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THE WHITE HOUSE

PRESS CONFERENCE
OF
RADIO TELEVISION NEWS DIRECTORS ASSOCIATION
WITH
GERALD FORD
PRESIDENT OF THE UNITED STATES
THOMAS FRAWLEY
PRESIDENT, RADIO TELEVISION NEWS DIRECTORS ASSOCIATION
GERALD L. WARREN
DEPUTY PRESS SECRETARY TO THE PRESIDENT
WILLIAM SIMON
CHAIRMAN, ECONOMIC POLICY BOARD
WILLIAM SEIDMAN
EXECUTIVE DIRECTOR, ECONOMIC POLICY BOARD
AND
ASSISTANT TO THE PRESIDENT FOR ECONOMIC AFFAIRS
FRANK ZARB
ADMINISTRATOR, FEDERAL ENERGY ADMINISTRATION, AND
EXECUTIVE DIRECTOR, ENERGY RESOURCES COUNCIL
JAMES T. LYNN
SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

ROOM 450
OLD EXECUTIVE OFFICE BUILDING

1:30 P.M. EST

MR. FRAWLEY: I will tell you, one of the real pleasures of being president of the Radio and Television News Directors Association is having the opportunity to welcome our members to an event like this, so welcome to Washington. I am certainly glad you are here.

I do want to pay special recognition to one of our RTNDA past presidents, Bill Roberts, who stands back there.

(Applause.)

And in starting the program now I am pleased to introduce the Deputy Press Secretary, Gerald Warren.

(Applause.)

MR. WARREN: Thank you very much, Tom.

Tom tells me that this is a rather unusual or unique occasion for the Radio and Television News Directors Association and I hope we can do it again when there is something we can tell you here and there are some questions that you wish to ask members of the White House staff and members

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(OVER)

of the President's Cabinet. I will just go down a brief rundown on what we will be doing today. We hope it will be informal, we hope you will participate, and ask the questions that you have been thinking about when you see the stories about the President's Economic and Energy Program come across the tickers and across your monitors and I know you have many questions. It is a comprehensive set of solutions to a very complex problem.

You will be talking with a number of gentlemen today who can answer the questions for you. We will start off with Secretary Simon, who is here; Bill Seidman, who is the President's Executive Director of the Economic Policy Board, will be here to discuss with you the fact-finding apparatus of the President's economic advisers.

Then later on this afternoon Frank Zarb will be here for a discussion as detailed as you want it to be on the energy side of the President's proposals. Secretary Lynn will be here and I think we can ask him some questions about some of the things that will be addressed outside of the energy program. As you know, he is to be the President's new Director of the Office of Management and Budget.

And then the President will be here at approximately 4:30 and we hope to break up at about five o'clock, but we are not going to rush things if it is interesting. So with that brief overview, I want to bring up Secretary William Simon, Secretary of the Treasury, who has been sitting in some exhausting meetings with the President and some meetings with the Economic Policy Board and with the Energy Resources Council. Bill Simon is Chairman of the Economic Policy Board. He is, I think, known to all of you, so I will not give you his biography, but it is in the information which you will receive throughout the day, and we didn't give it to you beforehand because time is short and I didn't think you would have a chance to read it.

I think a fresh approach is probably best. You will read it on the plane home or this evening and then if you have further questions, come back to us. But in that packet of information will be the transcript of Secretary Simon's testimony before the Ways and Means Committee on Wednesday, and I think if you concentrate on the first 17 pages of that testimony, you will have a very precise and accurate description and explanation of the President's program.

With that I will introduce to you Secretary William Simon.

(Applause.)

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SECRETARY SIMON: Thank you, Jerry.

Ladies and gentlemen, I am delighted to have the opportunity to come and speak with you today and I want to reiterate at the outset reference to Jerry's comments about my Ways and Means testimony. I spent two days before the Ways and Means Committee, perhaps some of you were there this week, attempting to explain and educate and think through together with the Congress the problems that we face in our country today, and I think we are gaining a better understanding of the complexities and really the alternatives that we have, which, of course, is the most important thing to understand.

It is one thing to define the problem, and then you have to define the solutions and remedies that you would like to put in place. I think that, if you would, the testimony runs to 40-some-odd pages. The second half of it deals with a very complex tax policy, which if you are having trouble getting to sleep, I would urge you to read. It isn't what I would call required reading. But what we tried to do in the first 17 or 18 pages is to put the subject into English, which is no mean task, I might add, so that people will understand it.

You know, Congressmen are people. They are generalists basically. They deal with a broad range of issues up there and, of course, the level of economic literacy around the country necessarily is very low and we have to do something about this because it is only through our education and telling the people the problem in understandable terms -- again with your assistance -- are we going to be able to meet and raise the level of confidence in the leadership that is dealing with it.

Economics has moved to the top position on all of the news programs and I believe it is going to stay there. So it is extremely important, as I say, that we have these kinds of meetings and I hope this will be the first of many. We face many difficult and seeming conflicting problems today and they require decisive action. And the President's program that was designed deals with it in this way.

The President's program is designed to deal with the three basic problems we have: inflation, recession, and energy independence. As I said to Ways and Means yesterday, there are many people who don't believe we can solve all these problems at the same time. I believe that we can and the President believes that we can and I believe that we have charted the proper course to accomplish this.

Our major proposals are basically, for the economy, a temporary tax reduction of $16 billion to support a healthy

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recovery from the recession, and of course a moratorium on any spending during 1975 which will, when the economy returns to its full health, restore a balanced budget and indeed hopefully a surplus during periods of economic activity which has been so sadly lacking in this country for a long time.

In the area of energy and conservation taxes on petroleum products to cut domestic usage and imports on foreign oil. This is accompanied with permanent tax reductions and payments which overall will restore the purchasing power of the people and businesses of our country. There are also numerous specific actions to take care of the supply side, increasing domestic energy supply.

Inflation like interest tends to compound. It reached an annual rate of over 12 percent in 1974, the highest level in our peacetime history. The damage has been extensive, the lifetime savings of many have shriveled. High interest rates always accompany an inflation and they affect adversely the livelihood of millions, the opportunities of families to own homes and the ability of others to either open or to stay in business.

The uncertainties created by inflation undermine the confidence of both the consumers and investors with consequent damage to jobs and new investment and increased productivity which, of course, are so necessary to stem inflation.

I don't believe our economic system as we know it could long survive this trend. About 50 years ago Keynes wrote, and it is still true today, "There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction and does it in a manner which not one man in a million is able to diagnose," and this is our problem.

When I talk about the level of economic literacy, the ability to perceive on the part of the American people really what is going on, the pervasive effects of the inflation upon our dollar internationally and domestically , our system cannot tolerate this type of inflation.

I am told that that statement by Keynes was a followup on a similar remark by Lenin to the effect that inflation would ultimately destroy capitalism. There have been many causes for this inflation, but in my opinion the biggest single factor has been a prolonged period of large Government deficits including the off-budget items.

The momentous growth in Federal expenditures and Federal deficits has been truly startling. It took 186

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years for the budget to reach $100 billion, the point it reached in 1962 , then only nine more years to reach $200 billion, and four more this year to break 300. Revenues, of course, have not kept up with expenditures, so that when we close the books on fiscal 1975 we will have had deficits, some of them of massive proportions, in 14 of the last 15 years, and the accumulated debt for that period alone exceeds $130 billion.

There can be no doubt about the inflationary impact of these huge budget deficits. They added enormously aggregate demands for goods and services and they were directly responsible for upward pressures on the price levels. Heavy borrowing by our Government also was an important contributing factor in pushing up interest rates and, of course, all the strains that developed in our financial markets.

Worse still, a continuation of these budget deficits undermine the confidence of the American people in their Government in the capacity of Government to deal with the economy. In short, when the Federal budget runs a deficit year after year, especially during these periods of very high economic activity, it becomes a major source of economic and financial instability. When it spends more than it receives, it has to obviously borrow to make up the difference and during this period in our modern monetary system that kind of borrowing almost always results sooner or later in the creation of too much money. It seldom results in the commensurate creation of additional goods and services.

There is no way to escape the basic dilemma presented by our deficits. On the one hand, if the deficit caused a significant increase in the money supply, we have further inflation. On the other hand, if deficits aren't permitted to increase the money supply, we must be prepared to endure tight credit and somewhat higher interest rates.

This is a very difficult circle to break. The only solution is to take what would be extraordinary for this country dealing with this problem, and really in many other countries of the world, the long-term view rather than short-term view. Sometimes in this country our long-term view runs out to about the next election.

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Now let's look at the recession which in large part was attributable to our inflationary excesses. It is just purely and simply the hangover that follows the revelry. One of the major factors in the current recession is the decline in the housing industry which is the key component in our economy. The housing industry is especially vulnerable, of course, to high interest rates. It is the high interest rates that accompany every inflation, the double-digit interest rates and instability in our financial markets that was created thereby, that caused money to flow out of the thrift institutions and housing to go into the worst tailspin in our history.

In the same way inflation was the major factor in demolishing consumer confidence, and while it was recession that finally pushed the confidence over the brink, it was inflation because confidence was declining long before the recession was apparent to most, and this loss of consumer confidence caused the biggest drop in consumer purchases since the end of World War II.

To cure our economic problems we are going to have to administer the medicine continuously over a period of years, and I mean a period of three to five years to get us back to a sound economy. We want to do as much as we can to stop inflation without hampering economic activity, and this can be done. At the same time, we all have to recognize that our recession has become a much more serious problem causing widespread hardships and unemployment.

