The original documents are located in Box 27, folder "State of the Union - 1975: General (1)" of the Ron Nessen Papers at the Gerald R. Ford Presidential Library.

Eric Zausner - Dep'ty FEA Adm
Fred Hickman - Asst Sect Treasury
Mike Duval - Domestic Council
Roger Porter - Exec dir's asst.

THE WHITE HOUSE
WASHINGTON

January 15, 1975

INTRODUCTION: STATE OF THE UNION BRIEFING, ROOM 450 EOB

Good morning. I will let Bill Seidman, Assistant to the President for Economic Affairs and Executive Director of the Economic Policy Board, [redacted] Frank Zarb, Administrator of the Federal Energy Administration and Executive Director of the Energy Resources Council, and CEA chairman Alan Greenspan, tell you about the content of the President's State of the Union Message and take your questions on it in a moment. I thought I'd take this opportunity to explain the materials you have: (1) fact sheet on the message; (2) energy Q&A; (3) energy charts; and last, but certainly not least, the message itself. Because of the volume of materials we have strained our reproduction system to its limit and are a bit behind our plan for producing copies of everything; but we hope to catch up with demand very shortly. The President's message will be the official and traditional State of the Union message delivered to Congress by Presidents. In addition the President will draw from and exceppt this message in his spoken address to the Joint Session of Congress at 1 o'clock today. Since the President wanted to review his speech again this morning we can not be certain that we will be able to provide you with an advance of precisely what he will say this afternoon--but I can assure you that the substance of what he will say will be from the message. Since it is somewhat unlikely that we will have an advance text, we will expedite the as-delivered transcript.

I will not try to either explain the message to you or take questions on it now. Rather I will turn the proceedings over to Frank and Bill. Frank, would you like to begin?

Announcement for Ron Nessen Briefing 1/14/75

The Office of Public Liaison, Bill Baroody's Office, has arranged a series of post State of the Union briefings for groups which were involved in the Economic Summits and other interested organizations. These briefings will be held in the East Room and Room 450 EOB and will be open for coverage. There will be limited seating for the press, so please advise Sandi Wisniewski if you wish to attend these briefings.

THURSDAY, JANUARY 16

1:30 P.M. - 3:00 P.M. (East Room)	Governors, Mayors, Legislators
4:00 P.M. - 5:30 P.M. (Room 450 - OEOB)	Washington Corporate Representatives

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FRIDAY, JANUARY 17

10:00 A.M. - 11:30 A.M. (Room 450 - OEOB)	Labor, Education Executives, Consumer Groups, Trade Associations, Veterans, Military Associations
1:30 P.M. - 3:00 P.M. (Room 450 - OEOB)	Economic Summit Invitees
4:00 P.M. - 5:30 P.M. (Room 450 - OEOB)	Economic Summit Invitees

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MONDAY, JANUARY 20

10:00 A.M. - 11:30 A.M. (Room 450 - OEOB)	Women and Youth
1:30 A.M. - 3:00 A.M. (Room 450 - OEOB)	Economic Summit Invitees
4:00 P.M. - 5:30 P.M. (Room 450 - OEOB)	Washington Representatives

GLW

THE WHITE HOUSE

WASHINGTON

January 15, 1975

RON:

Attached are two things. One will be given to the press office staff so they can tell people what we do [redacted] have available in conjunction with the SOTU. The second is your announcement explaining why it isn't a speech text we're giving them this morning.

The real reason is that the goddam thing is too long (over an hour), even after being cut by at least one-fourth last night (and this morning). So, ol' GF will get a copy of the message, triple-spaced, this morning and will start scratching things out, to get it down to whatever it is he wants to get it down to (presumably 30-45 minutes, but nobody knows how far down it will get cut).

[redacted] The President was in his office until 2:55 a.m. As Rumsfeld put it, the guy has one hell of a lot of patience. As Rumsfeld also put it if that word gets out--that he was there so late--it will be pretty solid evidence of just what happened, "a monumental fuckup."

At about 1:30 I told Don the logistical prob-lems and the need for getting something in people's hands this morning (so it wouldn;t look like we don't know how to run the free world). He understood and decreed that what we got last night would be a message and that the President could whittle it down later for the speech.

The message we have is approved by the Pres., Don, RTH, Zarb, Seidman, Marsh, et al.

Jan

cc: Jack
Jerry

January 15, 1975

Office of the Vice President
Washington, D.C.

NOTICE TO THE PRESS

STATEMENT OF VICE PRESIDENT ROCKEFELLER
ON THE STATE OF THE UNION MESSAGE

The President showed tremendous courage and strong leadership in presenting forthrightly to the American people and to the world the hard realities. He came forward with a bold, imaginative program that makes it possible to turn the problems into opportunities for the future which can give hope for a better, more secure life for people both here and throughout the world.

# # #

Announcement for Ron Nessen Briefing 1/14/75

We are planning a briefing tomorrow morning on the details of the President's State of the Union address.

Material will be available at 8:00 a.m. in Room 450 EOB. The material, fact sheets and copies of the SOTU address and message, will be embargoed until 1:00 p.m. 10 a.m. were embargo.
The briefing will begin at 8:30 a.m. and will be available for filming and taping.

Question

Who are the briefers?

Answer

We expect Bill Seidman, Assistant to the President for Economic Affairs and Executive Director of the Economic Policy Board, and Frank Zarb, Executive Director of the Energy Resources Council and Administrator of the Federal Energy Administration.

~~FYI: Could, and probably should, add~~ Morton and ~~Greenspan~~

Question

Why not Simon?

Answer

He is occupied with the IMF meetings.

GLW

THE WHITE HOUSE

WASHINGTON

January 14, 1975

MEMORANDUM FOR: JOHN CARLSON

FROM: JIM CAVANAUGH

SUBJECT: Q's and A's for Today's Briefing

Question

Under the President's policy of no new programs does this mean that he will not be requesting the Congress to enact a national health insurance program?

Answer

The President does not plan to ask the Congress to enact national health insurance legislation. The new federal cost of the comprehensive health insurance plan that was before the previous Congress was $5.8 billion. Latest calculations indicate that that estimate is now over $7 billion.

Question

We understand that Secretary Weinberger has been working on a welfare reform program based in part on a negative income tax for the last two years. Is that proposal killed by the President's action?

Answer

The President wants to do everything possible to reform the nation's welfare programs including food stamps, the supplemental security income program and the aid to families with dependent children. During the months ahead, HEW will be taking additional steps to reform these programs. The President does not, however, plan to ask the Congress for any new basic welfare program, although he has asked the Domestic Council to continue to work on reviewing various alternative plans for possible submission after the corner is turned on the current economic situation.

Question

There has been substantial criticism of your program because of regional inequities. What is your plan to deal with this problem?

Answer

I am convinced that the plan I have proposed is more equitable, both regionally and among income groups, than other alternatives such as rationing.

With respect to the Northeast, we have a special problem. That part of the country relies on petrolium energy more heavily than other parts of the nation. My program provides several actions which will assure that the cost per gallon in the Northeast will not increase more than anywhere else.

In addition, I am prepared to take other steps to alleviate inequities in New England or wherever else they may develop.

Any program we implement to turn the energy situation around will have special problems. If we work together, they will be worked out and we will still have an affective program.

On Thursday I will meet with the Governors from the Northeast and explore their problems and suggestions.

Q. What is your reaction to Congressional attempts to revoke your authorities to administratively impose import fees?

A. The energy program I put forward was the result of long and intensive deliberations by the Executive Branch. I still believe it is the most equitable and effective way to cut our energy vulnerability. I'm willing to work with the Congress to deal with inequities, but I'm unwilling, and so are the American people, to move backwards rather than forwards with respect to our energy problems.

THE WHITE HOUSE

WASHINGTON

January 5, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: RON NESSEN RHN

SUBJECT: SOME THOUGHTS BY DAVE BRODER ON YOUR STATE OF THE UNION MESSAGE AND SUBSEQUENT PRESENTATION OF YOUR PROGRAMS

Find attached the Dave Broder column from today's Washington Post. As you know, Dave Broder is a thoughtful, incisive and analytical writer. Many of the ideas he presents in this column are excellent and we here at the White House should consider them seriously in planning your activities of the next several weeks.

I believe your State of the Union speech is not just another speech. Based on comments from the press, the public and the business community, I have the strong impression that this speech will determine the Nation's view of you as leader and President for the balance of this term. Therefore, it is important, I believe, that the tone and substance of this speech be very carefully considered. If this speech strikes the right tone by demonstrating your strong leadership in the fields of economy and energy, and if it lays out the facts of the seriousness of the present situation to the American people, you should be able to unite the country and the Congress behind your program and get your public approval rating moving upward again.

As part of the preparation for the speech and subsequent activities in support of your program, we should weigh some of Broder's ideas seriously.

Attachment

CC: Don Rumsfeld
Jack Marsh
Bob Hartmann
Paul Theis
Jerry Warren
William Simon
William Seidman
Alan Greenspan
Frank Zarb
Rogers C. B. Morton

David S. Broder

'A Dialogue With The People'

At a recent White House staff meeting, President Ford orally summarized three option papers on the energy situation, each involving policies with serious costs to American consumers. At the end, according to the recollection of one listener, he asked: "How would *you* like to tell the American people those are the alternatives?"

"Maybe you should," this staffer replied, thereby giving Mr. Ford what may well be the most useful advice he could receive as he faces a critical period in his young but vulnerable presidency.

Between Jan. 20, the scheduled date for the State of the Union address, and about March 1, Mr. Ford will have his best—and perhaps his last—opportunity to set his agenda and program before the nation. If he fails in that period, adverse events and an opposition Congress may overwhelm him.

There are encouraging signs that the sojourn in Vail produced some tough policy decisions on the President's part. But even if his policies are beginning to jell, he still needs to improve his weapons of persuasion, which have not been impressive these past five months. Not since the first two speeches he made on taking over as President, in the melodrama of Richard Nixon's fall, has Mr. Ford been able to capture the public's imagination or attention.

Given this fact and given the importance of the occasion, there will be a tendency to try to write the State of the Union address as a blockbuster. The comparison one hears at the White House is the dramatic Sunday night speech in mid-August of 1971 in which Mr. Nixon announced his "new economic policy," with a wage-price freeze, the floating of the dollar and other high-voltage measures.

Mr. Ford will not echo those particular policies but there is a yearning on his staff for a similarly sensational effect. But that approach is almost certain to prove wrong for this President, for it suits neither the times nor the man.

Everyone in America now understands what only a few people knew in 1971—that our economic and energy problems will not be solved by quick-fix solutions and that any policies worth adopting will have to be carried for months and years to have any hope of success.

