THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

-- Scope of the Problem
-- Rationale For the Program
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THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

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January 31, 1975

THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

FORWARD

In response to numerous requests for additional less-technical information and explanations of the President's economic and energy proposals, this book has been prepared.

Because of the complexity of the program, and the technical nature of many of the issues involved, an attempt has been made to provide understandable, English-language answers to technical questions. In addition the first sections of the book include summaries of the program which are designed to explain the program to people with varying levels of understanding of the issues -- and answers -- involved in moving the Nation in a new direction away from recession and toward energy independence.

The basic documents, which you have probably received previously, are included because the President's State of the Union Message remains the basis for the energy and economic proposals, and because the Fact Sheet covers, in 48 pages, every aspect of the program.

The final section, Who to Call, provides the names and phone numbers of experts who are prepared to take your questions or put you in touch with the appropriate individual.

We hope this book will prove useful to you, both in your understanding of the program and in your discussions with others. If you have suggestions as to how this book might be improved, please call 456-6623.

PROGRAM AT A GLANCE

THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

THE PROGRAM AT A GLANCE

I. Major Objectives

- Begin an early recovery from the recession.
- Begin bringing Federal spending and budget deficits under control.
- Reduce sharply the growth in oil imports and dependence on foreign energy sources.
- Offset higher energy costs and restore purchasing power and growth in jobs and production.
- Achieve the capability for energy independence by 1985.
- Maintain energy independence beyond 1985 and develop capacity for energy supply and technology export.

II. Major Presidential Actions and Proposals to the Congress

A. To begin an early recovery from the recession:

1. A $12 billion rebate in 1974 income taxes for individuals.

2. A $4 billion tax cut for corporations through increase in investment tax credit.

B. To begin bringing Federal spending and budget deficits under control:

1. A moratorium on new Federal spending programs.
2. Selected Federal budget reductions.

C. To reduce sharply the growth in oil imports and U.S. vulnerability to another embargo (1975-1977):

1. Encourage energy conservation, through:

    a. Increased oil import fees.
    b. Excise tax and import fee on oil.
    c. Excise tax on natural gas.
    d. Public education.

2. Encourage domestic energy production, through:

    a. New natural gas deregulation.
    b. Crude oil price decontrol.
    c. Elk Hills Naval Petroleum Reserve production.
    d. Conversion to the use of domestic coal.

3. Recapture windfall profits from oil companies.

D. <u>To offset the impact of higher energy costs and restore purchasing power and growth in jobs and production</u>:

1. Individual tax cuts of $16.5 billion beginning in 1975.
2. Payments to non-taxpayers of $2 billion.
3. Home energy conservation tax incentive of $.5 billion.
4. Corporate tax cuts of $6 billion.
5. Payments of $2 billion to State and local governments.
6. $3 billion Federal energy cost offset.

E. <u>To achieve the capacity for energy independence by 1985</u>:

1. Increase domestic energy production:

   a. Naval Petroleum Reserve No. 4 (Alaska) production.
   b. Outer Continental Shelf (OCS) leasing for oil and gas.
   c. Reducing domestic energy price uncertainty.
   d. Clean Air Act amendments.
   e. Surface mining legislation.
   f. Coal leasing on Federal lands.
   g. Assist electrical utilities.
   h. Expediting nuclear power.
   i. Expediting energy facilities siting.

2. Encourage energy conservation:

   a. Auto gasoline mileage increases.
   b. Building thermal standards.
   c. Low-income home energy conservation program.
   d. Appliance energy efficiency standards.
   e. Appliance and auto energy efficiency labelling.

3. Emergency preparedness:

   a. Strategic Petroleum Reserves.
   b. Energy emergency standby and planning authorities.

F. <u>To maintain energy independence beyond 1985 and permit export of energy supplies and technology</u>:

1. Synthetic Fuels Program.
2. Energy Research and Development Program.
3. Energy Research and Development Administration (ERDA).

# # #

PROGRAM SUMMARY

THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

A FACTUAL SUMMARY

On January 15, 1975, in his first State of the Union Message, President Ford outlined the Nation's economic and energy situation and described the actions he was taking and his proposals to the Congress to deal with current problems and set the new directions necessary to avoid similar problems in the future.

This paper summarizes briefly the current situation and the developments that have led to it. The paper also outlines the major features of the President's program to solve our economic and energy problems.

The Current Situation

The U.S. economy is faced with the closely linked problems of inflation and recession. During 1974, the economy experienced the highest rate of inflation since World War II. In 1974, when a recession set in, unemployment rose sharply to over 7 percent, the highest level in 13 years. The economy is now in a full-fledged recession and unemployment will rise further before corrective actions take hold.

With respect to energy, the U.S. remains vulnerable to the economic and social impact of an oil embargo. Domestic oil production continues to decline and other domestic energy sources are not increasing fast enough. Overall, energy consumption is beginning to rise again. Oil imports are also rising to fill the gap between domestic energy demand and supply. As a result of a four-fold increase in world oil prices, the U.S. paid foreign oil producing nations $25 billion in 1974 (compared to about $3 billion in 1973) -- representing an outflow of both U.S. dollars and jobs. Thus, our energy problems are contributing to our economic problems.

The Causes of Current Problems

A number of policies of the past and the recent developments -- some beyond the control of Government -- have contributed to the current situation. Accelerated inflation resulted from:

- Excessive Federal spending and lending for over a decade and too much money and credit growth.
- Unusually poor harvest years, which contributed to world-wide food shortages and escalating food prices.

- World petroleum price increases due to the Arab nations' oil embargo, the quadrupling of the price of crude oil by the OPEC nations and their sharp reductions in crude oil production to maintain higher prices.

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

- Two international devaluations of the dollar.

- Distortions caused by wage and price controls.

Inflation contributed to the forces of recession:

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

- Inflation reduced consumer confidence and thus led to the most severe slump in consumer purchasing since World War II.

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

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

In energy, the Nation has long followed, without serious thought, the practice of satisfying all energy demands at the lowest possible prices. Generally low prices for all energy sources in the U.S. have contributed to high demand, inefficient uses and reduced incentives for new production. A prime example is the artificially low natural gas prices that have resulted from Federal price regulation -- the direct cause of declining U.S. natural gas exploration and production and growing shortages.

The President's Energy and Economic Program

I. Major Objectives of the President's Program

The most important objectives of the President's program outlined in the State of the Union Message are to:

- Begin an early recovery from the recession.
- Begin bringing Federal spending and budget deficits under control.
- Reduce sharply the growth in oil imports and our dependence on foreign energy sources through steps to conserve energy and to increase domestic energy production.
- Offset the impact of higher energy costs and restore purchasing power and growth in jobs and production.
- Achieve the capabilities for energy independence by 1985 by increasing domestic energy production, reducing demand and preparing for any further embargo.
- Maintain energy independence beyond 1985 and make it possible for the U.S. to export energy supply and technology to others of the free world.

II. Major Presidential Actions and Proposals to the Congress

A. To begin an early recovery from the recession, the President has asked the Congress to approve a one-time tax cut of $16 billion consisting of:

1. $12 billion returned to individuals, accomplished by a 12% rebate on 1974 taxes up to a $1,000 maximum per return. If Congress approves the plan quickly, rebates would be computed by the IRS and paid in two installments; the first in May or June and second in September, 1975. (No changes are necessary in the way individuals prepare their 1974 tax returns.)

2. $4 billion cut for corporations, accomplished by a temporary increase in the investment tax credit from 7% to 12% on 1975 investments. For utilities, 1975 investment tax credits would be increased from 4% to 12%. (The 12% increase would remain through 1976 and 1977 for electrical utility projects other than those fired by oil or natural gas.)

B. To begin bringing Federal spending and budget deficits under control, the President:

1. Announced a moratorium on new spending programs other than for energy and said that he would not hesitate to veto new spending programs adopted by the Congress.

2. Proposed to the Congress selected budget reductions and a 5% ceiling on Federal employee pay increases for 1975 as well as on automatic cost of living increases for Government and military retirement pay and Social Security. Total savings from these budget proposals would amount to $17 billion in FY 1976.

