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THE WHITE HOUSE

BRIEFING OF

GOVERNORS, MAYORS, COUNTY EXECUTIVES, LEGISLATORS

(President Gerald R. Ford, Vice President Nelson A. Rockefeller, Secretary William E. Simon, Secretary Rogers Morton, Kenneth Cole, William Baroody, Frank Zarb and William Seidman)

East Room
The White House

1:40 P.M. EST

MR. COLE: Ladies and gentlemen, the Vice President of the United States.

THE VICE PRESIDENT: Thank you.

Members of the Cabinet, Governors, Mayors, County Executives, Legislators, I must say that for me this is very nostalgic. I am delighted to see the chairmen of the National Governors Conference sitting right here.

I would like to say that I am sorry that Governor Carey of New York is not here -- but I think his son is representing him, isn't that right? One of his twelve sons. -- because he and I sort of changed places. I am delighted to have the chance to represent an Administration which is concerned with the problems of state and local government, both in the Executive and Legislative Branches of state and local government, and that wants to develop its thinking and its policies affecting the problems of the nation and the world in the period of accelerating change as part of the total Federal system.

Now as one who for 15 years sat with some of you as Governor of one of the 50 states, and who worked very closely with the County Executives and the legislative bodies and the Mayors and the other officials, I am delighted that I have the privilege of being in an Administration which recognizes that the strength of America is the Federal system and that the Federal system is made up of three branches of government -- Legislative, Executive and Judicial -- and three levels of government, if you can break it simply that way -- the state, federal and local.

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The développement of policies, the development of legislation that will make it possible for all of us, both those representing the people and the people themselves, to meet their problems in this period of change can only be done effectively in a democracy by the closest ties among these three branches and these three levels of government.

Now I have been here only a short time but I would like to say that it has been my privilege to witness a President who comes from the Legislative Branch of government, whose history and whose roots are in that branch of government, adapt himself to the responsibilities of the Executive Branch of government. During the past two weeks while I have been here, but beyond that the four or five months he has been here, he has spent more time listening to men and women from the private sector, from the government, specialists in various fields -- discuss and debate how we as a free nation, as a free society, can adapt ourselves to the problems of change; change that has not come about solely from within our borders but change that is largely the impact of action taken outside our borders in a period of extraordinary interdependence -- interdependence in terms of the different facets of our economic and social and political life and interdependence in the international sense of the word.

This man has with a keenness, with a sensitivity, with a concern questioned, listened, and followed up with additional meetings, basing his immediate consideration on the two most urgent problems: first, the economy relating to rising prices and unemployment which is the situation this country has never faced to the extent it does today and the relation of energy to those problems.

Now we are fortunate in America that we are not faced with the problem of food except as to the price. At least America has enough food but the world demand for food, of course, has had an impact on the price. Many areas of this great world in which we live are suffering from the fact that they cannot get enough food. So we have many things to be grateful for in this land and one of them is that we have enough food. The price is another question.

The President has concentrated on these problems of the economy. When he started, let's face it, there was inflation and now he has got inflation and unemployment. All of us, at all levels of government, are faced with fiscal problems that are difficult to a point that is hard to understand unless you have had the responsibility that you ladies and gentlemen carry and that I have shared for a number of years of trying to meet the needs of your constituents and get the revenues to do that in a period of rising costs and

MORE

rising needs and rising demands. That is a very, very difficult question. The Federal Government is in the same situation. You will hear from members of the Cabinet on these economic subjects.

I think the important thing is, and the reason I am so delighted to be with you, first that this Administration wants to intimately relate itself with all of you in considering the solutions to the problems we face and developing the right answers. And they have got to be creative, they have to be new because the old answers are not going to solve the new problems. Of course, basically the question is one of meeting accelerating change -- can we do it in a way that is going to shape that change to serve our interests or are we going to be overwhelmed by it -- and that calls for leadership.

I think that in President Ford's address to the Congress yesterday -- and that was the first presidential address to the Congress that I have seen from behind the President -- he had the courage to tell it like it is as far as the problems that face America are concerned and secondly, he had the courage to come up with his judgment as to the solutions to those problems. Now as he said, the Congress may not agree; they may have different solutions.

I had the privilege of presiding in the Senate immediately following his address when Senator Mansfield, the Majority Leader in the Senate, praised the President for his leadership, his courage and pledged his cooperation. He said: "We may differ in details on solutions but at least now there is leadership that is facing and coming up with solutions to the problems. Now those can be adjusted in the legislative process to come up with the final answers is the next step and the speed with which that next step comes." But my admiration and respect is to the man who has made the transition first, from the Legislative Branch to the Executive Branch and secondly, has made the transition with the change of problems which he faces and has had the courage to come up with new positions different from what he took four months ago because the circumstances have changed and he is trying to adapt the positions and the needs of this nation in terms of the solutions to those problems to meet the changing conditions.

So I am delighted to be here and to be able to say to all of you that the President needs your involvement and your commitment in meeting these problems. The speed of the emergency which we have faced as a nation and his timetable in making the State of the Union address when he had to did not permit the kind of detailed consultation that I am sure he will want to have as the problems are met and as our Federal system evolves because this is a system in which we

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all deeply believe. It is a system in which you represent all of the various facets of government in this country, including the Executive here on this platform, and only together can we solve these problems, preserving the vitality and the strength of a free society and preserving the respect and dignity of the concept of freedom and the dignity of the individual which is the whole purpose of our great land

This is the challenge in the world today: Can democracy and can free people solve their problems and meet their needs under these circumstances of tremendous change? I think we saw in President Ford's statement yesterday the kind of leadership that can give us confidence and give the free world confidence that we can do just that.

Now the purpose today is to have the experts who are familiar with the details of the problem explain to you the background and the solutions which the President has proposed to the nation and to the world. The Congress will now deal with these in their wisdom, but the public understanding is going to come from discussion on the part of men and women like yourselves.

