Near-Term (1975-1977): Reduce oil imports by 1 million barrels per day by the end of 1975 and 2 million barrels by the end of 1977, through immediate actions to reduce energy demand and increase domestic supply.

(A) With no action, imports would be about 8 million barrels per day by the end of 1977, more than 20 percent above the 1973 pre-embargo levels.

(B) Acting to meet the 1977 goal will reduce imports below 1973 levels, assuring reduced vulnerability from an embargo and greater consumer nation cooperation.

(C) More drastic short-term reductions would have unacceptable economic impacts.

II. Mid-Term (1975-1985): Eliminate vulnerability by achieving the capacity for full energy independence by 1985. This means 1985 imports of no more than 3-5 million barrels of oil per day, all of which can be replaced immediately from a strategic storage system and managed with emergency measures.

(A) With no action, oil imports by 1985 could be reduced to zero at prices of $11 per barrel or more -- or they could go substantially higher if world oil prices are reduced (e.g., at $7 per barrel, U.S. consumption could reach 24 million barrels per day with imports of above 12 million, or above 50% of the total.)

(B) The U.S. anticipates a reduction in world oil prices over the next several years. Hence, plans and policies must be established to achieve energy independence even at lower prices -- countering the normal tendency to increase imports as the price declines.

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(C) Actions to meet the 1985 goal will hold imports to no more than 3-5 million barrels per day even at $7 per barrel prices. Protection against an embargo of the remaining imports can then be handled most economically with storage and standby emergency measures.

III. Long-Term (Beyond 1985): Within this century, the U.S. should strive to develop technology and energy resources to enable it to supply a significant share of the Free World's energy needs.

(A) Other consuming nations have insufficient fossil fuel resources to reach domestic energy self-sufficiency.

(B) The U.S. can again become a world energy supplier and foster world energy price stability -- much the same as the nation did prior to the 1960's when it was a major supplier of world oil.

IV. Principles: Actions to achieve the above national energy goals must be based upon the following principles:

-- Provide energy to the American consumer at the lowest possible cost consistent with our need for secure energy supplies.

-- Make energy decisions consistent with our overall economic goals.

-- Balance environmental goals with energy requirements.

-- Rely upon the private sector and market forces as the most efficient means of achieving the Nation's goals, but act through the government where the private sector is unable to achieve our goals.

-- Seek equity among all our citizens in sharing of benefits and costs of our energy program.

-- Coordinate our energy policies with those of other consuming nations to promote interdependence, as well as independence.

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ACTIONS ANNOUNCED TODAY BY THE PRESIDENT

I. ACTIONS ANNOUNCED BY THE PRESIDENT TO MEET NEAR-TERM GOALS (1975-1977)

To meet the national goals, the President outlined a comprehensive program of legislative proposals to the Congress which he requested be enacted within 90 days and administrative actions that he will begin implementing immediately. The legislative package is more effective and equitable than the administrative program, but the President indicated that the seriousness of the situation demanded immediate action. These actions will reduce overall energy demand, increase domestic production, increase conversion to coal, and reduce oil imports. They include:

(A) Administrative Actions

1. Import Fee -- Because of the seriousness of the problem and because time is required for Congressional action on his legislative proposals, the President is acting immediately within existing authorities to increase the import fees on crude oil and petroleum products. These new import fees would be modified upon passage of the President's legislative package.

(a) Import fees on crude oil and petroleum products under the authority of the Trade Expansion Act of 1962, as amended, will be increased by $1 effective February 1, 1975; an additional $1 effective March 1; and another $1 effective April 1, for a total increase of $3.00 per barrel. Currently existing fees will also remain in effect.

(b) FEA's "Old Oil Entitlements" program will be utilized to spread price increases on crude among all refiners and to lessen disproportionate regional effects, particularly in the Northeast.

(c) As of February 1975, product imports will cease to be covered by FEA's "Old Oil Entitlements" program. In order to overcome any severe regional impacts that could be caused by large fees in import dependent areas, imported products will receive a rebate corresponding to the benefit which would have been obtained under that program. The rebate should be approximately $1.00 in February, $1.40 in March, and $1.80 per barrel in April.

(d) This import fee program would reduce imports by about 500,000 barrels per day. In April it would generate about $400 million per month in revenues.

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2. Backup Import Control Program -- The energy conservation measures and tax proposals will be supplemented by the use of Presidential power to limit oil imports as necessary to achieve the near-term goals.

3. Crude Oil Price Decontrol -- To stimulate production and further cut demand, steps will be taken to remove price controls on domestic crude oil by April 1, 1975, subject to congressional disapproval as provided by §4(g) of the Emergency Petroleum Allocation Act of 1973.