The President's recommendations for a temporary tax cut are designed to insure that the recovery that we expect in the middle months of this year is sharper and stronger than would otherwise be the case. We can and must have recovery from the current recession, but we have to do it in a way that doesn't lead us to an overheating in our economy again.

The need for some form of stimulation is apparent. The recession is already serious. Our latest estimates indicate that the rate of unemployment will rise to approximately eight percent. We continue to believe in fact that even in the absence of further stimulation that the economy would bottom out in the middle months of this year and that the recovery phase will begin thereafter.

The temporary tax cut would be of significant help in making the recovery more solid as well as more certain. It would also help to reduce the unemployment rate from what it might otherwise be. Moreover, since we are likely to have a margin of slack in the economy for some time, taxes can be cut temporarily without seriously compromising our efforts against inflation.

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Under these circumstances, we should do what we can to strengthen the economy through this temporary tax reduction. In order to provide the needed economic stimulus the President proposes a one-time reduction of $16 billion to be placed in effect within the next 90 days. Making it temporary avoids building into the system the larger deficits that ultimately would refuel inflation.

The temporary tax reduction will be an across the board refund for all taxpayers with a total of $16 billion allotted, $12 billion to individuals and $4 billion to business taxpayers, which is the same three to one ratio of individual income taxes as they bear to corporate taxes.

Now, in the energy field, the President proposes to make the country energy independent by 1985. Oil is an extremely important and pervasive commodity in our economy. We are now dependent on foreign sources for just about 40 percent of our needs. Major foreign suppliers in organizing a cartel, they have the power to bring about political and economic spasms of the kind which we have recently experienced.

In the last year and a half, the Arab embargo created major disruptions throughout our economy and the quadrupling of oil prices has contributed significantly both tc inflation and the recession that we are now experiencing.

If we are to retain control over our own economic destinies we have to achieve independence. We can do it and when it is clear that we intend to do it, we will regain a great deal of control over the situation. We have very little control dealing from our knees.

The President's energy program is therefore designed primarily to reduce our dependence on imported oil. In order to do that we need to develop alternatives for oil and we will also need to reduce our total demand for energy of all kinds.

Rationing is one way to curb demand and a number of national leaders have proposed it. We could perhaps live with rationing in a period of temporary emergency but as a way of life I suggest it is fundamentally inconsistent with our system and with the basic spirit of the American people.

Even in terms of emergency, rationing has never worked fairly or efficiently. Gasoline only accounts for a part of each barrel of oil and we would clearly have to ration the other parts, diesel, heating oil.

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Who would decide which persons needed more and which needed less of each one of these things? Every family, car, motorbike, school, store, church, every manufacturer, everything would have to obtain a permit for a certain quantity of gasoline, natural gas, oil, whatever their energy requirement was. These allocations would have to be changed every time someone was born or died or moved or married or divorced, and every time a business was started, merged, sold out or bought out, whenever you wanted to add a new room onto your house, and some Government official would have to approve it.

Last year when we sat down and designed the rationing program in the FEA, we concluded that it would be implemented or could be in four to six months, employ about 15,000 to 20,000 people, cost about $2 billion and, of course, use the 40,000 postal offices for distribution and require 3,000 State and local boards, the voluntary types that we had in World War II. They would handle exceptions.

When we consider the problems of just getting our mail delivered, are we really ready to trust an army of civil servants, however able and dedicated, to decide who deserves just what of this basic commodity? People should ask themselves which sort of way they would prefer to go. The suggested increase of prices, or a system in which someone else could tell them how, and for the indefinite future, when and where they might drive or how warm they might keep their homes or rooms.

Does anybody honestly believe that the American people are willing to trade these basic freedoms, in perpetuity, for 10 cents a gallon? The President has proposed instead that we reduce the consumption of oil by the most neutral and least bureaucratic system available, through the price system. The energy proposals would raise the price of oil. At the same time income tax cuts would increase the disposable incomes of every household.

Taxpayers could, if they wish, continue to buy more expensive oil and oil products and they would have extra money to do it with. The question they would face is whether they want to spend that extra money for more expensive oil or whether they wish to use it for another purpose. A great many will choose to use it for other purposes. That is especially true of business which alertly switches to alternative products when a price advantage occurs.

The President's package has three parts, an import fee, ultimately settled at $2 per barrel on crude and product and a corresponding excise tax on domestic crude oil, decontrol of crude and the windfall profits tax on oil producers, and price decontrol of new natural gas and the equivalent of a $2 a barrel oil excise which is 37 cent tax on natural gas

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per MCF. This combination of fees, taxes and decontrol will raise the price of oil and gas relative to other prices. That is going to discourage their unnecessary usage and encourage at the same time a substitution of other energy sources and induce the replacement of existing energy-using devices.

The energy package will reduce consumption significantly. None of us relishes the prospect of higher oil and gas prices. We have all developed habits of energy use conditioned by two decades of declining relative prices in energy. If you heard me say once last year, you probably heard me say too many times, we have moved from a low-cost, abundant energy base to a high-cost, scarce energy base in this country.

We have found all of the easy oil and gas, that which is cheap to find and cheap to produce and away from the Arab oil cartel and their pricing, it still costs a great deal more to drill an oil well in the hostile climes where our remaining reserves are at this time.

Now I see time is running short here. I have talked a little longer. I am going to stay with you a little longer today because unfortunately Alan Greenspan couldn't come. But I would like to answer as many questions as I can in the remaining time and also encourage you to in the future, if there is any way that I can help you or clarify anything for you, any questions that you might have, because I know many of you have spoken to me in the past about the need to explain this and how you feel your responsibility so deeply, and I would like to work with you and help you every way I can because you would be doing me a favor and you would be doing the country a favor.

Thank you.

Q Mr. Secretary, we talked to a few Congressmen yesterday who were a little bit upset that the President had made the declaration to tax imported oil prior to submitting his proposal or talking to Congressmen about a tax reduction. Their fear was that the declaration averts Congress' attention from important and priority questions of a tax rebate.

Now did he do this intentionally? Was this the order that he intended to present these two questions?

SECRETARY SIMON: No, the President did not expect the Congress to challenge his very clear authority to impose for national security reasons an import fee. In 1973, in March of 1973, we changed the Mandatory Oil Import Program and put in a fee system under the same statutory responsibility and it is quite clear that the President has that

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responsibility based on the same, on similar findings, recognizing that the definition of national security is not only military, it is also economic and financial. Indeed in this world it is probably more economic and financial than it is military.

And when you say was it his intention, the President as I testified yesterday wants this immediate tax rebate, the $16 billion -- reduction rather -- to go to the American people in the most expeditious fashion. Pass that bill hopefully before you go home on your Lincoln Day recess through both Houses of Congress. It is simple. It is a matter of just deciding how to give the rebate, whether it is through our proposal of rebates of 12 percent on '74, whether they wish to jiggle that -- that goes on all the time and it just doesn't take that long.

I would certainly hope that a debate on the issue of the President's authority to do this would not hold that up. You know, the important thing to consider here is that, I guess it was August '71 when President Nixon gave the first energy address -- there have been many addresses since, presidential and otherwise. There have been literally hundreds of testimonies, at least half of them by myself on the subject.

There is no mystery to energy policy, there is no mystery to what has to be done and the Government has much legislation to pass in this area. Some of the substance against it we can debate. But not one important piece of legislation has passed in that time and the President believes that the time for action is now because we have dilly-dallied for a long, long time on a very critical problem.

Q If the President wanted to get more spending power into the pockets of the American people quickly, why didn't he go for cutting the withholding instead of rebating twice a year?

SECRETARY SIMON: Oh, this would get the money to the American people much faster than withholding and let me explain why. Of course, first of all, Congress has to pass the law so let's assume Congress passed the law.

It takes approximately 60 days to change the withholding tables. If you will look in the tax statutes, they are set by law, what we can do on the withholding tables. So it would be 60 days before we changed the tables and then there would be a period of time before every business could adjust its payroll to meet that. At that point you would start a trickle through to the paycheck of a relatively small amount of money.

Now, recognizing that we wanted to get the money into the economy as quickly as possible, a simple rebate based

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on 1974 -- not '75, and that was done in a very calculated fashion for several major reasons. One, the American people all knew how much income tax they paid in 1974 so they could calculate exactly how much they would get back very simply and make their plans accordingly. We could give it back in two paychecks, which would be much more stimulative to the economy than having it trickle through in withholding.

We also did it in '74 because we had more people working in '74 than we do obviously in '75 with the unemployment rate rising as it is, and also there were many people in 1974 with two jobs, rather than one, and they worked a longer workweek. So for all of these factors we proposed it in this fashion.

Q Mr. Secretary, you mentioned that this country depends upon foreign suppliers for about 40 percent of the petroleum, and your comment was that action by these producers could produce spasms in the economy, but do such producers, in fact, have the power to strangulate this economy or this country?

SECRETARY SIMON: They don't in the pure sense of the word have the ability per se to strangulate this economy. The point is that today we are dependent on foreign oil and for the last three years every imcremental barrel, every additional barrel of demand in this country came from the Arab countries. 40 percent of our oil is not strangulation, but each year our dependence grows on these people because our demand grows, and one can say that if we did nothing, just as we have done for the last three years when the warnings for years of experts was finally heeded, if we continued it would be a very short period of time until we were 50 or 60 percent reliant, and at that point I think the consequences would be rather severe, to put it mildly.

Q Mr. Secretary, assuming that you get the economy humming again, what is on the drawing board to keep us from getting in this same position later down the road?

