

The original documents are located in Box C11, folder “Presidential Handwriting, 1/29/75” of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

Copyright Notice

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Gerald Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

1-29-75

THE WHITE HOUSE
WASHINGTON

Don R. / Dick Cheney

OK
J.R.

ECONOMIC REPORT OF THE PRESIDENT

To the Congress of the United States:

The economy is in a severe recession. Unemployment is too high and will rise higher. The rate of inflation is also too high although some progress has been made in lowering it. Interest rates have fallen from the exceptional peaks reached in the summer of 1974, but they reflect the rate of inflation and remain much too high.

Moreover, even as we seek solutions to these problems, we must also seek solutions to our energy problem. We must embark upon effective programs to conserve energy and develop new sources if we are to reduce the proportion of our oil imported from unreliable sources. Failure or delay in this endeavor will mean a continued increase in this Nation's dependence on foreign sources of oil.

We therefore confront three problems: the immediate problem of recession and unemployment, the continuing problem of inflation and the newer problem of reducing America's vulnerability to oil embargoes.

These problems are as urgent as they are important. The solutions we have proposed are the result of careful

study, but they will not produce swift and immediate results. I believe that these programs and proposals will be effective. I urge the Congress to adopt them and to help me follow through with further measures that changing circumstances may make desirable. In our efforts, we must recognize that the remedies we devise must be both effective and consistent with the long-term objectives that are important for the future well-being of our economy. For the sake of taking one step forward we must not adopt policies which will eventually carry us two steps backward.

As I proposed to you in my State of the Union message, the economy needs an immediate one year tax cut of \$16 billion. This is an essential first move in any program to restore purchasing power, rebuild the confidence of consumers, and increase investment incentives for business.

Several different proposals to reduce individual taxes were considered carefully in our search for the best way to help the economy. We chose the method that would best provide immediate stimulus to the economy without permanently exacerbating our budget problem. Accordingly, I recommended a 12-percent rebate of 1974

taxes, up to a maximum of \$1,000, which will be paid in two large lump-sum payments, the first beginning in May and the second by September.

I have also proposed a \$4 billion investment tax credit which would encourage businessmen to make new commitments and expenditures now on projects that can be put in place this year or by the end of next year.

The prompt enactment of the \$16 billion tax reduction is a matter of utmost urgency if we are to bolster the natural forces of economic recovery. But in recognizing the need for a temporary tax cut, I am not unmindful of the fact that it will increase the size of the budget deficit. This is all the more reason to intensify our efforts to restrain the growth in Federal spending. I have asked Congress to institute actions which will pare \$17 billion from the fiscal 1976 budget. Even so, we foresee a deficit of more than \$50 billion for the fiscal year beginning next July 1. Moreover, even without new expenditure initiatives, the budget deficit is likely to remain excessively large in fiscal year 1977. As a consequence, I will propose no new expenditure programs except those required by the energy program.

I am also asking the Congress to join me in finding

additional ways to slow the rate of increase in Federal spending. Budget outlays for new programs or for expansion of existing ones would have their economic effect long after the economic recovery gets underway. It is essential that the deficit be reduced markedly as the economy begins to return toward full employment. Control of expenditures is the only way we can halt an extraordinary increase in the portion of our incomes which Government will take in the future.

A simple calculation shows the size of the problem which we face. Transfer payments to individuals by the Federal Government have increased, after adjustment for inflation, by almost 9 percent annually during the past two decades. A continuation of this trend for the next two decades, along with only modest increases in other Federal expenditures and in those of State and local governments, would lift the expenditures by government at all levels from about one-third of the gross national product to more than one-half in 20 years. Spending on this scale would require a substantial increase in the tax burden on the average American family. This could easily stifle the incentive and enterprise which is essential to continued improvements in productivity and in our standard of living.

The achievement of our independence in energy will be neither quick nor easy. No matter what programs are adopted it will require perseverance by the American people and a willingness to accept inconvenience in order to reach this important goal. The American economy was built on the basis of low-cost energy. The design of our industrial plants and production processes reflects this central element in the American experience. Cheap energy freed the architects of our office buildings from the need to plan for energy efficiency. It made private homes cheaper because expensive insulation was not required when energy was more abundant. Cheap energy also made suburban life accessible to more citizens, and it has given the mobility of the automobile to rural and city dwellers alike.

Our low cost of energy during most of the 20th century was made possible by abundant resources of domestic oil, natural gas and coal. This era has now come to an end. We have held the price of natural gas below the levels required to encourage investment in exploration and development of new supplies, and below the price which would have encouraged more careful use. By taking advantage of relatively inexpensive foreign supplies of oil,

we improved the quality of life for Americans and saved our own oil for future use. By neglecting to prepare for the possibility of disrupted supplies, however, we left ourselves overly dependent upon unreliable foreign supplies.

Present circumstances and the future security of the American economy leave no choice but to adjust to a higher relative price of energy products. We have, in fact, already begun to do so although I emphasize that there is a long way to go. Consumers have already become more conscious of energy efficiency in their purchases. The higher cost of energy has already induced industry to save energy by introducing new production techniques and by investing in energy-conserving capital equipment. These efforts must be stimulated and maintained until our consumption patterns and our industrial structure adjust to the new relationship between the costs of energy, labor, and capital.

This process of adjustment has been slowed because U.S. energy costs have not been allowed to increase at an appropriate rate. Prices of almost 70 percent of our domestic crude oil are still being held at less than half the cost of imported oil, and natural gas prices are

being held at even lower levels. Such artificially low prices encourage the wasteful use of energy and inhibit future production. If there is no change in our pricing policy for domestic energy and in our consumption habits, by 1985 one-half of our oil will have to be imported, much of it from unreliable sources. Since our economy depends so heavily on energy it is imperative that we make ourselves less vulnerable to supply cutoffs and the monopolistic pricing of some foreign oil producers.