4. Increase Public Education on Energy Conservation -- Energy Resources Council will step up its efforts to provide information on energy conservation methods and benefits.

(B) Legislative Proposals

1. Comprehensive Tax and Decontrol Program -- The President asked the Congress to pass within 90 days a comprehensive legislative package which could lead to reduction of oil imports of 900,000 barrels per day by 1975 and 1.6 million barrels by 1977. Average oil prices would rise about $4.00 per barrel of $.10 per gallon. The package which will raise $30 billion in revenues on an annual basis includes:

(a) Windfall Profits Tax -- A tax on all domestic crude oil to capture the windfall profits resulting from price decontrol. The tax would take 88% of the windfall profits on crude oil and would phase out over several years. The tax would be retroactive to January 1, 1975.

(b) Petroleum Excise Tax and Import Fee -- An excise tax on all domestic crude oil of $2 per barrel and a fee on imported crude oil and product imports of $2 per barrel. The new, administratively established import fee of $3 on crude oil would be reduced to $2.00 and $1.20 fee on products would be increased to $2.00 when the tax is enacted. The product import fee would keep the excise tax from encouraging foreign refining and the related loss of jobs to the U.S.

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(c) New Natural Gas Deregulation -- Remove Federal interstate price regulation on new natural gas to increase domestic production and reduce demand for scarce natural gas supplies.

(d) Natural Gas Excise Tax -- An excise tax on natural gas of 37¢ per thousand cubic feet (mcf), which is equivalent on a Btu basis to the $2 per barrel petroleum excise tax and fee. This will discourage attempts to switch to natural gas and acts to reduce natural gas demand curtailments. Since the usual results of gas curtailments is a switch to oil, this will limit the growth of oil imports.

2. Elk Hills Naval Petroleum Reserve. The President is asking the Congress to permit production of the Elk Hills Naval Petroleum Reserve (NPR #1) under Navy control. Production could reach 160,000 barrels per day early in 1975 and 300,000 barrels per day by 1977. The oil produced would be used to top off Defense Department storage tanks, with the remainder sold at auction or exchanged for refined petroleum products used by the Department of Defense. Revenues would be used to finance further exploration, development and production of the Naval petroleum reserves and the strategic petroleum storage.

3. Conversion to the Use of Domestic Coal. The President is asking the Congress to amend the Clean Air Act and the Energy Supply and Environmental Coordination Act of 1974 to permit a vigorous program to make greater use of domestic coal to reduce the need for oil. This program would reduce the need for oil imports by 100,000 barrels per day in 1975 and 300,000 barrels in 1977. These amendments would extend FEA's authority to grant prohibition orders from 1975 to 1977, prohibit powerplants early in the planning process from burning oil and gas, extend FEA enforcement authority from 1978 to 1985, and make clear that coal burning

installations that had originally planned to convert from coal to oil be eligible for compliance date extensions. It would give EPA authority to extend compliance dates and eliminate restrictive regional environmental limitations. A plant could convert as long as its own emissions do not exceed ambient air quality standards.

II. ACTIONS ANNOUNCED BY THE PRESIDENT TO MEET MID-TERM GOALS (1975-1985)

These actions are designed to meet the goal of achieving the capability for energy independence by 1985. The actions include measures to increase domestic energy production (including measures to cope with constraints and strike a balance between environmental and energy objectives), reduce energy demand, and prepare for any future emergency resulting from an embargo.

(A) Supply Actions

1. Naval Petroleum Reserve No. 4 (Legislative proposal) -- The President is asking the Congress to authorize the exploration, development and production of NPR-4 in Alaska to provide petroleum for the domestic economy, with 15-20% earmarked for military needs and strategic storage. The reserves in NPR-4 which are now largely unexplored could provide at least 2 million barrels of oil per day by 1985. Under the legislative proposal:

   (a) The President would be authorized to explore, develop and produce NPR-4.

   (b) The Government's share of production (approximately 15-20%) would be used to help finance the strategic storage system and to help fulfill military petroleum requirements. Any other receipts go to the United States Treasury as miscellaneous receipts.

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2. OCS Leasing (Administrative) -- The President reaffirmed his intention to continue an aggressive Outer Continental Shelf leasing policy, including lease sales in the Atlantic, Pacific, and Gulf of Alaska. Decisions on individual lease sales will await completion of appropriate environmental studies. Increased OCS leasing could add domestic production of 1.5 million barrels of oil and additional supplies of natural gas by 1985. There will be close cooperation with Coastal states in their planning for possible increased local development. Funding for environmental studies and assistance to States for planning has been increased in FY 1975.