That implies that they should be introduced, not v a staccato blast of trumpets, but a well-modulated note of logic and restraint that can be sustained over time.

What is needed, in short, is a continuous, low-keyed discussion of government policies, led by the President through frequent talks, inviting responses from congressional leaders and marked less by rhetoric than by clear exposition of where we stand and where we are headed.

Mr. Ford needs to signal his desire for such a dialogue in his State of the Union talk and to follow up by doing what no President since Harry Truman has done—presenting his budget to the American people himself at the same time he submits it to Congress.

And then he needs to come back on television every couple of weeks or so, to update his report to the people on the progress—or lack of progress—toward his goals.

Such a communications strategy would suit this President. His efforts at rhetoric are faltering, and he is distinctly uncomfortable at seeming to talk down to his former colleagues in Congress or talk past them to the people.

But he can expound a problem or a policy with a good deal of clarity, and by expounding, not exhorting, he can talk simultaneously both to the voters and to their representatives, without appearing to lecture either of them.

The test of these talks will be not their eloquence but their honesty. Where the question of Policy A or Policy B is a close one, Mr. Ford must acknowledge the difficulty of the choice. Where all options have some inherent disadvantages, he must face those costs at the same time he recommends his chosen course of action.

Candor comes naturally to this President, and his own honesty can impose a similar standard of straightforwardness in the congressional leaders who will—and should—come forward to respond.

This kind of dialogue will not prevent confrontations between the Republican President and the Democratic Congress; nothing could. But it can impose a discipline on the legislative branch, which was utterly lacking in the end-of-the-session veto battles, by forewarning Congress that the public will be watching its actions and seeing the President measure them against the yardsticks he has set forth.

Happily, Mr. Ford has no eccentricities of style that should make him fear overexposure on television. His effectiveness is in speaking plainly and often with the American people, not orating occasionally and brilliantly at them.

By launching such a sensible, sustained dialogue with the people, he can serve both his interests and the country's.

file

THE WHITE HOUSE

WASHINGTON

January 11, 1975

MEMORANDUM FOR: DONALD RUMSFELD

VIA: JIM CONNOR

FROM: RED CAVANEY

SUBJECT: PRESIDENTIAL STATE OF THE UNION ADDRESS
U.S. Capitol

Attached at TAB A is the proposed schedule for the State of the Union Address.

APPROVE _____ DISAPPROVE _____

SCHEDULE FORMAT

To accommodate the staff of Speaker Albert's office, who will be unavailable over the weekend and will be heavily involved in Monday's Democratic Caucus and Tuesday's Opening Session, the Pre-advance met with our Hill contacts today to discuss the event format. No discussion of specific date or time took place, rather an agreement as to format which will be followed when the announced time is set forth. The "H-00 min" time is that for which the address is scheduled. All other activities are indicated as either "minus" for those activities prior to the President's entrance into the House Chamber and "plus" for all following.

FIRST FAMILY ATTENDANCE

	YES	NO
Mrs. Ford	____	____
Susan Ford	____	____
_____	____	____
_____	____	____
_____	____	____

EXECUTIVE GALLERY SEATING

As tradition dictates, the President receives seventeen (17) seats in the Executive Gallery for First Family, staff and guests. TAB B contains a seating diagram, indicating the location of the 17 seats. Does the President desire to invite any guests?

YES _____ NO _____

If yes, whom?

_____

_____

_____

NOTE: Only the seven seats in the first row are permanent; an aisle seat, literally, involves sitting on a step and waiting outside the Chamber until the First Lady is seated. Typically, if guests are invited, they are seated in the first row seats and staff utilizes the aisle seats.

Also included in TAB B is a proposed seating diagram with an allocation of five seats for guests. This proposal would seat seven staff members in seats on the aisle in protocol order, with Alan Greenspan and Frank Zarb included in view of their role in the economic/energy sphere. It is suggested that William Kendall and Vern Loen be seated due to their Congressional Liaison roles. Dependent upon the number of guests, if any, additional staff would be invited in protocol order.

SEATING PLAN

APPROVE ____ DISAPPROVE _____

NOTE: All White House staff members of Cabinet rank will be seated on the House Floor with the Cabinet. Ron Nessen will also be provided a seat on the House Floor.

January 11, 1975
1:00 pm

PROPOSED SCHEDULE

PRESIDENTIAL VISIT TO THE CAPITOL FOR THE STATE OF THE UNION ADDRESS

U.S. Capitol

H-35 min — The Vice President arrives at the Capitol. The Vice President proceeds to the Senate Chamber to convene the Senate.

H-20 min — The President and Mrs. Ford board motorcade.

MOTORCADE DEPARTS South Grounds en route U.S. Capitol.

[Driving time: 10 minutes]

H-18 min — The Vice President and the Senate depart the Senate Chamber and proceed to the House Chamber.

H-15 min — The Vice President and the Senate enter the House Chamber.

H-10 min — Diplomatic Corps proceeds to House Chamber Floor.

H-10 min — MOTORCADE ARRIVES South Door of the Capitol (House Wing).

NOTE: The President will be met by Mr. Ken R. Harding (House Sergeant-at-Arms) and Mr. George White (Architect of the Capitol). Six official Congressional photographers will be on hand.

The President and Mrs. Ford proceed inside the South Door entrance en route the Holding Room (H-210), escorted by Mr. Harding.

H-08 min — Mrs. Ford will be escorted to her seat in the Executive Gallery by Mr. Don Anderson or Mr. Luke Hicks.

H-05 min — The Cabinet proceeds from H-210 to the House Chamber Floor.

H-05 min — The President arrives Holding Room (H-210).

H-04 min — Mrs. Ford arrives her seat in the Executive Gallery.

H-03 min — The Escort Committee arrives outside the Holding Room. Escort Committee is as follows:

Senator James O. Eastland (D-Miss)
Senator Mike Mansfield (D-Mont)
Senator Hugh Scott (R-Pa)
Senator Robert Byrd (D-W. Va)
Congressman Thomas O'Neill, Jr. (D-Mass)
Congressman John Rhodes (R-Ariz)
Congressman John McFall (D-Ca)
Congressman Bob Michel (R-Ill)

H-02 min — The President departs Holding Room en route House Chamber, escorted by Mr. Ken Harding and Mr. Bill Wannell (Senate Sgt-at Arms) and the Escort Committee.

H-01 min — The President arrives center door of the House Chamber.

H-00 min — Announcement by Jim Molloy, the Doorkeeper.

H+01 min — The President proceeds down center aisle, escorted by Jim Molloy and the Escort Committee, to the Clerk's Desk (middle level).

LIVE NATIONWIDE TELEVISION

H+02 min — The President arrives Clerk's Desk and remains standing.

NOTE: On arrival, the President will present a copy of the State of the Union Address to the Speaker of the House and the President of the Senate.

H+02 min — The Speaker calls the Joint Session to order and formally presents the President.

H+03 min — Presidential State of the Union Address.

LIVE NATIONWIDE TELEVISION

H+30 min Address concludes.

The President departs House Chamber via the entrance route, escorted by the two Sgts-at-Arms and the Escort Committee, and proceeds to motorcade for boarding.

H+31 min Mrs. Ford departs her gallery seat en route motorcade.

H+32 min The Vice President leads the Senate back to the Senate Chamber.

H+34 min The President is joined by the First Lady in the hallway and proceeds outside South Entrance to board motorcade.

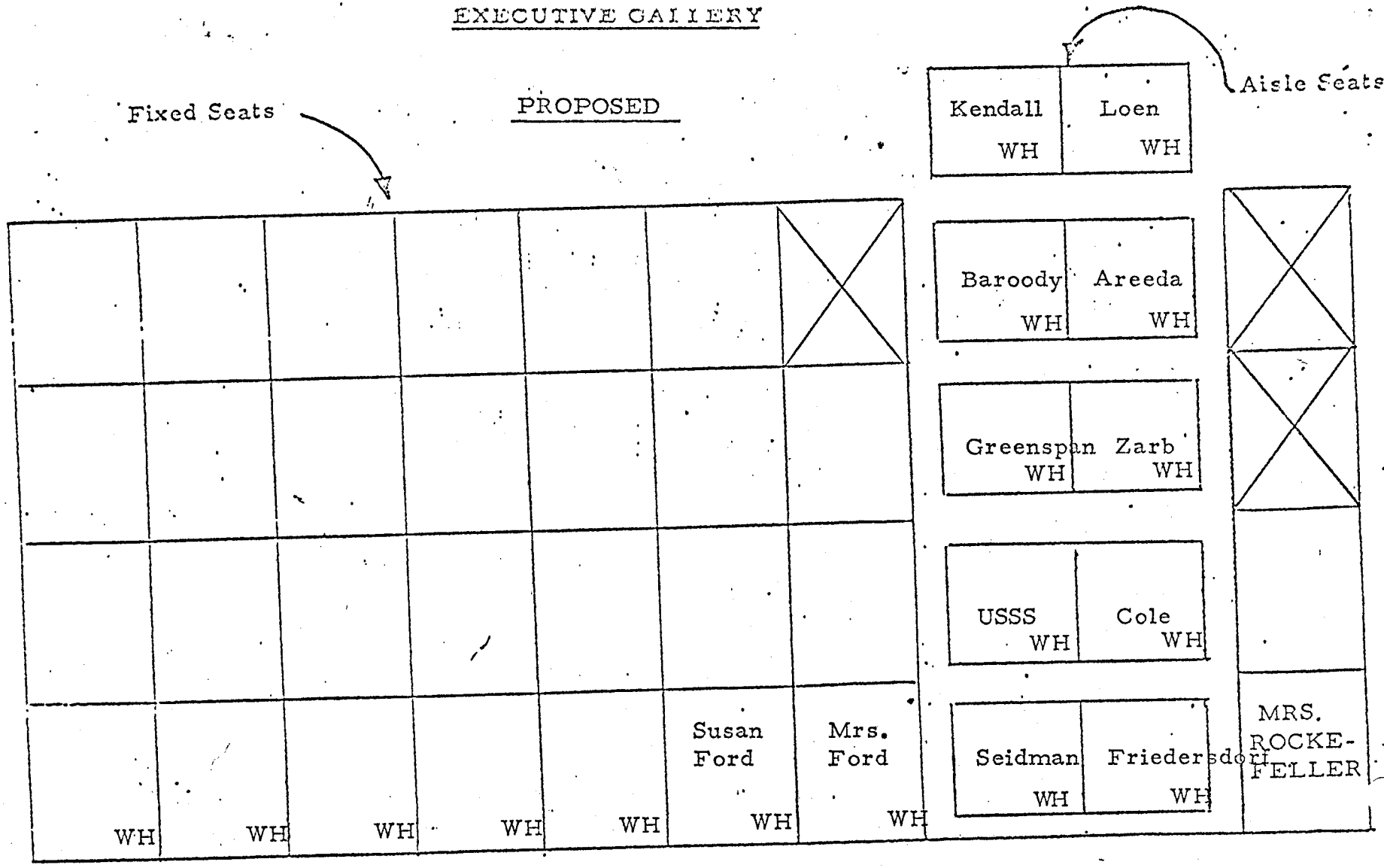
H+35 min MOTORCADE DEPARTS The Capitol en route South Lawn.