SECRETARY SIMON: Well, the President started out -- you know, I skipped over it here for time, but it is a technical subject, economic policy and what causes inflation. I am not a monetarist. I wouldn't want to get into the intricacies of monetary policy. But one can simplistically say that inflation is caused by too much demand chasing too few goods and the root of it is there.

There are many other things that occur along the line, but we start out with the massive budget deficits that I described and then we talk about the demand that creates on the economy and then we talk about the money that has been to be created to finance this demand. Ultimately we end up in the soup that we are in right now.

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The money has been created, economic activity picks up, and there you are back right to what you described. That is why the President put a moratorium on new spending during 1975. In other words as the new bills come down from the Congress they will be vetoed by our President, new bills outside this budget with the exception of energy legislation which is deemed obviously necessary for other purposes. That effectively commences to curtail the growth in Federal spending and that has been the problem, just the exponential growth in Federal spending where it has grown in tremendous rates, expecially these last 10 years. Putting a five percent cap on pay increases and the transfer payments is another important element.

Q Mr. Secretary, two questions: Was the President in fact saying last night that if the Congress did not act, he might withdraw the tariffs, thereby really giving the Congress what they want him to do now, namely delay action?

SECRETARY SIMON: If the Congress did act?

Q No. The President said last night that if the Congress did not act on the rest of his programs, he might withdraw the $1 a barrel tariff later on.

SECRETARY SIMON: Well, I think the President will keep his options open in every area, but I didn't derive that from his answer. He expects Congressional action on the package that we set up. Obviously, there is going to be debate and there is also going to be compromise in certain areas, but he wasn't spelling out a particular compromise.

It is his intention to bring it back to $2 a barrel, obviously, when the package goes into place.

Q My second question was, Mr. Secretary, I recall when you were Federal Energy Administrator and the ration coupons were printed that it was then said that the reason for printing the coupons was that a program could be put into effect within six weeks to three months. Why is the Administration now saying that it would take six months to put a program in effect?

SECRETARY SIMON: Well, when it would be completely humming the way you would want one in setting up all of these boards, but it probably could be done in -- we said, I believe, at that time in three to four months and I think it probably could be done in that period of time. We would have certainly done it but it would have been six months or maybe even a little longer before it was functioning the way one would want it to function.

Q Mr. Secretary, are there as great and as unequal penalties for regions and States in the energy program as the Mid-Atlantic and New England Governors believed after their meeting yesterday?

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SECRETARY SIMON: Well, in the equalization program, the entitlements program which Frank Zarb will spell out to you in detail when he gets here, this tries to equalize the price that our consumers pay all over the United States. Ultimately, when the entire package is passed everyone will be paying the same price for oil, but right now New England will get a break by getting a rebate through the entitlements program on imports until the whole program comes into effect.

Q Mr. Secretary, there seem to be as many economic policies as there are economists. What makes you so sure that your program is going to work and what makes you so sure it is going to work within the next three to five years?

SECRETARY SIMON: Well, I don't think there are as many economic policies as there are economists. I think -- well, you have got obviously two schools of economists and to say that you are going to get unanimous agreement from that group is not accurate as everybody in this room understands.

Economic policy-making -- and this is the one thing that is the most difficult thing to get across in this country -- is that the President puts forth an economic policy on October 8th, and that economic policy is to deal with the problems that we know exist, the events that we know have occurred and forecasting the future, which is imprecise at best. Many events have occurred since October 8 including the most damaging which was the destruction in consumer confidence for reasons we believe that I mentioned in my brief opening remarks.

Now economic policy is an ever evolving affair, one that recognizes these events and special factors that occurred that were not forecasted or events that happened that were in excess of what our forecasts might have been, and policies shift to take care of that and remain flexible. Basically, why do we believe the economy is going to improve by summer? You can see that a lot of the things we were saying in October and November about inflation are coming true today. Inflation rates are beginning to recede, and they are going to be very evident in the lag -- indicators show there is always a three or four month lag -- by February, March and April of this year.

When the inflation rate recedes in anticipation of this and in recognition of this, interest rates commence a decline as monetary policy has become more expansionary. You have a decline of about 4-1/2 percent in short term interest rates. I am not talking about the prime rate but the bellwether commercial paper and Treasury Bill rates.

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What happens when interest rates decline? Money starts to flow back into the thrift institutions, the savings banks, the S&L's, the commercial banks. Housing begins to improve. We had housing permits rise for the first time last month in many months. We have had two and a half months of solid money flowing back into the thrift institutions.

Housing traditionally leads our economy out of a business recession. Housing is always very buoyant during periods when labor and resources are plentiful, so all of these events that are occurring show that this is the first harbinger of a housing improvement in the spring. And this doesn't only come from Government economists who make forecasts.

I just met with a group this morning of business economists and academic economists from all over the country, and their predictions are not whether housing would improve; their predictions are -- differences of opinion, I should say, as to what degree housing will improve, and they are all around a million and a half housing starts next year and that is significant improvement.

But what happens then? When housing improves, appliance sales and relevant items for purchases of these household goods begin to improve. Consumer confidence begins to improve, and they, of course, are the two weakest sectors of our economy.

The inventory problem that business is having today, they are working off their inventories. Automobiles are giving large cash bonuses for purchases and while it is too early to really get a fix on it, the immediate effect was an up-tick in automobiles.

I just met with the people from one of the large automobile companies and their forecast is a good deal higher for 1975 than for 1974 by several million automobiles. So all of these things combined, recognizing there are still going to be lag weaknesses and a slack between demand and our capacity to produce, which is good because we are still going to have an inflation problem, let's not forget that, and that is when we must become moderate as far as our expansionary monetary policies are concerned and make sure that we don't overheat the economy again in the process and end up back in the same mess we are in today.

Q Mr. Secretary, what about the process of increasing the cost of food stamps? Isn't that really adding more weight to the burden on the poor people who have to use food stamps, the inflationary burden?

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SECRETARY SIMON: Well, really, obviously, any higher costs are going to have to bear a hardship, but in this instance we didn't believe that that hardship was that great in measuring everything that has to be done across the whole economy because food stamps are just one program, and what we are trying to do is take care of an awful lot of the loopholes in that program which aren't easy to close up, such as college students when they go on all of these many holidays that your children and my children get from their colleges this year which is more expensive, as Buchwald wrote a couple of weeks ago, than the tuition in the colleges themselves.

I wish they would stay in school. But they are eligible for food stamps. I want to add that my children don't get food stamps, but we know a lot of them that do. And there are a lot of loopholes in this program. But food stamps is only one welfare program.

Q But isn't it in fact a 20 percent increase in the cost of food for persons using food stamps?

SECRETARY SIMON: I am not sure of that number.

Q It is about that. That is a big jump.

SECRETARY SIMON: I am not sure that it would be a 20 percent increase across the board on food stamps. I doubt that sincerely. I think that we are talking about an increase at the margin.

Q Mr. Secretary, when President Ford came in he said that he wanted to work with Congress. Then when he announced his oil policy and energy program here, he said that it was something that was going to take bipartisan support for it to work. Then he went ahead and signed the oil tariff without Congress, and Congress now is proposing legislation that would have a rebate factor in it if they decide not to go along with it to overrule it.

How does this all jibe?

SECRETARY SIMON: Of course it jibes. When you say he signed the oil import tariff without the Congress, we don't go to Congress. The President doesn't go to Congress ordinarily to seek legislation for a power that already exists in his office.

Now, as I said, we have talked a great deal in this country for a couple of years about our energy problem and there have been hundreds of hearings held on the subject and lots of rhetoric and no action. What a leader is supposed to do is to provide leadership, and he has put a comprehensive plan in front of the American people to deal with our economic problems and our energy problems designed to solve them, and action is required right now.

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Q Congress is very worried about the inflationary effect, as I understand it, of the tariff throughout the entire economy. They say they want to look at the program closer.

SECRETARY SIMON: They have had two and a half years to look at the subject of energy and come up with alternative programs, and I don't know what is going to happen over the next 60 days or 90 days, but I will be interested to see what program they come up with and what changes they wish to make. We have said it is going to have the one-time inflationary impact. That is one of the seemingly conflicting aspects of dealing with a problem.

We deal with problems here in this country traditionally in a short term fashion with ad hocs and bandaids, and our long run objectives are often sacrificed as a result of it.

Sometimes you do the seemingly contradictory, such as put a program into place that has a short run inflationary problem in order to bring on more supplies later on and to conserve as far as our balance of payments with the wealth, or in the amounts that it is flowing out of our country each year -- $25 billion went out of this country last year to pay for our oil. In two or three years, $32 billion plus will go out.

What does this do to the strength of our dollar abroad, our balance of payments? No, the time to stop it is right now.

Q Is the Administration then expecting a major battle with Congress and not the support they originally talked about?

SECRETARY SIMON: I testified on this and other aspects of the package for two days before Ways and Means this week and I understand the Ways and Means Committee is voting this afternoon on the import bill of Congressman Green and I would hope that Congress would let the President's powers remain as is.

Q Is that a constitutional challenge to the President's powers to use the use of a device of an amendment on to a debt limitation bill to attempt to thwart his efforts in this regard?

SECRETARY SIMON: The debt limitation bill has always been a very tempting vehicle to tack pet amendments on of all sorts. Last June they tacked a 20 percent increase in Social Security benefits on our debt limitation bill and, of course, the President signed it. And it is unfortunate because, you know, people mistakenly -- and there are so many facts and figures on this subject where people had mistaken impressions about what the true facts are.

