The original documents are located in Box 14, folder "Energy - Federal Energy Administration: White Paper on Gasoline Rationing (2)" of the John Marsh Files at the Gerald R. Ford Presidential Library.

ANALYSIS OF GASOLINE RATIONING

Energy Conservation and Environment
Federal Energy Administration
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SUMMARY

Description of Rationing System

o Each licensed driver in the country would receive an equal monthly allotment of coupons entitling him to purchase 36 gallons/month at the controlled price. These coupons could be freely traded or sold. The coupon market would permit those drivers with needs greater than those represented by the monthly allotment to purchase additional coupons from those who use less than their monthly amount.

o Commercial users would receive coupon allotments equivalent to 90 percent of their consumption during the 1973 base period.

o For that limited class of users for whose special needs the coupon resale market is not a reasonable solution, 3% of the coupons would be set aside and distributed by the state. This distribution would be based primarily on emergency or hardship.

o Coupons would be picked up in person at Post Offices by each eligible individual. They will be invalidated at the pump at time of purchase, and deposited by retailers with banks in a special coupon account. Gasoline deliveries to suppliers will be made to retailers only for amounts equivalent to coupons collected.

Gasoline Use Data

o Estimated consumption in 1975 is 6.4 million barrels per day or 270 millions of gallons per day (MG/D)

o Number of licensed drivers in 1974 was 125.1 million. There will be an increase of up to 15 million anticipated if coupon rationing is put into effect.

o Without rationing, each driver would use 50 gallons per month.

o With the expected increase in licensed drivers and supply limited by 1 million barrels per day, by rationing, the allowance for each licensed driver would be: per day = 1.2 gallons
per month = 36 gallons
per year = 432 gallons

Problems with Gasoline Rationing

Gallons per month and price of Gasoline

o To save 1 million barrels per day, while assuring
   adequate fuel for business will mean limiting each
   licensed driver to about 36 gallons per month,
   compared to current average of 50 gallons/month.
   It is expected that the coupons will sell for
   about $1.20 per gallon. Hence, for those
   who must purchase more than their basic ration,
   the effective price of gasoline (pump plus coupon
   price) is estimated at $1.75/gallon.

Impact on National Energy Goals

o Gasoline rationing, while it may limit consumption
   in the short run, makes no contribution to our mid-
   and long-term goals of energy independence, because
   it provides no incentives for increasing supply.

o Gasoline consumption is only 40% of total petroleum
   use. Residual and fuel oil comprise a substantial
   amount of total petroleum imports. By concentrating
   exclusively on private vehicles and gasoline, other
   fruitful areas for energy conservation
   are not addressed -- such as improved industrial
   efficiency and better constructed and insulated
   buildings. In the final analysis, we cannot be
   independent unless these other petroleum uses are
   also reduced dramatically.

Potential for Inequities

o Each person receives an equal number of coupons,
   but use of gasoline varies widely among drivers.
   Thus, rationing inevitably leads to inequities.
   Some examples are:

   - A widowed secretary with two children living in
   the suburbs who commutes 16 miles each way to work
   in a car that gets 12 mpg will experience a 68%
   increase in her commuting costs, because she must
   purchase 17 additional coupons each month at an
   average cost of $1.20 per gallon. This amounts
   to about $245/year in additional costs.

   - A blue-collar worker who owns a car that gets only
   9 mpg can drive just over 320 miles/month on his basic
   ration, and could not easily afford to purchase a new,
   more efficient automobile. On the other hand, an
   affluent neighbor can readily trade in his equally
   inefficient old car to purchase one getting better

than 22 mpg. This allows him to drive over
790 miles on the same allotment of coupons.

- Substantial regional inequities would exist.
The average driver in some rural states such as
Montana travels nearly 600 miles per month versus
about 300 in less rural states such as New York
and New Jersey. Similar disparities exist between
city dwellers and suburbanites. Under rationing
each would receive the same gallonage.

- Certain very poor persons, such as migrants, drive
large distances each year. They can neither afford
to buy additional coupons nor are alternative methods
of transportation available to them.

- The recreation and tourism industry would be very
heavily impacted, as would the auto industry. Auto-
mobile sales could decrease 35% from what they would
otherwise be.

Increase Bureaucracy and Complexity

o The Government would be involved in many new aspects
   of our every day life, adding an inescapable portion
   of bureaucracy, complexity, and inconvenience.

o The Government would decide:

   - if a new business should get fuel;
   - if expanding businesses deserve more fuel;
   - if specific individuals would qualify for
     more coupons because of hardships.

o Gasoline rationing can be implemented but it is
   complex, expensive, and at best a short term solution.
   It takes 4-6 months to implement, about 15 to 25,000
   full-time people and $2 billion in Federal costs,
   uses 40,000 Post Offices for distribution, and requires
   3,000 state and local boards to handle exceptions.

o Because coupons are transferable, they must be picked
   up by each driver in person quarterly at Post Offices.
   Long lines and delays are inevitable.

o Gas stations, with limited quantities to sell, are
   unlikely to maintain more than the most limited
   service hours. Evening and weekend closings are
   almost a certainty.

