**The original documents are located in Box 14, folder "Energy - General (2)" of the John Marsh Files at the Gerald R. Ford Presidential Library.**

[Jan. 1975?]

[redacted]ITE HOUSE
INGTON

Attached is Sen. Hollings' proposal as presented to the Senate Democratic Caucus. It has not yet been acted on by the Caucus but is under study.

"Senate source" advises that Hollings' proposals "would have the support of the majority of Democrats in the Senate".

# A TOTAL PLAN -- A COMPREHENSI

## I. Anti-Recession Action

A. Approve $16 billion 1974 tax rebate: either President's or House's version or combination thereof.

B. Pay for $16 billion rebate plus cost of gas rationing program by tax reform and government spending changes as follows:

| REVENUES | 1975-76 | 1976-77 |
|---|---|---|
| Elimination of Oil Depletion Allowance | $ 2.8 billion | 3.2 billion |
| Change Oil Royalty Tax Credit to Deduction | 2.0 billion | 2.0 billion |
| Repeal of Intangible Drilling Costs | 1.0 billion | 1.0 billion |
| Repeal of Export Subsidies (DISC) | 1.0 billion | 1.0 billion |
| 4¢ Increase in Gas Tax | 4.0 billion | 4.0 billion |
| Increase Minimum Income Tax | 1.0 billion | 1.0 billion |
| | | $12.2 billion |
| CUTS IN SPENDING | | |
| Cut of 100,000 Troops in Europe | 2.0 billion | 2.0 billion |
| 2% Cut in Federal Pay Costs | .5 billion | |
| 10% Cut of Federal Fixed Costs | 3.0 billion | |
| | $17.3 billion | $14.2 billion |

## II. Budget Action

A. Disapprove President's 1975 Tax Cut

B. Get America Moving in housing, mass transit, and increased energy supplies, all paid for by 1976 revenues of $14.2 billion from tax reform proposals outlined in I B, as follows:

| | |
|---|---|
| 1. Housing Program to get construction industry moving, including: Federal payment of differential on 7% interest loans for low and moderate housing and government as lender of last resort to prevent foreclosures on unemployed homeowners | $ 7.0 billion |
| 2. Mass Transit -- double present effort | 2.0 billion |
| 3. Energy - Exploratory drilling, investment tax credit, etc. | .5 billion |
| | $ 9.5 billion |

C. Other Budget Actions

1. Approve freeze on new programs except housing, energy, transit.

2. Approve entire Social Security increase based on CPI and reject Food Stamp cost increases.

3. Hold the line on Federal salaries by disapproving CPI increase and approve 5% limit on other CPI benefit increases.

4. Act on recision and deferral proposals as follows:
   - a. Disapprove food stamp cost increase and education program reductions - $ .7 billion
   - b. Retain $2 billion in water and sewer construction funds to aid impact of new housing starts
   - c. Approve remainder of recision and deferral proposals

5. Hold the line on deficit Federal spending to get [illegible] vernment [illegible]

on the economy as a whole, while the oil companies will be further enriched to the tune of many billions of dollars.

8. The $16 billion rebate to American families to stop recession averages $250 per family. The family share of the added fuel bill of $54 billion averages $1000 cost per family, leaving the American family in a worsened position by $750. It is like a contest that was held once for a slogan for a new insurance company. The winning slogan, "The Estate Life will surely pay if the small print on the back don't take it away."

C. Impose Import Quota on Foreign Oil:

1. Reduce imports by one million barrels this year
2. Reduce imports by 1 1/2 million barrels in January, 1976, and by 2 barrels in June, 1976

D. Impose Gas Rationing for three years to meet this reduction while ~~increasing short-term~~ suppplies.

1. Rationing Features:
   a. Negotiable Coupon
   b. Basic entitlement of 9.5 gallons weekly per licensed driver
   c. Commercial entitlement based on base year use
   d. State set-aside program for hardship, health, etc.
   e. Local appeals through Selective Service Boards
   f. Distribution through Post Office - 4 month allotment - go on basis of birth date

E. Replace Gas Rationing by July, 1978 with increased supplies by:

1. Energy Production Board to oversee increased development, to coordinate materials needs, to direct construction of needed equipment such as rigs, freight cars, etc.

| | |
|---|---|
| 2. Immediate development of Gulf leases and heavy oil in California and Alabama | 600,000 barrels |
| 3. Alaska Pipeline | 200,000 barrels |
| 4. Secondary and Tertiary Recovery | 400,000 barrels |
| 5. Utility conversion to coal | 300,000 barrels |
| 6. Increased auto fuel economy, improved public transportation and other conservation measures listed in I | 500,000 barrels |
| 7. Better production efficiency in East Texas and Yates fields | 100,000 barrels |
| TOTAL INCREASE BY 1978 | 2.1 million barrels |

8. Increase domestic oil from Federal lands through:
   a. Immediate government exploratory drilling of frontier OCS areas — $ .4 billion
   b. Immediate government development of Naval Petroleum Reserve 4 — $ .1 billion
   c. Retain Elk Hills Reserve for emergency

9. Assistance to electric power industry to convert to coal and to expand nuclear capacity including:
   a. 3 year 12% investment tax credit and loan guarantees for conversion and expansion
   b. Related aid, such as loan guarantees, for increased freight [illegible]

## III. Energy Actions

A. Adopt Kennedy-Jackson Resolution to prevent administrative imposition of increased fuel taxes.

B. Disapprove President Ford's disastrous high cost approach of $2 per barrel excise tax on imported oil, 37¢ per Mcf natural gas and decontrol of new gas and old oil. The real costs are as follows:

| | | |
|---|---|---|
| **OIL** | | |
| Average oil price would increase from $9.50 to $15.50 because of deregulation, tariff, and excise tax @ 17 millions barrels a day | | $37.2 billion |
| **NATURAL GAS** | | |
| a. Excise tax of 37¢ per 1000 cubic feet | 8.5 | |
| b. New gas deregulation in interstate market 1.3 Tcf x $1.80 Mcf | 2.3 | |
| | | 10.8 billion |
| **COAL** | | |
| Increase in price due to $3 barrel oil price tax Increase: (530 million tons consumer @ 24 million Btu/Ton x 49¢/1000 Btu's | | 6.2 billion |
| TOTAL | | $54.2 billion |

Consider for example:

1. The OPEC oil prices would be ratified by the United States, undercutting our bargaining position. Every time OPEC raises the prices, the domestic fuel will go up automatically.

2. The $54 billion added fuel bill increases the cost of all manufactured products and places all U. S. exports at a competitive disadvantage.

3. The inequities of the fuel tax are enormous. There is no way for example, that a rebate of only part of the added fuel tax can possibly be returned to the poor blue collar worker who drives 30 miles a day to work.

4. Major elements of society like the railroads and airlines which use large quantities of energy and are already in financial difficulty may be driven into bankruptcy.

5. Institutions like universities that pay no taxes and cannot quickly increase revenue will suffer from deteriorating service.

6. The inflation in energy prices will cause a 2% to 3% increase in the Consumer Price Index, which in turn will trigger escalation clauses in

F. New Natural Gas provisions to increase supply

1. Require statutory formula for natural gas rather than total deregulation FPC to make a finding of a national area rate not to exceed 75¢ within 4 months that will reflect incentive cost. This will be a fixed rate with no appeal and it would be adjusted only by the annual GNP deflater. Companies provided sanctity of contract. End argument once and for all on deregulation.
2. Ban new sales of natural gas under boilers to produce electricity and phase out the present use initially over a 5 year period. One-half of the present 3.3 trillion cubic feet so used would be diverted to domestic and commercial feedstock uses.
3, Allocate findings of new natural gas on all Federal lands to interstate market. These new leases also will require immediate development.
4. Under proper standards, give FPC authority to allocate gas from surplus pipelines to shortage pipelines.

G. Automobile Fuel Economy

1. Mandate a fuel economy of 50% to 70% or 21 to 23.8 miles per gallon by 1980.
2. Impose a mileage excise tax of $1000 for the 10 miles per gallon car, decreasing down to zero tax on the 20 miles per gallon car; and allow a tax credit on domestically produced cars with over 20 miles per gallon fuel economy, beginning at $100 and increasing as mileage improves.
3. Allocate revenues of $340 million over a 3 year period of Federal research program to supplement private research into alternate engine designs, paid for by excise tax revenues.

H. Additional Conservation Measures
1. Adopt mandatory thermal efficiency standards for new buildings
2. Set 15% industrial conservation goal by 1980
3. Set 20% appliance efficiency goal by 1980
4. Allow housing insulation tax credits and loans

## An open letter to the President and the Congress of the United States.

# We will all support a tough, comprehensive energy program. What the country needs to do, it will do.

As you, Mr. President, draft your State of the Union message and as you, the Members of the 94th Congress prepare to convene, we want you to know that we will support strong and effective measures to cope with the massive dislocations created by the unprecedented rise in oil prices.

We come from a broad spectrum of American society, but we come together in this message to you and the Congress because we believe that the world faces the most serious economic threat since the Great Depression of the 1930s.

The soaring price of oil has caused huge and unsettling shifts of capital throughout the world. It has aggravated our domestic inflation, and made the poor poorer, both at home and abroad. It has undermined the world's financial structure to the point of threatening collapse and a worldwide depression.

And, on top of all that, we may have to face another oil embargo in the event the Arab-Israeli conflict flares anew.

Some important initiatives have already been taken—particularly on the international front—to deal with some of the dangers we perceive. We were particularly encouraged by the recent meetings with President Giscard d'Estaing of France, stressing the need for energy conservation, development of alternative energy sources and financial solidarity.

But effective action on the home front is also urgently required. America must curtail its need for imported oil and go full speed ahead to develop alternative energy sources.

These are realities that you, our policymakers, know about but many Americans do not yet know, or understand, or believe.

Only our President can explain these complex problems to the people. Only he can ask the sacri-

- As the beginning of a long-term program to make America far less dependent on foreign oil, we should by July 4, 1975, *reduce our oil consumption* by at least one million barrels a day, from the current level of 17 million barrels a day, and by another half million barrels a day by July 4, 1976. The above reduction in our consumption requirements would roughly equal the amount of oil that was subject to embargo a year ago.
- We need an *emergency standby program*. A wise step has been taken in creating the International Energy Agency to share oil with our friends in an emergency, but we now need additional measures aimed at stockpiling oil and rationing our supplies in the event of future embargoes.
- America must move rapidly to *increase domestic supply* while we restrain demand, so that we can, over the next decade, reduce our dependence on oil imports without unduly impairing the orderly growth of our economy.