[Driving time: 10 minutes]

H+45 min MOTORCADE ARRIVES South Lawn.

EXECUTIVE GALLERY

PROPOSED



********* HOUSE FLOOR*********

NOTE: Seats marked "WH" are provided to the President for his family, staff, and guests. Other seats not marked are for Cabinet wives and wives of the Supreme Court Justices.

Harris Survey

Majority approves tax rebate

By Louis Harris

IF CONGRESS passes the federal income tax rebate, the American economy would receive a substantial, if temporary, shot in the arm, according to results of the latest Harris Survey.

In a survey of a cross-section of 1,532 households taken between Jan. 16 and 20 on the public's prospective buying plans, 39 per cent of those polled said they would make a major purchase if Congress approves President Ford's proposed 12 per cent tax refund while only 22 per cent said they would spend their money if the bill were not approved.

Predictably, the rebate on the 1974 federal income taxes meets the approval of an overwhelming 67 to 21 per cent majority. The Harris sampling was asked:

"DO YOU FAVOR or oppose an immediate federal income tax cut of 12 per cent across the board with a $1,000 limit, which would reduce everyone's 1974 federal income tax by 12 per cent?"

	Total Public
	%
Favor	67
Oppose	21
Not sure	12

By more than 3 to 1, the public supports the tax cut, and this support possibly will register clearly with members of Congress in the next few weeks. But the question is whether people will spend their refunds on purchases of products and services or put it in savings or in some investment service. The cross-section was asked:

"At this time, do you feel it is best to put away what money you can for a rainy day, to invest it in something you hope will grow as inflation increases, or to buy things you want and need before prices go up?"

"If you received a 12 per cent federal tax cut and a tax refund, would you put the money away for a rainy day, invest it in something you hope will grow in value, or buy things you want and need?"

	Without tax cut	With 12% tax cut	Change
	%	%	%
Put away for rainy day	53	41	—12
Buy things want and need	22	39	+17
Invest to grow in value	18	12	— 6
Not sure	7	8	+ 1

In economic terms, the 12 per cent tax rebate could bring nearly double the number of people to the market place than may be there next year without the tax refund.

In specific product categories, the hard hit, compact auto and color television set markets would most benefit from additional consumer spending. The cross-section was asked:

"In the next six months, do you feel certain you will purchase [Read list], that you possibly will, or that you probably will not purchase [Item]?"

"Now suppose in that same six-month period you received a 12 per cent federal income tax refund on your 1974 taxes. Do you feel certain you would purchase [Read list], that you possibly would, or that you probably would not purchase [Item]?"

	Certain to Buy %	Possible Buy %	Increase in Total Demand %
New Furniture			
Without tax rebate	5	20	4
With tax rebate	10	16	
Major Appliance			
Without tax rebate	5	13	6
With tax rebate	7	12	
Stocks			
Without tax rebate	2	7	—
With tax rebate	3	6	
New Medium-sized Car			
Without tax rebate	2	4	17
With tax rebate	2	5	
New Color TV Set			
Without tax rebate	1	8	22
With tax rebate	3	8	
New Compact car			
Without tax rebate	1	6	14
With tax rebate	2	6	

WITH A TAX refund, people who had not planned to purchase a color television set would do so, while those already in the market for a color TV would buy sooner.

One important survey finding is that people with incomes under $15,000 are much more likely to up their spending expectations than those in the higher brackets. One of the issues being debated in Congress is whether the cut-off on rebates should be geared toward lower or higher income groups.

This Harris Survey shows that consumer spending would be enhanced most if the cuts were primarily aimed at the middle and lower income groups.

ECONOMY AND ENERGY:

THE PRESIDENT'S PROGRAM IN BRIEF

THE WHITE HOUSE

- FOREWORD -

Immediately following the State of the Union message, over one thousand leaders from every segment of American society came to the White House for a series of briefings and discussions on the economic and energy proposals in President Ford's message. In the course of this series of discussions, certain basic questions kept recurring.

The purpose of this pamphlet is to answer many of the most commonly-asked questions by presenting a brief overview and highlights of the President's program.

ECONOMY AND ENERGY -
THE PRESIDENT'S PROGRAM IN BRIEF

President Ford's comprehensive economic and energy proposals are designed to respond to one of the most complex and serious challenges in American history. This paper provides a brief and frank discussion of the situation.

The problem can be simply stated: We are experiencing the highest rate of inflation since World War II and a recession with unemployment already over seven percent. On top of this, the United States is faced with a growing dependence for oil on unreliable foreign sources at prices that pose very serious national security, financial and economic problems.

Each of these problems is closely linked to the others. Because of that linkage they must be treated together.

Inflation has resulted from a number of causes, including:

- Many years of excessive Federal spending and too rapid growth of money and credit.

- The quadrupling of oil prices by the major foreign producing countries.

- Poor harvests leading to higher food prices.

- Two devaluations of the dollar.

This inflation has helped create the recession by:

- Cutting the real purchasing power of paychecks.

- Pushing interest rates to high levels that work severe hardship on many sectors of the economy, particularly homebuilding.

- Depressing consumer confidence and their willingness to buy.

Higher oil prices imposed by the oil exporting countries contributed directly to both recession and inflation. This increase in the price of energy and energy-related products works like a tax levied by a foreign power. It reduces the cash an individual or a family has available for other spending, but also removes these revenues from our Nation as a whole because, unlike domestic taxation, they are not even available for public spending here at home.

The higher energy bill has thus resulted in a massive flow of dollars to the oil exporting countries. Other industrialized countries are also paying very high oil bills, threatening the stability of world financial markets and their ability to pay for the energy they need.

The Arab oil embargo brought home forcefully to every American what this dependence could mean to our economy and to our national security, and yet our dependence steadily increases. Domestic oil and gas production is falling and imports are rising. Today, imports account for about 40% of our petroleum consumption. If present trends continued, we would be importing 50% of our oil by 1985.

Unless we take immediate steps to reduce our consumption of fuel and increase our self-reliance, we will experience greater imports, have more severe balance of payments problems, and be subject to major interruptions and price manipulation by oil exporting countries.

The control of the oil cartel countries over oil supply and prices gives them leverage over our entire economy, and represents a tremendous drain on our national wealth.

To put the situation in perspective: In 1970, we spent less than $3 billion on oil imports; in 1974, we spent roughly $25 billion; and by 1977, if we fail to take action now, it is estimated that we will pay $32 billion to the oil-producing countries. And with those import dollars go the real income and wealth we could otherwise enjoy.

The President believes we must cut our oil imports by about one million barrels per day by the end of this year and by two million barrels per day by the end of 1977.

President Ford, after wide consultation, has developed a three-pronged attack on the challenges of recession, inflation and energy dependence. Since it is designed to deal with a wide range of very difficult problems, his program is complex. As a result, the program can be judged fairly only by viewing it as a whole since the various parts are closely interrelated to achieve the desired objectives.

The goals of the President's program may be summarized as follows:

- To hasten recovery from the recession, the President sees the need for an immediate, across-the-board tax rebate of $12 billion for individual taxpayers on 1974 taxes, returning to them up to 12 percent of their taxes in May and September of 1975. An additional $4 billion 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 ($16 billion total) that would speed recovery without causing more inflation.

- To curb inflation, the President will attempt to effect a moratorium on new spending programs outside the energy field and a five percent limit on automatic cost of living increases in social security benefits, military retirement pay and the like. The program also includes a five percent limit on Federal pay increases in 1975. Inflation is 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 has designed a tough new program to encourage conservation and greater domestic energy production.

Energy conservation would be achieved through a series of import fees, excise taxes and decontrol of domestic oil and gas prices with the increased costs recaptured through tax revenues that would raise the price of most petroleum products on an average of 10 cents a gallon. This will reduce demand for these products sufficiently so that, together with increased domestic production, the President's goals can be met.

As part of a longer run solution, the President has an agreement with the major domestic auto makers to improve gasoline mileage by 40% on the average by 1980, compared to 1974 cars. He is also working to change building standards to improve insulation and other building practices so as to reduce energy needs. Efforts are also under way to substantially improve the energy efficiency of major appliances.

Increased energy production in the United States would be achieved through a number of measures. These include oil production from Naval Petroleum Reserves and higher production from existing wells in response to improved incentives because domestic oil prices will no longer be below prices we must pay for imported oil. These policies will be supplemented by actions to encourage faster development and production of our domestic energy resources.

In addition, the President would require:

- Such adjustments as are necessary to permit expanding use of our domestic energy supplies to produce electric power.

- A long range synthetic fuels program.

- A continuation of the accelerated program of research and development in the energy area.

A question that is often raised is whether this program contributes both to inflation and recession by increasing energy costs to consumers.

The President felt that the costs could not be avoided if the economy was going to reduce its demand for petroleum products and become less dependent on foreign energy sources by 1985. The alternative would have been a system of rationing that would not solve our energy problem and would be unfair to the average American.

The President's total energy program will have a one-time effect of increasing prices by about 2%. The estimated increased cost of petroleum and petroleum-related products to all segments of society will be about $30 billion a year. Estimate of the average annual cost per family is about $275.

The President's total program will not depress the economy because higher energy costs will be offset by the permanent reduction of taxes. This program of tax reduction includes $16.5 billion for individuals that will show up as an immediate reduction in taxes withheld from current earnings. Seventy percent will go to persons with incomes of less than $15,000 per year. Individuals who pay no taxes at all will receive $2 billion annually - or about $80 per person. Corporate taxes will be cut by $6 billion. State and local governments will also receive added funds under the General Revenue Sharing formula. In addition, individuals who install insulation in their homes will receive a tax credit for a portion of those costs.

In summary, higher energy taxes will increase energy prices, but these higher prices will be an incentive for all energy users to look for ways to reduce their own use of energy, whether for gasoline, heating oil, electricity, etc. Some businesses or individuals will find that they can reduce their use of energy, while others will decide to pay the higher price. Under the President's program everyone can make his or her own decision.

In order to avoid hurting average and lower income people most, because of higher energy costs, a disproportionate share of the reduction in taxes will go to low and middle income families. For many families, the tax cut will restore a part of the purchasing power that has been lost as a result of inflation. Higher income people, however, will receive permanent tax reductions that do not fully offset their higher energy costs.