Impact on GNP

o   Use of allocation and rationing to reduce imports
     by one million barrels per day could create a drop
     of nearly 13 billion dollars in the GNP and place
     several hundred thousand more workers on unemployment
     rolls. Also, rationing would have an inflationary
     impact due to the significantly higher clearing
     price of gasoline coupons sold by those having excess
     coupons.

Comparison of Gas Rationing and President's Program

o   Each option has major regional impacts; rationing
     hits the mountain states, the southwest and the
     mid-west hardest. The President's program affects
     New England and the east coast.

o   Rationing will reduce consumption in the short term
     but is inadequate as long term solution. The
     President's program is effective in both the short
     and long run.

o   Both rationing and the President's program transfer
     about $2 billion to poor families in the first year.

o   Rationing is costly and complex; the President's
     program is inexpensive and easy to administer.

o   Rationing raises the CPI by over 2.5 percentage points:
     the President's program by about 2.5 points.

o   Rationing could cost the country $13 billion in GNP
     and a substantial increase in unemployment; the
     President's program would have negligible effects
     in each area.

DESCRIPTION OF COUPON RATIONING SYSTEM

At the time of the 1973 embargo an effort was begun to
design a rationing plan. After much analysis regarding
various possible approaches, that effort culminated in
the development of a proposed rationing program and the
purchase of 4.8 billion coupons. A description of that
proposed plan is outlined below.

I. SYSTEM OPERATION

A. Entitlements

o An estimated 140 million licensed drivers receive an
   equal monthly coupon allotment (estimated at 36 gallons
   per month). These coupons could be freely traded and
   sold.

o Commercial users receive a coupon allotment equivalent
   to a percentage of base period consumption, estimated
   at 10% less than 1973 consumption.

o State set-aside for special cases (3% of available
   supply), i.e., migrants, the handicapped, etc.

o Government and non-profit organizations included in
   commercial sector.

o Coupons for first quarter are all of the same denomina-
   tion, and are not serialized. Changes could be made
   in subsequent quarters.

B. Distribution

o Postal Service would distribute coupons at the 40,000
   Post Offices four times a year.

o Estimated that 4.8 billion coupons would be needed in
   first quarter (amount currently in storage).

o Under special conditions, an agent could pick up
   coupons for those not able to do so themselves.

o Users would pay a fee of $3.00 per quarter amounting to
   $1.5 billion. (This would cover most of estimated
   program cost).

o Local Boards throughout the states would handle special
   appeals from state residents with emergency or hardship
   gasoline needs.

o In first quarter, individuals would turn in self-
   executed application forms at their Post Office. Postal
   employees would validate application, examine and mark
   driver's license, and issue ration coupons.
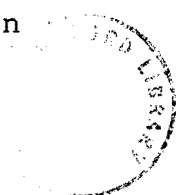
o   In subsequent quarters, licensed drivers would
    receive state-issued authorization cards in the
    mail, entitling them to pick up ration coupons
    at their post offices.

o   For first quarter, commercial users would submit
    an FEA form to their bank, which would issue them
    an allotment in the form of a coupon draft. These
    drafts would be exchanged for coupons at the Post
    Office. Forms would be forwarded by banks to FEA
    so that FEA could issue coupon drafts for the
    second and following quarters.

o   Forms retained for audit purposes.

o   U.S. agencies would apply directly to FEA for coupon
    allotments.

C. Banking System

    o   Commercial banks would be mainstay of coupon
        redemption mechanism.

    o   Initially, gas stations take deposit ration coupons
        received from motorists to local banks and receive
        gasoline drafts (in gallons) enabling them to pur-
        chase additional gasoline from their supplier.

    o   In subsequent quarters, a complete ration banking
        system would be established, in which commercial,
        government and non-profit users along with gas
        stations, and suppliers, would participate.

    o   FEA Processing Centers would handle initial appli-
        cations and maintain records of all commercial
        users. These centers would issue drafts for ration
        coupons in subsequent quarters, through the mail.

D. Coupon Resale Market

    o   Unused coupons would be freely traded or sold.
        Those with excess coupons could sell them to
        those willing to pay the price.

    o   Federal Government would make no attempt to control
        or regulate trade in coupons except to identify and
        prohibit practices which inhibit natural inter-
        play of market forces.

    o   It is estimated that excess coupons would be sought
        by more than one half of all users.

E. State Set-Aside

    o State set-aside of coupons (about 3%) would be
       available to recognize claims of users for whom
       the resale market is not a vehicle for their
       special needs.

    o About 3,000 local boards throughout the states
       would administer the set-asides, replying to
       applications.

    o The State set-aside will also be used for organiza-
       tions or governmental units performing essential
       public health or safety services.

    o Federal Government could provide guidelines to
       assure uniform application of eligibility criteria.