### General Principles

The program should reflect certain clear principles:

Revenues from an energy program should be used both to cushion the effects of national energy sacrifices on the poor and to invest in solutions to the energy problem.

We cannot increase domestic energy supply rapidly without paying for it. A balanced energy "budget" must account for the costs of these measures not only in money but in adjustments required in our national life. For example, regrettable though this may be, it will have to include the postponement of certain environmental pro-

mobiles that deliver high gasoline mileage).

5. Full disclosure of consumption efficiency with respect to all energy-consuming equipment.
6. Vigorous enforcement of the 55-mile-an-hour speed limit.
7. Minimum efficiency standards for equipment that uses significant amounts of energy—phased in over several years.
8. A system of energy rates to penalize the use of wasteful amounts of energy.
9. Temperature and lighting standards that could be reasonably enforced without unduly intruding into the private lives of our citizens.
10. Subsidies for low-income citizens (and temporary tax credits for others) to stimulate investments in insulation and energy-saving equipment.
11. A comprehensive program to determine the extent to which energy should be saved by the readjustment or temporary postponement of environmental programs (such as emission controls).

### Emergency Standby Program

12. The immediate establishment of emergency stockpiles to minimize vulnerability to supply disruptions.
13. Legislation to authorize, during an emergency, mandatory rationing or allocation of scarce energy, materials or equipment so as to minimize unemployment, the switching of certain installations from oil or gas to more available fuels, the in-

coal, knowing this may mean taking such steps as the postponement of some restrictions on the use of high sulfur coal.

17. The streamlining of procedures for leasing federal oil, coal, and shale resources and for siting energy (including nuclear energy) facilities.
18. Measures to accelerate offshore oil drilling not only to increase supplies but to determine the extent of available energy reserves.
19. The deregulation of new gas production and the acceptance of higher prices for domestic energy to stimulate increased production, with the revenues from such new production directed to the development of additional domestic output.
20. Federal underwriting of crash programs on demonstration plants for synthetic gas and liquid fuels from coal and shale in order to prepare the way for broad-scale investment in these new energy sources. We do not want to saddle our society permanently with very high cost energy until we have a much clearer idea of what the cost may be.

We can delay no longer. Though thoughtful and conscientious Americans will disagree as to the details of a program, no one must ever forget that, in a time of threatened danger, the perfect can be the enemy of the good.

What the country needs now is decisive action, and just as we count on you to provide it, you can count on us for support.

It is for you, the President and the Congress, to launch America on this arduous course of action. We promise you our support

These are realities that you, our policymakers, know about but many Americans do not yet know, or understand, or believe.

Only our President can explain these complex problems to the people: Only he can ask the sacrifices the situation urgently requires. And only courageous action by the Congress can put such a program into effect.

So, to both of you, please do not pull any punches or try to sugar-coat our difficulties.

If your message is clear and firm and equal to the emergency, the American people will support you right down the line. But they must know that the burden will be shared by all and that everything reasonable will be done to avoid increasing unemployment as well as special hardships in certain regions of the country.

What is required is a clear target and a definite timetable. Americans must know what they are trying to achieve, how long it will take and what it will cost.

## The Goals

What we need is a coherent, balanced energy "budget" that will decisively reduce our dependence on imported oil, minimize our vulnerability to possible future embargoes, while at the same time providing for orderly economic growth.

Here are some of the ways we think this goal can be achieved.

"budget" must account for the costs of these measures not only in money but in adjustments required in our national life. For example, regrettable though this may be, it will have to include the postponement of certain environmental programs. On the other hand, the more we conserve, the less will be the need to postpone environmental programs.

All of us signing this letter agree on these principles and these goals. Whatever mix of measures is adopted, the *essential test is whether the total program will achieve these urgent objectives.* Though we recommend against the resort to formal rationing except in a short-term emergency, all of us would support some, and some of us would support all, of the following measures:

## Program to Reduce Consumption

1. Tariffs to limit oil imports.
2. Ceilings on oil imports.
3. Gasoline or fuel oil taxes to discourage oil consumption—with rebates, especially to the poor.
4. Increased taxes or annual license fees on those automobiles, appliances and other machines that use energy inefficiently. At the same time, tax credits or rebates could be made to those who purchase equipment that uses energy efficiently (such as auto-

gency, mandatory rationing or allocation of scarce energy, materials or equipment so as to minimize unemployment, the switching of certain installations from oil or gas to more available fuels, the increase of production of standby fields, and other measures to maintain the national economy in a state of constant readiness.

14. Special provision should be made to insure that low income families have access to heat and gasoline during an emergency.

## Program to Increase Energy Supplies

15. Major programs of *research;* on nuclear energy (both breeder reactors and fusion) and non-nuclear energy (including solar and geothermal energy, and energy from solid wastes), on the improvement of efficiency in energy utilization, on the increase of productivity and safety in the mining of coal and the extraction of other energy resources; and on environmental problems, such as the desulfurization of coal. This research could be part of a global effort with the costs being shared by cooperating countries.
16. Utilization, to the greatest extent possible, of coal, our most abundant fuel source. We must not unduly restrict the mining of

and just as we count on you to provide it, you can count on us for support.

It is for you, the President and the Congress, to launch America on this arduous course of action. We promise you our support for such a program. We would call on the Congress for the prompt and effective action that this emergency deserves. We would hope that comprehensive energy legislation would be in force by May 1, 1975.

In Chicago a few weeks ago, Secretary Kissinger said, "A generation ago the Western world faced an historic crisis—the breakdown of international order in the wake of world war. Threatened by economic chaos and political upheaval, the nations of the West built a system of security relations in cooperative institutions that have nourished our safety, our prosperity and our freedom ever since. A moment of grave crisis was transformed into an act of lasting creativity. We face another such moment today. The stakes are as high as they were 25 years ago. The challenge to our courage and our will is as profound, and our opportunity is as great. What will be our response?"

The response of those of us who sign this letter is simple.

We will support an urgent energy program that requires sacrifices from all of us. To the American people, to much of the world, these sacrifices are bearable. The alternative is not.

# Citizens for a Strong Energy Program.

**Steering Committee:**

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Secretary
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*(Continued on following page.)*

## Citizens for a Strong Energy Program. *(Continued)*

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**Dean Rusk**
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**Alonzo G. Decker, Jr.**
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**Robert F. Dee**
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**E. Mandell de Windt**
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Former Secretary of the
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Continental Can Co., Inc.

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Beech Aircraft
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**Henry J. Heinz II**
Chairman
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& Government

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Author; Former Press
Secretary to Robert F.
Kennedy (1966-68)

**Warren D. Manshel**
Publisher and Co-Editor,
Foreign Policy;
Publisher, The Public
Interest

**Donald B. Marron**
President
Mitchell, Hutchins Inc.

**James R. Martin**
Chairman
Massachusetts Mutual
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**William McChesney Martin, Jr.**
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National Bank,
Washington, D. C.;
Former Chairman of the
Federal Reserve Bank
(1951-70)

Incorporated

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Professor of Economics
Columbia University

**Charles F. Myers, Jr.**
Chairman
Finance Committee
Burlington Industries,
Inc.

**Honorable Bess Myerson**
Former Commissioner of
Consumer Affairs, New
York City (1969-73)

**Arthur C. Nielsen, Jr.**
President
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**General Lauris Norstad**
Former Supreme Allied
Commander Europe
(1956-63);
Director & Chairman of
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Owens-Corning
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Economic Studies
Brookings Institution;
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**I. M. Pei**
Architect

**Gerard Piel**
Publisher
Scientific American
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Finance, Stanford
University;
Former Member of
Council of Economic
Advisors (1971-73)

**Theodore Sorensen**
Former Special Counsel
to the President
(1961-64)

**Frank Stanton**
Former President of CBS;
Former Chairman, U.S.
Advisory Commission on
Information (1964-73)

**J. E. Wallace Sterling**

Winner in Medicine 1962

**Robert C. Weaver**
Distinguished Professor
of Urban Affairs,
Hunter College;
Former U.S. Secretary of
Housing & Urban
Development (1966-68)

**Arnold Webber**
Provost, Carnegie-
Mellon University;
University Dean,
Graduate School of
Industrial Administra-
tion; Former Executive
Director, Cost of Living
Council 1971

**Professor Murray L. Weidenbaum**
Mallinckrodt Professor
Washington University;
Former Assistant
Secretary U.S. Treasury
(1969-71)

**Henry Weigl**
President
Standard Brands
Incorporated

**Theodore H. White**
Author

**Frazar B. Wilde**
Former Chairman
Committee for Economic
Development

**Harold M. Williams**
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UCLA

**Professor Carroll L. Wilson**
Massachusetts Institute
of Technology

**F. Perry Wilson**
Chairman
Union Carbide
Corporation

**Benjamin N. Woodson**
Chairman
American General
Insurance Company

**Jerry Wurf**
International President
American Federation of
State, County, and
Municipal Employees,
AFL-CIO

**Committee in formation.**
**More names to come.**

Citizens for a Strong Energy Program 1 William Street, New York, New York 10004 Peter G. Peterson

Jan 20 P
14

$X:NA,MEAR,GAS,01



By WALTER R. MEARS

Chief of Our Washington Bureau

WASHINGTON-When the congressional battle is joined over President Ford's energy conservation proposals, some key Democrats are prepared to push for gasoline rationing as an alternative to higher oil taxes and prices.

And the White House is gearing up a campaign to convince Americans that its course is better. The President, a spokesman said, is not about to reconsider his opposition to rationing at this point.

Administration officicials contendDD that fuel rationing would snarl the nation in at least five years of bureaucratic controls, and would work more of a hardship than price increases designed to curb energy use.

The President's own package includes standby authority for oil allocation, price controls, and the rationing of gasoline and other fuels. But that is marked for emergency use only.

Now there is talk in Congress that such strictures should be voted in place of the program of $30 billion in new energy taxes, coupled with purposeful price increases, through which the administration seeks to conserve energy and prod the nation toward self-sufficiency.

Rep. Al Ullman, D-Ore., who heads the House Ways and Means Committee, which will draft any tax program, said gas rationing would be better.

"Rationing, it seems to me, is going to be the ultimate objective and the thing we're going to have to do," he said.