The President contemplates a tough, comprehensive, and integrated program. It would help protect our national security. 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 bring the Federal budget into balance when the economy recovers. It would raise petroleum prices in order to encourage conservation and increase domestic production. And it would recapture excessive oil company profits through a windfall profits tax. On balance, it would deal fairly and equitably with consumers and producers alike.

EMBARGOED FOR RELEASE
UNTIL 9:00 P.M., EST

JANUARY 13, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

TEXT OF AN ADDRESS BY THE PRESIDENT
TO THE AMERICAN PEOPLE ON HIS
ECONOMIC AND ENERGY PROPOSALS

Without wasting words, I want to talk with you tonight about putting our domestic house in order. We must turn America in a new direction. We must reverse the current recession, reduce unemployment and create more jobs. We must restore the confidence of consumers and investors alike. We must continue an effective plan to curb inflation. We must, without delay, take firm control of our progress as a free people.

Together we can and will do this job. Our national character is strong on self-discipline and the will-to-win. Americans are at their very best when the going is rough. Right now the going is rough and it may get rougher. But if we do what must be done, we will be well on our way to better days. We have an historic opportunity.

On Wednesday I will report to the new Congress on the State of the Union and ask for its help to quickly improve it. But neither Congress nor the President can pass laws or issue orders to assure economic improvement and instant prosperity. The government can help by equalizing unfair burdens, by setting an example of sound economic actions and by exerting leadership through a clear and coordinated national recovery program.

Tonight, I want to talk to you about what must be done. After all, you are the people most affected. Since becoming your President five months ago, economic problems have been my foremost concern. Two elements of our problem are long-range -- inflation and energy. Both are affected not only by our actions, but also by international forces beyond our direct control. The new and disturbing element in the economic picture is our worsening recession and the unemployment that goes with it.

We have made some progress in slowing the upward spiral of inflation and getting interest rates started down. But, we have suffered sudden and serious setbacks in sales and unemployment. Therefore, we must shift our emphasis from inflation to recession. But, in doing so, we must not lose sight of the very real and deadly dangers of rising prices and declining domestic energy supplies. Americans are no longer in full control of their own national destiny when that destiny depends on uncertain foreign fuel at high prices fixed by others. Higher energy costs compound both inflation and recession. And dependence on others for future energy supplies is intolerable to our national security.

We must wage a simultaneous three-front campaign against recession, inflation and energy dependence. We have no choice.

(MORE)

We need, within 90 days, the strongest and most far reaching energy conservation program we have ever had. Yes, gasoline and oil will cost even more than they do now. But this program will achieve two important objectives: it will discourage the unnecessary use of petroleum products and it will encourage the development and substitution of other fuels and newer sources of energy.

To get started immediately on an urgent national energy plan, I will use the Presidential emergency powers to reduce our dependence on foreign oil by raising import fees on each barrel of foreign crude oil by one dollar to three dollars over the next three months. A more comprehensive program of energy conservation taxes on oil and natural gas, to reduce consumption substantially, must be enacted by the Congress. The revenues derived from such taxes will be returned to the economy. In addition, my energy conservation program contains oil allocation authority to avoid undue hardships in any one geographic area, such as New England, or in any specific industries or areas of human need where oil is essential. The plan prevents windfall profits by producers. There must also be volunteer efforts to cut gasoline and other energy use. My national energy conservation plan will urge Congress to grant a five-year delay on higher automobile pollution standards in order to achieve a 40-percent-improvement in miles per gallon. Stronger measures to speed the development of other domestic energy resources, such as coal, geothermal, solar and nuclear power, are also essential.

This plan requires personal sacrifice. But if we all pitch in, we will meet our goal of reducing foreign oil imports by one million barrels a day by the end of this year and by two million barrels before the end of 1977. The energy conservation measures I have outlined tonight will be supplemented by the use of Presidential power to limit oil imports as necessary to fully achieve these goals.

By 1985 -- 10 years from now -- the United States will be invulnerable to foreign energy disruptions or oil embargoes such as we experienced last year. Of course, our domestic needs come first. But our gains in energy independence will be fully coordinated with our friends abroad. Our efforts should prompt similar action by our allies.

If Congress speedily enacts this national energy program, there will be no need for compulsory rationing or long waiting lines at the service station. Gasoline prices will go up, though not as much as with a 20-cent-a-gallon gas tax. Furthermore, the burden of the conservation taxes on oil will be shared by all petroleum users, not just motorists.

Now, let me talk about the problem of unemployment. This country needs an immediate Federal income tax cut of $16 billion. Twelve billion dollars or three-fourths of the total of this cut should go to individual taxpayers in the form of a cash rebate amounting to 12 percent of their 1974 tax payments -- up to $1,000 rebate. If Congress acts by April first, you will get your first check for half the rebate in May and the rest by September.

The other one-fourth of the cut, about $4 billion, will go to business taxpayers, including farmers, to promote plant expansion and create more jobs. This will be in the form of an increase in the investment tax credit to 12 percent for one year. There will be special provisions to assist essential public utilities to step up their energy capacity. This will encourage capital spending and productivity, the key to recovery and growth.

(MORE)

As soon as the new revenues from energy conservation taxes are received, we will be able to return 30 billion dollars to the economy in the form of additional payments and credits to individuals, business and State and local governments. Cash payments from this total also will be available to those who pay no income taxes because of low earnings. They are the hardest hit by inflation and higher energy costs. This combined program adds up to 46 billion dollars -- 30 billion dollars in returned energy tax revenues to compensate for higher fuel costs -- and 16 billion dollars in tax cuts to help provide more jobs. And the energy conservation tax revenues will continue to be put back into the economy as long as the emergency lasts.

This economic program is different in emphasis from the proposals I put forward last October. The reason is that the situtation has changed. You know it, and I know it. What we need most urgently today is more spending money in your pockets rather than in the Treasury in Washington. Let's face it, a tax cut to bolster the economy will mean a bigger Federal deficit temporarily, and I have fought against deficits all my public life. But unless our economy revives rapidly, Federal tax revenues will shrink so much that future deficits will be even larger. But I have not abandoned my lifelong belief in fiscal restraint. In the long run, there is no other real remedy for our economic troubles.

While wrestling with the budgets for this year and next, I found that at least three-fourths of all Federal expenditures are required by laws already on the books. The President cannot, by law, cut spending in an ever-growing list of programs which provide mandatory formulas for payments to State and local governments and to families and individuals. Unless these laws are changed, I can tell you there are only two ways to go -- still higher Federal taxes or the more ruinous hidden tax of inflation. Unchecked, Federal programs mandated by law will be the prime contributors to Federal deficits of 30 to 50 billion dollars this year and next. Deficits of this magnitude are wrong -- except on a temporary basis in the most extenuating circumstances. Reform of these costly mandated Federal spending programs will take time. Meanwhile, in order to keep the budget deficit as low as possible, I have decided to take interim steps.

In my State of the Union and subsequent messages, I will not propose any new Federal spending programs, except for energy. And the Congress -- your representatives in Washington -- share an equal responsibility to see that no new spending programs are enacted. I will not hesitate to veto any new spending programs that Congress sends to me. Many proposed Federal spending programs are desirable and have had my support in the past. But they cost money -- your tax dollars. Plainly, it is time to declare a one-year moratorium on new Federal spending programs. I need your support in this. It is vital that your representatives in Congress know that you share this concern about inflation.

I believe the Federal Government ought to show all Americans it practices what it preaches about sacrifice and self-restraint. Therefore, I will insist on a five percent limit on any Federal pay increases in 1975 and I will ask Congress to put the same temporary five percent ceiling on automatic cost-of-living increases in Government and military retirement pay, and Social Security. Government alone cannot bring the cost of living down. But until it does start down, Government can refrain from pushing it up. For only when the cost of living comes down, can everybody get full value from a pension or paycheck. I want to hasten that day.

(MORE)

Tonight I have summarized the highlights of my energy and my economic programs. They must go hand in hand, as I see it. On Wednesday, I will spell out these proposals to the Congress. There will be other recommendation both short-term and long-range, to make our program as fair to all as possible. I will press for prompt action and responsible legislation. The danger of doing nothing is great; the danger of doing too much is just as great. We cannot afford to throw monkey wrenches into our complex economic machine, just because it isn't running at full speed.

We are in trouble. But we are not on the brink of another Great Depression. Our political and economic system today is many times stronger than it was in the 1930's. We have income safeguards and unemployment cushions built into our economy. I have taken and will continue to take whatever steps are needed to prevent massive dislocations and personal hardships, and, in particular, the tragedy of rising unemployment. But sound solutions to our economic difficulties depend primarily on the strong support of each one of you. Self-restraint must be exercised by big and small business, by organized and unorganized labor, by State and local governments as well as by the Federal Government. No one will be allowed to prosper from the temporary hardships most of us bear willingly. Nor can we permit any special interests to gain from our common distress.

To improve the economic outlook, we must rekindle faith in ourselves. Nobody is going to pull us out of our troubles but ourselves, and by our own bootstraps. In 200 years as a nation, we have triumphed over external enemies and internal conflicts -- and each time, we have emerged stronger than before. This has called for determined leaders and dedicated people, and this call has never gone unheeded. In every crisis, the American people have closed ranks, rolled up their sleeves and rallied to do whatever had to be done. I ask you and those who represent you in the Congress to work to turn our economy around, declare our energy independence, and resolve to make our free society again the wonder of the world.

The beginning of our Bicentennial is a good time to reaffirm our pride and purpose as Americans who help themselves and help their neighbors no matter how tough the task. For my part, I will do what I believe is right for all our people -- to do my best for America as long as I occupy this historic house. We know what must be done. The time to act is now. We have our Nation to preserve, and our future to protect. Let us act together, and may God bless our endeavors.

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FOR IMMEDIATE RELEASE JANUARY 15, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF
WILLIAM L. SEIDMAN
ASSISTANT TO THE PRESIDENT
FOR ECONOMIC AFFAIRS
AND
FRANK ZARB
ADMINISTRATOR, FEDERAL ENERGY ADMINISTRATION

ROOM 450
OLD EXECUTIVE OFFICE BUILDING

9:00 A.M. EST

MR. NESSEN: You have all your fact sheets, and we are going to have an explanation in detail and questions and answers with Bill Seidman, who is Assistant to the President for Economic Affairs and the Executive Director of the Economic Policy Board, and Frank Zarb, who is the Administrator of the Federal Energy Administration and the Executive Director of the Energy Resources Council.

In addition, we have Eric Zausner, who is the Deputy to Frank Zarb. We have Fred Hickman, an Assistant Secretary of the Treasury, and Mike Duvall from the Domestic Council and Roger Porter, who is one of Bill Seidman's assistants.