You may differ but I was delighted, I have to say, that he recognized that through a \$2 billion increase in revenue sharing there is a responsibility of the federal government to help on the impact of some of these problems to state and local governments. This shows the depth of his understanding, the depth of his concern for people, one illustration of it. And therefore I just would like to say that, as a former Governor, I am delighted to be here with you, to welcome you, to thank you for taking the time to come to Washington to be part of what I think is going to be the most exciting period in the history of certainly our nation and I feel maybe in the history of the world -- a period of change which, through the wisdom of free people and their ability to accept and meet change, we can make into one of the great periods for mankind throughout the world.

Thanks very much for letting me be with you and thanks for coming.

MR. COLE: Thank you, Mr. Vice President.

One of the most rewarding aspects of the time I have spent here in the federal government has been my relations with state and locally elected officials -- be they Governors, county officials, state legislators, city managers, what have you. One of the most rewarding things is to have a Vice President such as we have who I know is a good friend of yours and a good friend of mine. I think we are all very, very fortunate.

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What we are here for this afternoon is to try to fill you in on the details of the President's State of the Union which concerns itself practically in its entirety with our major problems of the day -- the economy and the energy situation. This effort is part of what will be an ongoing effort all across the country to establish a dialogue, a level of communication with the people so that they can understand the choices that must be made in the very difficult days ahead, but days that are filled with, as the Vice President said, challenge and a great deal of opportunity.

This effort will be headed by Mr. William J. Baroody who is Assistant to the President and head of the Office of Public Liaison. Bill will be the master of ceremonies here this afternoon and I am going to turn this over to him. Before I do I want to mention one thing that we will probably not discuss in any great detail this afternoon, but it is something that I know is of great interest to you and of tremendous interest to me. That is the President's intention to recommend the continuation of general revenue sharing. It is something that we have all fought hard and long for.

My prognostication is that we will continue to have to fight hard and long for it. The burden of this battle is not only on our shoulders here in the Administration but on your shoulders -- the shoulders of the people who ultimately must make the decisions in our states and cities and counties all across the country. In this regard we, Jim Falk and my staff and the others who are here, look forward to working with you.

At this time, I would like to introduce Bill Baroody.

MR. BAROODY: Thank you very, very much, Ken Cole.

It is a real pleasure for me to be here. I would like to say just a word about Ken's identification and my responsibilities and the fact that we will be moving around the country in the next couple months. As a follow-up to the President's State of the Union yesterday we have planned a series of briefings in which in one sense we are reconvening the delegates who attended the economic summit. This is the first of these briefings. We will have 1200 to 1500 people from all walks of life in American society in over the next several days to both try to explain in more detail the President's economic and energy programs and to take questions for the purpose of clarifying certain points

Through my office we will be in each of your states and in many cities around the country during the months ahead. I have already had the opportunity to work with some of you in a few of the states we have already hit in the last few months. The President is determined to increase the effective-

MORE

ness of a meaningful two-way communication and that is what we will be doing.

In the interest of time -- we are on a very tight schedule this afternoon I am sorry to say -- what I would like to do is to call on the Secretary of the Treasury and the Chairman of the President's Economic Policy Board for a brief overview of the economic aspects of the program and Rogers Morton, Secretary of the Interior and Chairman of the Energy Resources Council and then move into the question and answer period when they will be assisted by Bill Seidman, Assistant to the President for Economic Affairs and Director of the Economic Policy Board, and Frank Zarb, the newly appointed head of the Federal Energy Administration and Director of the Energy Resources Council.

If I may now, I would like to introduce the Secretary of the Treasury, Bill Simon.

SECRETARY SIMON: Thank you.

Ladies and gentlemen, I thought I would give you a little overview and a little background as to what problems we faced and some of the philosophies we used in attempting to arrive at the conclusions and recommendations which we presented to our President to make the final decisions.

Of the many serious challenges and problems facing our country today, two are clearly dominant in our concern: (1) the economy and (2) energy. On the economic side we face the closely linked problems of inflation and recession. During 1974 our economy experienced the highest rate of inflation in a post-war period. Late in the year recession set in, unemployment increased sharply to over 7 percent, the highest level in 13 years.

Now faced with these problems we really had two choices, or you might say two paths, that we could follow. One was the path that many today are calling for: the seemingly attractive solutions of more government, wage and price controls, rationing, and larger bureaucracy to solve our problems. The other path, of course, was the path of letting our system, which has done so much for our people, assist us as we again share the disproportionate burden of those who must suffer in our battle against the economic malaise in our country today.

Now Nelson spoke of the system that gives basic dignity to the individual. That is a system really when we sit back and think about it -- it is called freedom. What is the government's function? Is the government's function to make decisions for the American people, to just assume more and more of the freedoms and the responsibility? We use

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the term "freedom" in our great country at times almost flippantly, and yet freedom is a right.

Freedom is not only a right in the traditional sense that we use that term but, in an economic sense, it is also very efficient. Yet every time we have a problem it seems there are so many that call for more government. The answer to this is a bureaucracy to regulate and stagnate our economy. They pay no heed to this free enterprise system that for the last 200 years has provided this country with the greatest standard of living and the highest prosperity for its people that the world has ever known.

While I think it is quite obvious which path and which decision the President made, he has made a decision to begin to turn this ship of state from the encroachment of the Federal government upon our economy as measured in the standard way by our gross national product. Today government expenditures account for about one-third -- about one-third. Isn't that sort of incredible? If our Federal spending continues to grow at the same annual rate of growth, before too many more years it will have exceeded 50 percent and we will have effectively destroyed the system.

Now there are many who would like to bring down this system and substitute more government for the decision-making process. I must admit -- and I thank God we have a President who believes just the opposite, in the freedom of the individual to make his own choices, recognizing that government has a responsibility to protect those who bear this disproportionate burden and protect the less fortunate in this country -- that people cannot in the final analysis be left with the freedom of choice as government continues to grow at this alarming rate

Now our inflation had its root in bad policies as well as some special problems. For over a decade excessive stimulation has been pursued in our government policies -- too much Federal spending and lending, too much money in credit growth which just pushed our economy into a pattern of accelerating inflation.