The need for reliable energy supplies for our economy is the foundation of my proposed energy program. The principal purpose is to permit and encourage our economy to adjust its consumption of energy to the new realities of the marketplace during the last part of the twentieth century. The reduction in our dependence on unreliable sources of oil will require Government action, but even in this vital area the role of Government in economic life should be limited to those functions that it can perform better than the private sector.

There are two courses open to us in resolving our energy problem: The first is administered rationing and allocation; the second is through the price mechanism. An energy rationing program might be acceptable for

a brief period, but an effective program will require us to hold down consumption for an extended period. A rationing program for a period of 5 years or more would be both intolerable and ineffective. The costs in slower decision making alone would be enormous. Rationing would mean that every new company would have to petition the Government for a license to purchase or sell fuel. It would mean that any new plant expansion or any new industrial process would require approval. It would mean similar restrictions on homebuilders, who already find it impossible in much of the Nation to obtain natural gas hookups. After 5 or 10 years such a rigid program would surely sap the vitality of the American economy by substituting bureaucratic decisions for those of the market place. It would be impossible to devise a fair long-term rationing system. The only practical and effective way to achieve energy independence, therefore, is through allowing prices of oil and gas to move higher -- high enough to discourage consumption and encourage the exploration and development of new energy sources.

I have, therefore, recommended an excise tax on domestic crude oil and natural gas and an import fee on imported oil, and decontrol of the price of the 70 percent

of our domestic oil production whose price is still being held at less than half the world market level. These actions will raise the price of all energy-consuming products and reduce oil consumption and imports. An additional tax should be imposed on domestic crude oil by the Congress to prevent windfall profits as a result of these measures.

Other aspects of my program will provide assurances that imports will not be allowed to disrupt the domestic energy market. Amendments to the Clean Air Act to allow more use of coal without major environmental damage, and incentives to speed the development of nuclear energy and synthetic fuels, will simultaneously increase domestic energy production.

Taken as a whole, the energy package will reduce the damage from any future import disruption to manageable proportions. The energy program however will entail costs. The import fee and tax combination will add an estimated \$30 billion to the Nation's oil and gas bill. However, I have also proposed a fair and equitable program of permanent tax reductions to compensate consumers for these higher costs. These will include income tax reductions of \$16-1/2 billion for individuals, along with direct rebates of \$2 billion to people who pay no taxes, corporate

tax reductions of \$6 billion and a \$2 billion increase in revenue sharing payments to state and local governments and a \$3 billion increase in Federal expenditures.

Although appropriate fiscal and energy policy are central to restoring the balance of our economy, they will be supplemented by initiatives in a number of other areas. I was pleased to sign into law in December unemployment compensation legislation which provides extended benefits and expanded coverage for the unemployed. The budget also provides for a significant expansion in public service employment. I also urge the Congress to remove the remaining restrictions on agricultural production, enact legislation to strengthen financial institutions and assist the financial position of corporations. I have also asked for actions to strengthen the Administration's anti-trust investigative power and to permit more competition in the transportation industry.

We sometimes discover when we seek to accomplish several objectives simultaneously that the goals are not always completely compatible. Action to achieve one goal sometimes works to the detriment of another. I recognize that the \$16 billion antirecession tax cut, which adds to an already large Federal deficit, might delay achieving price stability. But a prompt tax cut is essential. My

program will raise the price of energy to consumers, but when completed, this necessary adjustment should not hamper our progress toward the goal of a much slower rate of increase in the general price level in the years ahead.

As we face our short-term problems we cannot afford to ignore the future implications of our policy initiatives. Fiscal and monetary policies must support the economy during 1975. In supporting the economy, however, we must not allow victory in the battle against inflation to slip beyond our grasp. It is vital that we look beyond the unemployment problem to the need to achieve a reduction in inflation not only in 1975 but also in 1976 and beyond.

The future economic well-being of our Nation requires restoring a greater measure of price stability. This will call for more responsible policies by your Government. The stakes are high. Inflation reduces the purchasing power of our incomes, squeezes profits, and distorts our capital markets. The ability of our free economy to provide an ever higher standard of living would be weakened. We must not be lulled into a belief that inflation need no longer be a major concern of economic policy now that the rate at which prices are increasing appears to have temporarily slowed.

The proposals I have made to deal with the problems of recession, inflation, and energy recognize that the American economy is more and more a part of the world economy. What we do affects the economies of other nations, and what happens abroad affects our economy. Close communication, coordination of policies, and consultations with the leaders of other nations will be essential as we deal with our economic and financial difficulties many of which are common to all the industrial countries of the western world.

We are already cooperating to ensure that the international monetary system withstands the pressures placed on it by higher oil prices. The passage of the Trade Reform Act of 1974 will make it possible to begin critical negotiations this year on further liberalizing the international trading system, and we will continue to work with other countries toward solutions to the special problems of food and energy.

The economic problems that have emerged during the 1970's are difficult. Some of them reflect years of misdirection. Our efforts to solve the Nation's economic difficulties must be directed toward solutions that will not give rise to even bigger problems later. The year 1975 must be the one in which we face our economic problems and start the course toward real solutions.

THE WHITE HOUSE
WASHINGTON

January 29, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: ALAN GREENSPAN

FROM: JERRY H. JONES 

The copy of the Economic Report sent to the President has been returned with the following notation:

-- Ok.

cc: Don Rumsfeld