Just to go over what you should have in your hand, you should have a fact sheet which contains information on both the energy and the economic program. You should have a set of questions and answers relating to energy. You should have a set of charts relating to energy, and you should have the President's State of the Union Message.

If there was some slight delay this morning in getting all this stuff out, it is because our mimeograph machines and staplers and collators were pressed to their maximum limit.

The message you have will be delivered to Congress as a written message, and from that written message, the President will draw excerpts for his speech. At this moment, I can't give you precisely how much of that message will be given in the speech. In fact, we may not have an advance text, so we will give you an as delivered transcript as fast as possible.

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(OVER)

I guess that is enough introduction.

Q Ron, one question. Why isn't the President's chief economic spokesman briefing?

MR. NESSEN: Secretary Simon is involved in the meeting, which you know about, in Washington, of the International Monetary Fund, the Finance Ministers of the 10 countries. He is involved in that.

Q They are not going to be meeting this morning, though, are they?

MR. NESSEN: He has been having some informal meetings at various times with them.

Also, Alan Greenspan will be here as soon as he shaves, showers and gets down here. He overslept a little this morning. (Laughter.)

I think we will start with energy and Frank Zarb.

MR. ZARB: Good morning.

I think it would be most useful if we spend a minimum of time on the gospel according to the press packet, since you have all that material to read, and a maximum of time answering your questions, so I will move quickly with an overview and if you agree and Ron, we will move to Bill Seidman and then both of us can handle questions. Does that make the most sense? Our areas are tied together and much of what we have to say has linkage between them.

In the 1960s' this Nation lost its energy independence. We now import some 40 percent of our total consumption. If we do nothing by 1985, that consumption will be in excess of 50 percent.

The seriousness of the situation, perhaps, can best be demonstrated in dollars. In 1970, our import bill was about $3 billion. In 1974, it is somewhat under $25 billion. In 1985, with a $4 break in price, if you want to be optimistic, it will be $32 billion. I think the significance of that in balance of payments and prices to consumers speaks for itself.

The President's energy plan will seek to achieve some fundamental results. It will return the American economy to the American people. Right now, the American economy, with the insecurity of a potential embargo, is not really under the control of the American people. It will bring back to America a material influence in petroleum price markets and over the long term bring to bear a more reasonable price level.

The plan gets uf freedom in 1985 and attempts to minimize the risks while we get there. There is no easy way to regain our independence, and no matter what alternative we follow in terms of strategy, there is a price to be paid. In this instance, as in any other instance that might have been selected, the American people are called upon to make a sacrifice.

The price that we pay now is not as great as the price that we will continue to pay if we don't take action now. Every family and every business in this Nation depends upon energy for survival, and if we don't have better control over source and over price, that survival is somewhat at stake.

A word on process. The President began by asking for his alternatives or options with respect to the Nation's goals. After a thorough analysis of what those options might be, he selected the goal of becoming independent or invulnerable to foreign cutoffs by 1985. Having made that decision, the next set of alternatives went to what actions are available to the President beginning now to get us to that point by 1985. Having made those decisions, the next subset was a question of strategy, what strategy should be implemented.

His program is set out in three parts -- what we do between now and the end of 1977. He has established a goal, and means to attain it, of one million barrels in consumption savings or import savings by the end of 1975 and two million barrels by the end of 1977.

To do that, he is asking the Congress for a tax package which includes the following: a $2 tax on crude imports, a $2 excise tax on domestic crude and excise tax on natural gas, decontrol of old oil, domestic oil, and decontrol of new natural gas.

On the supply side of the equation, between now and 1977, we have mighty few alternatives. Elk Hills in California -- and he will pursue legislation to have that freed for the commercial market -- will produce approximately 160,000 barrels a day. Coal conversion, if we get the environmental amendments we are asking for, will produce a potential 100,000 barrels a day. The remainder must be achieved through conservation.

I would like to just spend a minute on the alternatives to the tax method of achieving the goals of two million barrels by the end of 1977. The President asked for and received a thorough review of the other options at his disposal. They included an import restriction, one that would happen abruptly or one that would happen gradually, with the shortage to be allocated throughout the economy by the Federal Government. They included the potential of a full rationing system that would attain the same goals, and they included the economic method which allows the economy to take out of the energy stream on a more free and selective basis.

His conclusion was that the freer and economic method served both our short-term and our long-term purposes better and that the inequities in the other systems were just unacceptable.

To get started immediately before the Congress enacts the full package, the President will put an additional $1 import fee on foreign crude beginning February 1st, an additional $2 -- that is one plus one -- March 1st, and $3 April 1st. He is taking steps to decontrol old oil about April 1st and asked the Congress to enact a windfall profits tax package by that date.

Over the short term, we will step up our public education program by fivefold of its current level of efforts in an effort to get further voluntary conservation.

Between 1977 and 1985, the President has set out a number of actions which will have us become invulnerable to serious disruptions by embargo. I don't mean that to sound like we are weaseling the ultimate goal. In your press package, we have a chart showing where we mean to be by what point in time through what actions. He is asking for authority to tap the Naval Reserve in Alaska, which in our view can bring to the civilian economy two million barrels a day by 1985. He will pursue the outer continental shelf and take whatever steps necessary to overcome the obstacles that face us in that area.

The question of price uncertainty during the process of these deliberations -- this question had to be asked -- as this Nation sets its plan for independence and begins to set in motion various actions that need to be set in motion to accomplish it, what happens if by 1979 the supplying nations say to themselves, these guys are doing too well and the thing to do is to flood the world market with cheap oil.

Question: If that should occur in 1978 or 1979, what would be the United States' reaction? Would we allow our economy to go back on a heavy import stream?

The President has decided to submit legislation which will authorize and require the President of the United States to set domestic price limits to protect the Project Independence plan.

MORE

The Clean Air Act amendments, you are probably all familiar with. The only difference between those that you perhaps have seen before, or the major difference, is that in this Russell Train and I will jointly endorse the same package in total.

We have spent the necessary time together, and I should add that both of us moved somewhat toward the other to reach the agreements that we have reached.

In my view, the compromise agreements will not sacrifice our energy plan, and I am sure he will tell that in his view they do not sacrifice our environmental goals.

The President will resubmit strip mining legislation with some important, but few, changes. We will be doing some work in coal leasing, and there is some information in your packet with respect to that.

Electric utilities, a key constraint to the developments of power, particularly in the nuclear area, relates to the health of electric utilities. The President will propose in his economic package an investment tax credit increase for all of industrial America. That increase will be extended two years specifically for non-oil fired electric generation equipment.

The preferred stock dividend plan that the President is proposing in his economic package will obviously have some effect on utilities.

The President will submit legislation which will require State utility commissions to pass through certain costs that in some instances are not now being passed through. We can get into that during the question and answer period, but this passthrough mechanism is critical to the health and viability of some of the utilities around the country.

Nuclear power. The President will submit legislation that will not only affect the licensing aspects as we had in the last session, but there will also be siting legislation, which will hasten the siting decisions at the State level.

Conservation. Based upon a modified and also delayed set of environmental emission standards, we will have a 40 percent increase in mileage of new automobiles by the 1980 model cars. Negotiations were held with the big three by the Secretary of Transportation after long discussions with the EPA.

The nature of that agreement is an environmental standard which accepts the California current standards with 3.1 nox, for those of you who have been following that category of thing. It is a little more stringent than the current standards, but not as severe as the planned standards.

Building thermal standards. The President will propose legislation which will require adjustments to housing codes all over the Nation. These changes will affect the thermal standards only, heating and cooling, within building codes in all parts of the country. I should point out the legislation will include a provision whereby builders, architects and labor will be consulted before those standards are actually promulgated.

There will be a 15 percent tax credit for home owners up to two-family homes for insulation type of equipment, insulation, storm windows and one or two other similar types of equipment.

For those who cannot afford to pay even the 15 percent, there will be a low income program following the main model whereby the Federal Government, funding it at $55 million a year, will buy the equipment and volunteers will see that it is installed.

The appliance efficiency area will be approached exactly the same way we did the automobile industry. The President has set a target of 20 percent savings in appliances between now and 1980.

The Energy Resources Council will seek to obtain from the appliance manufacturers an agreement that can be monitored by the public on an ongoing basis to assure that that 20 percent is achieved. If we are unsuccessful in that endeavor, then the President will ask for legislation.

On a standby basis, the President will ask for authority to set up an emergency storage program that will be 1 billion 300 million barrels of oil. The 300 million barrels of oil will be set aside for the military, and the one billion will be available to the civilian sector in the event of another embargo.

Standby authorities will also include rationing, a broader range of energy conservation steps as well as allocation on a continuing basis, materials allocation, and a few other things which I think you might pick up in reading the packet.

MORE

On the synthetic fuels area and over the longer term, 1985 and beyond, the President has set out a program whereby by the late 1980s we can again become an exporter in the energy business. His synthetic fuels program calls for a one million barrels per day in the commercial market of synthetic fuels by 1985.

The energy research and development program, which is now funded at $11 billion over a five-year period, will be maintained and increased as necessary to ensure that he meets his post-1985 goals.

I think I have covered energy, Ron.

MR. SEIDMAN: Good morning.

I am sorry that Bill Simon can't be here, and I am sure that he would do a better job, but I am really here at the request of Joe Garragiola. I made a remark some time ago that I wasn't appearing on television because I thought bald headed guys didn't look too good, and he wrote me on behalf of himself, Yul Brynner, Telly Savalas, and Mel Laird, saying they would march on the White House unless I reappeared. (Laughter)

I won't go through the whole economic program. I would just like to take a couple of minutes and talk about theory or philosophy, and then we can get right to the questions.

As you know, as far as the economic program is concerned, there are basically two tax programs. I would like to make sure we distinguish those.

First, there is the one-year, temporary tax cut, which is based on 1974 income, which means that it can be done most rapidly, $16 billion, it is a straight 12 percent up to a maximum of $1000.

Our hope is that that money will get back into the spending stream fast and that that will help to produce jobs and start turning the economy around.

The other part is what I would consider a fortunate marriage for making an opportunity out of adversity, and that is the fact we need energy taxes to cut down on our use of petroleum and at the same time we need to correct the malfunctionings of a tax system which have been caused by the inflation.

As you all know, the inflation tends to push people up into higher tax brackets without giving them a more real income. The basic approach in the tax refunds, or changes, have been to change the brackets for individual taxpayers, particularly up to $15,000, to take care of that, and in the same way with corporations.

Corporations also, because of inflation, overstate their profits and, therefore, pay higher taxes than the amounts that they earn in real terms and, therefore, the change in the corporate rate.

In addition to that, there are for the people who do not pay taxes an allowance, which is an attempt to aid them both with inflation problems and increased fuel costs.