C. To reduce sharply the growth in U.S. vulnerability to another foreign oil embargo and halt the growth in outflow of U.S. dollars (and jobs), the President established goals of reducing oil imports by 1 million barrels per day by the end of 1975 and 2 million barrels of oil by 1977. He announced actions and proposals to:

1. Encourage energy conservation, including:

a. Import Fees. By Presidential order, import fees on crude oil and petroleum products will be increased over current levels by $1 per barrel effective February 1, 1975; an additional $1 effective March 1; and another $1 effective April 1, for a total increase of $3 per barrel. To ease the impact on regions heavily dependent on imported petroleum products, such as New England and other Northeast States, the President's program provides for a rebate on these products, so that the effective increase in import fees on petroleum products will be 60¢ on March 1, 1975, and $1.20 on April 1, with no increase scheduled for February.

b. Excise Tax and Import Fee on Oil. Congress is asked to establish an excise tax of $2 per barrel on domestic crude oil and an import fee on crude oil and petroleum products. (When this becomes effective, it would replace the new Presidentially established import fees.)

c. Excise Tax on Natural Gas. Congress is asked to establish an excise tax of 37¢ per thousand cubic feet on natural gas -- which is comparable to the $2 per barrel tax on petroleum.

d. Public Education. Information for the public on energy conservation methods and benefits will be increased.

2. Encourage domestic energy production, including:

   a. New natural gas deregulation: Congress is asked to remove Federal price regulation from new natural gas supplies to provide the incentive for increased production and more efficient uses.

   b. Crude oil price decontrol. Steps will be taken to remove price controls on domestic crude oil by April 1, 1975 (action is subject to Congressional disapproval).

   c. Elk Hills Naval Petroleum Reserve. Congress is asked to authorize production of oil from the Elk Hills Naval Petroleum Reserve (NPR #1) in California, expected to reach 160,000 barrels per day early in 1975, increasing to 300,000 barrels per day by 1977.

   d. Conversion to the use of domestic coal. Congress is asked to amend the Clean Air Act to permit a vigorous program to convert power plants and other major users from oil to coal, reducing the need for oil by 100,000 barrels per day in 1975 and 300,000 in 1977.

3. Recapture windfall profits. Congress is again asked to place a windfall profits tax on oil companies.

D. To offset the impact of higher energy costs, particularly for low and middle income people, and to restore purchasing power and growth in jobs and production. The President asked the Congress to approve permanent tax reductions beginning in 1975. New energy conservation taxes and import fees would raise $30 billion annually in Federal revenues:

- Oil excise taxes - $6.0 billion
- Natural gas excise tax - $8.5 billion
- Import fee increases - $3.5 billion
- Windfall profits tax - $12.0 billion

This $30 billion will be returned immediately to the economy as follows:

1. Individual income tax cuts of $16.5 billion beginning with 1975. Congress is asked to approve a cut in income tax for individuals of $16.5 billion annually, beginning with

1975 tax rates. This is in addition to the one time $12 billion rebate in 1974 taxes for individuals. Reductions in taxes will occur for all Americans but with primary emphasis on low- and middle-income taxpayers. Changes in withholding would go into effect on June 1, 1975, and 1975 adjustments would be made so that a full 12 month reduction would be accomplished in 7 months from June through December. Tax rate reductions for 1975 and future years would be accomplished through an increase in the low income allowance and reduced tax rates at all income levels.

2. Payments of $2 billion to non-taxpayers. Congress is asked to approve a distribution of $2 billion to non-taxpayers in the form of $80 payments each year for each adult (over 18 years of age) starting in the summer of 1975. Otherwise, such individuals would not receive any compensation for higher energy costs.

3. Tax incentive of $0.5 billion for energy conservation. Congress is asked to approve an energy conservation tax incentive of $0.5 billion in the form of a 15% tax credit applied to the first $1,000 of expenditures ($150 maximum over 3 years) for certain energy conservation improvements in homes, such as storm windows and insulation.

4. Corporate tax cut of $6 billion. Congress is asked to approve a $6 billion tax reduction for corporations by cutting 1975 and future year tax rates from 48% to 42%.

5. Payments of $2 billion to State and local governments. Congress is asked to approve a $2 billion increase in general revenue sharing payments to State and local governments to offset their higher energy costs.

6. $3 billion Federal cost offset. $3 billion of the energy conservation tax revenue would offset higher costs of energy purchased directly by the Federal Government for its use.

E. To achieve the capability for energy independence by 1985, the President announced the following actions and proposals to increase domestic energy production (including measures to cope with constraints and strike a balance between environmental and energy objectives), reduce energy demand, and prepare for any future embargo; specifically to:

1. Increase domestic energy production:

   a. Naval Petroleum Reserve No. 4 (Alaska). Congress is asked to authorize exploration, development and production of NPR No. 4 to provide petroleum for the domestic economy, with 20% or such other amount determined by the President earmarked for military needs and strategic storage.

   b. OCS leasing. The President reaffirmed his intention to countinue an aggressive policy of leasing Outer Continental Shelf areas where oil and natural gas development can be accomplished that is safe and environmentally acceptable.

   c. Reducing domestic energy price uncertainty. Congress is asked to authorize the President to use tariffs, import or price floors, or other measures to achieve domestic energy price levels necessary to cope with large-scale fluctuations in world oil prices and thus help reach energy independence goals.

   d. Clean Air Act Amendments. Congress is asked to amend the Clean Air Act to deal with significant air quality deterioration, extend dates for complying with certain requirements for power plants, and hold auto emission requirements stable for 5 years (1977-1981 model years).

   e. Surface mining. Congress is asked to pass legislation which strikes a balance between environmental protection and reclamation requirements and the need to double domestic coal production over the next ten years.

   f. Coal leasing on Federal lands. The President directed the Secretary of the Interior to adopt legal development and production diligence requirements for existing Federal coal leases, meet with Western Governors on related problems, and design a new program for accelerated leasing of Federal coal.

g. Electric utilities. Congress is asked to pass legislation to assist electric utilities (many of which have had to delay new additions to capacity) through: higher investment tax credits (increased from 4% to 12%, with the higher rate remaining in effect for 1976 and 1977 for all except oil and gas fired power plants); mandated reforms in State Utility Commission practices; and other measures.

h. Nuclear power. Congress is asked to pass legislation to expedite siting and licensing of nuclear power plants and to approve a 1976 budget increase for nuclear safety, safeguards and waste management.

i. Energy facilities siting. Congress is asked to pass legislation to encourage expeditious review and approval at the Federal and State levels of all types of major energy facilities and sites.

2. Encourage energy conservation:

a. Auto gasoline mileage increases. The President announced an agreement with major domestic automakers to improve gasoline mileage by 40% on the average by 1980, compared to 1974 model year cars, provided that Clean Air Act auto emission requirements are stabilized for 5 years. The agreement will be monitored regularly by the Government.

b. Building thermal standards. Congress is asked to authorize establishment of mandatory thermal efficiency standards for new homes and commercial buildings.

c. Low-income energy conservation program. Congress is asked to authorize direct subsidies to low-income and elderly homeowners for energy saving actions such as home insulation.

d. Appliance efficiency standards. The Energy Resources Council will develop energy efficiency goals for major appliances and seek agreements with manufacturers to achieve an average of 20% improvement by 1980.

e. Appliance and auto efficiency labelling. Congress is asked to pass legislation requiring labels on automobiles and major appliances to show energy use and efficiency.

3. Emergency preparedness:

   a. Stretegic petroleum reserves. Congress is asked to authorize the developemnt of an expanded strategic storage system of up to 1 billion barrels of petroleum for domestic uses and 300 million barrels for military use.

   b. Standby and planning authorities. To deal with future energy emergencies, Congress is asked to provide a set of energy emergency standby authorities including emergency energy conservation, fuel allocation, price controls for allocated products, rationing of fuels among end users, allocation of material needed for energy production, and regulation of petroleum inventories. These authorities would also enable implementation of the International Energy Program agreements among the U.S. and other nations signed on November 18, 1974.

F. To maintain energy independence beyond 1985 and make it possible for the U.S. to export energy supplies and technology to others in the free world:

1. Synthetic fuels program. The President announced a program of Federal incentives to ensure at least one million barrels per day equivalent of synthetic fuels capacity by 1985, using technologies now nearing commercial application, such as those to obtain synthetic crude from oil shale and a wide range of clean solid, liquid and gaseous fuels from coal. Federal incentives might include price guarantees, purchase agreements, capital subsidies and leasing programs.

2. Energy research and development programs. The President's 1976 budget will continue to emphasize accelerated programs of research and development of technology for energy conservation and on all forms of energy including fossil fuels, nuclear fission and fusion, solar and geothermal.