A top White House official forecast that any public preference for rat

ioning instead of tax and price hikes would be dampened once the nation
understands the problem.

John O. Marsh Jr., a counsellor to the President, said most people thi
nk now in terms of a 12 or 18 month rationing program to achieve the o
il conservation the country needs, but that wouldn't do the job.

"In order to do what you'd really have to do to meet the needs, you're
talking about a program that would have to run for five years," he said
.

Frank Zarb, who heads the Federal Energy Administration, said it would
take a five to ten year rationing program, if that alternative was cho
sen, to achieve necessary conservation.

"It would make the government make decisions with respect to every ho
me and with respect to every business," Zarb said. He said it would hav
e to involve all oil products, would not stimulate production, and woul
d lead to a snarl of red tape.

Furthermore, Zarb said, people who could afford to buy extra oil ratio
ning coupons, legally or on a black market, would wind up with all the
fuel they want, while the less affluent would suffer most.

On the other hand, Sen. Walter F. Mondale, D-Minn., said Congress will
not accept the Ford formula. "We've all agreed there's going to be rat
ioning," he said. "But will it be price rationing or old fashioned ra
tioning.?" He said the latter would be better. That would be rationin
g by quota and coupon rather raising prices to curb consumption.

The President's proposal is to offer offsetting tax breaks to consum
ers, governments and industry to balance the impact of oil conservatio
n taxes.

₱Senate Democratic Leader Mike Mansfield has said he favors rationing, although he conceded it wouldn't pass Congress now. "We just haven't got the votes in my opinion at this time," he said.

₱The Senate rejected, by an eight-vote margin, an amendment that would have ordered the imposition of gasoline rationing on Jan. 15, 1974, dur ing the Arab oil embargo.

₱The administration later set up a standby rationing plan, and eventual ly printed $12.5 million worth of rationing coupons, but the crisis ea sed and the topic was dropped.

₱This time, ~~most~~ Congress is likely to give President Ford the standby authority he wants. The question is whether the Democrats might push a step further and order rationing.

₱Sen. Floyd K. Haskell, D-Colo., who sponsored the rationing amendment in the last Congress, said some form of rationing is going to be essen tial. He said it might be a variation that would entitle every driver to a basic allotment of gas, and then impose a heavy tax on excess con sumption.

₱Haskell said he doubts the administration would exercise standby ratio ning power. "I think we've got to mandate it," he said.

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$X:NA,MEAR,GAS,02

₱Sen. Robert P. Griffin, R-Mich., said he does not think the American pu
ublic would accept in peacbetime the PDDDDDDDDD regimentation of ration
ing.

₱"We're going to have a lot of debate and I think the conbclusion is go
ing to be that rationing is not the answer—and then the question is go
ing to be is Congress going to do anbything," Griffin said.

₱White House Press Secretary Ron Nessen said yesterday the President is
not reconsidering the rationing option. " . . . The more his plan is l
ooked at and compared with rationing, the more firmly he believes his i
s the right way," Nessen said.

₱"Which would you rather have?" Nessen asked. "Eight or nine gallons o
f gasDDDDD a week maximum or as much as you want at 10 cents or 12 cen
ts a gallon more?"

₱While President Ford prepared to issue the orders that would launch hi
s conservation program by raising oil import fees $1 a barrel on Feb. 1
and DD $3 a barrel by April 1, two Senate Democrats said they would see
k to have Congress block him.

₱Sens. Henry M. Jackson, D-Wash., and Edward M. Kennedy, D-Mass., propo
sed legislation to delay administration action for 90 days, to give Con
gress time to act on alternatives of its own.

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JAN 20 1975

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# THE NORTHEAST ENERGY PROBLEM

## Background

The conservation program of import fees and taxes on petroleum will increase energy costs everywhere, but will most heavily affect petroleum dependent areas such as the Northeast and New England in particular.

New England relies on petroleum for 85% of its total energy consumption, compared with a nationwide average of under 50%. The programs announced so far have included several steps to assure that Northeast petroleum users do not incur disproportionate petroleum costs; that is, their costs per gallon of petroleum used do not increase more than anyone elses. These include:

- Implementation of a crude oil entitlements program to assure all regions equal priced crude oil and provide a $.60 per barrel reduction in product import prices, primarily for the Northeast.
- Product import fees will be a $1.80 per barrel less than crude oil fees under the President's administrative program to reduce the economic impact on import dependent areas.
- Once there is decontrol of old oil and enactment of the legislative fees these benefits disappear.

In spite of these actions, the Northeast has during the last year, and still,bears a larger burden than other areas because they do not use significant quantities of gas, coal or hydroelectric power. Their problem, then, is not the program itself, but their basic reliance on what is now a very expensive energy source. However, there are several important factors to keep in mind:

- To cut imports will require petroleum users to bear the largest burden, regardless of the program chosen.
- Other energy users, such as of natural gas, will also be affected significantly by the proposed program.
- The tax rebate will alleviate a significant part of the problem, but not remove it.
- In the longer term, increased domestic petroleum use nuclear power growth, and coal conversion are the only ways to reduce the impact.

<u>Alternative Actions</u>

In the immediate term there are several alternatives to further mitigate the impacts of the higher cost of petroleum.

- <u>Differential Utility Rates:</u> The development of new rate schedules by State utility commissions which could provide current rates for up to some level of use (i.e., 85% of last year) and very high charges at greater use rates.

- Refinery Product Pricing Program: Direct refineries to pass through the excise taxes to reduce the effect on residual oil and heating oil. This would reduce the costs of key products in the Northeast but increase the impact of the $2 tax on gasoline throughout the country (perhaps up to $.20 per gallon).
- Targeting of current proposals: To help the Northeast adjust to higher prices, programs such as the low income conservation grants for insulation could be targeted to help these areas more quickly.
- Modification of Rebate Program: The current income tax reform associated with the $30 billion of energy taxes could be modified to provide more rebate to heavily petroleum dependent areas.

Each of these options has some merit, as well as problems.

Recommendations

It is clear that we are going to have to continue to work with the Northeast to develop the best possible short-term relief without jeopardizing the entire conservation program. Further, we have now addressed enough attention so that the priorities of working out a more permanent solution insofar as the Northeast is concerned is good. We, therefore, propose the following:

1) The President announced that he is establishing a working group, chaired by the Vice President, other participants would include Frank Zarb and Secretary Morton, two Congressmen, two Senators, two Governors, all from the Northeast.

Their mission would be to review short-term alternatives available consistent with our National goal for conservation and second, to begin development of a more permanent solution for the Northeast energy problem.

The longer-term steps include some of the following:

1) Planning on a priority basis the construction of nuclear power plants.
2) The expeditious development of the Outer Continental Shelf.
3) The construction of refineries in the Northeast (presently there are no refineries in the Northeast.)
4) High priority for coal conversion of existing power plants.

Prepared by: Republican Research Committee
January 21, 1975

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## ANALYSIS OF PRESIDENT FORD'S ENERGY TAX AND IMPORT FEE PROGRAM

The major thrust of the President's energy program is for the United States to achieve self sufficiency by 1985. The previous projection had been for 1980. The President has outlined his national energy policy and has described the actions he is personally taking and the legislative proposals he is asking Congress to enact.

Energy self sufficiency can only be achieved by increased production and conservation. In order for self sufficiency to be achieved, the President has proposed administrative and legislative tax and fee proposals. It is the stated goal of the President to establish a surplus capacity in energy and to reduce oil imports by one million barrels a day by the end of 1977. The President has announced that he will, by using his constitutional powers, raise import fees on crude oil and petroleum products one dollar a barrel effective February 1, two dollars a barrel by March 1 and three dollars a barrel by April 1. The President may impose import fees on petroleum under the national security provision of the 1962 Trade Expansion Act of 1972. Senator Edward Kennedy has since introduced a joint resolution which would require the submission and approval by the Congress of fees on oil imports (S.J.Res. 3). The United States now imports 7.3 million barrels of the 17 million barrels of oil it consumes a day. This will generate about $400 million per month in revenues by April and will reduce imports by an estimated 500,000 barrels per day. The estimated pass through will be 3¢ a gallon of gasoline.

Price controls will be removed on domestic crude oil by April 1, subject to Congressional disapproval as provided by the Emergency Petroleum Allocation Act of 1973. Two-thirds of domestic oil which sells for $5.25 a barrel is subject to controls. The remainder of domestic oil is from small wells and wells opened up since controls went into effect. This oil is allowed to be sold at the world price which is around $11 a barrel. Certain regions, such as New England, will be hard hit by the raising of import fees and the removal of price controls on domestic oil. Actions will thus be taken to lessen any disproportionate effects on any region.

The President has stated that he is prepared to use his Presidential power to limit imports and will emphasize increases in energy conservation such as development of energy efficiency standards for appliances.

In addition to the administrative actions, the President has asked Congress to enact by April 1 an energy tax program. This program will raise an estimated $30 billion in additional taxes. As a result of the President's administrative actions, it will be necessary for Congress to act on this additional program. The comprehensive energy tax program includes:

(a) $2 per barrel excise taxes and import fees on crude oil and petroleum products

(b) De-regulation of new natural gas and enactment of natural gas excise tax

(c) Enactment of a windfall profits tax

After the $2 per barrel tax is enacted, the import fee would be reduced accordingly to $2 per barrel. The natural gas excise tax will be equivalent to the $2 oil tax. Deregulation of natural gas will undoubtedly raise prices but will increase domestic production.

As a result of price decontrol of domestic crude oil, the President has requested Congress to enact a "windfall profits tax".

The President's tax plan starts with that is called a "base price" of about $5 a barrel. Anything over that would be subject to the windfall profits tax. The tax would start at 15 per cent of the first 20 cents over the base price, then rise to about 30 per cent on the next 30 cents, and so on up to more than 90 per cent.

The 90 per cent would kick in on anything more than $3 over the base price; if the base price were $5 and the price were $11, the 90 per cent would apply to every thing over $8.

The base price however, would be steadily adjusted upward month by month from the day the tax took effect. Thus, at the start anything over $5 would be subject to the windfall tax, but after three years that cutoff would have risen to about $7.50.

After several years, the administration's plan would be to let the tax lapse. The producers would then be selling their oil at the world price free and clear.

The administration does not have a plowback provision in its windfall proposal.

The President's tax and decontrol program would 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 or 10¢ per gallon.