I think it is very important, in looking at this package in the tax area, those two kinds of things, that the difference in the two packages be very clear.

The second package does a major job of trying to change the tax structure to take care of the problems that have been caused by inflation. The first is designed for fast, as quick as possible, and on the same progressivities as the taxes that were actually paid to get the money back into the spending stream.

There are a good many other things in the fact sheets. I won't go into those now because I think we ought to go to the questions.

Q Mr. Seidman, in the President's State of the Union, he says some people question the Government's ability to make hard decisions and stick with them. Can you tell us what took place in the economy and why the President has rather drastically shifted his economic plan from the 31-point plan he announced a few weeks ago?

MR. SEIDMAN: First, I think there has been a change in emphasis. A great part of the October 8 speech is still a part of the plan, and there are a great many things in there that need to be done that will be helpful to our economy.

I think it is obvious that the economy has gone downhill faster, as far as I can remember, than anybody predicted when we were at the summit conference.

I think the most vital thing in setting economic policy is to be in touch with what is really going on and design your program to meet the actual facts as they are.

Q Mr. Seidman, how much money would you start taking out of the economy with the $1 to $3 imposition on the foreign crude? What is that, on an annual basis?

MR. SEIDMAN: About $450 million over the three months that it is in before the new programs hopefully will be enacted.

Q Say Congress doesn't approve it. How much will it take in a year?

MR. ZARB: Well, $450 a month times twelve.

MR. SEIDMAN: It is $450 a month at $3.

Q Why is the tax on barrels $2 for domestic and imported crude rather than changing --

MR. SEIDMAN: You better stand up here, Frank, so you can get your half of the questions.

MR. ZARB: What was the question?

Q Why the same tax on barrels for both imported and domestic?

MR. ZARB: There was a notion to go the other way, and in my briefings on the Hill that has been raised with me. I think we ought to talk about it during our Congressional testimony, the notion being we would favor domestic production more if we had a higher tariff on stuff coming in externally rather than domestic stuff.

The fact is that given our current predicament and between now and 1985 we are going to be consuming everything we can produce domestically plus, and there is an awful lot of incentive to get us there.

Q Mr. Zarb, on the petroleum business, you said two things, it seems to me. One is the President's proposal or program to raise the cost of oil and also how we will offset this proposal in tax cuts to put money back in the economy.

Both of these measures are inflationary. Why didn't he just ration petroleum?

MR. ZARB: You really asked two questions. I am not sure about your conclusions. Did you say inflationary or deflationary?

Q I said inflationary.

MR. ZARB: Taking it out is not inflationary; that is deflationary. Putting it back is inflationary.

The first question you raise, I think by implication anyway, if you take it out and put it back, you are getting your savings. You have to conclude as the people who have worked on this program, particularly the economic side have concluded, that you change the center of gravity of spending when you take it out in the way of higher taxes by higher product taxes and return it through the tax mechanism that has been constructed by the Treasury people.

Keep in mind what Bill has said and what is in the package: The money coming out of the economy amounts to about $30 billion. When it goes back to the economy, particularly to the individual sector, the emphasis is on restructuring the tax table, particularly favoring middle and lower income people and adjusting for some of the inflationary distortions that have come over the years.

So, the conclusion that you are taking it with one hand and giving it back with the other and therefore, energy will continue to rise, I don't think is a valid one and it doesn't hold up.

Secondly, the President has said he will use his import control authorities to stand behind this program to assure that it works.

Finally, the question of rationing. I would like you just to imagine with me, as I have, getting deep into the conceptualization of the rationing schemes, what this Nation would look like with a 5- to 10-year rationing program. It wouldn't stimulate additional production. It would make the Government make decisions with respect to every home and with respect to every business and just some examples which I read about this morning -- and I think they are good ones -- when you moved your home from one area to another you can imagine the red tape a homeowner would have to go through to reacquire his Government allocation or if a new business wanted to get started what it would have to do to petition the Government for his share of the national allocation stamp program.

And finally, when you really look at the downstream results of a rationing program, it is clear, at least to me, the way the machinery would work is that those that could afford to operate in the white or the black market would do pretty well and the people who would ultimately be hurt would be the poor people and the middle income class people.

Mr. Cowan?

Q Would you tell us about the price effects on fuels in the President's package and in particular, whether the Federal Energy Administration will limit the pass-through on some fuels and steer it into others?

MR. ZARB: The question was the price effects and I will give you those in macroterms and tomorrow Eric Zausner and others will have a more detailed briefing into a lot of the mechanics.

The price effects are an average of ten cents per gallon and, as you know, the industry is permitted to pass through to the consumer only what is an increase in cost.

Your second question as to whether or not we will mandate a variation product-by-product has not yet been decided. We are examining those alternatives.

Q The price effect is ten cents a gallon. Does that include the effect of the new taxes or is that just the decontrol?

MR. ZARB: No, that is decontrol, the tariff and the excise tax. It is an average across the board.

Q What about the price import on natural gas of decontrol plus the excise tax? What would this be?

MR. ZARB: The price could be different in intra-state and interstate. The gas that has been moving within State boundaries is quite high and the variation there would probably be very minimal. In intrastate, it would be rather significant and I would point this out on that question -- right now, today, we are getting a lot of mail from people, individuals and businesses that have had to put people out of work because of a curtailment of natural gas. If there is any area we need to take steps to affect conser-vation and promote further production; if there is any priority area right now, it is natural gas.

Q Mr. Zarb, in your fact sheet, you have a base that you have a 31 cent interstate natural gas price in 1974, 35 cents in 1975. It was my impression the Federal Power Commission increased that price from 42 cents to 50 cents. Where did you get these figures?

MR. ZARB: The answer is that those numbers do come out correct when you look at average price and equate the low price of intrastate with that of interstate, or the other way around. Yes, the other way around, and when you average it out that is the way it comes out. We will look at those numbers, but my people who put them together say they are accurate on an average basis.

Q Without going through the merits of the overall energy package, I am sure you will agree, first, that it is quite controversial; and second, that it is by no means assured a favorable reception with the Congress.

So, my question is, can the administrative actions end of it stand alone in the absence of Congressional cooperation or approval of the remaining proposals, or do you have to rethink the entire thing if Congress doesn't react the way you want it to?

MR. ZARB: I think that is an awfully good question. You say it is controversial. I haven't heard a fully integrated plan from anyone, first, to replace this one on a point-by-point basis, so I would have to look at the alternatives.

Even at that, I think the others, if one were produced, it would be, as you call it, controversial.

I think, no, the ability for this Nation to solve its energy problem -- and honestly and sincerely become independent -- by setting out specific courses of action now with each action having its own value in barrels so we know we are getting there and the public knows we are getting there, that without the Congress working with the Executive, it just can't be done.

From an energy standpoint, it is my hope we achieve one major thing and after the Congress has an opportunity to look and we have an opportunity to talk and they have an opportunity to submit alternatives, that we can say to the American people that this Government has a national energy program and I hope that happens mighty quick.

Q Who was the unidentified "I" in the outline of questions and answers?

MR. ZARB: It is a fellow called Harvey and he works in our Public Affairs Department. (Laughter)

I don't know. It is just kind of an editorial goof, I guess.

Q Mr. Zarb, what are the unacceptable or intolerable inequities that you referred to as the reason for rejecting the alternative of restricting imports?

MR. ZARB: You restrict imports as an option, which is an option. You then have a subset of options. Do you restrict it effective immediately one million barrels a day and allocate the shortage, or do you do it gradually? Each one of those has its own set of effects. Let's dispose of the first, first.

If you did the first without the economy making its own selections as to how it was going to take it out of the consumption stream, you would affect our Gross National Product by about $20 billion and put 400,000 people out of work. If you did it gradually, you get the anticipatory action of what is going to happen next month with respect to the Government screwing down on imports, but the most significant question is, "Who makes the decisions as to who gets what after you create the shortage?"

If you conclude that the Government and an expanded bureaucracy -- which would be mine -- would be able to go out and make those decisions on behalf of American industry and the American homeowners, that that would be better than the economy making its own decisions, then you would favor that kind of routine.

I would only remind you to look back at the embargo period and, while we had an awful lot of good people working awfully hard to do a good job, we had some very major difficulties in making those decisions on a basis that let the economy machine move as it should.

Q Mr. Seidman, what research or evidence do you have that indicates that the American people, as they would get this tax rebate for next year, or would have a tax cut, would really go out and spend that money, or might they be so frightened by all these drastic actions that they might not put it back in the economy?

MR. SEIDMAN: There is a good deal of research that has been done in this area, but no one can be sure. The general propensity to spend has been high in the past, and we would expect that when some of the uncertainties which are now around are out, including the ones in the energy area and the longer range package, which I have talked about, is in place, that is the expected result.

Again, we are talking about people and the way people will act. You never can be absolutely sure until the event is over.

Incidentally, while I think of it, on the second page there is an error that says 600 billion where it should say 500 billion. We made a little mistake there.

Q Second page of what?

MR. SEIDMAN: Of the message, I am sorry.

Q Mr. Seidman, would you give us your analysis of the ripple effect of this sort of price increase on the American economy?

MR. SEIDMAN: Did you get the $600 reduced to $500. That is a typo.

The question is?

Q The ripple effect on the economy in terms of price increases and the impact on the inflation.

MR. SEIDMAN: As you see, if you look in the briefing sheet, there is an inflation impact statement there. The best calculation is that this will cause a one-time, approximately 2 percent increase in the cost of living.

Q Mr. Seidman -- can you explain to us -- Mr. Zarb said that one of the reasons you didn't go to rationing was that rationing doesn't produce any additional supplies of energy. Can you explain how decontrol of old oil produces more energy from the old oil fields?

MR. SEIDMAN: That is Mr. Zarb's area.

MR. ZARB: The talk about decontrol and the windfall profits scheme--and we have some tax help here to help us both better understand how this actually is going to function -- but decontrol lets the old price go to the world price.

The windfall profits program has the total effect of the following: It takes back the first year everything that oil companies would have earned by virtue of this program.

It also, incidentally, goes back into the base and takes back an additional $3 billion, which we calculate would have been in effect if the Congress would have enacted our bill last session.

The program worked out by Ways and Means last year -- and I am sure it will be followed again this year -- has a gradual elimination of windfall profits. It is a little complicated because then you get the depression question and the plowback question that they are debating.

It has the net effect of allowing the oil price on an average -- we now have one tier -- on an average rising to a level that permits significant exploration and development and also prevents a material windfall profits to the oil industry.

Now, that kind of program, once you set it in place and the law is passed, those who are responsible for going out and developing these sources have some degree of certainty as to what is going to and what prices are likely to look like and they continue their movement.