3. Energy Research and Development Administration. The President announced the activation, effective January 19, 1975, of the newly created Energy Research and Development Administration. ERDA brings together in a single agency all major Federal energy R&D programs. It will work with industry and others as a part of a national R&D effort to develop technology to assure that the U.S. will have an ample and secure supply of energy at reasonable prices.

# # #

DAILY AVERAGE TOTAL OF U.S. IMPORTS

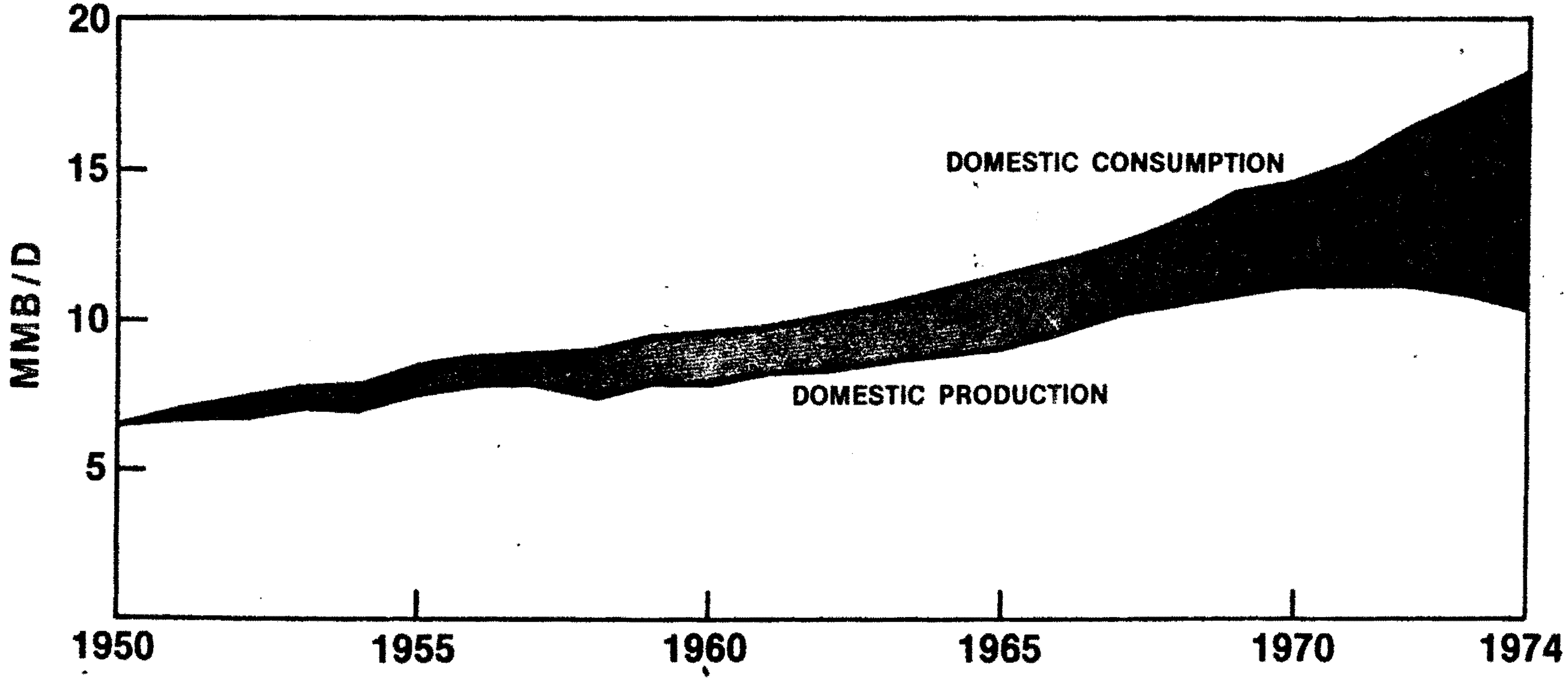
OF PETROLEUM BY COUNTRY OF ORIGIN

NOVEMBER 1974

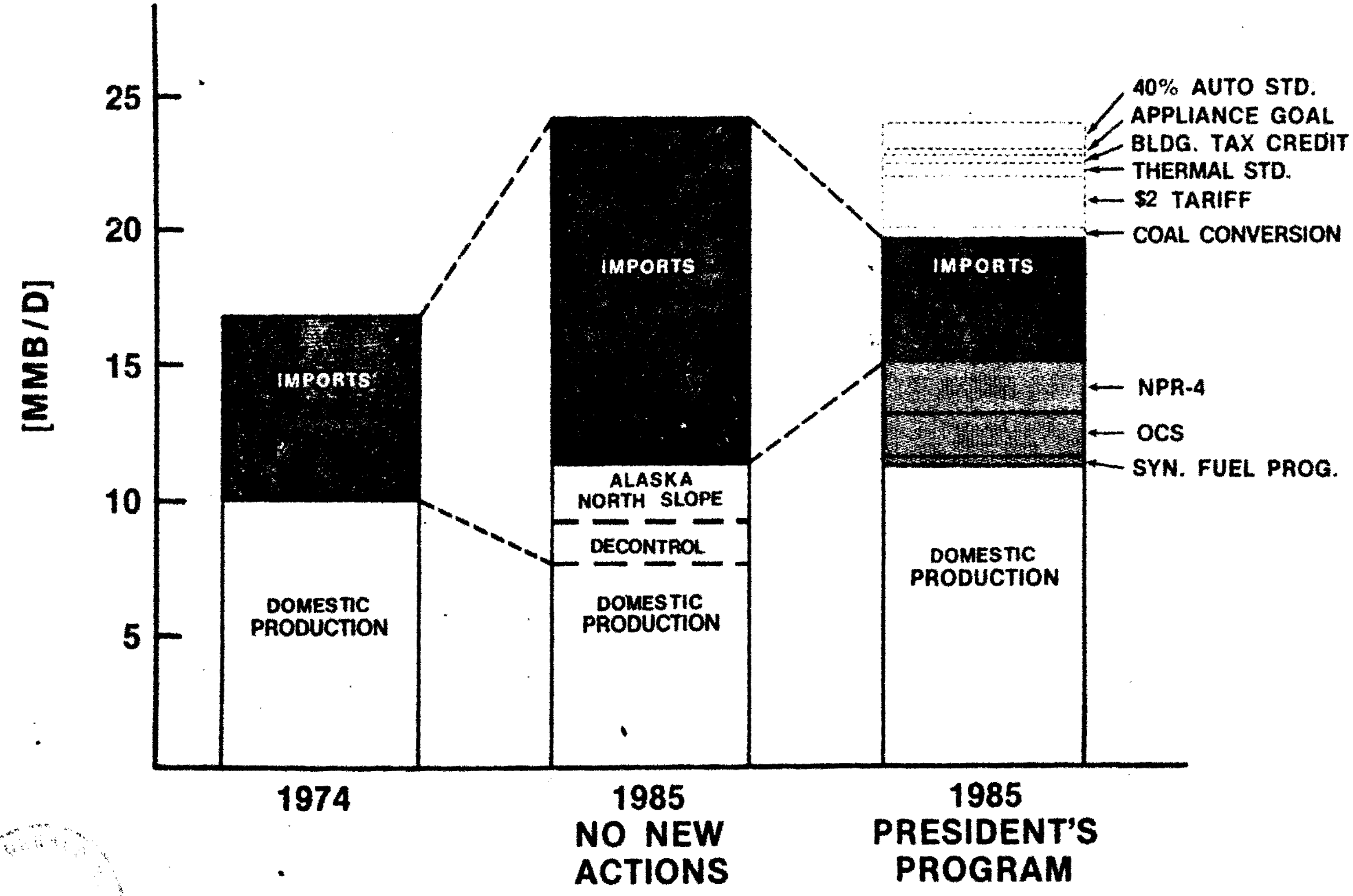
	In Thousands of Barrels	Percent
TOTAL IMPORTS	6,000	100
OPEC	(3,760)	(63)
Arab Countries	(960)	(16)
° Middle East	(750)	
Iraq	0	
Kuwait	0	
Qatar	37	1
Saudi Arabia	577	10
United Arab	136	2
° Mediterranean	(210)	
Algeria	210	3
Libya	0	
Non Arab Countries	(2,808)	(47)
° Indonesia	322	5
Iran	372	6
Nigeria	876	15
Venezuela	1,200	20
Ecuador	38	1
NON OPEC	(2,240)	(37)
Canada	853	14
Bahama	142	2
Trinidad	324	5
Other	921	16

Source: Bureau of Census

PETROLEUM TRENDS



IMPACT OF THE PRESIDENT'S PROGRAMS ON PETROLEUM IMPORTS



PROGRAM DESCRIPTIONS

THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

TURNING THE NATION IN A NEW DIRECTION

As Gerald Ford enters the first full year of his Presidency, America is a troubled land:

-- Millions of men and women are out of work, and the economy appears to be sliding into the worst recession since World War II.