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People say, how can you say Social Security should have a five percent lid. Some people think that a five percent lid means that we are cutting benefits five percent. We are not cutting benefits at all. We are keeping the increase, cost of living increase down to five percent which means still that over $7 billion will go for cost of living adjustments in Social Security this year. Also, the most important fact is that over the last four-year period inflation is up 30 percent in the United States, Social Security benefits are up 47 percent, and so they have not been -- they are away ahead of the cost of living.

Q Mr. Secretary, a two-part question. There has been concern over the increasing cost of oil from Canada and one suggestion was made that perhaps all Canadian oil that flows across the United States would be taxed. Is this likely to happen?

And secondly, do you anticipate any softening on the part of the Canadian government to make more oil available to the United States?

SECRETARY SIMON: I will answer them backwards. We have been working with the National Energy Board for the last year and we continue to, on making sure that they will coordinate their oil and energy policies with us. You know, they have got a problem in Canada and sometimes we only look at our own problems.

Let me get to your tax problem. Of course we are going to tax -- I believe it is included in our tax package, but that has nothing to do with the cost of oil from Canada. Let me tell you about Canada's problem and I think this might help explain it.

Canada has no way to deliver oil from where it is produced to the East Coast, so they produce all this oil in the West. There is no way to get it East and so they deliver it down into our Midwestern States and they sell it to the United States and they take care of our whole upper tier of States in our country, the Middle Western States. So this leaves them a shortfall, and so they import from Venezuela and the Persian Gulf through the East Coast.

So last year, December of '73, the Arabs quadrupled the price of oil. So they are bringing in OPEC oil into their East Coast potentially at four times the price that they are selling it to the United States.

Well, politically, this can't fly up there, and it obviously was very bad for their balance of payments. They are generally in balance. They export to us about the same amount that they import through the East Coast, so they did two things. They said, what we have to do, recognizing

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that we have to be oil independent and energy independent, we are going to build a pipeline to deliver our much needed supplies to the East Coast, and we are going to gradually, over the next decade, reduce our exports to the United States so we will be reducing our dependency upon OPEC, the same thing, of course, that we are trying to do.

In the meantime, they are charging the United States the same price, selling us the oil down in the Midwest, that they have to pay for oil coming into the East Coast. You know, it is kind of the same thing that if we were exporting oil off California for Japan or somewhere else and importing a like amount into New Jersey; it would get equalized, I promise you.

We have seen equalization happen already in this country and they intend to work with us to make sure that as they cut their oil back to the upper tier of States in our United States, that as our additional supplies and alternate supplies are brought on-stream, so that the least possible hardship will be brought.

Q Mr. Secretary, in your talk with the automobile executives today, did you get any closer to a commitment from them on increasing the efficiency of automobile engines?

SECRETARY SIMON: No, that commitment was already made several weeks ago. I wasn't talking to automobile executives today. I was talking with the financial economists from all over the United States that we bring in regularly to the Treasury Department. We have a consultants group that Paul McCracken chairs, and I meet with them, oh gosh, about once a month, once every six weeks with various topics and we try and get a broad picture of what is occurring in the economy from both the academic economists' points of view as well as the financial economists' point of view from big business and little business, housing, and every component of our economy.

Q Mr. Secretary, if the oil tariff is going to work in reducing imports, people have to resist spending money for that higher priced energy and use their tax rebates for other purposes to stimulate the economy.

SECRETARY SIMON: A portion of that will occur.

Q Can you tell us by how much the average American family will have to reduce the consumption of gasoline or heating oil or electricity in order to make that tariff work?

SECRETARY SIMON: That is a matter of usage per income class, because we have made our assumptions, and lots of people made assumptions -- Brookings Institution made theirs a few months ago and ours are a little bit higher as

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far as the average cost of fuel per income class. So it depends per income class how much has to be saved.

There is no blanket percentage. It would be different for each income class. But you see, it is much easier, and it is not just the import fee, you see, that saves the imports. It is the overall price, the domestic excise tax, the decontrol, the windfall profits tax that we bring in that give us the saving.

Just pure gasoline doesn't save as much because your ability, if you have got a new car that only gets nine or 10 miles to a gallon, maybe you can't afford to trade it in or maybe you like it and you would rather save somewhere else.

There is much greater ability to save heating oil, for instance, where you can turn the thermostat down and wear a sweater in your house as we did last winter, and a lot was saved, or turn electricity out. Lots of people have done that. There are many ways to save and in the short term much better ways to save looking over the whole barrel rather than gasoline.

In my testimony you will see that to achieve the same saving, if we just wanted to focus on gasoline, you would have to tax gasoline in the area of 50 cents a gallon.

Q Mr. Secretary, on that point, 50 cents a gallon, in view of the fact that the Europeans have from all evidence failed to reduce the consumption of gasoline with some of the highest prices in the world, $1.60 in France, a couple of dollars in Italy a gallon, and this has not prevented Europeans from flooding the streets of Europe with their automobiles, on what basis does the Administration think it can cut gasoline consumption anyway with even putting a 50-cent a gallon tax on it?

SECRETARY SIMON: See, unfortunately, what you are saying is not true, and that is the sad part of the myth, you see. When you say gasoline, as I said is a small part of the barrel, do you know what the refineries produce gasoline in Europe? I think 18 percent of a barrel in Europe goes to gasoline. Here it goes to 40 because we use all the big cars. Every car over there just about is a smaller automobile that gets 25 miles to a gallon. That is one of the first things.

They use much less gasoline because the price is so high than the per capita United States citizen.

Number two, they had saved more energy per country in the major countries than we have, and they have done in the industrial area and they have done it in the heating oil area, but their ability to save further gasoline, just automobile consumption, is far less than ours because they don't percentage-wise use as much gasoline as we do.

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Q But, Mr. Secretary, their average income is much lower than the average American, in some countries in any case. Certainly in France. And I was in France not too long ago and those streets are as crowded as they ever were. Maybe even more so.

SECRETARY SIMON: Sure, and all with automobiles that miles per gallon are almost double ours.

Q All right. Doesn't that say something to our automobile makers?

SECRETARY SIMON: Let me tell you what it says to our automobile makers. The automobile makers listen to the buyer. I guess we can point ---

Q To the buyer?

SECRETARY SIMON: That is exactly correct. It says it to the buyers, and that is what the higher price does, so then they say, no, I won't buy your gas burners any more; I want to buy a more efficient automobile, and it is then when Detroit responds. But you know you can go back a couple of years, three, four years, and take a look at American Motors building a smaller automobile, and had very little success in selling them. Cadillac and Lincoln, my goodness sake, we haven't had any trouble selling 8, 9 and 10 miles per gallon automobiles in this country. It is a big car economy and this is going to change, the exact same way that it changed in Europe, but not as rapidly because there is a hell of a lot of difference between $1.50 gasoline and $2 and our gas that will go up to about 63 or 65 cents.

Q Mr. Secretary, I just got a note that the Ways and Means has voted to prevent the President from imposing this import tax and also voted against increasing the debt limit. Would you comment on both of those actions?

SECRETARY SIMON: Well, I am disappointed that they voted against the President's ability to impose this tariff. Now we will have to wait and see what happens on the Floor. But as far as the debt ceiling, you say they voted against the increase in the debt ceiling?

Q According to the note I have, the Committee also voted to limit the debt ceiling.

SECRETARY SIMON: Oh, no. Well, that is not what that means. I was hoping maybe if they voted not to increase the debt ceiling then we could close the Government and half of our problems would be over. That is what I told them in testimony yesterday. They said, what would happen -- you know they love to sit there and say, this is the most horrendous number I have ever seen, as if it were us who passed the legislation. And I don't say it is Congress, because I have

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never been one who sat down here and pointed my finger up to Capitol Hill and blamed them for doing everything. It is Government, and it is just as the American people perceive. It is Government.

Government is the Executive and the Legislative and the Judicial and we spend their money and we spend too damn much of their money. So it doesn't do any of us any good to demagogue. Let's begin to do something about it together.

Now when they say limit our debt ceiling, I asked for an increase through fiscal 1976, and as I said, recognizing that I wouldn't get it. They like to have the opportunity every two or three months to bring the Secretary of the Treasury up and beat on him for a few hours about everything that is wrong, and that is all right. I enjoy that dialogue.

So I will say what they probably did was give us an extension until June 30, 1975, for $528 billion, which is, I think, our compromise number and that will unfortunately enable us to continue in business.

Q Is there any middle ground on the tariff now? Is this going to force a confrontation between Congress and the Administration?

SECRETARY SIMON: Well, you know, you keep using this word "confrontation." We have a difference of opinion, and we are going to fight for the President's ability, which is very clear legally, to impose this tariff.

Q Where does the bill go from here?

SECRETARY SIMON: It goes from here to the Floor of the Congress and we will hold hearings, or we will go testify at hearings in the Senate after that. And so we will just continue to fight for this program.

Q In the meantime, the tariff will go into effect?

SECRETARY SIMON: The tariff goes into effect on February 1, as the proclamation states that the President signed yesterday, yes, sir.

Q Mr. Secretary, Congressman Patman's bill, which I believe he introduced yesterday, which he says will pump a lot of money into the thrift institutions and would thus generate according to many some $20 billion in helping the housing industry.

SECRETARY SIMON: I haven't seen Congressman Patman's bill, but when we talk about pumping $20 billion into housing, we pumped over $20 billion into housing last year, and these inefficient Government subsidies, guarantees and lending subsidies to housing, again, is just more of these bandaids that really don't do the job.

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The best way we can help housing, just like the best way we can help our economy and basic business and the American people and most expecially the poor, is to have sound economic policy and responsible fiscal and monetary policies that bring with it reasonable interest rates that allow housing to prosper as it does during periods when all these are extant.