F. Enforcement System

    o Vigorous enforcement program would be required to
       prevent widespread abuses.

    o The audit program would focus on commercial and
       non-profit users to detect overstatement of base
       period volumes, and on gasoline suppliers to
       detect illegal shipments of gasoline.

    o There would also be a system to detect multiple
       applications by individuals.

II. PRELIMINARY ESTIMATE OF RESOURCES REQUIRED (STEADY-STATE
     ANNUALIZED BASIS)

A. Personnel Resources

    (1) Federal

        FEA Headquarters - 625 positions

        FEA Regions - 3,250 positions (1,200 opl; 2,000 enforcmt)

        U.S. Post Office - unknown

        Non-FEA Enforcement - 2,500 positions

    (2) State and Local

        3,000 local boards @10 each (15,000 volunteers;
         15,000 support staff)

        51 Department of Motor Vehicle @100 each - 5,100
         positions

B. <u>Costs</u>   (million $)

    USPS Distribution @ $1.60 per transaction   845

    USPS shipping costs   50

    Coupon printing serialized   195

    Forms printing   30

    ADP system   200

    Public Education Materials   10

                                                     1,330

    Direct Salaries

    o   Federal (6375 @ 20K)   127.5

    o   State and local (20,100 @ 20K)   402

    <u>GRAND TOTAL</u>   <u>1.86 billion</u>

GASOLINE USE DATA

Use Data

A. Estimated consumption in 1975
    Millions of barrels per day (MB/D)   6.4 MB/D
    Millions of gallons per day (MG/D)   270 MG/D

B. End use categories - volume (MG/D) and percent

Private use	205	76%
Business/Commercial	57	21%
Government	8	3%

C. Number of registered vehicles in 1975   130.75 million

D. Number of licensed drivers in 1974   125.1 million
    (increase of up to 15 million
     anticipated if coupon rationing is
    put into effect)

Programmatic Assumptions for Rationing

A. Will achieve 1 MB/D saving through reduction
in gasoline consumption

B. Business will receive 90% of 1973 gasoline
consumption

C. Coupons will be provided to licensed drivers
as opposed to allocations based on registered
vehicles

Key Parameters of Data and Assumptions

A. Savings target (1 million B/D)   42 MG/D

B. Business and Government Allowance
    o   Estimated 1975 consumption   65 MG/D
    o   Less 10% of 1973 Consumption   6 MG/D
    o   Allowance   59 MG/D

C. Private Use Allowance
    o   Estimated 1975 consumption   205 MG/D
    o   Less reduction   36 MG/D
    o   Allowance   169 MG/D

D. Allowance for Each Licensed Driver
    Gallons: Per day = 1.2
        per month = 36
        per year = 432

E. Private Use of Automobiles by Trip Purpose

      Work trip   31%

      Recreational trip 31%

      Family business   34%

PROBLEMS WITH GASOLINE RATIONING

Gallons per Month and Price of Gasoline

o To save 1 million barrels per day, while assuring
adequate fuel for business will mean limiting each
licensed driver to about 36 gallons per month,
compared to current average of 50 gallons/month and
restricting businesses to 10% less than their
last year's use. It is expected that the coupon
will sell for about $1.20 per gallon during the
first year. Hence, for those who must purchase
more than their basic ration, the effective price
of gasoline (pump, plus coupon price) is estimated
at $1.75/gallon.

Impact on Energy Conservation Goals

o Gasoline rationing, while it may limit consumption in
the short run, makes no contribution to our mid- and
long-term goals of energy independence.

o Rationing limits the consumption of gasoline not
through price but through proscription. Thus, an
artificial shortage is created, inciting people to
attempt to "beat the system" rather than to conserve
fuel.

o Moreover, because of the inherent complexities in
even the most carefully designed rationing system,
and the fluid nature of American society, a rationing
scheme is probably limited to a useful life of no
more than two years. Thus, even as a conservation
tool, it has a limited utility.

o Rationing provides no incentive for increasing domestic
petroleum supply or bringing on alternate energy sources.

o Gasoline consumption is only 40% of total petroleum
use. Residual and fuel oil comprise a substantial
amount of total petroleum imports. By concentrating
exclusively on private vehicles, many other fruitful
areas for energy conservation are not addressed --
such as improved industrial efficiency, better constructed
and insulated buildings, less wasteful use of electricity
and natural gas. In the final analysis, we cannot be
independent unless those other petroleum uses are also
reduced dramatically.