OFFICE OF MANAGEMENT AND BUDGET

**ROUTE SLIP** JAN 23 1975

TO Mr. Marsh

- Take necessary action [ ]
- Approval or signature [ ]
- Comment [ ]
- Prepare reply [ ]
- Discuss with me [ ]
- For your information [X]
- See remarks below [ ]

FROM Bob Bonitati

DATE 1/23/75

REMARKS

SENT COPY TO MAX - 1/28/75 cb

R -

Bob is getting on target w/ his suggestions.

M

MAX should see, if he didn't get a copy.

M

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REV AUG 71

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

January 23, 1975

Memorandum for: Frank Zarb

From: Bob Bonitati RB

Subject: Informing and Educating the Congress on the President's Energy Program

This memorandum attempts to summarize the ideas and suggestions I passed on to Paul Cyr concerning ways to inform and educate the Congress on the President's energy program.

## General Observations and Suggestions

1. If the President's program is to be accepted in part or in total there is need for a massive education program on the Hill. One must start with the assumption that most Members know very little about economics and even less about energy. We will have to take the initiative in educating them.

2. There is a need to inform and educate Members as soon as possible as events will force them into taking positions on the program. Members are already receiving mail asking for their reactions to the program. They will also soon be leaving for the Lincoln recess (February 6 or 7) and be returning to their states and districts where they will be requested to comment on the President's program. Unless they have sufficient information or education, they may stake out positions that will be difficult to revise at a later date.

3. In meeting with Members and staffs we need to meet with twice as many Democrats as Republicans. Although its easier to confer with "our" people, the Democrats have twice as many votes and must be pursued with considerable vigor.

4. We need to devote sufficient resources to informing and educating key Congressional staff. Staff members are especially important on the Committees and will require a special effort to win their support or understanding.

5. Although it will be necessary to conduct briefing for large numbers of people, we should try to meet with smaller groups where a freer exchange of ideas and discussion can take place. I'm sure you'll find that the large group briefing can inform and educate to some extent but the smaller group meeting will help you to win support for the program.

6. If we are to concentrate on smaller groups there is a need to develop a sizeable stable of knowledgable spokesmen who will be available for briefings and meetings..

7. Each briefing on the the energy package should be preceded by a forceful presentation on the global energy-economics crisis that exists and the need for a comprehensive plan to deal with it. This places the President's program in a more critically oriented context.

A forceful presentation on "why" we need a program should lend further support to the total package.

8. There is a need to develop an "easy to read" narrative on the program which explains "why" such a program is needed and "how" the program would work. This will make the program more understandable and will also provide usable material for speeches, newsletters, etc. The current fact sheet does not serve this purpose.

## Specific Program Recommendations

1. To underscore the importance of the energy program to the Nation, I would suggest two White House briefings:

   a) A briefing for influental Members of each of the Committees having jurisdiction over some part of the package. Perhaps ten Members from each of the House and Senate Committees should be invited.

   b) A briefing for the key staff of the Committees having jurisdiction over parts of the energy package.

I would suggest that the President preside at these briefings with you and others conducting the actual briefings. This will very directly convey the President's concern and be a strong follow-up to his recommendations.

2. I would suggest that you recruit some friendly Members of each of the Committees having jurisdiction over the package to arrange an informal session for some of their Committee collegues at which

you and other spokesmen can explain the program and submit to their discussion. Having Members sponsor such sessions will increase attendance and open more doors to your views.

3. Spokesman should appear at all of the various Hill organizations that meet on a regular basis such as the Democratic Study Group, the Republican Study Group, the Wednesday Club, etc. Freshmen Members can also be approached in this manner as they appear to be particularly well organized this year.

4. Some effort should be made to make a spokesman available to meet with the full staff of each of the Committees having jurisdiction over part of the energy package.

5. A special effort should be made to establish contact with "outside groups" who will support the energy package in order to provide some coordination and general direction. Those who oppose the package will automatically do this and we should take the initiative in trying to better organize our support.

Frank, I hope these quick suggestions are helpful to your people. Please let me know if there is any other way I can be of assistance.

cc: Paul Cyr

Action Call

Don — 37,000 of these were sent to our members in 39 states last Fri. 1-24

# ISSUE: What Type of Energy Program? Free Market ... or Controlled

Senate and House expected act January 29 or shortly thereafter on Democratic resolutions to block President from getting his free market energy program underway. If they succeed, only major alternative is rationing and other government controls -- for up to 10 years.

**ACTION NEEDED:** Immediate phone calls and wires to your Representative and Senators, urging them to oppose resolutions. Tell them your views about rationing and why President's program should be given a chance.

January 24, 1975

President Ford's new energy program is under severe attack by key Congressional Democrats. While both parties agree to the need for reducing our vulnerability to Arab oil producers, there's disagreement as to how to do it. And that raises a question that's fundamental to our society: Do we use the free market system, or go the route of a monumental government rationing and controls system?

- Background

Initial objective of the President's program is to reduce our use of imported oil by one million barrels a day by the end of 1975, two million barrels by the end of 1977. Currently, imports are about 7 million of the 18 million barrels we use daily.

Reason for this objective is not that oil is in short supply. Rather, it's hoped that reduced demand by the U.S. and other oil consuming nations will encourage oil producing nations to lower their oil prices, which are playing havoc with various national economies. In the U.S., for example, imports are costing us about $2 billion a month, triple the cost of 1973. Such financial burdens are potentially disastrous.

Elsewhere in the President's energy program are various other finely meshed proposals for conservation -- as well as features for increasing our domestic production -- all with the end objective of lessening our vulnerability to another Arab oil embargo.

To accomplish his objectives, the President chose the "free market" approach -- that is, let prices rise as an incentive both for producing more oil and for encouraging consumers to save energy, and leave individuals and business firms free to purchase gasoline and fuel supplies according to their needs. That's why his program calls for decontrolling the price of so-called "old" oil that constitutes about two-thirds of our domestic supply. As a penalty on imports, it also calls for a new tariff to be set eventually at $2 a barrel -- and an equalizing $2 excise tax on domestic oil. It calls, too, for decontrolling natural gas and imposing a similar excise tax on it. And the program asks for a new windfall profits tax on oil companies.



Admittedly, this means higher prices for consumers and users, but the President proposes to offset that with a massive new tax cut program to return the estimated $30 billion in new revenues to taxpayers, including a $16.5 billion permanent tax cut for low and middle-income taxpayers, and a $6 billion tax cut for business via a reduction in the corporate tax rate from 48% to 42%. He also contemplates correcting any regional supply problems that develop, such as in the Northeast which relies heavily on imported oil.

... over

In selecting the free market approach, the President deliberately rejected the government controls approach. He said gasoline rationing would do nothing to stimulate increased domestic production -- and that a limit of nine gallons a week per driver would be necessary to reach the 1975 goal of reducing imports by one million barrels a day, thus creating untold inequities among consumers.

- Legislative Situation

Although most of the President's energy proposals require Congressional action, there are two steps he can take under present laws. One is to impose the new tariff on imports, which he has already proclaimed, with the first $1 levy slated for February 1. The other is to decontrol "old" oil, which he plans for April 1. Both are important first steps in his over-all program.

But key Democrats are seeking to block these moves. Senators Jackson and Kennedy have introduced S.J.Res.12, which would prevent both moves for 60 days, and then in the following 30 days provide Congress with the power to reject any such moves. In the House, HR 1767 applies only to the tariff.

If either resolution passes, it's unlikely the President would ever be allowed to take these initial steps. Therefore, his entire energy program would probably go down the drain. And if it does, we can expect Democrats to push through a controls program, which will involve rationing of gasoline, allocation, and all the countless headaches they will bring to consumers and industrial users.

- Some Thoughts About Rationing/Allocation

Although the public tolerated gasoline rationing in World War II, let's remember it lasted only a couple of years then and, even so, produced a plague of black markets and inequities. If we try it again, the duration will have to be more than five years, maybe ten. Assuming the same inequities, it's fair to question the public's willingness to put up with such government control for so long.

Further, consider that the bureaucracy necessary to run a similar program today would require 15-25,000 full time federal employees, cost the American taxpayer an estimated $2 billion a year to operate, and involve 40,000 post offices and 3,000 state and local boards to administer the program and consider exceptions to the rationing rules. It would be far more difficult today because: (1) In 1943, there were 26 million registered autos; today, there are over 100 million, four times as many; (2) In 1943, our driving age population was 101 million people, many of whom were in Europe, North Africa and the South Pacific. Today, that population is 153 million, and many are living in suburbs that were pastures in 1943, suburbs without public transportatation.

If rationing comes, so will allocation, which is simply a form of rationing for those who use petroleum products in a process, rather than as an end use. This would raise the troublesome question of what prior base period to use for determining a company's allocation -- and Heaven help the company that was in a production slump during the time some bureaucrat selects as the base period.

For these and other reasons, rationing should be our absolutely last resort. Congress should reject the resolutions to block the President's initial moves, and give the free market a chance.

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For additional information, phone David Luken (A/C 202, 659-6174)

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Distribution: Selected business members; Selected CAC Chairmen, Execs and members; Selected State Chamber Execs and members; Association Execs; Washington Corporate Reps.

atl: Russ

JAN 25 1975

THE WHITE HOUSE
WASHINGTON

Date 1/24/75

TO:

FROM: JERRY H. JONES

The attached is forwarded for your information.

R.A.R.

Ford Taxes
By R. Gregory Nokes
1/22/75

Associated Press
WASHINGTON AP

President Ford's plan to boost energy prices while reducing taxes would leave additional spending money in the pockets of the typical family of four earning $15,000 or less. Families above that income level will suffer a net loss.

But Americans in both categories would be committed under Ford's program to paying higher energy bills before the administration could assure them of extra money to pay them.

Ford said Tuesday he will officially order higher import fees on imported oil beginning at $1 a barrel on Feb. 1 and rising to $3 a barrel by April 1.

Treasury Department tax officials said Tuesday that each $1 of the import fee will add an average of about one cent to the price of a gallon of gasoline, home heating oil, and other products, rising to a total of three cents a gallon when the full fee is imposed.

One Treasury official estimated Tuesday night that a family of four with total income of $15,000 and below would receive a tax reduction greater than the increase in its energy bills.

He estimated the average energy bill would increase $250 under the program, although the increase would be lower for lower-income families and higher for higher-income families.