On top of this, of course, came the several major outside shocks as you are all well aware -- the food and fuel crisis, the simultaneous boom in all the economies of the world -- that transformed what was already a serious price problem into an explosive burst of double digit inflation. In turn the inflation -- and this is a little recognized fact -- contributed strongly to our recession. Inflation had a destructive impact on consumer confidence and purchasing power, triggering the most severe slump in consumer spending in the post-war period. The effect also has come through an impact of inflation on our credit markets.

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Inflation forced interest rates higher and higher driving funds out of the financial institutions that supply most of our mortgage money which sent housing into a tailspin.

Another part of this same process of financial disruption is the excessive demands placed on the credit markets by budget deficits and the Federal lending programs. This pre-emption of available credit supplies by government and the distortion of the financial system by inflation will, if it is not ended, prevent us from meeting our long-term goal of increasing much needed capital investment in this country. Capital formation helps raise productivity and increases our standard of living.

For too many years consumption and government spending have been encouraged over savings and capital formation with the result that the United States puts a smaller percentage of its economic output into investment goods than any other industrialized country. The balance has to be shifted back in favor of providing for tomorrow rather than thinking only of today if we are to build our schools and houses and factories and our mass transit systems and provide the great American dream, and also if we are to provide the abundant source of energy that is going to be required over the coming decade.

Now as you know, our problems in the energy area have been building for a long time. Our energy policies in this country, primarily by your Federal government, have been on a collision course really -- it was just a matter of time before the lines crossed as we have been a land of plentiful, cheap energy for so many years. During that period energy usage increased rapidly in response to the growth of the economy and, of course, that very favorable trend in world energy prices.

At the same time domestic production of our oil and gas was declining and for a long time the seriousness of these conflicting trends was masked by the ready availability of low cost imports. The full extent of the problem was revealed abruptly and dramatically in late 1973 when the cartel of OPEC nations quadrupled the price of crude and sharply reduced their oil output to maintain this higher price. Because economies all over the world have become so dependent on low cost oil, this explosive rise in prices caused severe difficulties for every nation.

The rate of inflation, already exacerbated by the food crisis, was raised at exorbitant levels. The real purchasing power of workers' paychecks was reduced. Industries heavily dependent on cheap energy faced a permanent loss of their markets, the enormous increase of money flows across national borders threatened the fibers of our international

MORE

financial system. Most serious, the experience clearly demonstrated how vulnerable the economic situation of the industrial world had become.

The current situation: our economy is now in a full-fledged recession. Unemployment is probably going to rise further. Meanwhile inflation continues at an unacceptable pace and the need to take immediate steps to conserve on our energy will initially further complicate this problem. There are no instant cures for our serious problems, neither for the transitory problems such as the recession and high unemployment nor those long-standing problems such as our lack of budget responsibility. A careful and balanced policy approach is required and it is going to take time to yield the results.

The main short-term goal for the economy is to check the rise in unemployment and rebuild our consumers' confidence. We, like almost all other business forecasters, expect a recovery from the current recession during 1975. However, since the economic slide has been deeper and more widespread than we had earlier thought, it is appropriate to shift policies for this year to provide the necessary stimulus in addition to the easing of monetary conditions which has already taken place to insure that the economic recovery gets off to a healthy start.

There is a clear need to return as quickly as possible to a prosperous economy with adequate job opportunities available. This, of course, is the purpose of the \$16 billion temporary tax cut that our President is proposing. At the same time we must be sure that the short-run actions we take now to cure the recession are consistent with our long-term economic goals of achieving and maintaining reasonable price stability and raising the share of our national output devoted to capital formation.

Returning the economy rapidly to sharply higher production levels by excessive stimulus would be a hollow victory if it were achieved at the cost of a new price explosion and congested capital markets. Indeed, it would not be a victory at all, it would be a defeat because our difficulties then would be even greater than the ones we have right now.

It is for this reason that the stimulus of tax reduction must be temporary and the growth of Federal spending must be held in check. If this is not done, heavy Federal borrowing requirements are going to overload our marketplace and refuel the inflation when the economy begins rising again. In fact, these conditions could abort a recovery especially in housing which depends so heavily upon ample credit and reasonable interest rates. That is why our President is

MORE

proposing a moratorium on all new programs with the exception of energy during 1975 to curb this explosive annual growth in Federal spending.

In the energy area we are faced with a continuing problem of high prices and insecure supplies. The President has set a goal to cut petroleum imports by one million barrels a day during calendar year 1975 and two million barrels a day by the end of 1977. To meet these goals we must increase our conservation and significantly increase it, and find additional sources of domestic production. To provide the incentive for new conservation efforts the President has proposed stiff new taxes and tariffs.

A second major conservation step is the coal conservation program for power plants which will result in a saving of 100,000 barrels of oil per day this year. These conservation programs must be implemented in a way that does not deepen the recession. Therefore, all of the money raised by our energy excise taxes and tariffs, plus that raised from the tax on windfall profits oil producers would otherwise receive, will be returned to our economy mainly through a major tax cut and a refundable credit for non-taxpayers.

To increase domestic supply in the short run the President is requesting authority to permit pumping of oil from the Elk Hills naval petroleum reserve which can be brought into production quite promptly. Only with these and many other programs on both the conservation and supply sides will we be able to reduce our dependence on foreign energy supplies to a manageable level over the long term.

To some men the President's new program is bold and it is comprehensive without being reckless, it is designed to make a major improvement in the economic and energy situations, and in the short run, that means moving strongly against recession with a temporary \$16 billion tax cut. Unemployment compensation in public service employment programs is already in place. In the energy area the tax and tariff proposals with the proceeds that are going to be cycled back into the economy with emphasis on low and middle income families is the key action.

Now this briefly is our program and I will look forward to responding to questions that you might have after Rogers speaks to you.

Thank you.

MR. BARODY: Thank you very much, Secretary Simon.