Q So far I know you have some plans to look at -- they sound pretty good but I don't see any real sign -- you say that inflation is caused by Government spending, Government borrowing, big factors. What are we doing ---

SECRETARY SIMON: And the money supply.

Q --- Government deficits and hundred, billion, million, whatever increase you want in the debt ceiling. Where are we going?

SECRETARY SIMON: Well, the one important thing to understand, and this is the most difficult part of it, is that there is no instant or fast solution, no miracle, no magic wand we can wave and the problem is going to be solved. It took us many years of these policies to get in the mess we are in right now and it is going to take us years to get out of it. And the first step toward bringing back fiscal responsibility in this country is the President's first step of putting the absolute ceiling on spending during 1975, and that is a rather dramatic step.

Congress is going to have to pass no more legislation for the next 12 months. That would be an extraordinary accomplishment for Congress.

Number two, they are going to have to pass the $17 billion in deferrals and recisions that the President has sent up there. But we are going to have results. We are going to have results and they are going to be positive results if we can get all of the things done that I outlined.

Q You think this Congress is going to give him that?

SECRETARY SIMON: I testified for the first time before this new group yesterday and they have, I believe, 12 new members on the Ways and Means Committee, and I was very impressed with their thoughtfulness. But we will have to wait and see what kind of a voting record -- but I don't blame you for being skeptical. The American people ought to be skeptical and they ought to be a lot more than skeptical. They ought to be demanding; they ought to be demanding to the Congress that they elected, the old ones and new ones alike, to come down here and join with us and let's work together to fight this problem and beat it once and for all, not just on a temporary basis and restimulate everything again, and be back on the same parade we have been on so many times in the past when people begin to say, my God, the Government can't do it.

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You question the ability of democracy to beat inflation. Well, I don't, and let's stay and work and fight together because it can be done, but it is going to require courage and wisdom and perhaps you might say uncharacteristic wisdom. Well, let's exercise some.

Thank you, gentlemen.

(Applause.)

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MR. WARREN: Thank you, Your Exchequership.

You know, they used to say that Bill Simon and I look a little bit alike and I hope that is the case. There hasn't been much humor in this room up until the time that Secretary Simon said we might have to close down the Federal Government. That always seems to trigger a little bit of humor, but be that as it may, you have heard, I think, from one of the three men who knows as much about the decision-making process that led up to the President's proposed solutions to these complex problems.

You will now hear from one of the other two of these gentlemen, and that is L. William Seidman -- Bill Seidman -- who is Assistant to the President for Economic Affairs and Executive Director of the Economic Policy Board. He is also a member of the Energy Resources Council, so he knows both sides of it.

Prior to these appointments Bill Seidman was Assistant to the Vice President, Vice President Ford, for Administration. Before that, as you know, he was national managing partner of Seidman and Seidman, Certified Public Accountants.

Now, Bill, we have people here, I am told, from Canada, Honolulu and Shreveport, and in case you are thinking about dredging up any of your old stories, I am told there are two gentlemen here from Grand Rapids, so be careful.

Bill Seidman.

(Applause.)

MR. SEIDMAN: Thank you.

After that pep talk by Bill Simon I feel I should come charging out of the chair and give you the instant answers that we have developed for all the kinds of problems that he has been talking with you about, and I will be happy to kind of take up where he left off on questions and answers and see if we come out in the same place. I think we will. But before that, I have been asked to give you just a little look at how the economic policy of the Administration is being developed and to tell you what the systems are, perhaps get your comments on that, and a little bit of perhaps a longer range kind of look at economic policy.

As you know, when Vice President Ford became President, he reorganized the economic policy-making and set up the Economic Policy Board, which essentially consists of the heads of the Council of Economic Advisers, the Secretary of

Treasury, the head of OMB, the Executive Director and the head of CIEP, the international economic policy organization. And after they met a few times and tracked down the various committees that were operating in this field and attended a few of the meetings, they found that there were 465 guys that would get up in one room, move to another, two of them would join them, and they would have a different committee meeting.

So one of the greatest efficiencies we brought to Government was to disband all the other committees and have the two guys come into the room where the five guys were, instead of having the five guys move, and in essence made one committee on economic policy, and then they bring in for agriculture, the Secretary of Agriculture, or whatever the thing may be. This is somewhat modeled after the way the NSC works in the national security field, and to some extent the way the Domestic Council works in domestic legislation.

So if you look at sort of policy-making, there are these three bodies that are principal coordinating groups. Now the thought of having an economic policy board was that there needs to be a place in the Government where the various views, both from outside of the Government and inside of the Government, are brought together, evaluated and packaged, and put into shape for the President to make his decisions and the basic purpose of this board is to make sure that the views of people in the various branches of Government who have an interest in particular economic policy are brought in and considered, that the views of outsiders are brought in and considered, and you remember the Summit Conference that took place which was a sort of a major start on that project was to make sure that the President has, when he has to make some of these very tough calls, a chance to look at a broad spectrum of views and not only of the people who are on this board, but of a great many others who present their ideas, and the board has a chance to look at and make sure that they are put together in a way that the President has a real opportunity to see all the kinds of possibilities before he has to move into these decisions.

How does it actually work? Well, not as well as we would like, but perhaps some improvement over the way it has been. And how does President Ford work with us? Generally, the basic kinds of topics are sent in to him ahead of time for consideration of the kinds of policy questions the board thinks he ought to consider. He may then send back and instruct that he wants it broadened, or he may indicate that that is a satisfactory agenda.

Then usually eight to ten people involving the board and others particularly concerned meet with the President, the various options are discussed, he asks questions,

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he gets into the details, he asks for the pros and cons. Then we usually go back to the drawing board with those kinds of questions with perhaps a narrower range of options and go through the process again until the decision is finally made. It is a long and time-consuming type of process, but it is not made on the basis of one or two people in the backroom whispering in anybody's ear. It is generally made at those kinds of meetings. Usually the Federal Reserve, in the person of that oracle, Arthur Burns, is there to participate and every attempt is made to see that every branch of the Government that can be involved is, in fact, there to work on these various kinds of things.

It involves not only basic long-term thinking, but also the kind of short-term things which have great economic impact. The problem, let's say, for example, of Pan American or Penn Central, when that becomes a basic economic issue. A look at the law of the sea and the problems which are economically involved in that. The kind of things that involves the whole foreign air transportation and what is best for the economy in those areas. That is the kind of a process by which we get, hopefully, a real exposure to all alternatives and the right, or at least the best, answer.

Now whether there is a right answer to any of these things is something that only time can tell for sure. Some of the kinds of things that have been identified by this board were mentioned by the President in his last speech when he started talking about the trends or the trendlines that have been studied and which the board and then the President believed were going in the wrong direction.

One thing that you usually try to do is not only determine where you are, but which way you are going, and I think that our studies in that area have identified a substantial number of areas where the trend, if continued, seemed to be leading us in the wrong direction. That is why the President in several of his recent speeches has talked about a new direction or a different direction. A chance to make some of these things which, if continued, will basically change our way of life.

Obviously, energy is one of those. You have heard Bill Simon talk about that. Our energy dependence. We are going in the wrong direction. What do we have to do to change it? Our investment in industry, we are going in the wrong direction. The investment is going down. Where you have an expanding labor force, the investment is going down. The estimates of what we have to accumulate over the next 15 years against what we are doing shows a staggering gap.

What are we going to do to change that direction? What are we going to do about the fact that at the current

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course and at the current rate of programs Federal spending will become over 50 percent of our total GNP in the not too distant future. If you believe that is the wrong direction, how do you turn it around? What do you do in the tax field where we have gotten increasingly progressive taxes because of inflation? How do we turn that around?

In fact, if you looked at just about any of the economic indicators that one would normally use in trying to determine whether an economy is going in the right direction or not, you find, I am afraid, that in this economy there are just a great many of them that are going in the wrong direction and you can see pretty clearly where you will end up if you don't change those trends. Part of that is obviously agreeing on where you want to end up, and those are the kinds of questions that this Administration hopes will be debated, will be a part of a less hectic perhaps and more considered study, and hopefully those trendlines that are going in the wrong direction will be turned around.

There is a whole series of areas we could talk about. Regulation is obviously one. Financial institutions, the whole area of debt, and the, I think, admittedly very dangerous trendline towards increasing debt in our corporate setups. Any of you who have been in the financial field, take any of those financial indicators and look at them and just carry them on out for another 10 or 15 years in the direction they have been going for the last 10 years and I think you will find that you will come to some places that you really don't want to be.

So that is kind of the basic approach that is being taken. Obviously the President has been there about five and a half months. He inherited an economy that was in the highest peacetime inflation we have ever seen, and one that was suffering obviously from the kind of jolt from farm prices and oil prices that we have never seen before, and I guess we would say in terms of that and looking to what we really have to do, the fact that all matters are neither solved nor cured at this point, we would say let's study the real problems, let's study the real direction we are going, and let's come up with some well-conceived, long-range answers while we are working on what have to be some obviously emergency-type programs in our current situation.

I think now rather than go on, I will be glad to answer any questions that I can, either on this or anything else.

Q The President said last night and it was confirmed in his briefing this morning at the White House this import tax on oil would add about three cents to the price of a gallon of gasoline at the pump. All of the

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economists we have talked to in Michigan and the people who process and sell gasoline think that price is going to go up as high as 15 cents a gallon. I notice Mr. McCracken said yesterday on Capitol Hill it would increase the price level overall 2 percent, adding to the inflationary spiral. I merely question the three-cent estimate that came out of the White House.