"Everybody below $15,000 will just be better off," said this official, who did not want to be named.

Several Democratic congressional leaders have asked Ford to delay the import fee plan until Congress can act.

Edgar R. Fiedler, assistant treasury secretary for economic affairs, said Americans may start paying the higher fuel prices within a few weeks, especially for such products as gasoline.

Ford has proposed a series of tax reductions for 1975 to offset the higher energy cost, but there is no guarantee Congress will approve these in the form he wants, or in the time he wants.

Part of the Ford program is to give taxpayers money to pay their higher energy bills through a series of permanent tax reductions. But Ford administration officials say the reductions will be of greatest benefit to lower income groups, and in this way will help make the nation's income tax more progressive.

For example, a family of four with $10,000 income would receive the biggest dollar tax saving, $349, considerably above the average $250 increase in a family's energy tax bill.

Families with income of $12,500 would still be ahead of the increased energy costs with tax savings of $300. But at $15,000 income, the tax savings would only be about $221 and the taxpayer would start falling behind.

About five million persons would be removed entirely from the tax rolls, and adults would have paid no tax at all would get a $80 annual payment from the government to offset their energy cost increases, which, at low-income levels, are estimated at about $44, officials say.

Treasury tax officials said House Speaker Carl Albert was incorrect when he compared tax rebates with higher energy bills during a Monday night broadcast response to Ford's economic address of last week. Albert had asked what good it would do a family to get a $75 to $100 tax rebate if its energy bill went up by $250 to $300.

The tax rebate is a separate Ford proposal to give taxpayers more money to spend to help end the current recession. The rebate proposal would give taxpayers a 12 per cent reduction in their 1974 taxes up to a maximum $1,000 on incomes over about $40,000.

The 1974 tax rebates, if approved, would be received in special treasury checks in May and September, while the tax reductions would be made retroactive to Jan. 1 of 1975 and would be accomplished through lower tax withholdings from paychecks.

For example, a family of four with about $10,000 income would get about $104 in a tax rebate for 1974, plus $349 in lower taxes in 1975, a total of $453.

A family with income of $15,000 would get a rebate of about $204 for 1974 and a reduction of $221 for 1975, a total of $425.

Tax officials said Albert was probably approximately correct when he said that 43 per cent of the 1974 rebate would go to the top 17 per cent of upper-income taxpayers.

"But this isn't what it seems," said the official. "People above $20,000 income - and that's basically the group he's calling rich - have paid above 50 per cent of the taxes and receive only 35 per cent of income. You can't just ignore them."

# Oil Surpluses: Myths & Realities

G. A. Costanzo
Vice Chairman
Citicorp

# Oil Surpluses: Myths & Realities

Remarks By
**G. A. Costanzo**
**Vice Chairman**
**Citicorp**
Before
**The American Bankers Association's**
**National Trust Conference**

Miami, Florida
January 27, 1975

Few challenge the statement that 1974 was a year of great uncertainty. International banking was deeply involved in this widespread fear. After the Herstatt bank failure in Germany last summer, the doomsayers predicted the collapse of the Eurodollar Market and urged international action to save the international banking system. Fortunately, their forecast proved wrong and that fear is largely behind us.

The international banking system has proven its resiliency by withstanding the shocks of exchange losses and the difficulties of second-tier banks in funding term loans in the short-term Eurodollar market. The euphoria of 1973 has now receded into traditional banking prudence. Eurodollar loan spreads now stand in more reasonable relation to risks and supporting capital cushions. Foreign exchange and bank placement lines stand in better relation to bank capital.

Still a dark cloud hovers over international financial markets. This dark cloud represents the fear that the oil surpluses generated by the oil producing nations cannot be financed and the consequence will be a breakdown of international trade and finance. The fear was most ably and widely expressed by an international panel writing in the January issue of *Foreign Affairs*.

Speaking directly to the point, the panel said: "A looming problem is the ability of the major banks to continue to accept such a large volume of funds in the form of short-term deposits. In all likelihood, unless further approaches to cooperative action are made within the next few months, some oil importing countries will have run out of goods to sell, or markets to reach, or capacity to borrow to cover their deficits, and a number may become unable to meet the servicing of the enlarged debts.

"Whether that would result in currency devaluations, in defaults by banking and business firms in those countries, in national debt moratoria, or in political revolution and debt repudiation, the entire structure of world payments, and of trade and financial relationships, would certainly be fractured," the panel concluded gloomily.

This dire forecast represents the kind of thinking all too evident since the World Bank and International Monetary Fund meetings last September. I don't subscribe to it. This morning I want to separate bleak myth from the more encouraging reality.

Let's begin by defining and quantifying the problem. Just how much of a surplus are we talking about? There is much confusion about this score. Figures are tossed around with abandon, for example: gross oil export proceeds, surpluses on current accounts, export of goods, balance of payments surpluses and even balance of payments on different bases—basic, liquidity, or official settlements.

The fact is that the Organization of the Petroleum Exporting Countries will receive $94 billion in actual payments for this oil in 1974, after making adjustments for the lag between oil-liftings and payments. That is an increase of $72 billion over 1973.

OPEC countries probably spent one-third of these incremental oil revenues of $72 billion on goods and services. Assuming no significant changes in other exports, these countries had a current account surplus of roughly $50 billion in 1974. I realize that my figure is lower than the consensus, which puts the surplus at $60 billion. But I am convinced that when the final figures are available, OPEC imports will be higher than the consensus, reducing the surplus below the general estimate.



We already know that at mid-year OPEC imports were at an annual rate of 50% over 1973. These annual surpluses will gradually decline as the oil producers step up their internal economic development. Even so the accumulated current account surpluses may total $300 billion by the end of 1980. That is the opinion of economic experts today.

My guess is that total accumulations may well be substantially less. First, as $10 oil works its way through the marketplace, we will see by 1980 basic changes both in supply and demand. Second, we underestimate the ability of OPEC countries to spend for social, economic and expensive military purposes, not to mention resources that unfortunately and inevitably will be wasted on politically motivated but economically ill-conceived projects.

Nevertheless, let's take the more pessimistic estimates of the consensus I mentioned and look at them closely. The problem is how to finance current account surpluses of $300 billion between now and 1980, on the order of $60 billion annually. Can it be done?

We immediately identify the first myth, which arises from confusing current account with balance of payments surpluses. The argument is made that the oil surplus of $60 billion in 1974, accumulating to $300 billion by 1980, creates an impossible financial problem for the importing countries. Strange as it may seem, the unperceived reality is that while the oil importing countries may well run accumulative current account surpluses of $300 billion by 1980, the true overall balance of payments between oil exporting and oil importing countries as a group will be in perfect equilibrium. As for the health of international trade and finance, it is the balance of payments as a whole and not the balance on current account surpluses that matters.

The recycling between the oil producers and oil importers as a group is automatic. This is so because the oil producers have only two possible uses available for their increased oil revenues. One, they can purchase goods and services. Two, they can acquire assets in the oil importing countries. There are no other options.

Another way of putting it is that oil producers in the first instance receive for their oil a U.S. dollar or sterling credit with a foreign commercial bank. At this point, a trade surplus is completely offset by a short-term capital outflow. The bank credit remains on the foreign bank's books until used to buy goods and services or is converted into a longer term bank deposit or other asset. Thus, while the oil exporting countries may not for a time spend their new earnings on goods and services, there is something else they can and must buy—short- and long-term real and financial assets.

To repeat, this first myth results from its proponents confusing balance of trade with balance of payments. What the oil exporters do not spend, they must invest in the industrial world. They are not foolish enough to hide it under mattresses. There can be no payments deficit in the industrial world as a whole.

At least for the next five years, the adjustment problem will not be between oil exporters and oil importers, but between oil importers themselves. Over the next 25 years there will be a transfer of real resources as the financial assets are converted into goods and services. For most countries this will mean only foregoing about six



months' growth, which while unpleasant is not catastrophic.

The immediate problem, however, remains the adjustment process between importing countries to ensure that no country is forced into excessively deflationary policies for balance of payments reasons outside of its control. I'll return to this point later.

A second myth involves commercial banks. Banks were expected to play an effective intermediary role in the first half of 1974, but they were expected to reach the end of their tether in the final quarter. By then, the flow of funds would accelerate and banks would reach the upper limits of their capacity to off-lend these funds, since they also would reach their prudent loan-capital and liquidity ratios and maximum country exposure risks. At that point, oil importing countries would run out of their capacity to borrow to cover their deficits. They would be forced into currency devaluations or defaults bringing a downfall of the world payments system. The conclusion follows that private markets cannot handle recycling and that government-to-government arrangements are the only answer.

Let's look at this second myth against reality. First, the international commercial banking system was not and is not flooded with oil money. Banks don't pay 10% or 12% for funds they cannot place. The fact is that the growth of Eurodollar deposits probably flattened out in the last half of 1974, while the demand for funds to cover loan commitments carried over from mid-1974 has been growing. The easing in Eurodollar rates in the last quarter reflected more money developments in the United States than oil surpluses.

If, in fact, oil surplus funds moved largely into short-term instruments during 1974, it was the result of market forces. The same market forces which produced an inverse yield for short-term funds induced the oil exporting countries and other investors worldwide to prefer short-term over long-term assets. It is only natural, of course, that oil surplus funds initially would be placed short-term. It takes time to formulate long-term investment policies and to develop the appropriate administrative apparatus.

I'm also certain that we would have experienced a speedier movement into longer term assets if the market had been conducive to such movement. Actually, when U.S. Treasury bill rates moved lower, funds began to move into intermediate government obligations. We know also that a number of countries made funds available to their professional investment managers for investment in equities. These funds have moved slowly into equities and have remained largely invested short due to the evaluation of market prospects by professional investment managers.

Again, reality banishes the myth that financial markets are unable to deal effectively with the flow of oil money.

This second myth is built on another fallacy—that the role of the private sector in recycling the oil surplus is limited to commercial banks alone. In fact, we have seen during the past few months more and more oil money flow outside the commercial banking system. Most oil exporting countries consider their holdings of short-term assets already more than adequate. Current flows of funds are considered investable and oil exporters are seeking long-term outlets.

The problem in the intermediation of oil surpluses is not one of converting short-term bank deposits into term loans to oil consumers, but one of getting a broad spectrum of financial institutions to work with oil exporters to find the proper mix of financial assets. The objective should be to balance yields against risks of inflation and safety of principal with appropriate geographic diversification consistent with size of markets and political and currency depreciation risks.