Potential for Inequities

o Each person receives an equal number of coupons, but
use of gasoline varies widely among drivers. Govern-

mental decisions will be based on statistical averages
and broad, objective criteria; they cannot possibly
take into account most of the differences in individual
needs and preferences. Thus, rationing inevitably
leads to inequities. Some examples are:

- A widowed secretary with two children living in
the suburbs who commutes 16 miles each way to work
in a car that gets 12 mpg will experience a 68%
increase in her commuting costs, because she must
purchase 17 additional coupons each month at an
average cost of $1.20 per gallon each. This amounts
to about $245/year in additional costs.

- A blue-collar worker who owns a car that gets only
9 miles/gallon can drive just over 320 miles/month
on his basic ration, and could not easily afford to
purchase a new, more efficient automobile. On the
other hand, an affluent neighbor can readily trade
in his equally inefficient old car to purchase one
getting better than 22 mpg. This allows him to
drive over 790 miles on the same allotment of coupons.

- A single individual with a mid-size car (14 mpg)
could drive up to 17 miles/day. If he wanted to take
a 500 mile trip over a long 4-day weekend, he could
only use his car for that four-day period during that
month. He would have to arrange for other transporta-
tion for the remaining 26 days of the month, or purchase
additional coupons.

- A Congressman living in Georgetown has enough gas to
drive his 10 mpg car to work by himself 5 days a week
and still travel 54 miles on the weekend.

- Substantial regional inequities would exist. The
average driver in some rural states such as Montana
travels nearly 600 miles per month versus about 300
in less rural states such as New York and New Jersey.
Similar disparities exist between city dwellers and
suburbanites. Under rationing each would receive the
same gallonage.

- A family of 4 with two licensed drivers and one car
which gets 15 mpg moves from New York to California.
This move would take 2-3/4 months of the family's
coupons. One out of every five families moves every
year.

- Certain very poor persons, such as migrants, drive
large distances each year. They can neither afford
to buy additional coupons nor are alternative methods
of transportation available to them.

- A family in which the husband, wife and two
teenage children all drive would receive sufficient
coupons to drive approximately 2160 miles per month
while the next door neighbor with only one licensed
driver could drive only 540 miles per month, assuming
both own cars which get 15 mpg.

- The recreation and tourism industry would be very
heavily impacted, as would the auto industry. Auto-
mobile sales would decrease 35% from what they would
otherwise be.

- A small successful Midwestern sales firm which had
increased its business and sales area 50% since 1973
would have the market area it can cover reduced 40%
under its basic rationing allotment.

Increased Bureaucracy and Complexity

o The Government would be involved in many new aspects
   of our everyday life, adding an inescapable portion
   of bureaucracy, complexity, and inconvenience.

o Gasoline rationing can be implemented but it is
   complex, expensive, and at best a short term solution.
   It takes 4-6 months to implement, about 15 to 25,000
   full-time people and $2 billion in Federal costs, uses
   40,000 Post Offices for distribution, and requires
   3,000 state and local boards to handle exceptions.

o The Government would decide:

   - if a new business should get fuel;
   - if expanding businesses deserve more fuel;
   - if specific individuals would qualify for more
     coupons because of hardships.

o Because coupons are transferable, they must be picked
   up by each driver in person quarterly at Post Offices.
   Long lines and delays are inevitable.

o Gas stations, with limited quantities to sell, are
   unlikely to maintain more than the most limited
   service hours. Evening and weekend closings are
   almost a certainty.

o The longer a rationing program is in place, the more
   likely collusive and illegal behavior becomes, such
   as counterfeiting or pilferage of coupons.

Impact on GNP

o Use of allocation and rationing to reduce imports
   by one million barrels per day would create a drop
   of nearly 13 billion dollars in the GNP and place
   several hundred thousand more workers on unemployment
   rolls. Also, rationing would have an inflationary
   impact due to the significantly higher market clearing
   price of gasoline (pump plus coupon) resulting from
   reduced supplies.

o Rationing leads to distortions in the marketplace
   as adjustments in business investments, modes of
   distribution, and purchases are made based on
   artificial, rationing-imposed costs.

Impact on Poor

o Low income people are likely to drive less than
   average and thus, have excess coupons to sell. If
   speculators buy large quantities of coupons from
   the poor at low prices in order to resell them at
   high prices to the more affluent, the potential
   income benefits of the rationing program will be
   garnered by these entrepreneurs rather than by
   the poor.

Effects on Refining Runs

o A reduction of 1 million barrels per day in the use
   of gasoline through rationing would have the
   following effects on refining production:

   - 1,500,000 b/d crude oil imports

   + 500,000 b/d product imports (made
      up of approximately 300,000 b/d residual
      oil products and 200,000 b/d middle
      distillates)

o Such a reduction is likely to reduce domestic
   petroleum related employment, increase the cost/
   barrel of domestic production, and decrease the
   production rate and efficiency of U.S. refiners.