MR. SEIDMAN: I believe that is a confusion between two different programs. The President has now put an import duty on foreign crude. That is only 40 percent of the total, and based on that, and when it goes to $3, which is what he proposes to do, then 40 percent crude will be at $3 and that will come out to about three cents a gallon.

When the total program is put on, that temporary action will be revoked and there will be a $2 tax on all oil, not just imported oil, plus there will be deregulation of old oil. That is the overall program. That obviously creates a much higher increase and that is where you get your 10 to 15 cent figure, so the confusion in the figures is the temporary program which when in place will be two to three cents, and the overall program which when in place will be in the 10 to 12 cent area.

Q Everyone talks about the increase in the price of gasoline. Isn't it also true that these regulations when put into effect are going to result in a sharp increase in the price of utilities, electricity, heating oil?

MR. SEIDMAN: They will certainly result in an increase in the price of utilities where they are using petroleum, gas or oil, as their source of heat. This is, of course, a part of the total theory. I mean if energy is precious, if under anybody's system, no matter what we know as far as oil and gas is concerned, we might have a hundred years' supply of it left in the world, then it is important to try to limit its use in all areas, not simply in gasoline.

It is the same use of this very scarce resource whether you use it in petrochemicals to make children's toys or whether it is used to make power, and especially in that area the hope is that we can convert to coal or nuclear where we have the potential for many hundreds of years of resources so, yes, it certainly will in those areas increase prices.

Q We have been spending most of our time today talking about energy. In Secretary Simon's opening remarks he listed the problems that face us as recession, inflation and energy independence in that order. I notice in his testimony at Ways and Means he listed them as inflation and recession. He switched those two and still had energy third.

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What in your view is the ranking of the problems that we face? Is energy the root of all our problems or have we got more serious problems?

MR. SEIDMAN: No. I think that the energy situation is sometimes put into the middle of the economic problem in a way that it is perhaps a little confusing. Go back to the fact that as far as energy is concerned, it is both a question of our independence and an economic problem in the terms of the amounts that we are paying abroad for very high-priced oil.

In the short run, anything that has been suggested to help reverse this very ominous trend in energy is not going to be helpful to the economy. No one has suggested, I believe, that you would reverse the energy situation and in the short run help the economy, because you are going to be reducing consumption one way or another, by rationing or by price, which will tend to reduce GNP and in either rationing or the tax system will tend to increase price.

So I think there has been a kind of a confusion in this area. That doesn't mean that we don't need to do this. There is never a good time to do something that is painful, but the fact of the matter is that reversing our position in energy and the process of doing it is going to add pain to our economic situation. It requires some sacrifices.

As far as the economy is concerned, very clearly recession has become a major concern. Inflation is still a concern, even though the trend in that area -- and that is one of the few -- has at least turned now in the right direction. And with that in mind and with the things that Secretary Simon said, we need to concentrate on the recession and the problems of the recession, I would say, as our primary emphasis.

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Q Can you explain how the Administration's economic advisers could have so badly misjudged the direction of the economy that only a matter of a few months ago the President told the Nation that we had to have a tax increase and now he is telling the country we have to have a tax reduction?

MR. SEIDMAN: Well, let me start by saying that somehow or other a really rather comprehensive economic package, most of which still is necessary and valid, got tagged onto a 5-percent surtax on, quote -- and I mean the upper 25 percent of the people involved.

It was \$2-1/2 billion and it was an attempt to have those who were able, under all the studies we had, to pay a small amount to take care of what we foresaw as increasing unemployment. That was the basic analysis at that time, and the other part of the tax on corporations was just a reshuffling from an adjustment in the tax rate, a little higher tax rate, and a return through the investment credit in order to try to stimulate more jobs through the investment credit.

So I think, when you look at that program, unfortunately -- and I think it may have been our fault -- but a whole program which had many, I would urge, constructive and long-range desirable aspects, got tagged with this one little part which nobody ever really understood all out there that it applied really to some 20 to 25 percent of our population and even to them in very minor amounts.

Now to go on to the error of forecasting, as you know, at the economic summit, we had, I guess, about as broad a collection of the people in this country who ought to know and be able to forecast the economy, and we spent a great deal of time getting their views and analyzing them.

Their views varied some. They all saw a slack economy coming, as did the Government economists, but no one, not one single one of them that you can find -- and you can go through the material -- foresaw anything like what happened in terms of consumer confidence and the very sharp drop in big-ticket items.

Now, the computers didn't work, the guys who read the stars didn't get it, there were none, no one there. The two that came the closest, I think, were the General Electric people and our good friend George Meany, who warned that we had better put a little more emphasis on recession; but no one came close to seeing how sharp this drop would be, so I guess we can say only that we did assemble the best resources that we could find in this country.

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I am not sure we asked the TV people what their forecasts were but it probably would have been better, but we did make, I think, a conscientious effort to get the best brains we could together and unfortunately none of them were right.

Q Two questions. First of all, would you spell your last name?

MR. SEIDMAN: S-e-i-d-m-a-n, pronounced "Seidman"; I don't know why; that is the way my father pronounces it.

Q For a prognosis of the future you might check with the Channel 4 weatherman.

MR. SEIDMAN: I am sure that, based on the past record, he would be just as accurate as anything we could find any other way.

Q Do you share Mr. Simon's opinion that it will be three to five years before we can anticipate a sound economy?

MR. SEIDMAN: That is a pessimistic note. I didn't hear him say that. I always share Mr. Simon's opinions, so in general I would say, yes, we come out unified. I would have to hear him define just what he meant. It is not going to be, however, easy or quick, if past history is any indication, to move the economy back into what we hope will be full production.

I think you have to see if everybody is working, then normally the economy is increasing each year and you are dividing up the increases. Now we are dividing the decreases and, as long as we are doing that, we have a very unpleasant and unsound economy. I would hope that, if you define it in terms of increasing GNP, it would be before then.

Q Mr. Seidman, in mentioning the failure of the people at the summit meetings to foresee the drop in purchases of big-ticket items, are you taking into account that the President, following the economic summit meeting, gave a speech which left the impression that he was recommending that people refrain from making purchases that were not necessary and that perhaps that contributed to a drop in purchases rather than indicating a lack of foresight in the economists at that conference?

MR. SEIDMAN: Well, I don't want to be technical with you, Irving, but what the President did in the speech in Kansas City -- which is, I believe, the one you are referring to -- was quote the recommendations that he received from the now famous WIN Committee as to what they thought ought to be done with respect to inflation; and I think that the

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President's position has been, right along, that when things are tough you need to buy wisely and carefully and that that has been his basic position.

To the extent it was interpreted as being his statement, it may have had some effect and it probably came, if that is so, five months or four months too late. It probably would have been better a little earlier.

Q Mr. Seidman, going back to the last three or four minutes of Secretary Simon's presentation, is a long-range economic policy really possible under our system of Government?

MR. SEIDMAN: Certainly those who have the responsibility of developing policy can try to identify where we are going under what we are doing now and identify where we ought to be going or hopefully get some kind of agreement on where we ought to be going and then discuss the specifics of how to get there.

It then becomes a political question. It then becomes a question of leadership and how you move from where you believe people ought to go to actually get there, and that is the whole thing that it is all about down here.

Q So what you are saying, in essence: Regardless of how good the program is put together by the advisers, in the end it will be a political determination whether or not that program is implemented?

MR. SEIDMAN: Well, that is the system we use here, that is right; but it is very important that, if that program is sound and if it does appeal to people as being reasonable, they will support it and that is how it will get done. So it is most important that the kind of programs you come out with do identify trends that most people feel are wrong and that they would like to go another way.

Q Mr. Seidman, if I read you correctly, you have been telling us a lot of informed, learned people have been wrong about the economy. I asked Mr. Simon a comparable question; I would like to hear your answer. If all these learned people have been wrong, what makes you so sure that we are right at the moment?

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MR. SEIDMAN: Well, confidence is born out of faith, you know, and the reason people were wrong in their econometric models is because they assumed that all of you good people and the rest of the people would behave as they had in the past or in the more recent past. The fact of the matter is that they really haven't. They have started to greatly increase their savings. They have decided that they would defer purchases. Maybe they decided they would change their life-style.

At that point all the computers and the past formulas that have been put in go out the window. You can only try to predict the future, as we all do, based on past behavior and looking at the kinds of things to which people normally react.

I think you can say that based on the best judgments that we can see, that these kinds of things that Secretary Simon talked about will in fact happen. We got no guarantees at the Summit Conference from anybody and I suppose that economists have learned to be very sparing with their guarantees as a result of that.

Q Then are you really saying that we don't know, that this is a kind of calculated ---

MR. SEIDMAN: No, I don't think that. Everything we know in this world is a matter of judgments, as to is it going to come this way or is it going to come out that way. I mean you don't even know the sun is going to come up tomorrow but your past experience does lead you to that belief. It is the kind of thing where you use the best judgment you have to decide what you think is going to happen, and the judgment of a great many people is that the kind of pattern we see ahead will take place.

Q Mr. Seidman, what is your reaction to the action of the Ways and Means Committee today and where does this leave the President's tariff?

MR. SEIDMAN: Well, it leaves the battle still to be fought. That is just the first skirmish so to speak and we shall see as it proceeds through the legislative process where it ends up.

Q Up until now the solution adopted by the Administration largely relied on the confidence level here. The WIN campaign for one. Does the tax rebate oil tariff trade-off indicate any change in Administration strategy? In other words, is the Administration now saying, we have no confidence in the ability of the Administration to get confidence back from Congress and the public, therefore, we are going to try a more mechanical approach to this and force the issue, in effect?