The investment objectives of each oil producer will differ one from the other depending on the oil reserves and degree of economic development for each. In one group are Saudi Arabia, Kuwait, Libya, Abu Dhabi and Qatar with 65% of the world's proven oil reserves, 48% of current output, but only 12 million people and limited levels of absorption for economic development.

At current levels of output, this group of countries has 50 years of oil remaining on the basis of proven reserves. Therefore, they are in the position of long-term creditors, the same as the United Kingdom was in the Nineteenth Century and the United States in the Twentieth Century. I expect to see at least 50% of the investments of these countries oriented toward such equity holdings as common stocks, real estate and other direct investments. The remaining 50% will go into such debt securities as corporate bonds, notes and commercial paper, government obligations, mortgages and direct loan participations.

Venezuela, Iran, Algeria and Iraq form a second group of countries which already has achieved substantial economic development, with oil reserves lasting about 25 years and a population of some 70 million. These countries can make effective use of their oil revenues over the next ten years in pursuit of further internal development. Accordingly, they will be interested mostly in short- and intermediate-term investments, less so with longer term currency, political and inflation risks.

Such countries as Indonesia and Nigeria may absorb their oil revenues in a few years and will not accumulate significant surpluses.

A third myth has it that the world cannot live with huge oil deficits and soon, country after country will go bankrupt, leading eventually to a breakdown of the existing international trade and payments mechanism. One reads frequently of the piling up of debt on debt and the plight of the developing countries.

If the myth were reality, we already would find evidence of countries running out of international reserves, reaching the point where they must begin to cut back on consumption and/or investment levels. A year of $10 oil is behind us and current account deficits against the oil exporters are estimated at $60 billion (although I believe the figure more like $50 billion, as I said earlier). With these kinds of figures, we easily would find many countries with a serious depletion of reserves.

Partial figures on international reserves are available for the first eleven months of 1974, and it is not too difficult to estimate figures for all of 1974. The results are quite surprising. They show that oil exporters increased their reserves by $35 billion (adjusting for some Kuwait reserves that escaped the reported statistics). Assuming the current account surpluses for this period were $50 billion, $15 billion was invested long and, more probably, spent in various unrecorded ways such as for military procurement, grants to neighboring and other less developed countries, and on international organizations. If oil exporters added $35 billion to reserves, which countries were the losers?



Strangely, there were no significant losers. The less developed countries collectively, excluding the oil exporters, gained $1 billion or $2 billion of reserves. The only significant loser among the less developed countries was Israel with a loss of $700 million. Even stranger, India, for whom virtual disaster was forecast, actually gained $200 million.

The developed countries in the aggregate also gained about $2 billion. Again the principal losers were not the expected ones. Australia lost $1.3 billion; New Zealand, $400 million; Sweden, $800 million; Denmark, $500 million, and Switzerland, $500 million. Italy, another predicted disaster area, ended the year with no change in reserves.

The reason for these surprising results is that the $35 billion increase in the reserves of oil exporting countries was matched by an equivalent increase in international liquidity on total world reserves. The increased reserves of the oil exporters took the form of short-term sterling and dollar claims, which had the effect of expanding international reserves.

What was by all counts to have been a disastrous year turned out to be a smooth period of transition. I expect the years just ahead will be similarly stable. I won't try to predict the form recycling will take, but I have faith in the workings of the marketplace.

To better understand and evaluate the myth that oil importers will soon be unable to service their debt, let's examine the impact of the new oil prices on different categories of countries.

Beginning with some of the more industrialized countries, specifically those oil importing countries comprising the Organization for Economic Cooperation and Development, the problem is one of facing the petroleum exporters' claims on their assets (debt plus direct investment) of up to $300 billion by 1980. We can expect that the OECD countries will reach a maximum indebtedness to the petroleum exporting countries shortly thereafter. A recent study by Hollis Chenery of the World Bank finds that at its peak, the service of this debt will be less than 2% of the OECD countries' GNP —even if interest on the debt reaches 5% in real terms (much more than is now being paid), the total burden will be less than 10% of projected exports.

As a point of reference, bankers usually feel comfortable with country risk exposure as long as debt service as a percentage of total exchange earnings does not exceed 15% to 20%. Thus we see that the problem between the industrialized, oil importing OECD countries and the oil exporting OPEC countries is manageable.

The impact of the oil import bill increases falls heaviest on the industrialized countries, because they are the major users of oil. Consequently, the adjustment problem is primarily one for these countries. Of the total increment of $72 billion in oil payments in 1974, only $7 billion fell on the less developed countries.

Even so, for some of the less developed countries, the margins for adjustment in consumption and expansion of exports are extremely narrow. For them, small adjustments pose serious problems for the maintenance of even limited growth. Let's look at their problem more closely.

To group all less developed countries in one category is misleading and confusing.



For some, the problem is not difficult and is manageable.

Latin America is one region that will likely emerge as a stronger economic performer in the new oil world. Here an in-depth study by Walter Robichek of the International Monetary Fund on the impact of the new oil price on Latin America in 1974 is very revealing. The region's five net oil exporters—Bolivia, Colombia, Ecuador, Trinidad and Tobago, and Venezuela—improved their balance payments on current accounts by over $6.5 billion in 1974. This exceeds the $5.2 billion deterioration, of which $3.9 billion was related to oil imports, in the current accounts of the other 19 oil importing Latin countries. The $5.2 billion deficit was fully covered by capital inflows so that the 19 countries emerged from 1974 with their international reserves intact. Capital inflow to them was actually $1.8 billion higher in 1974 than 1973.

Looking more closely at the 19 Latin American oil importing countries, we find that Brazil was hit most severely by the oil price increases. Its oil bill increased by some $2.3 billion in 1974, 60% of the total increased oil bill for all 19 Latin oil importing nations.

Well behind Brazil was Chile with an estimated $335 million increase in oil import costs, Argentina with $310 million, Uruguay with $120 million, Jamaica with $110 million, Peru with $105 million, Mexico with $100 million and the Dominican Republic with some $90 million. The five Central American Republics likely will have paid a total of $230 million more for oil imports in 1974.

Nine of the 19, excepting Honduras and Uruguay, either have adequate international reserves or should manage to attract enough foreign capital—or both—to withstand their current account deterioration this year. The other 10 will offset increased import bills by gains in the non-oil trading sector.

In the long term, the adjustment effort the 19 countries of Latin America and the Caribbean must make is less than 2% of their 1973 aggregate gross domestic product of $200 billion. This is a manageable problem, if one considers changes in the tax burden and current account balance of payments performance of individual countries within this group in recent years. Of course, if commodity exports from the region should fall below present levels, the problem would be aggravated. Obviously, the importance of sustaining, or even raising, the level of economic activity in the industrialized countries is critical.

Unfortunately, the figures from the Far East are not in yet. But, we may assume the situation is similar to Latin America. A few Asian countries, such as Korea and Thailand, have problems similar to those of Brazil. These countries will have to borrow large amounts to finance their oil deficits, but they have flexible and diversified economies able to adjust to the increased imports and changed internal allocation of resources. They will be compelled to cut back their development programs temporarily, but their long term prospects need not be seriously affected.

This brings us to the residual, hard core problem, the one billion people in the lower tier of the less developed countries, mostly in South Asia and in East and Central Africa. Their problems go far beyond oil. Export prices from this region have lagged world prices, while their import prices generally have risen sharply. Their terms of trade have deteriorated 20% in the past two



years alone. For them, food shortages and high prices are as important as the rise in oil prices.

In the short term the margins for adjustment for these countries are severely restricted, and I agree with those who argue an increase in concessional lending to them of $3 billion or $4 billion a year for the next several years.

To this end we have the newly established Development Committee, which can play an important role in transferring resources on a concessional basis from the oil exporting and industrial countries over a transitional period.

Even in these countries there is reason for hope over the long term. India, which is about half the problem I'm discussing at the moment, holds tremendous potential for export expansion. India, unlike Korea, Brazil, Mexico and other rapidly developing countries, has maintained an inward orientation instead of shifting into manufactured exports. India already has the industrial structure to provide a basis for rapid export growth, if it were to give that objective the priority necessary to get the wheels turning in this new direction.

Finally, for those who pose the question: "Can the world banking system finance the simultaneous huge deficits of many large countries?" let me say that these countries have many alternatives to borrowing. A first line of defense is a country's international reserves. Fortunately, international reserves today are at high level and are well distributed. Total world reserves stand today at $210 billion, including $43 billion of gold valued at $42.22 an ounce.

If gold is valued at current prices, it would add some $120 billion to world reserves. With gold at current value, the reserves of the European Common Market and Japan—the areas hardest hit by oil price increases—total $140 billion.

Additionally, the Common Market countries and Japan have access to about $15 billion easy credits in the International Monetary Fund, not including use by the Fund of its large gold holdings. These countries also hold another $10 billion or $20 billion in central bank swap arrangements.

The Common Market members also have access to special arrangements available within the community.

Deficit countries also may attract capital to convert payments deficits into surpluses. How they can attract more capital is a subject worthy of another speech, but here it suffices to say political and economic stability are critical factors.

Still another way to overcome deficits is the expansion of exports relative to imports. Largely unnoticed, the adjustment process to new oil prices is going on every day before our eyes in the form of a fantastic expansion of world trade. World exports have climbed from $500 billion annually in 1973 to a $750 billion annual rate in the second quarter of 1974, a 50% increase in just one year. Some $70 billion of this $250 billion increase is attributable directly to oil price increases.

Industrial Europe increased its exports by $90 billion last year, more than twice as much as its increased oil bill. Japan increased its exports by $20 billion; the U.S. by $30 billion. These figures demonstrate clearly that the developed countries have the basic industrial capacity to transform balance of payments deficits into balance of payments surpluses after relatively few years.



Finally, I would like to debunk one last myth—that oil surpluses are so huge, the oil producers will end up taking over most companies of the industrial world.

This is unlikely for a number of reasons. First, the annual accumulation of $30 billion to $40 billion by the producers, as estimated by some for the rest of the 1970's, compares with total world savings each year of about $500 billion. As for the estimated accumulation of $300 billion by 1980, we estimate the current stock of financial assets in the United States, Europe, Japan and Canada at about $3,500 billion. By 1980 this amount easily may exceed $6,000 billion. The $300 billion accumulation would then amount to only 5% of the outstanding stock of debt and equity instruments in 1980. Some estimate that the figure of $300 billion would be about 5% of the value of all stocks and bonds of the major OECD countries in 1980, or 2% of their fixed assets. Instead of worrying about something practically impossible and clearly unlikely to occur, we should be more concerned with the loss of income and wealth that is likely, should we pursue misguided efforts to limit oil deficits.