-- The country has just completed its worst year of peacetime inflation, and rising prices are still eating away at personal incomes and at hopes for the future.

-- And the Nation has become increasingly vulnerable to the presures of OPEC, an international oil cartel that gathered in $25 billion from American consumers during 1974 and promises to drain even more Western resources in 1975.

The challenges are complex and tough; they require strong leadership both at home and abroad.

President Ford has accepted those challenges. He has given the country the unvarnished truth -- "the State of our Union is not good" -- and he has come up with a program that will finally set the Nation in "new directions":

-- a direction that will restore jobs and personal security;

-- a direction that will protect pocketbooks from the ravages of inflation; and,

-- a direction that will eventually free the country from the yoke of the foreign oil producers.

But how did we get into this mess? And how will the President's program get us out?

How We Got Here

While economists vary in their interpretations, there can be no doubt that America began taking the wrong economic road as early as the mid- 1960s. We geared up for a war on foreign shores and for a Great Society here at home, but our political leaders refused to raise the money to pay for it. It was easier and more popular to create a false prosperity and leave the bills for later -- for today's generation. The result was that we have had almost a decade of economic practices in Washington -- excessive Federal spending and easy money policies -- that have created strong underlying forces of inflation within the economy. The unpaid bill has come due.

As inflationary forces were building up in Washington, we also had a series of largely unforeseen and uncontrollable events in the early 1970s that doubled the pressures on prices, quickly sending them through the roof. There were crop shortages here and abroad in 1971, 1972 and 1973, driving up food prices. Most of the major industrialized nations, marching more closely together as their economies have become more interdependent, experienced a simultaneous boom in the early '70s putting further demand pressures on the prices of many commodities. Because the dollar was overvalued, the United States had to devalue it twice, increasing foreign demands for our goods. And the oil cartel quadrupled the price of international oil.

Prices in the United States began shooting upwards past the double digit mark, and -- little noticed at the time -- the inflation then had a secondary effect: it started the economy on a downward spiral into a recession. As prices went up, consumer confidence went down, bringing the biggest drop in consumer purchases since World War II. As inflation helped to drive up interest rates, the housing market also went down, and housing -- the Nation's largest industry -- fell into a horrible slump. Inflation was thus a major factor in creating the recession and remains a fundamental long-term problem.

When the Nation embarked upon excessive fiscal and monetary policies in the mid-1960s, we also allowed our strength as an energy exporter to deteriorate rapidly. Our own demands for energy were rising quickly, but we were unwilling to offer the energy industry here at home sufficient incentive to increase production. In natural gas, for instance, Government regulators held prices so low in order to please consumers that industry discovery and production went into a serious decline.

The result is that today America can no longer meet its own energy needs. We are dependent upon foreign nations for 38% of our oil. Other Western nations are even more dependent. It was probably only a matter of time before the oil cartel exercised the option that we virtually surrendered to them.

How the President Plans to Meet the Challenges

President Ford has devised a three-pronged attack on all three of these challenges: recession, inflation, and energy dependence. It is complex in its details, but simple in concept. It is bold, but not reckless. It will require strong Government action, but it will preserve the free enterprise system. And it will work.

In essence, here is what the President proposes:

-- To strengthen the recovery from the recession, the President proposes an immediate, across-the-board tax cut of $16 billion. Of that, $12 billion would be in the form of rebates on 1974 taxes for individual taxpayers, returning to them up to 12 percent of their taxes. The rest of the tax cut would be in the form of a one-year increase to 12% in the investment tax credit, thus spurring industrial expansion and creating new jobs. The intent of the tax refund is to give the economy a sharp, one-time stimulus that would lift us out of the depths without creating more inflation.

-- To curb inflation, the President proposes a moratorium on new Federal spending programs outside the energy field and a temporary cap on increases in Social Security benefits, Federal salaries, military retirement pay and the like. Inflation is already showing some signs of abating, but the President believes it is critical to restore long-term discipline to our fiscal and monetary policies in order to eliminate this continuing threat.

-- To free us from dependence on foreign energy sources, the President proposes a stiff conservation program and a strong new program to encourage domestic production. Conservation would be achieved through a series of import fees, taxes and tariffs that would raise the prices of most petroleum products. Gasoline at the pump, for instance, would cost from 10 to 15 cents more a gallon. At the same time, however, the President's program would preserve the purchasing power of average families by returning the additional fees to them through general tax reductions. The program is carefully designed to ensure that lower and middle income families are not hurt -- and indeed, some will come out ahead. At the same time, by allowing some increases in the prices of petroleum products, the President would provide incentives to the energy industry to increase production but he would prevent the industry from taking unfair advantage by imposing a windfall profits tax.

Need for Action

The President has thus put forward a tough, comprehensive, and integrated program. It would stimulate the economy through tax cuts to get us out of the recession. It would keep a lid on Federal spending to prevent a new round of inflation. And it would raise petroleum prices in order to encourage conservation and further domestic production, but it would deal fairly and equitably with consumers and producers alike.

As the President has said, "we have diddled and dawdled long enough. The time for action is now." America cannot wait. The crises are upon us, and it will take united action -- joining the President, the Congress, and the people -- to meet them successfully.

# # #

THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

UNDERSTANDING THE ECONOMICS

This Nation now faces the challenge of regaining control of its economic destiny. The President's program is designed to turn the economy in a new direction away from recession and unemployment and toward vital progress in creating energy independence. His message properly recognizes that inflation pressures must be further reduced to support these economic and energy goals. Three basic points should be emphasized in evaluating his comprehensive package of recommendations:

1. Our economic and energy goals are interdependent. The success of the energy proposals will depend upon the creativity and growth of the U.S. economy. In turn, the economy will initially be affected by the new costs and taxes and necessary adjustments in the use of energy.

2. The individual policies recommended must be considered as a single, integrated package. Controversy about specific suggestions will occur but critics must recognize the role of each recommendation in the total program. If specific recommendations are rejected, suitable replacements must be provided.

3. The President's program will require real sacrifices and widespread cooperation. Easy solutions are not available. Nor will the wanted results occur quickly. But failing to act now will only make the problems worse as the procrastination of the last few years has clearly demonstrated. The important thing is to act decisively to correct existing economic distortions and to prove our real commitment to energy conservation and resource development. The President's program provides the necessary framework for such action.

The Economic Program

By mid-1973 it was clear that the U.S. economy, while still strong and growing, was slowing down. The unexpected oil embargo in late 1973 and widespread materials shortages caused further problems at the same time as inflation moved to unacceptable double-digit levels. In recent months the unexpectedly rapid weakening of demand for housing and new automobiles has hurt the entire economy, causing unemployment to jump upwards. Personal spending and business investment have also dropped. Most analysts now expect inflation to continue to moderate and a gradual economic recovery to occur later in 1975 but the current pains of recession cannot be ignored, particularly the sharp increases in unemployment. The difficult challenge is to expand economic activity, and thus employment, without triggering a new round of inflationary pressures. The basic economic responsibility of the Federal Government is to follow policies that will enable our economic system to grow and provide jobs with reasonable stability of the price level. These Federal responsibilities are exercised through the Government's spending and taxation policies and through the monetary policies by which the Federal Reserve System controls the supply of money.

Perhaps the best indication of what actions the Administration plans in fighting recession and unemployment is contained in the new budget for Fiscal Year 1976. Total outlays are expected to rise to $349 billion, a jump of over $80 billion from the level of $268 billion in Fiscal Year 1974. Government programs for unemployment assistance, health, housing, defense, education, public works, and thousands of other activities which influence the economy are part of the budget the President has submitted to Congress. The sharp increases in spending suggest that the President has been responsive to the economic slowdown. Similarly, Federal Reserve officials have repeatedly emphasized the point that they will not permit the economy to falter through a shortage of needed money and credit.

Tax Proposals

Nevertheless, the President has decided that we cannot wait until later in the year for the private sector to recover or for the increased levels of Government spending to trickle down through the economy to help ease the serious unemployment problem. To meet our immediate needs, he has proposed three important Federal tax actions: (1) a temporary tax rebate of $16 billion; (2) a permanent tax reduction and other actions to return to the economy the $30 billion to be collected by the energy conservation excise taxes and fees; and (3) general tax reform later in 1975.