I would now like to turn the podium over to Secretary Rogers Morton, the Chairman of the Energy Resources

MORE

Council, to amplify on the specific energy proposals that the President has put forward.

Secretary Morton.

SECRETARY MORTON: Thank you, Bill.

Governors and Mayors, distinguished guests, it is a great pleasure for me to have the privilege of meeting with you. I want to join in what I know is very heartfelt appreciation on the part of the President and all of us, too, for your coming all this way to meet here with us and discuss some of the problems we have.

I thought Bill painted a picture of the overview of our energy problem very well, but I would like to specifically talk about certain aspects of it and then I would like to go over the methodology by which this program was put together; and then later, as Frank and Bill Seidman answer specific questions on details of the program, I think we will have covered the spectrum very well and you will have a pretty good understanding of the exercise that the President went through in making the decisions.

First let me just say this. I have been around here I guess now as long as any other Cabinet officer -- how I survived God only knows, but I am still here. It has been a bad year for those of you who have been away, putting it mildly.

What the President did, he insisted that he would go through every step of the energy problem as it exists, not only in this country but in the world, and then actually go through the analysis of every option that was open to him before making decisions. Finally, he made the decisions and made them in a very clearcut fashion enabling the Administration to be able to rally around those decisions and programs with a sense of confidence.

I have seen Presidents have to grapple with problems that are as complex and as complicated as this before and I am just amazed at the time that President Ford put into schooling himself and understanding the problems before he actually came down on the decisions. It was a very, very gratifying thing for all of the people who were working with him and were working into the night to give him the kind of information he needed. The problem is a complicated one and I think all of us have a different perspective on it.

Basically the situation, as far as energy shortage and energy crisis are concerned, changed -- it changed from a supply shortage to an economic condition, a political economic condition -- and that change took place when the

MORE

embargo was lifted and the price was accelerated. The whole monetary system of the world was affected and obviously the economy in this country was kicked around by this action which quadrupled the price of oil and was reflected through the price of energy generally and all of energy's satellites throughout the economy.

There is a supply problem and an acute supply problem in one section of the energy pie. That is in natural gas. We have over the years in my view managed this great resource in a very shortsighted way, and we have developed a dual system of developing and marketing the resource through both the intrastate market system on the one hand and the interstate market system on the other hand. Now we find ourselves here in the winter of 1975 short of gas in an inequitable kind of way as some of the Governors who are here in the first row know.

One of the states represented here has a shortage of about 50 percent while others are much nearer the national average of only about 8 or 9 or 10 percent. So this is a resource management problem; it is a problem that has come about over a long period of time and one that we have to correct. The correction won't take place momentarily; it will take some time. We were over 10 or 15 or 20 years digging ourselves into this hole and it is going to take a little time to dig our way out.

Now I am sure as I look about and see who is here that there are going to be some people who disagree fundamentally with the approach that we have taken to solve the economic problem, the energy-economic problem, and feel that it should be done another way. So I think it would be worthwhile to take just a minute or two to see in which areas there are total agreements and then we can look at the areas where we have some disagreement and see what is the nature of that disagreement.

First, I think everybody agrees that we should immediately embark on programs to achieve energy independence; on the supply side, to develop supplies from new sources and new technologies so that we can bequeath to the generations that follow us a long-term energy base on which they can build their economies and society and civilization. Let's not leave them short. I think everybody agrees on that.

I think everybody agrees that we have got to write a new book as far as the relationship between the utilization of energy and the environment is concerned. We can no longer develop industrial processes at the expense of the environment and then expect somebody to come along later and pick up the chips. We have got to achieve a new balance, and this is old rhetoric to everyone here. Certainly, every Mayor and

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every state Governor and every county official has been in this act -- in the act of adjusting our economy and the physical aspects of that economy to a new energy ethic. I think we are all in agreement that this has to be done. There is a public demand for it and there is a fundamental reason for it that I think we all accept.

I think we all accept the fact that we can no longer live with our old energy efficiency level. We are wasters in the eyes of our friends in Europe. For example, in Germany where the annual income per capita is about the same as ours, within a hundred dollars, the utilization of energy per capita is only 43 percent of ours. Now there are some justifiable reasons for part of that difference, but certainly not for all of it.

I think we all accept the idea that energy is going to be scarcer in terms of its ready availability in the years to come than it has been. We have taken the cream off it. We have gone and gotten the easy gas, the easy oil and the easy coal and it gets tougher as you get deeper in the ground. Therefore, I think we accept and agree together, no matter where we stand in the political spectrum, that we have got to come up with a new sense of efficiency.

I think we all accept the fact that we have got to come up with a new posture of international leadership in energy. I don't think there is any question about that. We developed our leadership and the position we have as sort of the pivot point of the free world after World War II because we had the military power and the alliances were set up that tended to weld together the free world. This was followed by the economic leadership which we exhibited and the investment which we made in the recovery of those areas of the world that were deteriorated and demolished by war.

We now find ourselves in a situation where our leadership will depend on the moves we made to help our fellow citizens of the free world in their procurement of energy, in their ability to maintain their economies, when in almost every case they are much more dependent on offshore sources or foreign sources than we are. So it is evident, I think, from a common sense point of view that, through our own domestic actions and achievements, we must put ourselves in a posture of leadership where we can be looked toward by our fellow citizens of the world for help in this area.

So if you will agree that we need new supplies and a much broader energy base, if you will agree that we have got to make this effort in the utilization with a new level of awareness of the quality of the environment, and if you will agree that we have to demonstrate international leadership and international consideration, then let's look at the areas

MORE

where we might disagree.

First, the President had to make the fundamental decision as to whether he was going to volumetrically manage the resource through allocation and rationing; tight control over the barrel of oil, over the cubic foot of gas, over the ton of coal all the way down to the automobile, to the boiler and to the decision-making process of the individual; or whether he was going to use economic devices to create the investment climate that will be required to bring the supply base up to the point we are talking about and at the same time create an economic climate that will encourage people and remind people and provide an opportunity for people to gain by saving and conserving energy.