COMPARISON OF GAS RATIONING
AND PRESIDENT'S PROGRAM

There are two principal options for reducing petroleum imports
in the short to mid-term. They include the President's program
of a petroleum tariff and decontrol of domestic oil prices; and
a cap on imports with gasoline rationing and petroleum alloca-
tion. This paper briefly describes these options and discusses
the impact of each on reducing imports, regional equity, infla-
tionary impact, impact on the poor, administrative complexity
and cost, and impact on the recession and employment.

OPTION A: IMPORT CAP/RATIONING

o   A volumetric limit would be placed on imports
     equivalent to the reductions called for in the
     President's program. A reduction of 1 million barrels
     per day cannot feasibly be allocated without rationing.

o   The current system of price controls for petroleum
     would be strengthened, including control of new
     domestic crude; thus an artificial shortage would
     be created.

o   Since price is not used to determine distribution
     of petroleum products, the government would main-
     tain its system of allocating to retailers, based
     essentially on historical use for products other
     than gasoline. The government would also control
     refinery yields.

o   To prevent long gas lines, coupon rationing would
     be introduced. Such a program would include as
     its basic features:

     1)   Each licensed driver would receive an equal
          monthly coupon allotment; these coupons could
          be freely traded or sold. The coupon market
          (the "white market") permits those drivers
          with needs greater than those represented by
          the monthly allotment to purchase additional
          coupons from those who use less than their
          monthly amount. Thus the market, rather than
          the government, is responsible for assessing
          "need" for gasoline above the basic minimum
          ration. Failure to provide a white market would
          invite a black market and increase the inequities.

2) Commercial users, whether they buy in bulk or
    at the pump, would receive coupon allotments
    equivalent to a percentage of their consumption
    during the 1973 base period.

3) For that limited class of users (migrants,
    handicapped, etc.) for whose special needs the
    coupon resale market is not a reasonable solu-
    tion, a proportion of coupons would be set
    aside and distributed by the state. This dis-
    tribution would be based primarily on emergency
    or hardship needs.

4) Coupons would be picked up in person at Post
    Offices by each eligible individual. They will
    be invalidated at the pump at the time of pur-
    chase, and deposited by retailers with banks
    in a special coupon account. Gasoline deliveries
    to suppliers will be made to retailers only for
    amounts equivalent to coupons collected.

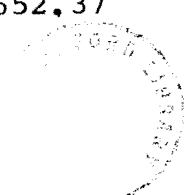## OPTION B: PRESIDENT'S PROGRAM OF TARIFF, TAX DECONTROL AND REBATE

o   After April 1975, this program would consist of an
    additional tariff on petroleum imports of $2 per
    barrel and an excise tax of $2 per barrel on all
    domestic petroleum.

o   Domestic oil prices will be decontrolled and a wind-
    fall profits tax implemented to ensure that the
    revenue generated will accrue to the government,
    not the oil companies. This will raise the overall
    price of petroleum by $2 a barrel. The tariff,
    taxes and decontrol, then, will add $4 to the price
    of a barrel of oil.

o   In addition, an excise tax on natural gas equivalent
    to $2 a barrel would be adopted and new natural gas
    prices deregulated to equalize the impact on oil and
    natural gas consumers and decrease natural gas con-
    sumption.