The temporary tax rebate of $16 billion is a stimulus intended to create more jobs by increasing personal spending and business investment. The $12 billion returned to individuals will be an important boost to consumer purchasing power which will also be improved in coming months by rising personal incomes and continued moderation in the rate of price increases. Once the rate of inflation drops below the growth pace of personal incomes, the consumer will once again have real purchasing power gains plus the temporary tax refunds. The $4 billion returned to businesses and farmers in the form of an investment tax credit of 12 percent will provide immediate stimulus to spending in 1975 which will create additional jobs.

* * * *

TAX REBATE PROPOSAL

Temporary Tax Rebate Based on 1974 Tax Obligations
For a Family of Four

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

The second step involves a return of the $30 billion that will be raised by new energy conservation excise taxes and import fees and the windfall profits tax. The imposition of these taxes is a crucial part of the energy program designed to encourage conservation, but the new funds collected must be returned to the economy in order to prevent a worsening of the recession. Therefore, the revenues collected will be used to adjust the basic tax structure. This restructuring is necessary to correct distortions caused by inflation, which have artificially increased tax burdens by pushing individuals into higher tax brackets and forcing businesses to pay taxes on inflated profits which do not properly reflect current costs or the replacement value of existing plant and equipment.

To return the $30 billion to the economy, the President has proposed that $16.5 billion be used to increase the low income allowance and to adjust the withholding rates so as to reduce personal income taxes, particularly for low- and middle-income families; $2 billion will be committed to people who do not pay income taxes because of low incomes; $500 million will be set aside to cover tax credits to homeowners who add insulation or storm windows to conserve energy; $6 billion will be returned to businesses by reducing the corporate income tax rate from 48 to 42 percent; $2 billion will be returned to State and local governments through General Revenue Sharing payments; and the Federal Government will keep $3 billion which represents its share of higher energy taxes. This system will accomplish some needed tax reform and should neutralize most of the effects of increasing taxes and import fees by $30 billion. Most families will receive a larger rebate than the estimated energy taxes paid. Low- and middle-income families in particular will benefit.

* * * *

PERMANENT TAX CUT PROPOSAL

Structural Tax Reductions Combining Increase In The Low Income Allowance And Reduced Tax Rates For A Family of Four

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

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

* * * *

Further tax reforms will be proposed later after the temporary stimulus package and the energy tax rebate issues are resolved.

Federal Spending

The President has also reaffirmed his great concern about fiscal responsibility in restraining the upward momentum of Government spending. He has called for a one-year moratorium on new spending programs -- other than the new energy proposals. He has also emphasized the need to have a tough position against increased spending by submitting budget rescissions and deferrals to Congress last fall and in the proposed Fiscal Year 1976 budget. He has also called for the Federal Government to set a national example by placing a limit of five percent on increases in Federal salaries and on cost-of-living adjustments for Government and military retirement pay and Social Security benefits.

Despite these efforts the Federal deficit in Fiscal Year 1975 will be more than $30 billion and the Fiscal Year 1976 shortfall is now projected to be about $50 billion. These massive deficit projections should not prevent moving ahead on the temporary $16 billion stimulus package or the structural tax adjustments proposed, but they do emphasize the extreme importance of holding down Federal spending to reduce the deficits and to provide greater fiscal flexibility in responding to changing economic conditions.

Summary

The President's economic proposals build on the vast array of programs included in the cumulative Federal budget system. They include many of his specific recommendations for improving the efficiency of the economy which he presented to Congress last October 8th. The new initiatives highlight the three-step tax program, beginning with the temporary income tax stimulus, and a strong Presidential appeal to hold down Federal spending to moderate the record-level deficits expected. These programs properly focus on improving the employment outlook in the private sector where most of the jobs are located. But there is continued emphasis on fiscal and monetary responsibility in avoiding some of the excesses of the past which unfortunately contributed to the boom-to-bust sequence of economic activity.

The country needs a strong and balanced economic program from the Federal Government to create the necessary environment for private sector response. The President's economic proposals are carefully integrated with his energy initiatives. They are designed to stimulate economic recovery without generating excessive inflationary expansion pressures.

# # #

THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

A SUMMARY FOR THE LAYMAN

In his first State of the Union Address to the Congress and the Nation on January 15, President Ford said the State of the Union "is not good." In response to the problems of inflation, recession and dependence on foreign oil sources, the President announced administrative actions and legislative proposals in a comprehensive program designed to provide short-term relief and long-term solutions "to move America in a new direction."

The President's economic and energy program will provide: tax cuts for businesses and individuals to put more money into the hands of people and to provide more jobs; a commitment to no new Government spending programs this year outside the energy field; a five percent cap on automatic increases in Federal benefit programs and pay increases; and an energy program including higher energy prices to assure conservation and to spur development of other sources of energy so that energy independence can be achieved by 1985.

The President spoke to a Nation in which millions are unemployed -- and the rate is rising; recession and inflation are eroding the purchasing power of others; unreliable foreign energy supplies cost more than ever before. Because of the widespread dislocations in the economy, the President announced to the Congress and the Nation a program to turn America in a new direction. The program, while maintaining and strengthening the free market economy, would put the unemployed back to work; increase real income and production; restrain growth of Government spending, and achieve energy independence.

First, the President proposed a temporary tax reduction of $16 billion. Three-quarters would go to individuals and one-quarter would be to promote business investment. This cash rebate to individuals amounts to 12% of 1974 tax payments -- a total cut of $12 billion, with a maximum of $1,000 per return -- and he called on Congress to act by April 1. He made it clear that cutting taxes now is essential if we are to turn the economy around and that a tax cut offers the best hope of creating more jobs. "Unfortunately," the President said, "it will increase the size of the budget deficit. Therefore, it is more important than ever that we take steps to control the growth of Federal expenditures."

To keep Government spending in check, the President announced his intent to propose legislation to restrain the growth of a number of existing programs; his conclusion that no new spending programs can be initiated this year, except for energy, and, a recommendation for a five percent limit on Federal pay increases this year. This kind of limitation is necessary, in the President's view, because only a reduction in spending growth can keep Federal borrowing down and reduce the damage to the private sector from high interest rates.

The President placed special emphasis on restoring our country's surplus capacity in total energy so that we will be able to assure ourselves reliable and adequate energy and help foster a new world energy stability for other consuming nations. Accordingly, he recommended a plan for national energy goals to protect us against the disruptions caused by cut-offs in foreign oil. "It will require sacrifices," he said, "but it will work."

President Ford requested the Congress to act within 90 days on a more comprehensive energy tax program, including excise taxes and import fees on crude oil, enactment of a natural gas excise tax and a windfall profits tax on oil by April 1 to ensure that oil producers do not profit unduly. At the same time, he stated that he plans to take administrative steps to decontrol the price of domestic crude oil on April 1; he has also proposed deregulation of new natural gas.

The President also called for a massive program to increase energy supply, cut demand and provide new standby emergency programs to achieve the independence we want by 1985. He stated the intention of his Administration to move ahead with oil exploration, leasing and production on those frontier areas of the Outer Continental Shelf where the environmental risks are acceptable. Zeroing in on our most abundant natural resource -- coal -- the President called for a reasonable compromise on environmental concerns and proposed Clean Air Act amendments which will allow greater coal use without sacrificing our clean air goals. Recognizing the growing importance of nuclear power, he will also submit legislation to expedite nuclear licensing and the rapid selection of sites.

The growing need to cut energy waste in this country received special emphasis in the President's address. He proposed legislation to make thermal efficiency standards mandatory for all new buildings in the United States, a new tax credit of up to $150 for homeowners who install insulation, the establishment of an energy conservation program to help low income families winterize their homes, and legislation to modify and defer automotive pollution standards for 5 years to encourage improvement of new automobile gas mileage 40% by 1980.

The President emphasized that these proposals and actions can reduce our imports of foreign oil to 3-5 million barrels per day by 1985. He also proposed standby emergency legislation and a strategic storage program of 1 billion barrels of oil for civilian needs and 300 million barrels for defense purposes. Voicing a strong belief in America's capabilities, the President called for hundreds of new energy producing plants, coal mines and oil refineries and millions of newly insulated homes and fuel-efficient vehicles within the next 10 years.