3. Reducing Domestic Energy Price Uncertainty (Legislative proposal) -- Legislation will be requested authorizing and requiring the President to use tariffs, import quotas, import price floors, or other measures to achieve domestic energy price levels necessary to reach self-sufficiency goals. This legislation would enable the President to cope with possible large-scale fluctuations in world oil prices.

4. Clean Air Act Amendments (Legislative proposal) -- In addition to the amendments outlined earlier for short-term goals, the President is asking for other Clean Air Act amendments needed for a balance between environmental and energy goals. These include:

   (a) Legislative clarification to resolve problems resulting from court decisions with respect to significant air quality deterioration in areas already meeting health and welfare standards.

   (b) Extension of compliance dates through 1985 to implement a new policy regarding stack gas scrubbers -- to allow use of intermittent control systems in isolated power plants through 1985 and requiring other sources to achieve control as soon as possible.

(c) A pause for 5 years (1977-1981 model years) for nationwide auto emission standards at the current California levels for hydrocarbons (0.9 grams per mile) and carbon monoxide (9 grams per mile), and at 1975 standards (3.1 grams per mile) for oxides of nitrogen (with the exception of California which has adopted the 2.0 standard). These standards for hydrocarbons (HC) and carbon monoxide (CO) are more stringent than now required nationwide for 1976 model year's cars. The change from the levels now required for 1977-1981 model years in the law will have no significant impact on air quality standards, yet they will facilitate attainment of the goal of 40% increase in auto fuel efficiency by the 1980 model year.

(d) EPA will shortly begin comprehensive hearings on emission controls and fuel economy which will provide more detailed data for Congressional consideration.

5. Surface Mining (Legislative proposal) -- The President is asking the Congress to pass a surface mining bill which strikes a balance between our desires for reclamation and environmental protection and our need to increase domestic coal production substantially over the next ten years. The proposed legislation will correct the problems which led to the President's veto of a surface mining bill last year.

6. Coal Leasing (Administrative) -- To assure rapid production from existing leases and to make new, low sulfur coal supplies available, the President directed the Secretary of the Interior to:

(a) Adopt legal diligence requirements to assure timely production from existing leases.

(b) Meet with Western Governors to explore regional questions on economic, environmental and social impacts associated with new Federal coal leases.

(c) Design a program of new coal leasing consistent with timely development and adequate return on public assets, if proper environmental safeguards can be provided.

7. Electric Utilities -- The President is asking the Congress for legislation concerned with utilities. In recent months, 60% of planned nuclear capacity and 30% of non-nuclear capacity additions have been postponed or cancelled by electric utilities. Financing problems are worsening and State utility commission practices have not assured recovery of costs and adequate earnings. The transition from oil and gas-fired plants to coal and nuclear has been slowed greatly -- contributing to pressure for higher oil imports. Actions involve:

(a) Uniform Investment Tax Credit (Legislative) -- an increase in the investment tax credit to eliminate the gap between utilities and other industries -- currently a 4% rate applies to utilities and 7% to others.

(b) Higher Investment Tax Credit (Legislative) -- An increase in investment tax credit for all industry, including utilities, for 1 year -- to 12%. The 12% rate would be retained for two additional years for all power plants except oil and gas-fired facilities.

(c) Preferred Stock Dividend Deductions (Legislative) -- A change in tax laws applicable to all industries, including utilities, which allows deductions of preferred stock dividends for tax purposes to reduce the cost of capital and stimulate equity rather than debt financing.

(d) Mandated Reform of State Utility Commission Processes (Legislative) -- The legislation would selectively reform utility commission practices by: (1) setting a maximum limit of 5 months for rate or service proceedings; (2) requiring fuel adjustment pass-throughs, including taxes; (3) requiring that construction work in progress be included in a utility's rate base; (4) removing any rules prohibiting a utility from charging lower rates for electric power during off-peak hours and (5) allowing the cost of pollution control equipment to be included in the rate base.

(e) Energy Resources Council Study (Administrative) -- Review and report to the President on the entire regulatory process and financial situation relating to electric utilities and determine what further reforms or actions are needed. ERC will consult with State utility commissions, governors, public utilities and consumers.

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8. Nuclear Power -- To accelerate the growth of nuclear power which supplies only one percent of our energy needs, the President is proposing, in addition to actions outlined above:

   (a) Expedited Licensing and Siting (Legislative) -- A Nuclear Facility Licensing Act to assure more rapid siting and licensing of nuclear plants.

   (b) 1976 Budget Increase (Legislative) -- An increase of $41 million in appropriations for nuclear safety, safeguards, and waste management.

9. Energy Facilities Siting (Legislative) -- Legislation would reduce energy facility siting bottlenecks and assure sites for needed facilities with proper land use considerations:

   (a) The legislation would require that states have a comprehensive and coordinated process for expeditious review and approval of energy facility applications; and state authorities which ensure that final State energy facility decisions cannot be nullified by actions of of local governments.