When you think it out and really look at the time frames involved, it would be awfully difficult for any President or for any Governor or for any Senator or Congressman or Mayor or County Commissioner to say to his constituency, "We are going to put a blanket on the individual decision-making process in the use of energy for the next ten years." And that is what we are talking about. It is obvious from the lead times involved, from all of the different aspects of energy development, that we are not going to get from here to there in terms of independence between now and 1985, and we have got to scramble to make it by 1985.

We have got to do some things this year and between now and 1977 that will put us on the road to 1985, but it invariably would create a depressing effect in equities, in the lives of millions of people -- an almost impossible thing to administer -- if we decided or the President decided at this point in time or you decided or the Congress decided that we are just going to manage the resources and we are going to tell everybody that they can have this gallon of gas and that lump of coal and that cubic foot of gas. I think it must be clear in the minds of those who have thought it through that rationing at best can only be a short-term programmatic implementation and can only work under certain conditions -- war time conditions surely.

You can see the light at the end of the tunnel. Sacrifices should be made under those conditions that can be of a very serious nature. So here we are, I think, at the dawn of a great adventure of bringing our economy into a new set of balances, both with energy and the environment. We are providing the most massive opportunity for technical achievement that I think has ever confronted this country.

I hope that through the stimuli Bill Simon outlined and through the awareness we will create -- and remember, when we raise the price of gasoline by the use of tariffs or taxes enacted by the Congress and then also, of course, rebate

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those taxes that the individual will have the opportunity to save energy as well as participate in the rebate and the genius of the American people will be given the opportunity to work and the American people then can be winners.

There is no way they can be winners if they are controlled by the directions written on the back of a coupon book. There is no hope, there is no future; it is too finite, it does not fit the American spirit. So I hope that those of you particularly who feel that we are going in the wrong direction will give us a chance to sit down and discuss it with you. We have got some very serious problems and we have got some very legitimate areas of disagreement in how we develop some of these resources.

I know there are Governors here and friends of mine here who are apprehensive about the development of the OCS, who were apprehensive about the development of oil shale because there is a feeling that this will change the countryside and change the socio-economic profiles of areas and change the priorities with which we use water in the scarce areas of the country. We are not going to lay out policies for the development of the outer shelf and the development of the coal resources of the West and the development of oil shale and the development of the nuclear, solar and other energy sources without sitting down and communicating so that you can understand the national problem and we can understand and build into the policy your own problems.

So I plead with you and say simply this: that in working with all of you I know you are going to be heavily involved and I know you are going to put your best thoughts and best minds into the solutions that have to be forthcoming. I will guarantee you, based on 20 years of intimate knowledge of the personality of the President and of the people who are in this Cabinet and this Administration, that the decisions are not going to be arbitrary, they are not going to be politically partisan for political partisans' sake, but they are going to be directed toward the solution of a problem for the American people.

Thank you.

MR. BARODY: Thank you very much, Secretary Morton.

We now have a few minutes to take some of your questions. The press has asked me to ask you to please state your name when you ask your question.

MAYOR FLAHERTY: My name is Pete Flaherty, the Mayor of Pittsburgh. I would like to ask Secretary Morton a question concerning the natural gas. In Pittsburgh the industrial community is very dependent upon the supply of natural gas to

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the industry and, of course, employment is also very dependent upon it. Recently, we have been experiencing substantial cutbacks made by the natural gas companies unilaterally, basically arbitrary decisions, and usually there is a press release-- sometimes not -- that is due to a shortage of perhaps a diversion of the gas.

On the other hand, my staff keeps getting information that while there are shortages and while there are diversions, nevertheless there are still large reserves of gas that are being held back for whatever reason to force price increases or perhaps even to deregulate the gas industry.

Whatever the merits of that controversy, why should the federal government allow arbitrary decisions to be made by a regulated industry? Why shouldn't there be a requirement that before a substantial cutback is made by a gas company that it give some sort of adequate notice to the users, a requirement of a public hearing by either the Federal Energy Administration or the Federal Power Commission?

SECRETARY MORTON: Let me address myself one at a time to the various aspects of your question which I think is a key question.

First, you are concerned with what is commonly termed shut-in capacity. We are making every effort at the Department through the Geological Survey to determine the quantity and the reason for shut-in capacity. In the normal development of the industry there is a percent that is shut in. There are really three prime categories that shut in capacity, with respect to the interstate market, falls into.

The first is the depletion of the reserve itself known as a reservoir problem. This is an area where the reservoir has lost its pressure and where the gas has been depleted and the well is capped and under present technology and present prices it has been determined unfeasible to try and continue supplying from that well. That is one category.

Another category exists where a new well is not hooked up because of the fact that it is waiting for pipes, waiting for connections. We have a good many of those on the outer continental shelf where platforms have been developed and are waiting for an ordinary grid system to hook them up.

The third category is where the well is down for temporary reconditioning or redrilling and we are trying to find beyond that whether there is any gas actually shut in just because of an arbitrary decision that the price is not right. If I can determine that under the authority that I have for leasing on public lands, I will warn the leasee and, if action is not immediately taken, I will rescind the lease.

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We have not on public lands and in the interstate market been able to positively identify shut-in capacity due simply to hold-back reasons for price. I cannot speak to the intrastate market because I do not have the authority to go there, but I am told and lead to believe that the amount of shut-in capacity there is minimal.

What actually happens is that it is not so much the reduction of gas in the pipeline which has been occurring because of about an eight and a half percent decline in the production of natural gas, but it is a transfer of gas moving from the interruptable customers to the primary customers simply because the primary customers are using more gas during the cold months of the winter and they are not interruptable.

The system of marketing gas, as you know, provides for two types of contracts --- one you can shut off, and that is the industrial contract. Governor Holshouser, I think, is experiencing the worst of this kind of interruption in the nation. The gas that goes to the consumer to be burned in the home heating systems and in the kitchen systems of America is not interruptable.