o $30 billion will be collected by the government from
    the tariff and taxes. These revenues will all be
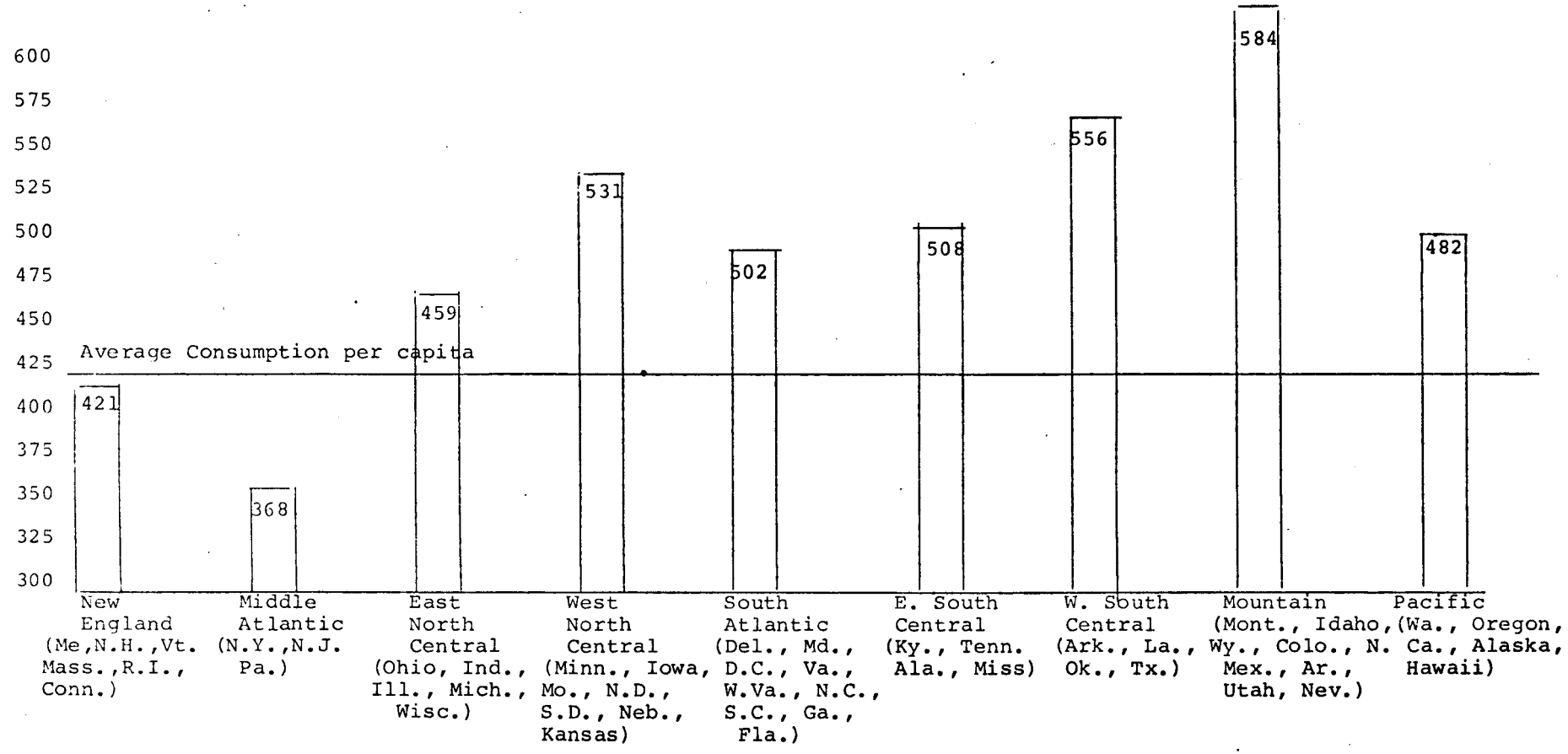   rebated to consumers and governments.

Regional Disparities

o Both options have major regional impacts. There are substantial regional variations in per capita gasoline use. Those in the Middle Atlantic states use less than two-thirds the gasoline of those in the Mountain states. Gasoline rationing as the attached chart shows, weighs more heavily on residents of the mountain states, southwest, and mid-west than on other citizens.

o Reliance on gasoline to bear the brunt petroleum cutbacks also discriminates against rural dwellers and in favor of those in cities. In the aggregate, rural dwellers use almost twice the gasoline/year of city dwellers.

o The President's program, which includes oil, natural gas and electricity generated from petroleum, impacts most heavily on the New England, West North Central, West South Central, and Mountain states.

Petroleum and Natural Gas Use by Regions of the United States

* Per Household per Year	Petroleum Consumption (bbl) *	Natural Gas Consumption (MMCF) *	Petroleum & Natural Gas (BTU) *
United States Total	744.02	3.307	7384.8
New England	120.57	.071	731.74
Mid-Atlantic	85.81	.156	625.86
East North Central	66.19	.326	688.85
West North Central	74.12	.386	792.61
South Atlantic	88.62	.164	649.80
East South Central	62.34	.299	640.76
West South Central	97.89	1.158	1694.87
Mountain	80.51	.467	907.81
Pacific	67.97	.280	652.37

Gasoline Consumption per capita (gallons/year)

Value	Region
421	New England (Me,N.H.,Vt. Mass.,R.I., Conn.)
368	Middle Atlantic (N.Y.,N.J. Pa.)
459	East North Central (Ohio, Ind., Ill., Mich., Wisc.)
531	West North Central (Minn., Iowa, Mo., N.D., S.D., Neb., Kansas)
502	South Atlantic (Del., Md., D.C., Va., W.Va., N.C., S.C., Ga., Fla.)
508	E. South Central (Ky., Tenn. Ala., Miss)
556	W. South Central (Ark., La., Ok., Tx.)
584	Mountain (Mont., Idaho, Wy., Colo., N. Mex., Ar., Utah, Nev.)
482	Pacific (Wa., Oregon, Ca., Alaska, Hawaii)

Average Consumption per capita

Effectiveness in Reducing Imports in Short and Long Term

o   In the mid to long term the elasticity for gasoline
    is lower than that for other petroleum products.
    This is because there are fewer substitutes for
    gasoline than there are for other fuels. This
    means that an increase in the price of all petroleum
    products (President's program) will reduce imports
    more than an equal increase in the price (gasoline
    tax) of gasoline. In the short term this is not
    the case.

o   The reduction in imports from the President's pro-
    gram option is 900,000 barrels per day in 1975,
    1.6 million in 1977, and 2.1 in 1985. This esti-
    mate is not a guaranteed saving, but is based on
    econometric studies.