   (b) Provision for owners of eligible facilities or citizens to sue States for inaction.

   (c) Provide no Federal role in making case by case siting decisions for the States.

(B) Energy Conservation Actions

The President announced a number of energy conservation measures to reduce demand, including:

1. Auto Gasoline Mileage Increases (Administrative) -- The Secretary of Transportation has obtained written agreements with each of the major domestic automobile manufacturers which will yield a 40 percent improvement in fuel efficiency on a weighted

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average for all new autos by 1980 model year. These agreements are contingent upon relaxation of Clean Air Act auto emission standards. The agreement provides for interim goals, Federal monitoring and public reporting of progress.

2. Building Thermal Standards (Legislative) -- The President is asking Congress for legislation to establish national mandatory thermal (heating and cooling) efficiency standards for new homes and commercial buildings which would save the equivalent of over one-half million barrels of oil per day by 1985. Under this legislation:

(a) The Secretary of Housing and Urban Development shall consult with engineering, architectural, consumer, labor, industry, and government representatives to advise on development of efficiency standards.

(b) Thermal standards for one and two-family dwellings will be developed and implementation would begin within one year. New minimum performance standards for energy in commercial and residential buildings would be developed and implemented as soon thereafter as practicable.

(c) Standards would be implemented by State and local governments through local building codes.

(d) The President also directed the Secretary of Housing and Urban Development to include energy conservation standards in new mobile home construction and safety standards.

3. Residential Conservation Tax Credit -- The President is asking Congress for legislation to provide incentives to homeowners for making thermal efficiency improvements in existing homes. This measure, along with a stepped-up public information program, could save the equivalent of over 500,000 barrels per day by 1985. Under this legislation:

(a) A 15 percent tax credit retroactive to January 1, 1975 for the cost of certain improvements in thermal efficiency in residences would be provided. Tax credits would apply to the first $1,000 of expenditures and can be claimed during the next three years.

(b) Improvements such as storm windows, and insulation, would qualify for the tax credit.

4. Low-Income Energy Conservation Program (Legislative) -- The President is proposing legislation to establish a Low-Income Energy Conservation Program to offer direct subsidies to low-income and elderly homeowners for certain energy conservation improvements such as insulation. The program is modeled upon a successful pilot program in Maine.

   (a) The program would be administered by FEA, under new legislation, and the President is requesting supplemental appropriations in 1975 and $55 million in fiscal year 1976.

   (b) Acting through the States, Federal funds would be provided to purchase materials. Volunteers or community groups could install the materials.

5. Appliance Efficiency Standards (Administrative) -- The President directed the Energy Resources Council to develop energy efficiency goals for major appliances and to obtain agreements within six months from the major manufacturers of these appliances to comply with the goals. The goal is a 20% average improvement by 1980 for all major appliances, including air conditioners, refrigerators and other home appliances. Achievement of these goals would save the equivalent of over one-half million barrels of oil per day by 1985. If agreement cannot be reached, the President will submit legislation to establish mandatory appliance efficiency standards.

6. Appliance and Auto Efficiency Labelling Act (Legislative) -- The President will ask the Congress to enact a mandatory labelling bill to require that energy efficiency labels be placed on new appliances and autos.

(C) Emergency Preparedness

The President announced that comprehensive energy emergency legislation will be proposed, encompassing two major components.

1. Strategic Petroleum Storage (Legislative) -- Development of an energy storage system of one billion barrels for domestic use and 300 million barrels for military use. The legislation will

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authorize the government to purchase and prepare the storage facilities (salt domes or steel tanks), while complex institutional questions are resolved and before oil for storage is actually purchased. FEA will develop the overall program in cooperation with the Department of the Interior and the Department of Defense. All engineering, planning, and environmental studies would be completed within one year. The 1.3 billion barrels will not be complete for some years, since time is required to purchase, prepare, and fill the facilities.

2. <u>Standby and Planning Authorities</u> (<u>Legislative</u>) -- The President is requesting a set of emergency standby authorities to be used to deal with any significant future energy shortages. These authorities would also enable the United States to fully implement the agreement on an International Energy Program between the United States and other nations signed on November 18, 1974. This legislation would include the authority to:

   (a) Implement energy conservation plans to reduce demand for energy;

   (b) allocate petroleum products and establish price controls for allocated products;

   (c) ration fuels among end users;

   (d) allocate materials needed for energy production where such materials may be in short supply;

   (e) increase production of domestic oil; and

   (f) regulate petroleum inventories.