I can assure you that unless we have a very active investment climate for the development of new natural gas resources and unless we can begin to use natural gas -- a precious and finite fuel -- more in keeping with the kinds of processes that depend on it and not under industrial boilers, we will work our way out of the natural gas business and, in a matter of decades, natural gas will disappear from the face of our energy spectrum. I think this would be a great tragedy. We are going everything, I can assure you, Mr. Mayor, to prove to ourselves that gas is not being arbitrarily shut in, and I will guarantee that if I find that it is being arbitrarily shut in -- if it is in an area where I have the authority -- I will take the appropriate action.

MR. BARQODY: Let me just point out that Frank Zarb who is the Director of the Energy Resources Council has now joined us, and you can also direct your questions to Bill Seidman.

Yes, sir, Governor.

GOVERNOR RAMPTON. I would like to ask two questions: one goes to you, Rogers, and one to you, Mr. Simon.

With regard to the price of gasoline, you say you are attempting to control it through pricing. Are you taking into consideration the fact that, unless Congress acts to relieve the states of some of their managing obligations on construction or helps us out with maintenance within the highway traffic funds, we are going to have to add three to five cents this year to the price of gas at the state level

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merely to balance our highway budget?

SECRETARY MORTON: Cal, we have taken that into consideration. I don't think the Secretary explained how the \$30 billion that is going to be taken out of the economy as a result of tariffs and taxes on fuel is going to be put back into the economy, but it is estimated that the states will have an increased price of \$2 billion collectively for fuel and that \$2 billion will be reimbursed to the states through the revenue sharing formula.

GOVERNOR RAMPTON: Additional moneys to what we are getting now?

SECRETARY MORTON: That is correct.

SECRETARY SIMON: Recognizing that the economy is in a declining posture, we did not wish to remove \$30 billion because that would have a very serious economic impact. So you wish to give it back and you attempt to assess as nearly as possible how much each category -- there are four: federal government, state and local governments, individuals and businesses -- uses in the broad category of energy and that is where we assess \$2 billion to state and local governments, \$3 billion to the federal government and so forth.

We are giving that through the same formula they have right now because to try and change the formula and Congress for this special thing would open up all sorts of other problems, so we are going up with that legislation immediately.

GOVERNOR RAMPTON: Now I ask my second question of Secretary Simon.

Congress has appropriated \$2.5 billion for public employment programs. You got it out between Christmas and New Year's and put it to work by January 10. At the same time the President is sending up to the Congress rescissions and deferrals on programs that are pretty well personnel oriented. So why do you put money out in the new jobs while you are pulling back money to maintain them? All you are doing as far as we can see is putting it through a different pipeline, a pipeline that is much less efficient than the one we have worked out over the years.

SECRETARY SIMON: No, I don't think so because I think if you analyze when these deferrals and rescissions take effect, assuming Congress takes action -- which some believe would be quite an assumption to make -- that our economy by most forecasts, private as well as government economists, will see a pickup in the summer of 1975, and of course at that time we will begin to see the employment situation improve also.

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The purpose of deferrals and rescissions -- take the \$4.7 billion that was sent up to Congress before Christmas that the Congress did not act on. That is \$4.7 billion last year. In the next fiscal year it goes to \$7 billion, and then, judging by past action of the legislatures, it goes to 10 and 12 and just continues to grow.

That is what we are attempting to turn around in order to give the decision-making back to the private economy rather than create all this tremendous expenditure on the part of the government. I don't think this is a conflict that has immediate biting effect in the sense that we are taking it away with the one hand and giving it with the other. I think you will see that that will dovetail.

MAYOR KNIGHT: I would like to preface my question by saying that we commend the President and Cabinet members for this at least forward-looking step in meeting our problem. Before I had a chance to really digest what is going on we were invited here, so I didn't have a chance to read everything and analyze everything that has been said.

I am Clarence Knight, the Mayor of _____, North Carolina.

Many people have been calling their representatives and myself with questions and they are confused about the tax rebate situation. Some of us are of the opinion that, while we appreciate the fact that we have to have a certain cash flow balance and that we need to be fair to everyone, some people don't need a rebate at this time. There are many people who have nothing and will have nothing, and although this little bit will not solve their problems, we feel that if you just make the rebate bigger for those on the lower income bracket and hold up on those above \$10,000 for a while it would help. What we are trying to do is help the man who has nothing and at least think about it.

Are you rejecting the possibility of doing something about that in a larger proportion later? Is this just the beginning, or what? Can you fill us in on that? I have to answer some questions on it at home.

SECRETARY SIMON: Well, of course when you suggest an attempt to give to the people who have nothing, unfortunately the people in that category don't pay taxes and it is very difficult to get to them through the tax system.

MAYOR KNIGHT: I am not talking about those people who pay nothing.

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SECRETARY SIMON: You are talking about the lower end of the spectrum.

MAYOR KNIGHT: We have to consider those who pay nothing, too, because they don't have anything.

SECRETARY SIMON: Well, that was to offset the additional energy cost as near as we could calculate. We also have many income maintenance programs in effect today that complement and supplement this -- the SSI and the food stamp program and the hundreds of other programs that are directed to help those people.

The \$80 per person, per adult, was our attempt to take care of those who use energy and are in the disadvantaged class that doesn't pay taxes.

Now the President made the decision to make this tax progressive, meaning the people who receive the reduction receive the benefit at the lower end of the tax scale with the people at a thousand dollars capped on. We will be going up next Wednesday at the commencement of testimony before the Ways and Means Committee in Congress, and there is sentiment to weight it even heavier on the low end of the scale.

What we are trying to do is not to give it certainly to the \$25,000 and over to any extent, although the cap extends up to a gross income of \$40,000 approximately; that is where the cap would take effect. We have a consumer confidence problem in this country -- everything from automobiles to refrigerators to what we call big ticket items -- attempting to stimulate the economy. In order to get some effect and economic stimulus, you try to make the tax refund with the amount of money given as stimulative as possible instantly.