Thus, there is certainly no need for the oil producers to take over control of industrial companies in the oil importing countries. Even if they wanted control, they do not have the manpower to exert much effect on the operations of many firms. The pattern I see is much like the administration of pension funds. The oil surplus countries will rely on professional investment managers around the world to help them place their funds in a wide range of geographically diversified assets.

In summary:

1. There can be no doubt that we face a major restructuring of the world economy

such as we have not seen since the early post-World War II years. Besides rising oil prices, we are confronted with serious world-wide inflation, shortages of food and fertilizer, and fears of financial disaster.

2. As I have tried to demonstrate, the problems though difficult are soluble. The doomsayers who have predicted economic disaster within six months since the beginning of 1974 will be proven just as wrong this time as they were in 1946. The market mechanism is working to restore balance. For the industrial countries as a whole, the adjustment process is tremendously eased in that the oil surpluses will flow largely to them. There will be individual countries such as Italy that may have problems financing their external deficits in the initial period, but this is much more associated with their underlying position than with oil. The U.S. proposal for a "safety net" is a positive response to the question of how this kind of problem can be handled. In the longer run it will be the responsibility of these countries to restore the confidence needed to attract capital inflows and/or expand exports to restore balance within the industrial countries. This also will mean policy adjustments on the part of the stronger industrial countries that will attract much of the oil surplus funds one way or another. Countries like the United States, Germany and Switzerland certainly will face the need to promote external capital investments or accept current account deficits through currency revaluations or expansionary domestic policies.

3. Most of the less developed countries will be able to finance their increased oil import bills by policies aimed at attracting more foreign investment and developing export oriented economic growth policies. Sustaining economic growth in the industrial



countries and keeping these markets open will be of critical importance to these less developed countries.

4. There remain the hard core few countries in South Asia and Central and East Africa, especially India and Bangladesh, which will need concessional assistance over the next few years. I believe that the oil exporting countries will cooperate in helping these countries and that together with the advanced industrial nations the task of raising $3 billion to $4 billion annually for these less developed countries over the next several years is not major.

Even so, the creation of a "safety net," such as the $25 billion facility proposed by the U.S. Government to aid consuming countries that may not be able to borrow in the private marketplace, makes a lot of sense.

5. Finally, the commercial banks around the world have a major role to play in facilitating the adjustment process. Our investment management departments can be of great importance in helping the oil exporters channel their surpluses into productive investments without disruption to national capital markets. We can put together loan projects in a form acceptable for financing by the oil producers. We, the commercial bankers of the world, are in the best position to convert the financial resources of the oil exporters into productive investments, creating job opportunities and a better life for people all over the world.

CITICORP

January 28, 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: JACK MARSH

As you are aware, the meeting this morning is broken into two separate parts: (1) relating to the economic/energy program; and (2) relating to the Vietnam supplemental. The economic/energy package should be discussed first.

It is suggested that the format of the meeting follow that which you used yesterday with the large group of Senate members. This meeting went extremely well and the feeling is that you came out well ahead.

Such a plan envisions a brief 10 minute summary of your energy plan pointing out that it is necessary to address the problem and how you went about developing the plan. This development process eliminated many other options such as rationing because they are not feasible.

As you are aware, Senator Scott has indicated prematurely your willingness to compromise. It will probably be helpful to move away from the Scott position and place this in a somewhat different context. The recommendation would be that you recognize that Congress will probably have modifications to make to the total plan and you, of course, will consider those modifications.

I suspect that you will be queried on the family cost figure of $345. Frank Zarb will be ready to respond to that.

Once you have made your presentation, you can probably expect inputs from Congressional leaders. It would probably be best if you could get expressions from Speaker Albert, Senators Mansfield, O'Neill, Ullman and Byrd first to see what they have on their minds and just where they stand.

The hook-up of the debt ceiling and the tariff delay will probably raise some very basic procedural questions as to how these two measures should be considered:

(1) An open or closed rule;

(2) Do you really wish these measures to be separate or considered together;

(3) You may be asked about your veto position on

(a) both measures together

(b) the tariff delay by itself.

(4) A compromise package in the event you veto the Bill as reported out of Ways and Means.

It should be remembered this is the first opportunity you have had to meet with the Democratic leaders since the State of the Union Message and, therefore, you will want to emphasize the points you made consistently with other Congressional members singly or in groups:

(1) Your good faith efforts to work with Congress;

(2) Your willingness to listen to the alternative proposals;

(3) The urgency of the situation;

(4) The need for action;

(5) The Administration has the only workable plan.

In closing, I suggest that you distribute to them the recently prepared educational materials in order to help explain your program.

THE WHITE HOUSE

WASHINGTON

January 29, 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: JACK MARSH

It is suggested that you meet with key Congressional Republican leaders for the purpose of developing opinion and voting support for the energy program which faces critical Floor action next week. It is recommended that the group go beyond the classic leadership to include Republican members who are recognized as opinion-makers within the Party and within the Congress.

It is anticipated this group would be invited to the White House for a meeting with you and your key advisors in the economic and energy field. There are several possibilities.

1. A breakfast meeting (there are time constraints with this).

2. An afternoon meeting (assuming a time when the House is not in session which would limit a meeting to Friday, Saturday or Sunday).

3. A supper meeting which would be the most desirable both from the standpoint of time and attendance.

It is contemplated that this would be a working meeting with intense concentration on the program, followed by a discussion as to next steps. The following format is proposed:

1. Introduction by the President.

2. Explanation by Zarb and energy advisors of the President's program.

3. Critique of the Quota-Allocation-Ratioing (QAR) program.

4. Questions and Answers.

5. Develop a plan of action:

   (a) Assessment of House and Senate vote strength, pro and con.

   (b) Identification of supporters.

   (c) Identification of Republicans against.

   (d) Identification of undecided Republican votes.

   (e) Make assignments of persons to be contacted.

   (f) Recommendations for further action.

It is expected that those attending the meeting will perform two primary tasks:

(1) Spokesmen to explain the program to others individually, or on the Floor;

(2) Be responsible for contacting members that are either undecided, or "against", and to firm up those who are "for".

This proposal assumed that both House and Senate Republican members will be present and would include the following:

(1) Classic leadership.

(2) Ranking members of jurisdictional committees.

(3) Regional Whips.

(4) Special invitees (members who enjoy special status with other members recommended by the President or others to attend).

It is proposed that such a meeting would begin at 6:00 in the evening with a 30 minute reception and dinner, in the State Dining Room at roundtables at 6:30 p.m. The program would being at approximately 7:30 and would conclude at around 10:00 p.m.

Because time is critical it is suggested this meeting be held either Thursday, January 30 or Friday, January 31 in order that those attending will have the weekend and the first of the week to undertake their assignments. An early meeting also enables us to have a follow-on meeting with other groups Monday or Tuesday evening.

In summary, the purpose of this meeting will be to (1) firm up the Republican base; (2) develop a cadre of strong advocates to explain the Administration's program and point out the inadequacy of alternative programs. Through advocacy and explanation, it is assumed we can convince not only Republicans but others to support the Administration's program.

Options:

Prefer:

Breakfast ___________
Afternoon ___________
Dinner ___________

Date:

Thursday ___________
Friday ___________
Monday ___________

None of the above. Prefer regular business type meeting ___________

Date:

Thursday ___________
Friday ___________
Monday ___________

Special Invitees:

House: ___________ ___________

___________ ___________

___________ ___________

Senate: ______________ ______________

______________ ______________

______________ ______________

______________ ______________

Administrative Assignments:

1. Prepare Congressional list and extend invitations -- Friedersdorf.
2. Arrangements -- Friedersdorf.
3. Program format -- Zarb.
4. Handouts -- Zarb.
5. Staff Guests -- Cheney.
6. Cabinet Guests - Connor/Friedersdorf.

THE WHITE HOUSE

WASHINGTON

January 29, 1975

DR
we need an answer on this fast!
Dick

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President has a copy.

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3. Critique of the Quota-Allocation-Ratioing (QAR) program.

4. Questions and Answers.

5. Develop a plan of action:

   (a) Assessment of House and Senate vote strength, pro and con.

   (b) Identification of supporters.

   (c) Identification of Republicans against.

   (d) Identification of undecided Republican votes.

   (e) Make assignments of persons to be contacted.

   (f) Recommendations for further action.

It is expected that those attending the meeting will perform two primary tasks:

(1) Spokesmen to explain the program to others individually, or on the Floor;

(2) Be responsible for contacting members that are either undecided, or "against", and to firm up those who are "for".

This proposal assumed that both House and Senate Republican members will be present and would include the following:

(1) Classic leadership.

(2) Ranking members of jurisdictional committees.

(3) Regional Whips.

(4) Special invitees (members who enjoy special status with other members recommended by the President or others to attend).

It is proposed that such a meeting would begin at 6:00 in the evening with a 30 minute reception and dinner, in the State Dining Room at roundtables at 6:30 p.m. The program would being at approximately 7:30 and would conclude at around 10:00 p.m.

Because time is critical it is suggested this meeting be held either Thursday, January 30 or Friday, January 31 in order that those attending will have the weekend and the first of the week to undertake their assignments. An early meeting also enables us to have a follow-on meeting with other groups Monday or Tuesday evening.

In summary, the purpose of this meeting will be to (1) firm up the Republican base; (2) develop a cadre of strong advocates to explain the Administration's program and point out the inadequacy of alternative programs. Through advocacy and explanation, it is assumed we can convince not only Republicans but others to support the Administration's program.

Options:

Prefer:

Breakfast ___________
Afternoon ___________
Dinner ___________

Date:

Thursday ___________
Friday ___________
Monday ___________

None of the above. Prefer regular business type meeting ___________

Date:

Thursday ___________
Friday ___________
Monday ___________

Special Invitees:

House: ___________ ___________

___________ ___________

___________ ___________

Senate: ____________________ ____________________________

____________________ ____________________________

____________________ ____________________________

____________________ ____________________________

Administrative Assignments:

1. Prepare Congressional list and extend invitations -- Friedersdorf.

2. Arrangements -- Friedersdorf.

3. Program format -- Zarb.

4. Handouts -- Zarb.

5. Staff Guests -- Cheney.

6. Cabinet Guests - Connor/Friedersdorf.

1. Clemency

2.