III. ACTIONS ANNOUNCED BY THE PRESIDENT TO MEET LONG-TERM GOALS (BEYOND 1985)

The expanded research and development program on which the nation is embarked will provide the basis for increasing domestic energy supplies and maintaining energy independence. It will also make it possible in the long run for the U.S. to export energy supplies and technology to others in the free world. Important elements are:

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(A) Synthetic Fuels Program (Administrative) -- The President announced a National Synthetic Fuels Commercialization Program to ensure at least one million barrels per day equivalent of synthetic fuels capacity by 1985, using technologies now nearing commercial application.

1. Synthetic fuel types to be considered will include synthetic crude from oil shale and a wide range of clean solid, liquid, and gaseous fuels derived from coal.

2. The Program would entail Federal incentives (possibly including price guarantees, purchase agreements, capital subsidies, leasing programs, etc.), granted competitively, and would be aimed at the production of selected types of gaseous and liquid fuels from both coal and oil shale.

3. The program will rely on existing legislative authorities, including those contained in the Federal Non-Nuclear Energy Research and Development Act of 1974, but new legislative authorities will be requested if necessary.

(B) Energy Research and Development Program -- In the current fiscal year, the Federal Government has greatly increased its funding for energy research and development programs. These Federal programs are a part of a much larger national energy R & D effort and are carried out in cooperation with industry, colleges and universities and others. The President stated that his 1976 Budget will continue to emphasize these accelerated programs which include research and the development of technology for energy conservation and on all forms of energy including fossil fuels, nuclear fission and fusion, solar and geothermal.

(C) Energy Research and Development Administration -- (ERDA) The President has signed an Executive Order which activates, effective January 19, 1975, the Energy Research and Development Administration. ERDA will bring together in a single agency the major Federal energy R & D programs which will have the responsibility for leading the national effort to develop technology to assure that the U.S. will have an ample and secure supply of energy at reasonable prices. ERDA consolidates major R & D functions previously handled by the AEC, Department of the Interior, National Science Foundation and Environmental Protection Agency. ERDA will also continue the basic research, nuclear materials production and weapons programs of the AEC.

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IMPACTS OF NEAR AND MID-TERM ACTIONS ON PETROLEUM CONSUMPTION AND IMPORTS

NEAR TERM PROGRAM (MMB/D)

	1975	1977
CONSUMPTION IF NO NEW ACTIONS	18.0	18.3
IMPORTS IF NO NEW ACTIONS	6.5	8.0

	IMPORT SAVINGS 1975	IMPORT SAVINGS 1977
Less Service Savings by Short-term Actions:		
Production from Elk Hills	0.2	0.3
Coal Conversion	0.1	0.3
Tax Package	0.9	1.6
TOTAL IMPORT SAVINGS	1.2	2.2
REMAINING IMPORTS	5.3	5.8

MID-TERM PROGRAM

CONSUMPTION IF NO NEW ACTIONS	23.9 MMB/D	
IMPORTS IF NO NEW ACTIONS	12.7 MMB/D	
Less Savings Achieved by Following Actions:	1985 IMPACT ON IMPORTS	
OCS Leasing	1.5	
NPR-4 Development	2.0	
Coal Conversion	0.4	
Synthetic Fuel Commercialization	0.3	
Auto Efficiency Standards	1.0	
Continuation of Taxes	2.1	
Appliance Efficiency Goals	0.1	
Insulation Tax Credit	0.3	
Thermal Standards	0.3	
Total Import Savings by Actions		8.0
Remaining Imports		4.7
Less:		
Emergency Storage	3.0	
Standby Authorities	1.7	
NET IMPORT VULNERABILITY		0

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INTERNATIONAL ENERGY POLICY AND FINANCING ARRANGEMENTS

BACKGROUND

The cartel created by the Organization of Petroleum Exporting Countries (OPEC) has successfully increased their governments' price for exports of oil from approximately $2 per barrel in mid 1973 to $10 per barrel today. Even after paying for their own increased imports, OPEC nations will report a surplus of over $60 billion in 1974, which must be invested. Oil price increases have created serious problems for the world economy. Inflation pressures have been intensified. Domestic economies have been disrupted. Consuming nations have been reluctant to borrow to finance their oil purchases because of current balance of payments risks and the burden of future interest costs and the repayment of massive debts. International economic relations have been distorted by the large flows of capital and uncertainties about the future.

U.S. POSITION

The United States believes that the increased price of oil is the major international economic problem and has proposed a comprehensive program for reducing the current exorbitant price. Oil importing nations must cooperate to reduce consumption and accelerate the development of new sources of energy in order to create the economic conditions for a lower oil price. However, until the price of oil does decline, international stability must be protected by financing facilities to assure oil importing nations that financing will be available on reasonable terms to pay for their oil imports. The United States is active in developing these financing programs. Once a cooperative program for energy conservation and resource development and the interim financing arrangements are agreed upon, it will be possible to have constructive meetings with the oil producers.