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Now the permanent tax return was even more weighted on the lower end and assists those very people you talk about. Remember, this is just a one shot, one year tax reduction. The other is more permanent and of course that has to go through the Congressional debate, too, and the tendency up there for a long time has been to tilt the tax scale in a more progressive fashion.

GOVERNOR NOEL: Governor Noel from Rhode Island.

I would like to address these remarks to Secretary Morton. We understand in Rhode Island and appreciate the nation's economic problems and also the nation's energy problems, and I applaud the effort of making this great nation energy independent. However, our great concern as we see this national energy program emerging is that, since it is a national goal, the burden to be carried by the people of this nation should fall equally across the nation.

The program as outlined in the President's message indicates that the severe dislocation which already exists in the Northeast will not only continue to exist but will be worsened. I point out that we are 85 percent dependent upon fuel oil when we look at our total energy requirement. The nation is only 45 percent dependent upon oil in the context of total energy consumption. Unless we have energy price equalization, then the fantastic distortion that has already taken place in the Northeast will be enlarged by the program that has been announced today.

I point out that during the midst of the Arab embargo, industrial production fell off 3.8 percent across this nation, but in New England, industrial production fell off 11.4 percent. Since those statistics were compiled, we have had many more companies close in my kind of State because of the inordinate cost of fuel. Now the simple statement that the \$3 tariff will not be imposed upon imported residual oil will not rebalance the inequities across this nation and the tariff on other oil products will trigger a whole new series of price hikes to our consumers that will further erode the economic base of the Northeast. Our consumers will get no relief from the tax rebate that is proposed because the series of state and local tax hikes will far surpass whatever money is being returned by the Internal Revenue Service.

States in the Northeast cannot by constitution run a deficit. So as our revenues continue to fall because of continued industrial dislocation, reduced demand for gasoline and other taxable energy products are going to have to come back with a significant tax rate increase that will offset the reduction that is being proposed. I think that if the burden is to fall equitably, there should be some serious readjustment of the energy aspect of this announced policy.

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SECRETARY MORTON: As you know, Governor, we have -- frankly I want to speak to this in more detail -- established an equalization program. We tried to offset the disadvantages or the fact that energy and oil, electricity, cost more because of what then were massive changes in the fuel prices.

(Ladies and gentlemen, The President of the United States).

THE PRESIDENT: Thank you very much, Alan.

Members of the Cabinet, distinguished Governors, Mayors, public officials, it is a privilege and a pleasure for me to be here and to follow all the technicians and experts who have given you the several programs and answered, I trust satisfactorily, all your questions.

They didn't learn very fast.

Well, it is nice to be here and to conclude the program at least officially with a few remarks.

If you heard, saw or read my speech yesterday, you know I didn't paint a very optimistic picture. I didn't intend to. I meant to state what the facts are as to the economy and our situation in the field of energy.

We all know that the economy is in trouble. I won't embellish what I said yesterday by citing any facts or figures. We know that the problem of energy is acute in the United States. It does not seem that way today. Of course, 12 or 14 months ago it was and the problem that we had then, which was acute, could reoccur at any time.

We have a short-range and a long-range problem in the field of energy and we better find some answers. As a result of the difficulties we have in the economy and the problems we face in energy, I devoted virtually all of my time yesterday in the State of the Union to those two problems.

All of you are public officials; I consider myself one. Let me say that being a public official in these circumstances with unemployment high, with inflation too high, with the other problems we have is not a very happy responsibility, and you probably know it as well as I do. But let me add this, if I might. Benjamin Franklin once said that we must all hang together or most assuredly we will all hang separately, and that includes Democrats as well as Republicans. So those at the local level, those at the State level and those of us at the Federal level have a sound, constructive reason to work together so we preclude the possibility of all hanging together.

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Now what can we do? We in the Federal Government have initiated a plan in the fields of energy and the economy. With respect to the latter, we are going to stimulate the economy, we are going to make things better. In the field of energy, if we get the legislation, we will solve those problems.

All of you are, of course, particularly interested in the difficulties of unemployment. You see even more dramatically than I do the long unemployment lines. My State of Michigan of course has about as hard a situation as any, if not the worst. So what we have got to do on a temporary, short-term basis is restore public confidence, give people back some money to have it available to spend, to generate sales in hard goods -- automobiles, appliances, et cetera -- and at the same time provide temporary relief in the extension of unemployment compensation and provide public service employment.

The Congress in December of last year on my recommendation did pass a broadened, expanded public service law. That legislation has been funded and it will be implemented on an accelerated basis. It is, in effect, an add-on to the Comprehensive Education and Training Act -- CETA as they call it. Now this public service employment and this legislation is distributed to cities on a formula basis in order to make it work well. If we do our job, we have to get cooperation from the cities. I trust that our people are doing a good job -- if they are not, let us know.

The 13-week extension of unemployment benefits and the broadening of the unemployment legislation for better coverage also should be extremely helpful. Now in the legislation there are some provisions that give special help to rural areas with regard to sewer and water projects. We have as deep a concern about rural unemployment as we do about municipal unemployment. In addition, there is a provision that provides for some funding of rather short-term public works projects.

Our experience in the Federal Government has been that some of the long-term public works projects are not as helpful in meeting an acute unemployment problem as the public service employment legislation, but nevertheless, there is a provision in this act to give some funding -- I think it is \$150 million -- for relatively short-term public works projects that can be implemented or executed rather quickly. So there is new legislation, there are funds on hand to meet some of your acute problems.

Now the long-term unemployment problem we face is one that has to be corrected by making our economy healthier, and the actions that I recommended -- the tax cut of \$12 billion to be rebated to the taxpayers by June 1 if Congress acts

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by April 1 -- should give it a shot in the arm. The \$4 billion help as far as business is concerned, if Congress acts, ought to accelerate plant modernization and equipment improvement. This, of course, should have a beneficial impact on employment.

I am sure that Frank Zarb, head of FEA, or Secretary Morton who is in charge of the energy task force or energy committee mentioned to you the payback to State and local units of Government for the added energy costs if the Congress approves the proposal that I have for increasing the import duties on fuel oil or the refinery tax on crude oil of \$2 a barrel.