If you ration, you dampen demand down to some artificial level and keep it at that level and you don't have the normal incentives that work beyond the other problems we have with rationing.

Q How does that apply to old oil?

MR. ZARB: I will get back to you.

Q How much more will the average family be paying in fuel costs when this goes into effect, and how much of an increase will that be over what they are paying now?

MR. ZARB: Including in our best estimate without conservation, today's consumption levels, best estimate, including heating oil, utility bills, gasoline and direct petroleum or utility consumption, an average of $250 per family.

I dislike using those numbers because when you use an average, you are talking about the family that is very wealthy and spend a lot of money, and the very poor.

The calculation, for example, on the no taxpayers -- those who do not pay taxes -- the calculation was that the increase to them would be $44 per adult. Now, the program of return to the nontaxpayer family has been an $80 per adult return.

So, you can see with no numbers there was an attempt to make them hold, plus some. When you really get down into the calculations that we used to get there, you really have to talk to our people who are going to have a technical briefing tomorrow.

Q Can you tell us, you spend $1000 on fuel now and you will spend an extra $250?

MR. ZARB: The average family spends $950 a year. That number is such a weighted average that --

Q I understand how the price incentive would work on new oil, but I don't understand how taking off the ceilings and letting the price go to the world level does anything for old oil.

MR. ZARB: We are back on the incentive with respect to old oil and decontrol. On new oil, it is already operative, but we are going to take some of that back because it is too operative. On old oil we are going to let the price go to the new world market, and we are going to take a good chunk of that back.

The net effect will be to take everything back that the oil companies would have enjoyed in one year. the Ways and Means Committee, in their discussions last year and with the Administration assistance, developed a program which is a gradual phase-out of windfall profits so that the price of oil gets up to a reasonable level, including inflation and including needs for exploration.

Q On that point, are they going to decontrol the old oil before they pass the windfall tax?

MR. ZARB: The President plans at this moment to decontrol the old oil around April 1 and he is asking the Congress to pass a windfall profits tax by that time.

Q Will he do it in any event? That is what I am asking.

MR. ZARB: I have told you what the President has told me.

Q What is the basis for assuming that the prices of uncontrolled domestic oil will reach world prices when your own figures show right now a $2.50 difference between uncontrolled domestic oil and the imports.

MR. ZARB: The gap has been closing over the last several months. If you say it is $10.50, if you look at the last several months, you can see the gap closing between the two.

Q Why was there no proposal in the message for a tax on automobile horsepower?

MR. ZARB: That was one of the options we examined pretty thoroughly. I don't remember all the reasons why we came to this conclusion, but we did come to the conclusion it would become a revenue raiser and not have the desired effect.

That implies that those who can buy a big horsepower car, if you put a reasonable tax on it, one that would not be unconstitutional and scandalous, it wouldn't make that much difference.

So, in the alternative, we preferred to go the way we have with the automobile companies, which says this: You show us a plan to get a 40 percent reduction by 1980 model cars, or improvement on miles per gallon. If you don't do it, we will ask for legislation to do it.

We think now we have that plan, and we have their agreement, and we are working out a method where the Department of Transportation will be reporting every six months to the American people on progress.

Q Will you elaborate on that agreement for us? What happens if Congress doesn't relax the Clean Air Act? Will that agreement then be struck?

MR. ZARB: I think in fairness, that is correct. The automobile companies looked at the auto emission requirements and so did EPA, and we all came to the same conclusion that it was a reasonable balance of things to effect the necessary savings.

Q TWA is saying the price of the passenger ticket will have to go up 21 percent. Does that fit into your calculations, and what does this do to the general idea of mass transportation?

MR. ZARB: Well, mass transportation on a local and municipal basis has been somewhat taken into the calculations, and I will get back to your TWA problem. I don't want to sidestep that.

The general revenue sharing the President proposes will be increased by $2 billion, taking into consideration that communities have to run subways and buses and other calculable energy uses, so we are attempting to make that right because mass transportation is important to energy.

The airlines are a particular area that we are looking at. Let me tell you why it is particular. It is a regulated industry, but that doesn't make it that much particular because during the embargo we did some things with regulated industries and it worked.

The notion of returning certain things to industry by virtue of tax credit and lowering the tax rate, which is occurring here by virtue of the energy program, and the stimulus program, is very operative if you are making money. But if your corporation is not making money, you have a whole new subset of problems.

When you say 27 or 28 percent, you are using a rather high elasticity rate, because when you use that number, you are saying because of this increase fewer people are going to buy tickets and as a result you are going to lose those revenues. We are looking at the airline numbers along with them and seeing whatnot.

But let me say one more thing on that question. If we had gone a different route, as some of our friends here this morning suggest that we might think about, including rationing, the thing we would be talking about this morning is who is going to get a 100 percent of requirements and who is going to get 90 percent of requirements and who is going to get 80 percent of requirements and the same kinds of industries would be in for that kind of a discussion.

Q A question about the $30 billion figure you are using here as the cost of increasing energy prices. Does that include such things as the likely effect on air fares, the spillover of just the plane fuel oil costs?

MR. ZARB: The question is, "The residual increases by virtue of the $30 billion increase in taxes --" and I am going to have to be less than precise on this answer, but keep in mind a couple of things. The oil industry is allowed to pass through only that much which they incur in extra cost. There is no markup on an excise tax as some have implied.

Two, industry in total gets returned approximately $6 billion from that $30 billion in other kinds of revenue improvement measures directly from the energy package, not including the stimulus package. Now, those kinds of activities will have an effect on pricing. So, to come to the automatic conclusion as some have that there is a geometric increase based on this first set of price increases is technically and otherwise incorrect, and we have to look at it from industry to industry.

Q Mr. Zarb, can you give us some idea of what you anticipate the floor price would be which the President would have to protect synthetics and other types of fuels?

MR. ZARB: The question is, "What type of floor price would we have to set to protect synthetics and other types of fuels?"

I would answer that question by saying there are two numbers you would have to look at. When you look at the outer continental shelf, Alaska exploration and development and those kinds of near-term and realizable energy sources, you are probably looking at -- I am not saying he is going to set this floor price, because he hasn't decided to do it yet -- you are probably looking at about $7.70.

If you are talking about shale and liquefaction and coal and coal gassification, if you are talking about solar or geothermal, then you are talking about a whole new set of measures, and you don't go with those disciplines using a floor price. Instead, you look at each individual development and determine whether the Government can help by way of some form of guarantee, perhaps, area by area, some form of subsidy, some form of stepped up research and development.

So, the two categories, which some have called the exotics and what I consider the mainstream of the future, including OCS and Alaska oil, you just look at with a different set of numbers and come to different conclusions.

Q I would like to ask a question concerning the possible recessionary effects of the energy plan. You spoke of a loss of 400,000 jobs if import quotas were placed on the amount of oil coming in, and since the tariff is designed to limit the amount of foreign oil coming in, how do you prevent the same job loss effect?

MR. ZARB: The conclusions we reached on the job loss effect were based on an immediate and abrupt limitation starting tomorrow of one million barrels a day less allowed into the country. Now, the benefit of the program that the President will outline is a more gradual, freer and economic program for withdrawing it from the economy and you don't have the same effect. It is the abruptness of the change that causes the kind of effect it did.

Somebody wants to talk to Bill Seidman.

MORE

Q Mr. Seidman, the Congressional package announced earlier this week contains a variety of measures --

MR. SEIDMAN: It is a Democratic package. We have a few people up there yet, you know.

Q -- it contains a variety of methods or proposals to stimulate the economy, including low interest rates, allocation of credit, emergency housing programs. The President's program is entirely in the tax stimulus. How does he feel about these other measures?

MR. SEIDMAN: I think an important part of the program, which I am sure you have seen, is the question of Federal spending. When you go to stimulation, there are two ways to do it, obviously. That is, for Government to spend more or take in less in taxes. I haven't costed out that Democratic program yet, but I wish some of you would.

It looks now like the deficits that we are looking at are $30 billion to $50 billion for the two years -- 30 and 50 or 30 and 45 -- and those are very substantial by any measure.

Adding any number of those kinds of programs that have been suggested, I think would clearly put the budgetary deficits at the kind we have not seen in this country and I think in the long-run, would have to be very inflationary.

Saul?

Q In the State of the Union and in the fact sheet you talk about high energy prices being passed through and being largely responsible for the recent inflation. Now, you are saying that the higher energy prices are not going to be passed through but by about two percent and the geometric progresses that others have sought are a mistake. What is the basis of that?

MR. SEIDMAN: First, I don't believe the Message says oil prices are largely responsible for our inflation. They say they are a substantial factor in it. That is a different thing.

I think if you read the Message as a whole, it says that past budgetary deficits are a very substantial part of the reason for the inflation. Certainly the oil is. You have all seen the arguments among economists and there is no question but what this increase, though it is nowhere near as big as we have recently experienced, it will cause an increase in the cost of living.

Q But only by two percent.

MR. SEIDMAN: That is right, by its direct pass-through and roughly that two percent would be $25 billion.

Q I have a question for both you and Mr. Zarb. In the long-term energy package -- looking ahead -- why is there nothing in there that would increase the use of mass transit? And I wondered in the economic incentive proposals that you have put together, why is there nothing in terms of specific economic incentives designed to help the most depressed industries instead of across-the-board incentives?

MR. SEIDMAN: First, we do have a very substantial mass transit program, as you know, which the President signed last year.

Secondly, you always get down to the question, if you are going to try to give the consumer more to spend, do you want to direct him where to spend it or do you want to allow him to exercise his own judgment and will he be more likely to spend it if you make it so he gets it only if he buys a car or will he be more likely to spend it if you say, "Here is the money and you can buy whatever you want, really."

Q But you are directing him on the basis of the price incentives?

MR. SEIDMAN: We are, because for the longrun, fuel and energy is one of the very finite resources on this globe. Somehow or other we have to use less of it. It is a nasty business. We are used to going the other way.

Neither way, whether you go the rationing way or the pricing method, is going to be pleasant, but you are allowing the individual the freedom if you go the price method.

Q Why wouldn't a new Federal program to stimulate massively a depressed housing industry create more jobs, quicker, since that is the goal of your program, than this tax cut when you don't know how people are going to spend their money?

MR. SEIDMAN: Let's take a look at some of the numbers. In the first place, the only thing that will really get the massive housing industry going again is lower interest rates. As you know, that is our longest term purchase and, therefore, interest rates are the largest part of the purchase price.

There is no way really to get that industry going without a fall in the long-term interest rates. We have had what you might call pretty massive housing subsidy plans, over $20 billion in the last 17 or 18 months.

This is a $16 billion tax cut. That industry is so large that, in terms of the kind of numbers you are talking about, it appeared to us--and again giving the consumer his right to decide where he wants to use the money--that that was the better way to go.