ACTIONS TAKEN BY OIL CONSUMING NATIONS

The oil consuming nations have already created the International Energy Agency to coordinate conservation and resource development programs and policies for reacting to any future interruption of oil exports by producing nations. The four major elements of this cooperative program are:

An emergency sharing arrangement to immediately reduce member vulnerability to actual or threatened embargoes by producers,

A long-term cooperative program to reduce member nation dependence on imported oil,

A comprehensive information system designed to improve our knowledge about the world oil market and to provide a basis for consultations among members and individual companies; and

A framework for coordinating relations with producing nations and other less developed consuming countries.

The International Energy Agency has been established as an autonomous organization under the OECD. It is open to all OECD nations willing and able to meet the obligations created by the program. This international agreement establishes a number of conservation and energy resources development goals but each member is left free to determine what domestic measures to use in achieving the targets. This flexibility enables the United States to coordinate our national and international energy goals.

OTHER U.S. ACTIONS AND PROPOSALS

The United States has also supported programs for protecting international stability against distorting financial flows created by the sudden increase of oil prices. Although the massive surplus of export earnings accumulated by the producing nations will have to be invested in the oil consuming nations, it is unlikely that these investments will be distributed so as to match exactly the financing needs of individual importing nations. Fortunately the existing complex of private and official financial institutions has, in the case of the industrialized countries, been effective in redistributing the massive oil export earnings to date. However, there is concern that some individual industrialized nations may not be able to continue to obtain needed funds at reasonable interest rates and terms during the transition period until supplies are increased, conservation efforts reduce oil imports and the price of oil declines. Therefore, the United States has supported various proposals for "reshuffling" the recycled funds among oil consuming nations, including:

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Modification of International Monetary Fund (IMF) rules to permit more extensive use of existing IMF resources without further delay;

Creation of a financial solidarity facility as a "safety net" for participating OECD countries that are prepared to cooperate in an effort to increase conservation and energy resource development actions to create pressure to reduce the present price of oil;

Establishment of a special trust fund managed by the IMF which would extend balance of payments assistance to the most seriously affected developing nations on a concessional basis not now possible under IMF rules. The United States hopes that oil exporting nations might contribute a major share of the trust fund and that additional resources might be provided through the sale of a small portion of the IMF's gold holdings in which the differential between the original cost of the gold and the current market price would be added to the trust fund; and

An increase in IMF quotas which would make more resources available in 1976.

These proposals will be discussed at ministerial level meetings of the Group of Ten, the IMF Interim Committee and the International Monetary Fund/International Bank for Reconstruction and Development Committee in Washington, D.C. January 14 to 17.

In these meetings, the United States will continue to press its views concerning the fundamental importance of international cooperation to achieve necessary conservation and energy resources development goals as a basis for protecting our national security and underlying economic strength.

# # #

GPO 882-978

PROGRAM COSTS AND
INCOME EFFECTS

THE IMPACT OF THE PRESIDENT'S PROPOSED ENERGY AND ECONOMICS PROGRAM ON NET ENERGY COSTS TO CONSUMERS

I. INTRODUCTION

This paper summarizes the major effects of the President's energy program upon consumer costs. The major elements of the program are:

- A $2 per barrel import fee on petroleum.

- A $2 per barrel excise tax on domestic petroleum production and a 37¢ per thousand cubic feet (Mcf) excise tax on domestic natural gas.

- Decontrol of domestic petroleum prices and the deregulation of new natural gas prices.

- A windfall profits tax on all domestic petroleum production that is designed to absorb all the profits that would otherwise flow from decontrolling oil prices, plus an additional $3 billion. This tax does not itself cause price increases but it recaptures the profits from price increases otherwise induced.

- A rebate to consumers of the energy fees and taxes that are collected.

The effect of these actions, with the exception of the excess profits tax, is (1) to increase the prices of petroleum products by about $4 per barrel (about 10¢ per gallon) if all increased costs are passed through to the consumer and (2) to at least partially offset these price increases with the tax rebates.

This paper presents the impacts of the President's proposed program on consumer energy bills by region, type of energy product, and income class. The effect of the program on the Consumer Price Index (CPI) is estimated as an indication of the total increase in consumer costs. The estimated effect on the CPI is important because it includes higher consumer costs associated with both direct consumer purchases of energy and indirect purchases of energy.

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II. DIRECT ENERGY COSTS

The impact of the President's program on the cost of direct energy purchases by households has been estimated for each type of fuel used. Table 1 presents expenditures by fuel type without the program and the estimated impact of the energy program on these expenditures.