o   The rationing/allocation option could obviously be
    adjusted to any level desired. The level considered
    in this paper is 1 million barrels per day in 1975
    moving to 1.5 million in 1977. Because of the
    complexity of the administration and the limited
    ability of a rationing program to adjust to changes
    in the economy (e.g., people moving, new businesses
    started) it is probably not a viable option for
    more than one or two years. Hence, it is not really
    a feasible part of a mid or long term program. More-
    over, the longer the system lasts, the more exceptions
    are made, the more people learn how to evade the rules,
    and the greater are the opportunities for counter-
    feiting and abuse.

o   If we are to reduce significantly our vulnerability
    to imports in the mid and long term we must adopt
    an option to reduce consumption of petroleum that
    can be effective in 1980 and 1985.

Income Effect

o   Gasoline rationing would have some beneficial impact
    as lower income people sell their excess coupons to
    those with higher income who in general use more
    gasoline. This effect would be somewhat limited by
    the plan to distribute coupons only to licensed
    drivers. The actual income transfer effects depend
    on the size of the shortage and the marginal price
    of the coupons.

- Private sector demand for gasoline in 1975 is esti-
  mated to be approximately 206 MG/D. Reducing daily
  petroleum consumption by 1 MMB/D solely through
  reductions in gasoline would result in a 17 per-
  cent reduction in supplies. The equilibrium
  price of gasoline would be about $1.75 per gallon
  ($.56/gal pump price plus $1.19/coupon).

- The average "poor" household consumes 404.7
  gallons of gasoline per year per vehicle while
  the "lower," "middle" and "well-off" households
  average 632.2, 823.1, and 800.8 gallons per year
  per vehicle, respectively. The average number
  of gallons of gasoline consumed per vehicle is
  727.8. The surplus/shortage of gasoline per
  household group and the potential income transfer
  can be calculated by comparing the individual
  household consumption rates with the average
  consumption rate. The table shows the average
  gasoline use, by household income, the surplus/shortage
  of gasoline, and the net income transfer likely
  to occur through the sale of coupons.

GASOLINE CONSUMPTION
AND INCOME TRANSFER

Income	(0-5,000)	(5,000-12,000)	(12,000-16,000)	(16,000+)
Gal/Veh	404.7	632.2	823.1	800.8
Net Surplus/ Shortage (Gal/Veh)	+199.4	-28.1	-219.0	-196.7
Net Income Transfer ($Billions)	+2.20	-.20	-.92	-1.08

- The poor household would have surplus coupons for 1,852 billion gallons of gasoline. The coupons for purchase of gasoline would trade at $1.19/ gallon which would result in a net transfer of 2.20 billion dollars to the poor category of households in the first year.

o Similarly, the President's program would transfer roughly $2 billion from those with incomes above $12,000 to those with lower incomes, preliminary calculations indicate.

	Income ($1,000)			
	0-5	5-12	12-16	16+
Additional Cost of Energy ($Mil)	725	8,200	2,900	7,500
Rebated Revenues ($Mil)	3,520	7,350	3,610	4,520
Net Transfer ($Billions)	+1.36	+0.44	-1.06	-.74

Administrative Complexity and Cost

o The cost and number of people required to implement the President's system of tariffs, taxes and rebates is estimated at about $50 million and 400-500 additional people on the government payroll.

o The complexity of administering gasoline rationing and allocation is considerably greater than the other option, both because of the printing, distribution, collection, and control of coupons and because of the exceptions process for the poor necessary in every state and local community. Rationing will require an additional 17,000 government employees and approximately $2 billion per year to administer.

Inflationary Impact

o A $2/barrel import tariff plus excise taxes on domestic petroleum and natural gas would increase the Consumer Price Index by about 2.5 percentage points in 1975. Again, these fees would be returned to consumers so that the overall level of disposable income would not be changed.

o   Under rationing, the cost of buying an additional
    coupon should stabilize at the market clearing
    level of $1.19. Thus, there would be an "infla-
    tionary" impact of over 2.5 percentage points
    on the Consumer Price Index in 1975.

ADDENDUM

To save 1MMB/D of petroleum imports in 1975 could be accomplished
by reducing market supplies of gasoline, distillates, residual
etc., in varing amounts. The amount of gasoline that would be
available for private use and the costs of gasoline would depend
on the amount of petroleum saving that is "loaded" onto gasoline.
The table shows the amount of gasoline per registered driver,
the percent reduction of gasoline supply, and the estimated cost
of coupons under 100, 70 and 50 percent application of petroleum
saving to gasoline.