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MR. SEIDMAN: No, I wouldn't say that. This whole confidence thing is a very hard thing to define. It is the way people are acting at the moment. I think the Administration is doing what it thinks will provide the popular -- the right incentive for people to move back into the marketplace. Plus, I think one of the only ways that you can hold down spending is simply to not have the revenues and perhaps as an additional gain out of this, there will be a change in that trend line.

Q When you paused there, were you removing the word "popular"?

MR. SEIDMAN: No, it was just my tongue got tied up.

Q It bothers some of us that we don't hear more mention and action about long term energy, solar energy; it is a phrase that is dropped in from time to time, tidal energy and so forth.

Could you brief us a bit on plans?

MR. SEIDMAN: There is a very major plan in that area. It will be under the new agency, the energy research agency, ERDA. That agency was just created. They are in an overall survey of that. Certain areas have been identified. They just, the first really large coal gassification program contract was just announced.

The President's program envisions our country becoming an energy exporter by the end of this century, and that is based on the things in that area. The more definitive parts of that will await that agency's sort of on-going research, but there is a major program. It has major funding, and I think, while I am not expert on parts, certainly the nuclear and coal gassification, solar, all of those areas will be explored and will be the main source of our becoming energy independent after 1985.

Q What is the psychology that the Administration wants from the people today? In many of the smaller communities the Chamber of Commerce likes to say everything is fine except when they are talking to their members.

What is the Administration looking for now? There seems to be a change there also. They seem to be saying that there is bad ---

MR. SEIDMAN: Well, I think it is much as the President said in his speech the other night, that we need to sit back and take things in reasonable order, don't try to get an instant correction to this. There isn't one. Let's try to analyze the problems and move ahead on them at a reasonable pace, that concentration on your own ills only makes you feel worse, and that in general we are going to come out of this if everybody will buckle down and be willing during this time when we have a shrinking pie to take a little smaller piece themselves and not fall on each other trying to stay the same when the pie is going down.

Q Do you want people to put money in the savings banks to help the building industry or do you want them to buy automobiles to help the automobile industry?

MR. SEIDMAN: I think those are individual decisions that people have to make on their own. I think we don't want people to say, I am not going to buy anything ever because I think the world is coming to an end. That kind of spirit, I think, doesn't help.

Q Under the heading of major funding, I wonder if you could expand just a bit on the scope of the ERDA program. Not its objectives, but personnel, how much major funding, and immediate scope.

MR. SEIDMAN: They are currently funded on a program which will involve about $10 billion of which $2 billion will be the current year's budget, the next year's budget. They have, I think, been funded to the extent that anybody reasonably can find a way to spend the money and in a way that it looks productive. You can throw money at these kinds of things but they take time and it has not been held back for funding except to the extent that it didn't seem reasonable to spend more than that amount.

Q The scope of personnel?

MR. SEIDMAN: The same, I think you would see the same. But the new director has not really given us his new report, and one thing I would say, just before I go, is that organization to get decisions, we believe, is terribly important.

Everybody in the energy field, for instance, was calling for an instant solution when the President got in. Instead of that he reorganized the Government, brought in all the people, worked on a package, and came up with the alternatives and what he thought was best. That kind of a procedure, we think, is better than a new multi-billion dollar because it sounds good in a speech.

Thank you very much.

(Applause.)

MR. WARREN: Thank you, Bill.

Before we take a short break, I would like to make a recommendation to your President and also a personal observation.

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It seems to me that most of the people here are here because they haven't heard from Bill Simon and Bill Seidman very often and they came, many of them great distances to hear this. There are two or three people here, however, who have a chance to hear these gentlemen quite often and I thought perhaps you might want to make them honorary members of your organization. I refer to Irving R. Levine and Bernie Shaw of CBS and Cliff Evans --I am sure I have left out a few others--but some of the best reporters in town who know the subject very well.

A personal observation and an answer that I know Bill Seidman would have given to this question about what to buy. When Congress votes the tax rebate, which they most assuredly will do, I think Simon and Seidman and everybody else hopes they will do both. They hope that people will put money into automobiles and refrigerators so that productivity is increased and our corporations are healthy and jobs go up. But also it may put some money in the thrift institutions and that should help the housing too.

Now we are going to take a short break. Behind you there are a great number of gentlemen, many of whom I have come to know very well in my six years and three days I have been working on various White House staffs, and they have become friends of mine, and certain periods during that last six years I thought perhaps they were my only friends in town, but they were very faithful.

The last time I saw a battery of cameras like this in any one room we were not talking about how to solve very serious problems facing this Nation. Essentially, what we were discussing in question and answer was will this Nation be able to address serious problems in the future or will we survive. It was serious then; it is serious now. I think it is much more healthy now because there is a consensus in this Nation that, one, there needs to be a national energy policy; there has to be national energy goals, and it is important to become independent in energy.

What we are talking about and what is referred to as confrontation is how to get there and I think that is very healthy.

So we will have about a 15-minute break and be back at 3:30.

Thank you.

MR. WARREN: I think we should begin, ladies and gentlemen.

There were many questions in the earlier part of the afternoon that I am sure you will want to direct to Frank Zarb. We have heard some questions on a change of direction in the Administration thinking, and going one way and now we are going another way.

You have had, I believe, from Bill Simon and Bill Seidman discussion of the situation as it exists and a discussion of the program. Now, the man who can tell you the details of the energy program in as precise a fashion as you wish is, of course, Frank Zarb, but he also can tell you why we are doing it, why we need a national energy policy, and why we have to set goals.

Before he tells you what that policy is and what the individual steps are, just briefly, President Ford nominated Frank Zarb early in December as Administrator of the Federal Energy Administration. He was confirmed rapidly. He continues to serve as Executive Director of the Energy Resources Council and is truly the newest in a line of three successive energy chiefs.

In all deference to Bill Simon, we will not call him the energy czar, but there are some of us who call him the "Energy Zarb".

Frank.

MR. ZARB: Well, I won't give the prepared 60-minute presentation I had. I think you have probably -- who said "good"?

I think you have probably heard enough of the material and the overview of the plan and the details of the plan. I would just add maybe three minutes of substance and then let's go right to your questioning.

I understand that this morning you had some questions on the need for doing what we are doing. I think those are legitimate questions to raise and should be discussed more often publicly and shouldn't just be put down with a nonchalant answer.

There is little question that we lost our independence in 1964, '65, in around that period, in terms of energy. Up until that point we had a capability to do some exporting. We did some importing during the same period, but we for the most part had a capability of surviving any kind of an embargo action. That gave us some way of control over price and we weren't in a position where we would have to accept the price set for a good chunk of our energy by other groups similar to the cartel.

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Well, by 1970 we had paid $3 billion for our oil, our imported oil. In 1974, paid close to $25 billion; 1977 if we do nothing it will be close to $32 billion.

The financial questions get to be quite considerable and that makes our friends over at Treasury and in the economic circuit nervous when they look at those calculations and how they are mounting.

Beyond that, there is a big question of our 40 percent current vulnerability which some say isn't 40 percent because only part of that comes from the Mideast, about 2 million of the total 6.5. But the question, I think, then, is how fast is the Mideast import increasing as compared to the rest of our sources, and it is a fairly escalated rate, and I think that we would be probably dependent in 1977-78 by close to another 2 million barrels a day from the Mideast. So our exposure to embargo could increase substantially.

But keep also in mind that when we don't have capability to bargain for our energy because we are so dependent upon a group that might collect among one another simply to affect price, that we are forced to pay a relatively higher price.

Beyond that we are not only concerned with the source of energy; we are also concerned with the delivery of it. And another nation that has nothing to do with oil might have some effect on our ability to get delivery simply by having control over the sea lanes.

Having said that, I would also say that I have heard good arguments by others that have said, well, why don't we just take the chance or at least go ahead and develop our substitute energy sources and not worry about conservation, and their argument runs to the risk factor in a calculated -- that the risk is worth accepting and that if we are to have another embargo over the next three or four years that the likelihood of that occurring in their minds is relatively small or if it did occur we would be able to overcome it similar to the embargo experience a year ago.

I personally can't accept that notion but I respect the fact that people make it and I think it should be reviewed publicly. It is a question of that security; it is a question of whether or not we need to send for advice and consent on our international decision-making to other nations who might have a substantial control over our economic well-being.

Now, a minute on the President's program.

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The total program is a set of measures that do two things: They raise the value of energy in our society to a different plateau, and thereby stimulate decisions within that society and the economy which over a period of time will have more efficient equipment in the plant, more efficient insulation at home, and different kinds of equipment on the road. It also gets to the conservation question in more mandatory areas such as housing, and quasi mandatory with respect to automobiles, measures which we felt we had to take because we were not getting voluntary work done as quickly as we thought it was necessary.

The other measures go to replace with domestically controlled oil, imported oil, and we have that capability of domestically controlled energy. The Outer Continental Shelf, we believe, has a considerable potential and believe conservatively that a million and a half barrels a day by the early 1980's is a good bet.

We believe that the Naval Petroleum Reserves in Alaska which are now undeveloped do little good way down under the ground there, in the case of a national emergency won't be all that useful, so we propose that we develop that field and develop the delivery system, get the oil to the lower 48, and provide a different kind of security reserve for the military with respect to oil to offset that. That has a considerable value in barrels of oil.

We believe that nuclear energy has an important part to play and we believe that coal has a very important part to play both in its present form and its synthetic form, liquid or gas. I think that covers the majority of the short-term measures.