Table 1

Impact of the President's Energy Program on Direct Energy Expenditures for 1975 ($ per year per household)

	Energy Costs Without the Program	Energy Costs With the Program	Increases Due to Program	
Gasoline & Motor Oil	$572	$ 681	$109	19%
Heating Oil	69	88	19	27
Natural Gas	100	130	30	32
Electricity	228	241	13	6
Total	$969	$1140	$171	18%

The estimates in Table 1 were derived as follows:

<u>Gasoline</u>. Consumption estimates without the program have been derived from a Bureau of Labor Statistics (BLS) survey of gasoline use by region. These were aggregated and divided by the total number of households (70 million) to give consumption per household The current average price of gasoline is approximately 52¢ per gallon. An increase of 10¢ per gallon to 62¢ per gallon represents a 19 percent increase in the price of gasoline. Hence a 19 percent increase in gasoline and motor oil to $681 per household per year. Moreover, this increase in costs due to the program is an overstatement in that it is assumed that there is no short run response to the increased prices and hence that there is no reduction in consumption.

Heating Oil. Consumption [illegible] from a BLS survey in the same manner as for gasoline. The current average price of heating oil is approximately 37¢ per gallon. An increase of 10¢ per gallon to 47¢ per gallon represents a 27 percent increase in the price of heating oil. This 27 percent increase in heating oil prices increases energy costs for heating oil to $88 per household per year. A small amount of residual fuel oil is also used by households. This quantity (about $6 per year per household) was obtained from the BLS survey and included in the heating oil estimates.

Natural Gas. The quantities and prices for natural gas were obtained from analyses that are being performed by the Office of Economic Impact, the Federal Energy Administration. The increase in the average price of natural gas is estimated to be 37¢ per Mcf for intrastate gas and 43¢ per Mcf for interstate gas. Interstate sales of natural gas are currently regulated (by the Federal Power Commission) whereas intrastate sales are not. The excise tax of 37¢ Mcf is levied on all gas. The average price of interstate gas should increase 6¢ per Mcf because of the deregulation of new gas.

Electricity. Electricity cost increases were estimated by the Office of Data, the Federal Energy Administration. These estimates account for the effects of increased fuel costs and do not consider the effects of higher rates of return or accounting practices that would effectively raise utility costs.

Regional Impacts

The regional impacts of the President's program upon household energy costs are shown in Table 2. These data were all derived from the same sources as the data in Table 1 and were calculated by dividing the total regional energy cost increase by the number of households in each region.

Table 2 illustrates that the New England, West North Central, West South Central, and Mountain areas have the greatest relative impact. In all of these areas, except New England, the primary cause of the large increase is gasoline prices. In New England the major factor is heating oil.

Table 2

Regional Distribution of the Increased Direct Energy Expenditures Per Household

	Gasoline & Motor Oil	Heating Oil	Natural Gas	Electricity	Total
New England	$ 95	$56	$14	$15	$180
Middle Atlantic	83	54	24	9	170
East North Central	107	19	44	4	174
West North Central	126	13	36	12	187
South Atlantic	118	10	14	12	154
East South Central	116	2	19	5	142
West South Central	116	0	27	42	185
Mountain	141	3	37	10	191
Pacific	102	3	30	16	151
Total U.S.	$109	$ 19	$30	$13	$171

Income Distribution Effects

Tables 3, 4, and 5 give estimates of the effect of the energy program on different income classes. With the exception of the tax rebate data these statistics were obtained from analyses done by the Washington Center for Metropolitan Studies and are totally independent of the estimates made for the aggregate and regional impacts in Tables 1 and 2. However, close examination and comparison of Table 1 with Table 3 shows that the data are consistent. Specifically, the median income of families in 1972 was about $11,000. Assuming that inflation has raised this to $13,000 the $969 total energy bill given in Table 1 is bracketed by the $742 and $1035 bills given in Table 3 for the energy costs of the lower middle and upper middle income classes. The other numbers in Table 3 are roughly consistent with Table 1.

Tables 3 and 4 illustrate that low income groups spend a larger proportion of their income on direct energy purchases than higher income groups. These tables also show that the tax rebate slightly offsets the average increase in energy costs of the poor and the upper middle income class,

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PROJECT INDEPENDENCE EVALUATION REGIONS

CENSUS REGIONS

1. NORTHEAST
2. MID-ATLANTIC
3. SOUTH ATLANTIC
4. EAST NORTH CENTRAL
5. EAST SOUTH CENTRAL
6. WEST NORTH CENTRAL
7. WEST SOUTH CENTRAL
8. MOUNTAIN
9. PACIFIC

significantly offsets the average cost of the lower middle income group and falls short of meeting the higher costs of the well-off group by $50.