% of 1MMB/D Applied to gasoline	Gasoline per driver/wk (gals)	Gasoline per driver per month (gals)	Cost of coupon ($ per gal)
100	8.4	36	1.19
70	9.1	39	.64
50	9.5	41	.38

A similar computation for a rationing program lasting through
1977 and equaling the impact of the President's tax package
(1.6 MMBD savings of petroleum imports) can be made:

% of 1MMB/D Applied to gasoline	Gasoline per driver/wk (gals)	Gasoline per driver per month (gals)	Cost of coupon ($ per gal)
100	7.5	32	.70
70	8.2	35	.41
50	8.8	38	.26

GASOLINE RATIONING

What is Gas Rationing?

In order to force Americans to use less automobile gasoline, some propose that the Government deliberately reduce the amount of gasoline available. In effect, the Federal Government would impose a gasoline embargo on ourselves, lasting 5 to 10 years.

Government officials would then determine how much gasoline each individual and each business could use.

In general, individuals would have to make do with nearly 30% less gas. Therefore, most of us would have to get by on one and two-tenths gallons a day which means a tankful would have to last about two weeks.

Businesses would have to get by with 10% less.

Each driver would have to go to the local post office four times a year and pick up a coupon book. If you did not need all of your coupons, the Government would permit you to sell them on the "White Market." This "White Market" would allow those who could afford it to buy extra coupons. An "extra" gallon of gas would cost about $1.75.

Will Gas Rationing Work?

Gas rationing can be made tough enough to reach the President's near-term energy conservation goals. Rationing cannot solve our Nation's energy crisis. Our problem is two-fold. First, we are rapidly becoming more and more dependent on foreign energy and a disruption could severely damage our economy. Second, we are paying foreign countries $25 billion a year for needed energy. This means we are losing our national wealth and the jobs which go with it. Five or ten years of rationing will reduce the rate at which our dependency and energy costs are increasing.

Rationing does absolutely nothing to solve the basic energy problems. Only by increasing our domestic energy supplies can we regain our energy freedom, however, rationing actually discourages domestic production because price controls inevitably follow rationing.

What is Wrong With Gas Rationing?

Rationing is unfair. Individuals who must use their cars and who can't afford to pay $1.75 for those "extra" gallons will often be unable to make necessary trips such as to work or school. Certain regions of the country -- where automobile travel is above the national average -- will have to shoulder a disproportionate share of the burden. It will be most severe for some States, such as Montana and Arizona, and for others, such as California and Texas, it will simply be unfair.

The Government will make all key decisions over the next 5 to 10 years for individuals and businesses. Gas rationing will likely lead to rationing of other petroleum products, such as home and factory heating fuels, and thus the rationing officials will control any decision affecting the use of energy. This would include decisions to move, to buy a new car, to start a new business, to increase production, to print a newspaper, to change jobs, etc.

Gas rationing costs too much. It will cost taxpayers $2 billion to pay the bureaucrats, coupons and other administrative costs. It will result in a $13 billion drop in GNP and put several hundred thousand out of work.

ENERGY - AIRLINES

Question:

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

Answer:

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

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

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

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

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

Q: Sen. Humphrey states that the President's plan would increase oil prices to over $14 per barrel after decontrol and the excise tax and cause a new wave of inflation. Is this true?

A: We estimate that the average price of oil will rise to over $13 per barrel as a result of the full tax and decontrol program. This will result in an increase of about 2.0 percent in the CPI during the first full year of program which will result in increases of about $275 total costs per household. This is the price we have to pay to start on our way to independence.

Q: Senator Humphrey stated, in his response to the President's message, that there is no hard evidence that consumption of energy would be significantly reduced by the energy program. What is your response to this?

A: We certainly don't agree. We expect that import fees and excise taxes together will increase petroleum prices by about $.10 per gallon and cut demand substantially. Our average demand response to price is lower than that used by most other forecasting models. Over the last year, using the same forecasting tools, our estimates of price effects were consistently close to actual impacts. As a result of a 10 cent rise in petroleum prices, we estimate demand to drop by 900,000 barrels a day.

Q: Senator Humphrey states that the effect of decontrol and the excise taxes on imported and domestic oil add up to about $45 billion which is $15 billion more than the proposed tax reductions. This means that consumers will be paying out more in higher energy costs than receiving back in lower taxes. Is this possible?

A: We are confident that Senator Humphrey's figures are overestimated by $15 billion. The President's program will raise the average family's direct expenses for energy by about $170 per year and their total costs about $275 per year. The tax rebate program will offset increased energy costs for middle and lower income groups.

Q: Senator Humphrey states that the energy industries will profit handsomely, in fact coal and natural gas producers stand to gain at least $12 billion per year in extra profits. How does the Administration propose to handle excess profits for these industries?

A: These will not be large windfall profits in the natural gas and coal industries. There are long-term contracts that cannot be renegotiated and average prices will rise very slowly. We will, however, watch the profits in these industries and if any unforeseen windfalls occur, we will be prepared to take action to deal with these problems.

Question:

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

Answer:

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

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

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

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

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