Q There are no guarantees, as I see your plan with the automobiles, that Congress is going to give the auto industry -- I guess this is for Mr. Zarb -- Congress is going to give the auto industry the extension on the emission requirements..

What assurances are there the auto industry is going to deliver and why not put nonperformance penalties into your arrangements with the auto industry?

MR. ZARB: The original deal that was presented, or the original program (Laughter), the original program or the original deal was simply this: We asked the automobile companies to come to town.

We said we want a couple of things, we want your plan as to how you are going to get the 40 percent and then we want to develop a monitoring program that would be made public on a continuing basis by the Department of Transportation so the Government can analyze what you are doing and assure the public that you are keeping your word.

I am not implying that they wouldn't, but that was in comparison to a fiscal or other kind of penalty mechanism.

I would say this, Ed: If this works and we do get the kind of reductions that we seem to have agreement on, and we do it in this way, that seems to be more like the American way than the old two by four.

Q If it doesn't work?

MR. ZARB: The President has already said if it doesn't work he is going to ask for legislation.

Q How much basis is there for your belief that we are going to get a million barrel a day decrease in imports at the end of the year through this series of energy tax measures if in the past year you have had a far larger proportionate price increase and have not gotten it?

MR. ZARB: I would challenge a little your conclusion based on the fact. Nineteen seventy-four was about flat with 1973. In some products they were under 1973, which was unheard of in the history of the Republic.

We think if you took 1974 and 1975 together, we would be up by about 10 percent, as I recall, or more based on the rate of increase that was occurring in the consumption price.

If you take a look at what was happening, and what did happen, and what you thought would happen if you continued down that road, you would come to the conclusion as we did, that we could save between 800,000 and 900,000 barrels a day based on these price changes alone.

I think they are valid and I think we will get them.

Q Mr. Seidman, will you please give us a little better explanation of this two percent a year inflationary factor? Are you talking about on an annual basis in your inflation impact statement? Does this just apply to the pricing of fuels or does it take into consideration the ripple effects this will have on other industries?

MR. SEIDMAN: This takes into effect, as best we can calculate it, the total one-time increase that this one-time increase in price will have on the cost of living.

Q By "one-time," do you mean on an annual basis?

MR. SEIDMAN: Yes, I guess so, if you want to say that. It means when you put this in if it all happened at once, prices would go up two percent.

Q The fact you did not include any reference in the message to a new wage-price council, should we interpret that to mean that you think the present authority of the Wage and Price Council would be capable of dealing with any inflationary prices that arise in the coming year?

MR. SEIDMAN: We think the Council is doing a good job now. They feel they can do the job they have with their current powers. At any time that that does not appear sufficient, we will ask for more. But at this time, it looks like it is doing the job.

Q I would like to ask a question on the price pass-through and whether there is going to be any multiplication effect. Companies don't price products generally on the basis of after tax income. They price it on the basis of cost and mark-ups and this sort of thing, and in addition, you have a circumstance in which you are raising the CPI, which is going to result in wage increases through escalator clauses.

Why, under those circumstances, do you argue that this will be just a two percent direct effect and there will be no later indirect effects?

MR. SEIDMAN: I didn't say that that was so and if you take the two percent and multiply it out, it comes to more than the 18, but the point of the matter is how companies cost depends entirely on what their markets are.

In many cases, if the market does not allow for that increase, the companies may absorb some of it. The other side may be that they will get it with their normal mark-up. Often they will get it with no mark-up. There is in the figure that we have some 20 or 30 percent excess there.

MR. NESSEN: We have been at it about an hour and I think a lot of people will want to file. There are a whole series of briefings.

Q I have waited a long time to ask a question.

MR. NESSEN: Ted, everybody has had it for about an hour or more.

There will be a whole series of briefings actually stretched over the next month. If everybody wants to go file, you can go file and maybe we will take another five minutes of questions. Let's let the people who want to file go and then we can quiet down a little bit.

Ted is striving desperately to get his question in. Let's have about another five minutes and let a little bit of this sink in. These people are going to be available and a lot of other experts are going to be available. We are going to have a whole series of briefings.

Q The question is for Mr. Seidman. With the stimulative effects of the $16 billion 1974 rebate, will the effects be greater, less or about the same if it is concentrated in the lower and middle income families rather than 12 percent across-the-board?

MR. SEIDMAN: First, it is 12 percent, as you know, up to $40,000.

Again, you have to study what has happened in the past, looking at what our problems are in the economy. Obviously, the slowest industries, the ones hardest hit are the big ticket industries -- the appliance, automobiles, television, many others, housing -- and therefore, going higher on the economic brackets may well produce more purchasing in those areas than some of the purchasing that might be done in the other areas.

I think, in looking at the tax packages, you have to look at the fact that the second, the energy-related package which adjusts for this inflation and which is longer term, not just this one-shot, and would go in with the withholding tables being changed as soon as it went in, would move very strongly in the direction of helping the lower income people where spending would be perhaps on a different type of product.

Q Mr. Zarb, how much do you expect this to increase domestic production of oil and why?

MR. ZARB: That is a very good question, and I will ask you to refer to the charts in your package, which I haven't used, and the chart maker is very unhappy with me because I was supposed to. You all have one of these.

We have set out a chart, both short-term and long-term effects of the actions we intend to take. If you will look at the long-term effect chart, which starts out "affects midterm program, 1985," there is the answer to your question. If you want to know why, I will have to get into each individual area.

Q Does your excess profits tax, does it not take away from the producer who would otherwise want to produce more oil? Doesn't it leave him making the same profit and, therefore, why would he expand his production?

MR. ZARB: It does year one, as I have said. I will bring it back again to last year's discussion with Ways and Means. The ultimate conclusion was that over some unit of time -- and you can pick four years or eight years that have been under discussion -- windfall profits would phase out and the world price would prevail.

Obviously, the conditions of the world price are going to effect when that ultimately occurs, but the mechanism provided a means by which the price of domestic oil from $5.25 to go up to $7, $7.70, and whatever the appropriate equilibrium price was.

The certainty of whatever those numbers are, the certainty of depletion questions, the certainty of plowback, which is a factor, once those issues are settled and are written into law, then we are going to get people out there putting money into more exploration.

As it is now, we are getting a lot of exploration. We have more wells drilled than we have had for a long, long time. The curve on the chart went way up. when the price changed. I have given you these numbers and they are based upon the kinds of actions we have taken.

Mr. Seidman would like to talk about that.

Q One question. Why would a further increase in prices increase the amount of exploration? There is already a limitation on the amount of equipment available now.

MR. SEIDMAN: That is a fair question. There is a fair amount of restriction with respect to constraint with respect to equipment. That principally runs to rigs and pipe. I think pipe is coming under control and we are going to be doing some things here in short order to help the rig situation.

I think we can remove that restraint with some good actions over a period of time.

I will ask the question: How much does it cost to go out and drill a lot of dry holes in the Atlantic outer continental shelf? As you go further into these frontier areas and begin to question the current cost, today's cost of drilling to explore and to find oil, I think the ratio now is ten holes, one wet and nine dry -- that's pretty close -- the costs have increased substantially and when you do it in less and then have to deliver it down here from PET-IV, for example, the price changes.

Q You said that if the world price of petroleum falls, we would set a price to protect Project Independence. How high do you expect that floor will have to be?

MR. SEIDMAN: I can't give you a technical answer to that question that I could now defend based on good economics because that work is not yet completed. However, the President has asked for a paper on that issue as soon as the work is completed.

But he does want the authorities to require the President to set that price. We have had testimony over the last year, pretty much, by our economic people who envision that number being somewhere between $7 and $8.

I think the $7.70 was one somebody settled on because they didn't want to make it $7.50 because it sounded made up.

Q Could you go a little bit deeper into the natural gas deregulation and what the 37 cents excise tax would mean? We all want average figures today, so if you have got it, fine.

MR. SEIDMAN: I think the average means something like about a 30 percent increase for natural gas.

Q Can I get back to a question about whether a 10 percent increase in retail prices will really save a million barrels a day? Are you talking about saving a million barrels of the current level, or what some projection is for the end of the year? Can you guarantee a hundred percent that a 10 percent increase will make that savings, or do you have some reservations about that?

MR. SEIDMAN: You have two questions there. We talked about this before. The savings were set at a level of anticipated consumption based upon real Troika estimates so everybody could see exactly what formula was being used to achieve what level.

The first cut was an anticipated level of 6.7 million barrels by the end of 1975, meaning our target would be 5.7. But, in our first generation of reports, we had a footnote that said we would readjust that target based on new issues of the Troika estimate.

Obviously, if the economy turns around like that, we may want to readjust that target level, but it will be a real million dollars from a point which we would be at if we didn't take these specific actions.

Q Are you positively convinced that this small price increase, relatively speaking, will cut a million barrels?

MR. SEIDMAN: I am convinced these actions in total, including our Elk Hills, including our coal conservation activities, will conserve us a million barrels by 1975, if we get the total package. I really am.

I pointed out earlier that the President is committed to stand behind that program by having us fine tune the system using export controls if they are necessary to make the program successful and somebody has import controls.

Q Mr. Seidman, in your budget estimate, sir, on page 20, which has spending at 314 and 349 respectively, do these spending estimates include all of the net savings you propose from the October 8th message and from the subsequent proposals that the OMB made and the ones that you say you are going to make?

MR. SEIDMAN: They are the President's budgets.

Q They would be 17.1 billion higher if you don't get any of that?

MR. SEIDMAN: That is right, you would have a $360 billion expenditure. The speech points that out specifically.

Q Seventeen would get you to 366?

MR. SEIDMAN: Well, about that.

Q The President is asking standby authority for gas rationing, among other things?

MR. SEIDMAN: Yes.

Q Why didn't he mention that in the State of the Union Message?

MR. SEIDMAN: Because there has to be some limitation on the many, many things he is doing in both the economic and energy area, and in good conscience, we thought maybe we shouldn't subject people to the total load, as they say.

Q Why is he suggesting rationing completely?

MR. SEIDMAN: No, he has not. The rationing is there in the event of an embargo. That is the reason, and he says that.

MR. ZARB: Let me add to that. He did address the rationing question in his speech. He said that he looked at rationing, it didn't achieve the desired results and it had inequity and residual results that he just thought were unacceptable.

MR. NESSEN: The thing about the standby on the rationing bill, that is a whole little package to deal with emergencies like a new embargo. And I think he mentioned in general terms that he was going to ask for steps to deal with a new embargo. It is not to deal with the day-to-day or year-to-year problem of cutting down on imports. It will deal with an emergency.

Thank you.

Everybody here will be available and their staffs will be available and my office will be to help you in further ways.

END (AT 10:13 A.M. EST)