We expect to collect roughly 30 to 31 billion dollars from that plus the windfall tax on the profits made by the oil refiners, and out of that 30 to 31 billion dollars, we have allocated \$2 billion to be returned to the States and local units of Government to reimburse you for your added costs because of higher energy costs. Now this will be rebated to you on the general revenue sharing formula basis. In other words, assume there is \$2 billion. It will go back to State and local units of Government on that formula basis.

Now in addition, I might add that in the budget I am submitting and the legislative program I am recommending for this next fiscal year, I am proposing that we extend for five and three quarter years the general revenue sharing legislation.

I think it has worked. It has worked because all or most of you have tried to make it work. The net conclusion, in my opinion, is that it ought to be extended for five-plus years. I trust that you will have a constructive impact on the Congress in making sure that that recommendation is enacted into law.

Now in the process of putting together the economic program, I had to make some hard decisions. All of you make up your budgets at the State and local level and you have had to do the same. We found, for example, that if new programs were enacted and we simply extended existing Federal programs for this current fiscal year ending June 30, the deficit would be over \$30 billion and that the deficit for the next fiscal year beginning June 1 would be 45 to 46 billion dollars. So the net result is with no new programs we would have roughly 75 to 80 billion dollars in deficit. Now that is a lot of money, I don't care how you add it up.

But despite that unfortunate fiscal situation it was my judgement that we ought to recommend a tax reduction as I have described it. However, in order to justify the tax reduction, I had to make several other hard decisions. One of them is no new Federal spending programs, period.

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I am not going to recommend any and I have said that if the Congress sends them to the White House, they will be vetoed. That had to be a condition for the tax reduction.

Number two, I had to take a look at some of these Federal programs that have built-in escalators predicated on the cost of living increases such as federal Government pay, federal Government retirement, military retirement, social security. All of them have built-in escalators predicated on the increases in the cost of living.

I have said that the Congress has to work with me to hold the lid on those increases. We are not going to deny people an increase, but we have put a cap of 5 percent on the increases. That means there will be some reduction from the anticipated increases but not much.

As I said in the speech yesterday, this is a time for sacrifice. If everybody does not sacrifice a little, we are all going to be in serious trouble, and we are in serious enough trouble right now. I hope the Congress will respond. If that cap is included, it will save, as I recollect, roughly \$10 billion. It will save roughly \$10 billion in the 12-month period. But it does provide, as I said a moment ago, no permanent freeze, no reduction. It simply is a 5 percent increase in those escalated programs paid, et cetera.

Now in the energy program we had to make some hard decisions. You could have gas rationing; some people have advocated that. We are not going to solve the energy supply program within a year. As a matter of fact, it will be five years or more before we have an adequate supply of energy to take care of our own domestic demands. So if you are going to have gas rationing, you have to plan it on a five year basis, not on a one year basis.

I don't think a five year gas rationing program is sustainable. In war time, World War II, it worked. But in this situation I do not think a five year gasoline rationing program would be acceptable and it really is not the answer because it would not provide any incentives for new sources of energy in the United States and what we have to do, is provide new sources of energy.

Now I know there are some people in the Congress and maybe some of you who are concerned about geographical discrimination. I have been assured by the Secretary of the Interior and by Mr. Zarb that there will be no undue hardship to New England or the Northeast United States. I have their firm commitment that, with the taxes imposed or import duties levied on foreign oil imports, there will be no undue hardship to any geographical part of the United States. I have also been assured by the people in the Executive Branch that no industry will suffer undue hardship. So if you do have

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any problems, there is the man to see right there.

All right. Now let's turn to one other subject. As we examined the problem of how to increase our supply of energy, as we tried to find ways to cut down on use through conservation, we had to take a look at the problems of energy vis-a-vis environment. Let me give you an illustration of how cooperation in the Executive Branch of the Government has brought about unanimity. I think we now have a program that will permit us to keep a high standard of emission control on automobiles and at the same time get written commitments from the automotive people that they will increase the efficiency of automobiles in the next five years by 40 percent. They have agreed to this program in writing if we will support the change of the emission standards to the standards in the State of California.

You really have three standards. You have the current federal standards, you have the California standards and you have the standards written in the law passed several years ago that are higher than the other two. The Environmental Protection Agency under Russ Train has agreed to support a change in the law as long as we agreed to support the California standards. This means that we will get substantial savings in the utilization of gasoline and new automobiles. I can't recall how many, I think it is 500,000 barrels a day, isn't it, Frank, that we save. Five hundred thousand barrels a day with a 40 percent increase in efficiency for automobiles.

All I am trying to say is that we have worked extremely hard to get a sound balance between energy and environment. Russ Train, head of EPA, has agreed that the California standards in this case are sound.

When you come right down to it, as I said yesterday, we are in trouble. I think we have got some answers. The responsibility now is on the shoulders of the Congress. I have been assured by the Democratic as well as the Republican leadership that they will cooperate with us. I hope they will pass my legislation in tact, but that may be too much to expect. They have a responsibility.

But we need action, that is the main thing, and we need it promptly both in the economy and in energy. So I hope that you, with your vast political background and support, can urge the Members of the Congress on both sides of the aisle to move as rapidly as possible in these two very vital areas. If they act on legislation, I think we can have some answers to these two very perplexing problems that the country faces.

As I said yesterday, if we do what is necessary at home, the impact abroad will be most significant -- it will restore our own confidence and it will reinvigorate the trust

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and belief that others throughout the world have in the United States. I am an optimist. I think the Congress will act, I think we will execute the programs, and instead of hanging together we can enjoy the future together.

Thank you very much.

MR. BAROODY: Ladies and gentlemen, that concludes the meeting. I know that there are some unanswered questions and I apologize for that, but you can communicate directly with Frank Zarb and Bill Seidman and we will get the answers to you.

Thank you.

(Whereupon, at 3:10 p.m., the meeting concluded.)