On the international side, the President emphasized the need for worldwide cooperation and vigorous leadership. He made a special point of stating that a resurgent American economy would do more to restore the confidence of the world in its own future than anything else we do. The President said that affirmative action on this program by the Congress will show the world beyond a shadow of a doubt that we have started to put our own house in order. "At stake," said the President, "is the future of the industrialized democracies."

# # #

KEY ISSUES
KEY ISSUES

THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

THE NEED FOR ACTION NOW

The President has proposed to Congress and the American people the first comprehensive, integrated approach to our economic and energy problems ever assembled in this country.

The program has been thoroughly planned and analyzed, and it reflects the consensus of a broad spectrum of the most respected economic and energy experts in the Nation -- Government, industry, citizens groups and others -- all of whose views have been considered at length in reaching the details of the complete program.

The program is complex, since it must deal with and solve a wide range of energy and economic problems confronting this Nation. The President has explained the program as fully as possible to the members of Congress and to the Nation's citizens, in a broadcast address to the Nation on January 13, in his State of the Union message on January 15, and in public statements since then. He submitted a package of 13 legislative proposals to Congress on January 30 and his officials have been working with Congressional committees on his tax proposals.

No reasonable comprehensive proposals have been forthcoming from Congress or from other sources. The President's plan is the only one which deals with all aspects of the problems involved, and action on his proposals is vital now.

Each day that passes without strong action on the President's program leaves this country more dependent on foreign oil for its energy needs. Each day the economy becomes more and more vulnerable to the disruption which could result from actions by foreign suppliers.

It is the clear responsibility of the members of Congress to act quickly in the public interest. The President has requested specific actions from Congress, specific actions designed to work in combinations with each other to have the overall effect of solving our economic and energy problems. This interrelationship of elements of the program means that if Congress chooses not to enact any one facet of the total program, it must then provide an alternative program which achieves the same result.

Action now on the President's program is imperative if the United States is to maintain its international leadership. This country has traditionally been known for its ability to get things done, particularly in times of crisis. Failure on the part of Congress to act swiftly to approve the President's proposed legislation could well be interpreted as indecision and weakness, and as an unwillingness to take the unpleasant but absolutely necessary steps to cure our energy and economic problems.

The crucial point of President Ford's energy plan is that it moves the Nation in the right direction, and that we must begin moving in that direction now. The President has expressed both a willingness and a desire to work with Congress on revising and restructuring various details of the complete program, once the basic thrust has been made in the direction of the energy independence desired by all Americans.

The President's program is a place to start, and a place to start without further delay.

Bold and imaginative solutions are required to meet the extensive problems which face the Nation. The President has taken the initiative in assessing the problems and proposing wide-ranging solutions. It is now up to Congress and the people to press for immediate actions to support the President's proposals.

# # #

THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

GASOLINE RATIONING

What is gasoline rationing?

Some members of Congress and other public spokesmen have proposed that the Government institute mandatory rationing to deliberately reduce the amount of gasoline available to consumers, to force Americans to drive less and use less gasoline.

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

To achieve our energy goals through gasoline rationing, individuals would have to make do with nearly 30 percent less gasoline than is now used. In other words, most of us would receive nine gallons a week, or an average of one and two-tenths gallons per day.

Businesses would receive 10 percent less gasoline than they now use.

Each licensed driver would have to pick up coupon books four times a year at local post offices. Drivers who did not need, or chose not to use, all their coupons would be permitted to sell them in a "white market." Those who needed extra coupons, and could afford to purchase them from other individuals could buy extra gasoline at an estimated average cost per gallon of $1.75 -- a projected free-market price of $1.20 for the coupon itself, plus 55 cents for the gallon of gasoline.

Will gasoline rationing work?

A gasoline rationing program can indeed limit gasoline consumption. If our national energy problem were merely a gasoline shortage, a rationing program might make sense.

Unfortunately, the country's energy problem has many facets, and gasoline rationing treats only one symptom of a broad, interrelated problem.

The Nation is becoming increasingly dependent on foreign sources for petroleum energy, and a repeat of last year's disruption of this foreign energy supply would seriously damage our economy.

The Nation is paying foreign oil suppliers more than $25 billion a year for needed energy. This means we are rapidly losing our national wealth, and with it the ability of our economy to provide more jobs for our citizens.

The President's comprehensive energy proposals are aimed at limiting consumption of all forms of energy now -- to enable us to reduce oil imports by one million barrels a day this year and by two million barrels daily by 1977 -- and at providing the economic incentives and Government support necessary to encourage greatly expanded exploration for and production of new energy from secure domestic sources -- to provide for our future energy needs.

Rationing does nothing to solve our basic energy problems and creates several more in the process. While it would provide a short-term reduction in consumption of gasoline, it would not encourage domestic energy exploration and production, since no new incentives would be provided for energy producers.

Any attempt to achieve all energy conservation through one product such as gasoline is certain to cause severe inequities and economic dislocations. It is far better to spread price increases and demand reductions over all the energy products that are in short supply domestically; for example, all petroleum products and natural gas, and electricity that is generated by the use of oil or natural gas.

Why is gasoline rationing undesirable?

No conceivable rationing system can possibly take into account the many special requirements of the millions of American gasoline consumers, so a rationing program is inherently unfair to some individuals and some groups.

Individuals who must use their cars and who cannot afford to pay $1.75 for those "extra" gallons, would often be unable to make necessary trips, such as to work or to school.

Rural areas of the country, where automobiles are often used twice as much as in urban areas, would be unfairly penalized. This disparity would impact most severely on the West and Midwest States. In many rural areas, there is no public transportation alternative to the automobile.

Under rationing, the Government would be making most of the key decisions for both individuals and businesses over the next five or ten years. Rationing officials rather than private citizens would be controlling the key decisions involving energy.

Decisions on job changes, long distance moves, new purchases, starting new businesses, expanding existing businesses, and other decisions traditionally are better left in the hands of individual citizens rather than in the hands of rationing boards.

The costs of a gasoline rationing system are huge and would constitute an unnecessary drain on our economy. Some 15-25,000 full-time Government bureaucrats would be required, and administrative costs alone -- printing coupons, establishing local rationing boards, and recruiting enforcement officials -- would mean at least $2 billion bill each year for taxpayers.

Rationing would result in an estimated $13 billion drop in our Gross National Product, and a resulting loss of 200,000 to 300,000 jobs, since many businesses would be forced to close or curtail operations.

Rationing gasoline alone would provide no incentive for non-drivers to conserve energy in other equally important areas of energy consumption.

And, finally, gasoline prices would rise even under rationing proposals, since a distortion of current oil refining procedures would lessen efficiency of operation, raising costs of all fuels.

What the Nation needs is a total program to approach <u>all</u> of the many sides of the energy problem, and it is this comprehensive plan which the President has proposed to the Congress and to the public.

# # #

THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

EFFECT OF THE PRESIDENT'S ENERGY PROGRAM ON THE NORTHEAST

The President's program to bring about effective energy conservation now and over the next several years through a system of oil import fees will result in an increase in energy costs for consumers throughout the country. The effective increase for New England residents will be about the same as that for the rest of the country, or even slightly less than the effect felt by other regions.

The overall program is designed to avoid regional imbalances in costs that might have resulted from the fact that some areas -- particularly New England and the Northeast States -- import a great deal of refined petroleum products to meet their energy needs, while other areas are dependent on imported crude refined in domestic facilities. Several facets of the overall program work to reduce uneven regional impacts.

First, the President's import fee plan provides for much lower import fee impact on petroleum products, to balance the costs of areas importing products with those sections of the country using cheaper, price-controlled crude oil.

The import fee on all crude oil and petroleum products would rise by $1 per barrel on February 1, by an additional $1 per barrel on March 1, and by another $1 per barrel on April 1, for a total increase of $3 per barrel.

However, a system of rebates would lessen the effective fee on imports of petroleum products. The end result will be an effective fee on product imports of 60¢ per barrel on March 1, and $1.20 per barrel on April 1, with no increase in fees for products in February.

This would give a temporary price break to New England consumers, and the full effect of the product import fees would not begin to take hold until near the end of the winter season (mid-April or later) during which the Northeast states use much of their imported heating oil.

Second, as long as the import fee program lasts, the Federal Energy Administration will continue to use its "old oil entitlement program" to spread price increases on crude oil among all refiners, to minimize regional cost differences resulting from different ratios of dependence on imported crude oil.