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Wydler

Holt

Shultz

THE WHITE HOUSE

WASHINGTON

January 31, 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: JACK MARSH

In addition to the background Max Friedersdorf has supplied, I am passing on several additional points for your consideration. These come from conversations I have had with several Republican leaders, particularly Barber Conable.

1. The point is stressed as to how important this issue is, particularly as to your future relations with the Congress. It would be helpful for you to emphasize this point to the members present.

2. You should draw on your own personal appeal to gain support for the measure. Everyone agrees that you have a tremendous resevoir of good will and you must draw on this strength on this issue. Appeals to Administration support--Presidential support-- are not as compelling as your personal appeal for their help in a common endeavor for the Nation's good.

3. They must be challenged to think in terms of the need to have an oil policy in order to cope with cartelism of OPEC. This approach shifts the target from opposing partisan views to the real problem which is the threat posed by an international cartel that which at their whim can hold this Nation and its economy as a hostage. I think there is a good deal of merit in portraying the problem in this way.

4. Associated with Cartelism is another domestic problem and that is uncertainty on the oil problem. This uncertainty is reflected in a lack of confidence to purchase cars. This uncertainty is reflected where we stand on emission standards for cars. Many buyers are waiting for better models.

5. Finally, the test is not a Republican test or a Democratic test nor is it a test of the Congress or the Presidency in the eyes of each other. The real test is how we are viewed abroad particularly by the OPEC Nations whose pricing policies will be determined in large measure on what they consider to be our National will and our sense of discipline. If we cannot bring ourselves to impose a levy of even a $1, we are inviting them to impose levies that are much greater.

* * *

It has been suggested that you give some special attention to Bill Frenzel and Bill Steiger the new members of the Ways and Means Committee.

The Washington Post
AN INDEPENDENT NEWSPAPER

FRIDAY, JANUARY 31, 1975

# The Critics of the Energy Plan

A SUBSTANTIAL and reasoned opposition to President Ford's energy program is now beginning to emerge. It argues that oil conservation cannot be kept separate from the swings of an economy that runs mainly on oil—and it is now essential to do nothing in energy policy that will make the recession worse. In its massive complexity and scope, the President's energy policy threatens, unfortunately, to do precisely that.

The first shrieks of protest, after the President's State of the Union address, came naturally enough from the people who don't want to change anything. To those people, the President could quite rightly respond: If you don't like this program, what alternative do you favor? But a much more trenchant critique is appearing, and it deserves extremely careful consideration by Congress and the country. The consequences of the President's plan are very great. The country needs to understand what it is getting into.

The most succinct examination of these consequences, so far, was offered by three economists Wednesday morning at a hearing of the Joint Economic Committee, now being run by Sen. Humbert Humphrey (D-Minn.). The three were Hendrik S. Houthakker of Harvard University, John C. Sawhill, the recently fired head of the Federal Energy Administration, and George L. Perry of the Brookings Institution. Unlike Sen. Humphrey, none of them belongs to what you might call the natural or habitual opposition of the administration. Mr. Houthakker was a member of the President's Council of Economic Advisors for the first two years of the Nixon administration. Mr. Sawhill served at FEA under both Presidents Nixon and Ford. Mr. Perry is known for the excellence of his technical analysis rather than for the advocacy of any particular political view. The warnings they delivered were striking in their unanimity.

All three argued that the general state of the economy now has to take an absolute priority over the issues of conserving energy and paying for it. "The economy is now going through a decline of terrifying steepness," Mr. Houthakker observed. All three emphasized that the first necessity is to get the nation's production and employment expanding again. None of them thought that the President's proposed tax cut, a $16 billion rebate on 1974 taxes, is large enough; all of them thought that a further and continuing reduction of current taxes would be necessary.

In regard to energy, they emphasized, it is crucial not to embark on new policies that will interfere with the general recovery of the economy. "At a time when a major shift in fiscal and monetary policies is needed just to undo the effects of past price increases and reverse the recession in the economy," Mr. Perry said, "it would be particularly difficult to offset the burden of these new price increases. The offsets proposed by the President are insufficient." Mr. Sawhill last year presided over FEA's drafting of the plan for Project Independence, the drive to eliminate American reliance on any bloc of foreign oil producers. But, he told Sen. Humphrey's committee, the President's goal of cutting oil imports one million barrels a day by the end of the year is too damaging and costly for the economy to handle in its present fragile condition. He suggested a lower target, gradually expanded over coming years. "Only in this way," he said, "through a more gradual approach, can we hope to return our economy to health as rapidly as is necessary for our own national welfare and that of our allies. . . . We must not sacrifice economic recovery to energy conservation."

The President's proposals, Mr. Houthakker asserted, "are especially inappropriate in the present economic context because they would raise prices and absorb purchasing power, just the opposite of what we need."

Inevitably, we come back to the President's question: If not his program, then what? Mr. Houthakker would calmly leave the whole thing to the working of the market, with current prices raising supply and cutting demand—but not prices artificially raised to speed up a process that is already contributing to our present troubles. He thinks that the strains on the international financial system, created by paying for expensive oil imports, have been exaggerated. Mr. Sawhill and Mr. Perry in contrast would have the government set import quotas. But Mr. Perry would not set them so low that shortages appeared at present prices. Mr. Sawhill would impose a gasoline tax rising in steps, perhaps 10 cents a gallon now and a nickel a year through the rest of the decade. In each case, these economists testified, they are fearful of the shocks that the President's massive plan, with its many imponderables, would impose upon an economy that is going through a historic contraction.

This warning deserves to be taken seriously. Reliance on a free market to adjust energy supplies and demand is not a terribly reassuring prospect, since all energy prices are ultimately set by governments and the only real question is: whose government? But the broader suggestion of moving in stages, in view of a recession that is turning out to be very much worse than anyone had expected even a couple of months ago, needs to be taken seriously. The issue is not how far we can cut back as a nation in our use of imported oil, but how fast. It is necessary to keep priorities in mind. The purpose of conservation is to ensure the stability of the nation's production and wealth. It follows that deliberately disruptive and deranging cures are—as Mr. Perry told the committee—worse than no cure at all.

The Washington Post

*Washington, D.C., November 1, 1974*

IN A BRIEF ceremony the other morning, John C. Sawhill, the Federal Energy Administrator, was dumped off the fantail of the Good Ship Sunshine. The Ford administration likes to be a happy shop. It has little in the way of an energy policy, and no clear sense of what the coming winter may bring. But it is full of cheery confidence, and that gloomy fellow Sawhill was getting tiresome with all his statistics and exhortations. Mr. Sawhill kept wanting to move into the kind of serious fuel conservation that causes major disruptions and gets people upset. That is not the style of the Ford administration, which so far has managed its affairs mainly in the hope that it can avoid the hard questions indefinitely. We offer our condolences—but not to Mr. Sawhill, who will swim to shore and doubtless resume a prosperous private career. The condolences go to an administration that expects to sail smoothly through the coming winter merely by turning down the thermostat to 68 degrees—at a time when the Federal Reserve Board is talking publicly about the banks' stability and the economists are speculating how soon the unemployment rate will surpass 7 per cent.

Mr. Sawhill was not an adept politician, nor was he right on every issue. But in recent weeks he has been the only ranking official in the Ford administration willing to talk publicly about the full implications of the oil prices. The real difference between Mr. Sawhill and the President is that Mr. Sawhill understands the need to cut consumption seriously and quickly, while the President does not fully understand it. To be fair, a serious program of fuel conservation carries costs that make any experienced politician wince and look away. It is impossible to work out rules that will not be unjust to some people. It is also impossible to avoid destroying some jobs, at least temporarily. It is not difficult to see what led to Mr. Sawhill's abrupt departure.

On Sept. 8, for example, he submitted a long and detailed series of answers to questions put to him by Sen. Henry M. Jackson (D-Wash.). The senator wanted to know whether the United States had a clear policy to get oil prices down. "At present," Mr. Sawhill said, "the United States does not have a policy . . ." By an unfortunate coincidence, that was the day when President Ford himself addressed the United Nations and called for lower oil prices. Mr. Sawhill was right, but that did not make the moment any less embarrassing.

Throughout the early autumn Mr. Sawhill was pressing hard for a higher tax on gasoline to reduce consumption. The President never liked the idea. The thought of higher gasoline taxes makes people angry. Eventually Mr. Ford promised flatly that there will be no gasoline tax increases. Instead, he asked people to drive a bit slower to save fuel.

An intricate struggle over oil price controls has been going on for some time. The Secretary of the Interior, Rogers Morton, announced last Thursday that he was considering—just considering, mind you—a substantial reduction in the share of oil production that is covered by controls. That appears to have been another defeat for Mr. Sawhill, who opposed relaxing the controls. His agency's figures show that even the most expensive methods of oil recovery do not entirely justify decontrol.

The most serious point of conflict appears to lie in Project Independence, the plan drafted over the past year to reduce the nation's need for imported oil. The plan will not be published until next week, but its main points have already been reported in this newspaper by Thomas O'Toole. The prevailing view in the White House and the Cabinet is that drastic conservation is unnecessary, because we can greatly increase our domestic fuel supplies instead. But as Mr. Sawhill's Federal Energy Administration drafted it, the proposed plan warns that any great expansion of domestic supplies will be slow, expensive and in some cases destructive to the environment. Expanding domestic sources of energy can make quite a difference in the 1980s, but there is very little that can be done in the near future—and the near future is crucial. If you accept that truth, then it follows that the only way to reduce imports is through reducing consumption. But that logic offends the White House—not because it is wrong, but because it leads to an uncomfortable conclusion.

To replace Mr. Sawhill, the President has chosen Andrew Gibson, who ran the Maritime Administration for three years under President Nixon. The chief job of any Maritime Administrator is to keep the peace among the swarms of lobbyists whose unions and shipyards live on federal subsidies. Mr. Gibson's previous experience in the field of energy seems to lie chiefly in the business of leasing oil tankers. By this appointment, Mr. Ford is telegraphing a message that he does not expect any very forceful and realistic policy to emerge from the FEA. Instead of cutting down sharply on oil consumption, we are evidently going to live dangerously and trust to luck a little longer.