Table 3

Current Energy Costs Without the President's Program a/

	Poor Average $2,500	Lower Middle Average $8,000	Upper Middle Average $14,000	Well-Off Average $24,500
Gasoline	$140	$349	$ 627	$ 736
Heating Oil	66	66	66	83
Natural Gas	91	108	117	140
Electricity	160	203	259	319
Coal	16	16	16	16
Total	$473	$742	$1085	$1294
% of Average Income	18.9%	9.3%	7.8%	5.3%

a/ Source: WCMS Survey for 1972-1973, adjusted for price increases to September 1974.

Table 4

Energy Costs with President's Program a/

	Poor	Lower Middle	Upper Middle	Well-Off
Gasoline	$166	$415	$ 746	$ 876
Heating Oil	83	83	83	105
Natural Gas	120	142	154	184
Electricity	170	215	275	338
Coal	16	16	16	16
Total	$555	$871	$1274	$1519
% of Average Income	22.2%	10.9%	9.1%	6.2%

a/ Estimated by applying percent price increases for each type of energy from Table 1 to the energy costs in Table 3.

Table 5

Net Energy Costs of President's Program

	Poor	Lower Middle	Upper Middle	Well-Off
Average Increase in Energy Costs	$ 82	$129	$ 189	$ 225
Average Rebate	97	311	253	183
Net Energy Costs	458	560	1021	1336
% of Average Income	18.3%	7.0%	7.3%	5.5%

III. TOTAL ENERGY COSTS

The total price impact of the President's energy program will extend beyond the direct energy purchases to any non-energy products or services that require significant amounts of energy in their production. Chemicals, metal and food products are examples of areas in which the indirect or ripple energy price effects will occur in varying degrees.

The indirect price effects are uncertain and are difficult to forecast. Most price models that measure and forecast these effects depend on historical experience to estimate the responses of various markets to changes in the costs of inputs. The models attempt to capture the extent that costs are passed on to purchasers and the extent that profit margins are adjusted up or down.

The approach used by the Federal Energy Administration to forecast the indirect price effects of the President's program was to use a stage-of-processing model developed by Data Resource Incorporated (DRI) to forecast the overall rise in the Consumer Price Index (CPI) and to use this estimate to derive total increased consumer costs. The indirect costs are then calculated as the difference between the direct and total cost estimates.

A modified version of the DRI stage-of-processing model was used to forecast the effect that energy price changes have upon the CPI and components of the CPI. The model requires two inputs: (1) forecasts of wholesale energy prices and (2) forecasts of the general wholesale and retail price indices prior to energy price changes. Price information is combined with historical information on the relationship between the stages-of-processing to forecast the effects that energy price changes will have on the prices of crude wholesale goods, intermediate wholesale goods, finished wholesale products, and finally retail consumer goods and services.

Using the methodology described above it is estimated that the CPI will increase 2.0% during the first full year of the program. Given a normal unencumbered economy the CPI would rise an estimated 2.5 percentage points during the first full year of the program in addition to the normally expected rise; and there will be small increases of 0.3 and 0.2 percentage points in the second and third years. These estimated increases tend to overestimate the effect of the program for two reasons: First the energy price increases that were used as inputs to the model assume a full pass-through of the taxes and import fees. It is unlikely that this

will occur because of the tax [illegible] to industry and because the economy is generally weak. This excess supply would result if industry attempts to pass through all of the costs. (Only if demand is totally nonresponsive to price changes would firms and businesses be able to pass all of the increases to consumers.) Secondly, the stage-of-processing model is based upon historical mark-up relationships and these may not hold because of the currently poor market demand conditions. That is, demand is currently at such a low level that companies may not be willing to pass on increased costs for fear of further reducing their markets.

For a 2.0% CPI increase the total and indirect costs per household would be $275 and $104 respectively. Table 6 summarizes the steps taken to make these estimates.

Table 6

Estimated Total and Indirect Consumer Costs

1. Estimated Personal Consumption Per Household

a.	Estimated 1975 Personal Consumption	= $966.8 Billion a/
b.	Estimated Number of Households	= 70 million
c.	Consumption per Household	= $13,810

2. Estimated Costs (per household per year)

	Total b/	Indirect c/
High Estimate	$345	$174
Best Estimate	275	104

a/ From DRI Long-Term Forecast.
b/ Estimated as 2.5 percent times $13,310 for high estimate and 2.0 percent times $13,810 for best estimate.
c/ Calculated as total less direct ($171).

This table shows that the total costs are likely to be $275 per household with direct cost being about $171 on average and indirect costs being about $10[illegible].