This program allows all refiners equal access to available supplies of both (1) "old" oil where the price is being held artificially low by Federal price controls and (2) "new" oil which sells at higher prices comparable to the world market. The effect of the entitlements program is to make all refiners' crude oil costs as nearly equal as possible, maintaining competition and minimizing regional price variations.

Third, the combined effect of the President's plan to remove price controls on "old" domestic crude oil production and legislation establishing a uniform $2 per barrel fee on all imported crude oil and products would be to help equalize petroleum product prices throughout the country.

Fourth, the addition of the planned 37¢ per thousand cubic feet tax on natural gas would help keep energy cost increases in balance -- minimizing regional impacts of the program.

More permanent solutions to the energy problems of the Northeast have been proposed by the President. Of primary importance is the leasing of Federally-controlled areas on the Outer Continental Shelf off the East Coast, to allow oil and gas producers to conduct the necessary exploration work to find out if significant oil and gas reserves do in fact exist under the Atlantic Ocean.

If they do, production can begin within the mid-term time frame of the President's program -- 1975-1985 -- and supplies discovered off the East Coast will be far closer to Eastern markets and far less costly to transport to consumers than the imports and production from traditional Southwestern fields upon which the Northeast must now depend.

The President has proposed a comprehensive energy and economic plan to cope with our energy supply problems in the short run and solve them in the long run, while maintaining the health of our economy. The time for action on these proposals is clearly now, and delay only aggravates the problems confronting the country.

Eight Northeastern states have undertaken court action to block the President's proposals for import fees on crude oil and petroleum products, but the fact remains that no rational, effective, alternative program has been proposed to deal with our energy problems. The President's overall program is the result of detailed analysis of the country's energy problems and prospects, and it represents the only total energy policy program ever put forth for this country.

The program is a carefully balanced combination of actions to encourage energy conservation now -- the only way to limit our oil imports over the next few years, and to encourage the maximum possible development of domestic energy resources to meet our future energy needs from secure sources within our own control.

Now is the time for action, not delay, and in the absence of any alternative program to approach all our energy and economic problems, the President's proposals remain the only comprehensive ones made so far.

The President has requested urgent action from Congress on his energy and economic package. He has stated clearly that the quickest possible approval of the entire overall objectives is imperative to the economic viability of the country. He has further indicated that whatever "fine-tuning" is necessary to meet the requirements and special problems of various regions or groups of citizens can be done later, once the basic actions are started, and as the Nation progresses toward energy solutions.

# # #

THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

WHY THE PROGRAM ISN'T JUST TAKING MONEY FROM THE LEFT HAND AND GIVING IT TO THE RIGHT

There are clear and important reasons why imposing new energy taxes and then refunding that money to consumers in the form of income tax rebates and permanent tax reform is not simply a "shuffling" of money from one pocket to another.

One principal objective of the President's energy and economic program is to reduce consumption of energy and thus reduce sharply the growth in oil imports. Oil imports mean U.S. dollar and job outflows and continued vulnerability to another oil embargo.

The quickest, most effective and fairest way to encourage energy conservation is to raise the price consumers must pay for those sources of energy that are now in short supply domestically -- oil and natural gas. There is no completely painless way to reduce energy demand, but raising prices and letting the marketplace and free choice determine demand is far preferable to the principal alternatives of rationing or Federal allocation of scarce energy supplies. Increasing energy taxes is the most feasible way to increase energy prices, and in turn dampen demand.

But, to avoid undue economic burdens on consumers as a result of the increased energy taxes, the President has proposed a plan which will equitably redistribute funds collected from energy taxes to consumers.

Higher costs for energy will affect low-income citizens most severely, and the income tax reform provisions would benefit low-income and middle-income families and individuals most.

The net result of both the higher energy taxes and the income tax proposals would be to give the lowest-income levels an actual increase in spendable income, while middle-income taxpayers would come out about even, and those at the highest income levels would pay more, but still not an unbearably large additional burden.

All income levels will have increased incentives to conserve energy, and the additional income from revised income tax schedules, especially to low-income and middle-income taxpayers, will restore at least part of the erosion in purchasing power resulting from inflation.

# # #

THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

EQUALIZING THE BURDEN: NO DIRECT GASOLINE TAX

The President opposes direct taxes on gasoline for many of the same reasons that he is against gas rationing. Taxes would be inequitable and they would be of no significant help in reaching the President's ultimate objective -- energy independence.

Not many weeks ago, the idea of direct taxes on gasoline was being hailed by many as the immediate and major answer to our energy problems. Even among those most opposed to President Ford's energy program, the direct tax idea has now faded from popularity.

The reason why the direct tax plan is being abandoned by many of those who were supporting it a month or more ago is that they have studied its real implications. It is, inherently, a short-term and shortsighted solution filled with inequities and offers no ultimate solutions to our energy problems. It is also inflationary -- very much so in some proposals.

There is no agreement on the amount of direct taxes that would have to be levied. Proposals range from 20 cents to 50 cents in taxes on each gallon. The larger the taxes, it is contended, the greater the pressure on the public to consume less gasoline. Thus, the argument goes, we could expect immediate and drastic reduction in gasoline use -- greater than that which would occur under the President's program.

But, such a program would have other immediate drastic effects.

Recreation, tourism, travel -- all would be hard hit. So would hotels, restaurants, and similar businesses. The auto industry has been severely hurt already, with several hundred thousand of its employees laid off or on indefinite leaves, so it would be further damaged if gasoline taxes are increased sharply. There undoubtedly will be changes in the auto industry -- smaller, lighter cars; better efficiency, and other innovations -- but we cannot do this overnight without serious dislocations to workers and the national economy.

The long list of those affected in an inequitable manner under rationing would be repeated for the most part under direct gasoline taxation.

Rural Americans, even those in suburbs, who need to drive longer distances would be hard hit. The cost of farm operations would rise significantly. Low income persons who needed to drive long distances to work could not afford to pay 30...40...50 cents more for each gallon of gasoline without extreme sacrifice at home. Innumberable examples of such hardship would be found.

Any attempt to achieve all energy conservation through one product such as gasoline is certain to cause severe inequities and economic dislocations. It is far better to spread price increases and demand reductions over all the energy products that are in short supply domestically; for example, all petroleum products and natural gas, and electricity that is generated by the use of oil or natural gas.

Partial answers such as a gasoline tax will not advance us significantly toward our national energy goals. The President alone has proposed a total national energy and economic program -- including assistance to low income families facing higher energy costs.

# # #

THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

TAX REDUCTIONS VERSUS HIGHER FEDERAL SPENDING

The President proposed tax reductions combined with restraints on new Federal spending programs, rather than no tax action and higher Federal spending, for several reasons.

The basic aim of the President's program is to restore a healthy economy for the country, and the proposals for tax rebates and income tax reductions are designed to do this in the most efficient way.

Tax reductions are intended to provide consumers with greater disposable income, and corporations with investment incentives, to provide the quickest possible recovery from the economy's recession.

But, unless Federal spending programs are brought under control, balance in the Federal budget cannot be restored as the economy recovers. Continued large Federal deficits after the economy recovers from the recession would fuel inflation.

Temporary tax reduction now will provide prompt stimulants to fight the recession by giving more purchasing power to individuals, creating more jobs through corporate investment tax credits, and increasing production and supply to guard against future inflation.

The open marketplace has traditionally been the most efficient way of channeling additional spending power into the economy, rather than having the Government make greater spending decisions.

The large Federal deficits currently being experienced and projected for the short-range future are caused partly by reduced tax revenues resulting from the recession, partly by temporary higher outlays for unemployment compensation, again resulting from the recession.

The deficits caused by all these factors will be minimized with the recovery of the economy stimulated by temporary tax reductions. And a healthier economy will enable private industry to fund a greater share of energy projects without Federal assistance.

New Federal spending projects now would require higher taxes later to restore balance in the budget. To encourage higher output and employment, and a greater supply of goods and services, it is imperative to avoid taxes any higher than those already caused by inflation.

Lower taxes are necessary now to spur economic recovery, and the President has proposed a responsible program of restricted Government expenditures to allow recovery from the recession without jeopardizing future economic health.

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QUESTIONS

THE PRESIDENT'S ECONOMIC AND ENERGY PROPOSALS

Questions Frequently Raised

The following questions are those which have arisen most frequently since the President's State of the Union address; thus, they do not deal with every aspect of the program. An effort has been made to respond to the sometimes technical and complex questions in as clear and straightforward a manner as possible.

The order in which the questions and answers appear is listed below:

COST TO THE "AVERAGE FAMILY"

Q. You originally calculated that the average family would pay an additional $275. per year under the President's program. Then you revised the figure to $345 per year. Meanwhile, critics have charged that the average family will pay an additional $800 per year. Why did you revise upward your own figure, and why are some saying that the cost will be nearly 2-1/2 times as great?

A. That $275 figure is still the most we feel the program will cost the average family in the first year. This includes a direct cost -- in petroleum products -- of $171 and an indirect cost of $104. The $345 figure represents what we feel is the worst possible situation, with the highest possible number of indirect costs being passed through to the consumer. It represents an additional $70 in increased costs that we don't think will ever reach the consumer's pocket. We are basing our figures upon historical data, which indicates that most businesses and industries -- one example is the auto industry -- do not pass through 100% of cost increases.

The $800 figure mentioned is based upon a different set of statistical data, some of which are either erroneous or irrelevant. For example, it premises its findings on there being 55 million households, when there are actually 70 million households. Also, it assumes that half of the coal required will rise in price equivalent to the oil taxes, when in fact 80% of coal is on long-term contract.

RIPPLE EFFECT

Q. How did you arrive at your estimate of only a 2% increase in the Consumer Price Index and no ripple effect to speak of from the President's program?

A. We are estimating the total cost increase resulting from this program to be about $30 billion. Such an increase would cause a 2% increase in the Consumer Price Index in the first full year of the program. This estimate includes both direct and indirect energy cost effects.

Some estimates show that, with the ripple effect, the CPI could increase as much as 2.5%, but we believe that the indirect effects will probably not generate increases beyond 2%.

There are two major reasons for our view: first, there will be a major rebate going to corporations which will reduce their tax bite. Second, the demand for goods and services in today's economy is very soft, and manufacturers will be anxious to maintain their current markets.

EFFECT ON THE POOR

Q: Why is your temporary tax reduction an across-the-board reduction and not designed for lower-income people?

A: The $16 billion temporary tax cut is designed to provide an immediate boost to the economy. Individuals would receive $12 billion and businesses the other $4 billion which will help stimulate current spending and investment to create jobs. The President's proposal limits the total rebate to $1,000 but provides meaningful rebates for a larger number of families that will help to stimulate retail sales, particularly for appliances, furniture and cars so that employment will increase.

Adjustment of the tax rates is provided in another part of the President's program which will use the revenues raised by the energy taxes to increase the low-income family exemption and to reduce the tax rate. This part of the package is tilted in favor of low and middle-income families as indicated. A special $2 billion package is set aside for people with low incomes who do not pay any taxes.

EFFECT ON THE POOR

Q: How will people who pay no income taxes be compensated for their additional energy costs?

A: In order to avoid hardships from higher energy costs, cash payments of $80 will be provided for each adult in the low-income, non-taxpayer category. In addition, very low-income persons who now pay some income tax will be eligible to receive cash payments which, when added to their income tax reduction, would give them a total benefit of $80 per adult.

SOCIAL SECURITY

Q. In trying to hold down Government spending, why did the President single out Social Security benefits and Federal retirement programs?

A. Social Security benefits and Federal retirement programs were not singled out. The President has submitted a series of budget recisions and deferrals on a wide range of programs to help reduce the Federal budget.

The 5% limit applies not merely to Social Security benefits but to all Federal programs tied to the cost of living, as well as Federal employee pay increases.

It is important to remember that since 1970 prices have increased 30% while Social Security benefits have on average increased 47%.

We are currently in a period in which the GNP is declining. Our best estimate is that the country as a whole will have between 3 and 4% less in goods and services during the coming year. Thus, a 5% limit on Social Security increases instead of the estimated full increase of about 8-1/2% means that Social Security recipients will bear their share but no more than their share of the burden.

CONSUMER SPENDING

Q. Can you be certain that people will spend the additional money they receive through tax reductions and provide the hoped-for stimulus to the economy?

A. No one can be sure what consumers will do with more money in their pockets. It is our expectation that a substantial part will be spent in areas where the economy is the weakest. This is based on observations of past tax cuts. If consumers do save a large fraction of the tax reduction, additional funds will be available to invest in housing construction and other job-creating activities.

WAGE AND PRICE STABILITY

Q. Why doesn't the President's program include additional powers to deal with wage and price increases?

A. At this time the monitoring program being conducted by the Council on Wage and Price Stability appears satisfactory. The Council on Wage and Price Stability has experienced no problems in acquiring the data needed to perform this role. Should additional powers be required, they will be requested.

UNEMPLOYMENT

Q: The unemployment rate has risen much more rapidly than you expected. Why don't you provide an additional 250,000 public service jobs beyond the 500,000 already authorized for local governments?

A: The public service employment program will be useful to help cushion the effects of the recession. But there are limitations on how quickly and effectively that program can be expanded.

At the last report there were many public service job openings unfilled. We are making a strong effort right now to see that the State and local governments fill those openings as quickly as possible. Before long we will have a better idea of how much need there is under present conditions.

Our first line of defense, however, is the unemployment compensation program. It has been designed expressly to deal with cyclical unemployment. It is designed to expand with the need and, likewise, contract in times of high employment.

ECONOMIC ACTIVITY

Q. Won't the President's energy proposals tend to depress economic activity at a time of recession and low business and public confidence?

A. Since the $30 billion in taxes and fees is returned to the economy in the form of a permanent tax reduction and non-tax payments, the aggregate effect on economic activity should be neutral. Adjustment to higher energy costs will impose some strains. These strains will be offset, however, by the improvement in business confidence that should result from prompt action which showed the people that the country has begun to move on our long-term energy problem.

Delay in moving forward with a comprehensive energy conservation program, or choice of a system of allocation or rationing to conserve energy, would only postpone the problem, reduce business confidence and delay a healthy and constructive recovery from the current recession.

The energy problem has contributed strongly to the current recession and decline in confidence; the energy issue must be faced squarely and acted upon promptly to restore and sustain improved confidence.

INFLATIONARY IMPACT

Q. The Administration has indicated that higher world oil prices set by the cartel have contributed strongly to the current inflation. Won't the energy program have the same effect?

A. The effect of the energy price increases is estimated to be a one-time increase in the CPI of approximately 2%.

The increased cost will be recirculated through the U.S. economy, by means of a restructured tax system -- unlike the cartel price hikes, it will not be shipped abroad as a permanent levy on the U.S. economy.

GOVERNMENT SPENDING

Q. Why has the President decided that there should not be any new spending programs in FY 1976?

A. We must restrain Government spending. Federal spending will actually jump $80 billion from July 1974 through FY 1976. Much of this increase is caused by programs to aid the unemployed and to expand benefit payments of many social programs. But we need to carefully consider our future priorities. When we close the books on FY 1975 we will have reported a Federal deficit in fourteen out of the last fifteen years. Over this period we will have accumulated $159 billion of budget deficits and another $180 billion will have been borrowed for Federal programs not included in the budget. The President is determined to regain control of Federal programs and the first step is to stop taking on new burdens, which we cannot pay for, until we can determine our future priorities.

GOVERNMENT SPENDING

Q. Why does the economic program concentrate on tax cuts rather than increasing Government expenditures?

A. At the present time a tax cut is preferable for two reasons: first, a tax cut will have a much quicker and more immediate impact on the economy. Government spending programs, if they are to be effective, require much time and planning prior to implementation. The recession should be dealt with now. Secondly, and equally important, past history suggests that increased Government expenditures tend to become permanent and place increasing demands on the Federal budget. Even while dealing with recession it is important that we not lose sight of our long-term objectives of bringing Federal expenditures under control to bring the budget into balance when the economy recovers.

It is interesting that in recent weeks opinions among economists are virtually unanimous that under current conditions tax cuts are preferable to an expenditure stimulus.

FEDERAL BUDGET DEFICITS

Q. Is the Administration seriously concerned about the huge budget deficits for fiscal years 1975 and 1976?

A. The Administration is concerned about the prospective large deficits. That is why the President has proposed actions to limit the growth in existing spending programs and asked for a moratorium on major new programs. Bringing the Federal budget into balance when the economy recovers will require close control over the trend of Federal spending. Continuation of budget deficits into a period of high employment would cause renewed inflation.

A second component of the large deficits in the immediate future, is a result of cyclical increases in unemployment insurance payments and reduced tax revenues. Increases in the deficit from these cyclical sources help to support recovery from the recession and their influence will phase out as the economy recovers. Thus, a temporarily larger Federal budget deficit contributed to stability in the economy under current conditions.