The exotics in terms of solar and geothermal will come along, but that is really something that will not have an impact until well into the '80's.

Now when you look at the package in total, there are a couple of things I think it is important that I mention to you. Each measure has a value. The value is in barrels of oil. Now we can quarrel with the real value, and I think that is a good debate, and make sure that the analysts defend the fact that what they say the value is is accurate.

After that, if we subtract a measure from the total package and we agree that we should be capable of self-sufficiency by 1985, then we ought to replace that subtracted portion with another measure of equal oil value. Otherwise, you need to debate the bigger question which says that we are not going to get to where we think we ought to be by that period of time. I think that is awfully important to keep in mind as we march down the road of discussions both publicly and with the Congress, because there will be measures within the total package that are distasteful to one segment or one interest or another interest.

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Everybody examines this program in the way that asks the question, how does it affect my world, and they will find one or two parts that might not affect it too neatly and would like to see those dropped out.

Now, the current debate -- incidentally, it seems to me that there is general acceptance over the last 10 days or so that we have a problem. And it kind of warms the cockles of my heart that we are here today talking about energy, and I have been talking to groups both here and on the Hill about this issue because it wasn't too many months ago that people were not really focusing on the issue regardless of where they came down on the issue.

Secondly, it seems to me that by and large we have a general acceptance of the President's goals. There is a sub-set of arguments on the near term conservation, but those who are speaking publicly in Congress and the New England Governors yesterday, acknowledged that these goals are realistic and should be pursued. For the most part the measures in the energy substitution area as well as the mandatory conservation steps apart from the tax package seem to have gained a fair degree of acceptance.

In any case we have not had a high level of debate on those issues yet. We may find as we move through the Congress we will have a higher level of friction but at the moment there seems to be a general agreement that the package is fairly complete and except for the front-end conservation approach, most people buy off.

Now, we then get down to whether or not we conserve near term -- and I have talked to that point, and you may want to disagree with it and we will talk about it -- and if we say we do need to conserve or turn that curve of growing dependence around, whether or not we should do so by increasing the value of oil product throughout our economy and have the decision-making process effect the conservation, and also insure that it gets done.

Remember, the President put all his chips on the table. He said if we don't achieve the one million barrels exclusively through this method I am going to use my volumetric control powers to make sure that we get all the way. So in his program one way or the other we get there. Or we go the Government approach and on the Hill this morning before Ways and Means we talked briefly about that.

I didn't get an awful amount of encouragement in terms of rationing. The chairman said that he didn't believe that that was exclusively the right way to go, but he suggested there might be a happier combination between the economic and Government control approach.

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We weighed rationing very heavily and other forms of Government-managed approach. We didn't start off with a philosophical bent that says this isn't in the true Republican spirit, so we shouldn't even consider it. We looked at it from the standpoint of both capability, effectiveness, and equity and came to the conclusion that although it is very difficult, with many inner problems to be resolved, that one approach that had the best chance of succeeding and that with the least amount of those problems was the approach that was put forward by the President.

Now, rather than go into the horrors of rationing as compared to the benefits of economics, I think perhaps we could cover that in what is most important to you. So, why don't we just answer your questions.

Q Mr. Zarb, the last two speakers have sort of written off the Ways and Means action today as just the first salvo in a battle over the tax on the barrel. Do you think that is a fair assessment, or do you think there might be a danger that what you saw there this morning reflects perhaps a Congress-wide sentiment that is going to bode ill for the program?

MR. ZARB: If I am not mistaken, the vote on that issue was 14 to 15. You may have more current information than I do, but the last information I had was that the vote was 14 to 15, tacking that bill on to the debt ceiling bill which hardly in my mind reflects the sentiment of the institution. I really mean this seriously although it will sound like the Administration's optimistic views.

It seems to me that the more we sit down with reasoned people and talk about the problem, and then talk about the alternative solutions and have an opportunity to share with them and they with us views and facts that we more and more get people to reflect on the fact, well, this approach does have real difficulties, but by God, maybe it is the best of all alternatives, and that has been my experience and I am hopeful that as time wears on here and we are in a position to have these discussions that we will get more people to think in those terms.

Q I have a question that relates to the tax proposal of oil companies. First, how do you intend to get back from the oil company the massive amounts of new profits they will get when you deregulate domestic crude oil; and secondly, does the Administration support end of the foreign tax credit for oil companies?

MR. ZARB: I am not going to answer your second question and I will tell you why, because it gets involved in the total process of the windfall tax approach with Ways and Means.

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The proposal which we made tried to base most of its substance on last year's work by Ways and Means. They worked on a windfall profits package that we sent up, well, for a full season just about, and created quite a record in terms of testimony. So we tried, and our thinking at that point was if we don't put in too many new bells and whistles maybe we can get this thing through more quickly rather than opening brand-new debates with enormous tax reform.

Our principles were two: The first is that excessive profits which may be defined as excessive by reasonable people, should not continue to exist within any part of the energy industry while we are working on this program because many of the things the Government does or does not do will affect the ability for them to have those profits.

Second, we ought to over a long period of time insure that the return on capital within those industries is at a sufficient level to insure that they can do the things necessary to achieve independence. It costs a lot of money these days to drill a hole in Alaska, and one out of every 10 being a good one, it costs a lot more money.

To develop the Outer Continental Shelf will be expensive and we think the schedule finally arrived at by Congress should reflect that. The Congress in the last session, as you know, did not vote out a bill and as a result the oil companies enjoyed a reasonably decent profit.

Our proposal was to go forward with the same kind of measure, making it effective the first of January, take back the first year everything that would accrue to them as a result of this program during the first year, plus $3 billion more. That $3 billion more would have been the net effect of the same package had it been approved by Congress last year.

Now, Congress has added plow-back in last year's work which in essence says if they can demonstrate they plow it back, then they can be excused from this windfall provision. By the same token, they started to work on depletion and foreign tax credits. They are going to do the same thing now.

From our view, so long as we get a prompt bill, so long as it is effective as of January 1, so long as it takes into consideration the new base at which we are starting and dig some into that base, so long as it gives stability to the industry so that the industry knows what they are in for in terms of return over the next 8 to 10-year period and so long as it provides a reasonable return on invested capital, if those principles are followed, the Administration will support the bill.

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Now, I haven't gotten into the intricacies of the tax language because I don't know it.

Q But just so I am clear on this, when domestic petroleum rises from $4 or $5 a barrel to $12 or $13 a barrel, all of that new money that the oil companies are going to get is going to come back to the Federal Treasury?

MR. ZARB: Yes, but I don't want to mislead you. The net effect is to take it all back and also an additional $3 billion -- from producers. Keep that in mind because it affects producers, not the industry in total.

However, the way it works out is that they allow the old oil to go up a smidgeon and take back the new oil and start to move those lines into parallel. The effect is the same but not precisely the way you just described it. So that maybe in conclusion the Congress will say, in 1980 oil should probably be about $8 a barrel based upon all the testimony we had, so there will be an escalation and de-escalation of new oil so that all oil will be controlled at -- or all the windfall profits will be collected in excess of $8 a barrel, but the incentive will be there so that they can go out and get the higher-cost stuff.

Q Mr. Zarb, we have been talking about rationing a bit this afternoon and even though Secretary Simon said only 18 percent, I think, of gasoline after the winter months, I think the emotional focus is going to be on gasoline.

If you put higher prices at the pump, it seems that the upper levels of our economy may grumble, but they will be able to pay it without much difficulty. It seems that you are really penalizing the guy on the fixed income or lower economic strata of our society who can't afford that.

Now, as unpalatable as rationing may seem to our economic system, or our free system, isn't it far more equitable than an unfair higher price at the gas pump?

MR. ZARB: Well, let's talk about the effects of both programs. I was I guess about 10 years old by the time rationing went off during the last war so I can't speak from experience as some of my colleagues can, but let's look at the way both programs would work.

There is no question but what going the economic approach makes you immediately ask the question, what about people who can't afford it. The only way we could offset that was through the system of giving the money back to the economy. When we examine that approach we say we had to succeed in two principles: We had to,(a), change the center of gravity of spending so that for the most part, except in cases of severe needs, those dollars didn't go back into the acquisition at the pump.

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The second thing we had to do is try to offset the problems you just described with respect to those who are less advantaged in our society. The proposal put forward restructures the tax tables and it is a more permanent restructuring that probably we wouldn't do if we didn't have the availability of additional revenues, and it straightens out the distortions that occurred in the low end of the tables as a result of inflation.

The net effect of all that is that the people in the middle to lower and lower income levels get more back than is calculated their energy costs will go up. So there will be a net income to them, while people at the higher end of the scale, their energy expenses will go up and they will get less back.

Now I must admit to you that the Treasury Department in calculating that really went after the objective of restructuring the tax tables to take care of those distortions and rather than devising a means of getting the money specifically back to the economy.

Now let's talk about rationing because that has become a program that has become a hobby with me in recent days. How do you hand out ration coupon books? You start with the conclusion that -- The New York Times not withstanding this morning -- rationing energy across the board is very, very difficult. People have coupons for fuel oil and coupons for electricity and coupons for Diesel oil and for industrial oils, it gets very, very difficult and would take us some time to really implement if we had to go that way.

So you zero in on rationing of gasoline. That visits all the conservation on one product and Bill Simon's observations I am sure were that if we save it all on one product, we are not going to have the effect that I described earlier of 10 years of decision-making in the economy which is going to lead us to use energy with a new sense of value across the board. But nevertheless, you do get some savings through a rationing program. But how do you distribute coupon books?

There are two ways. There may be others that we haven't thought of, but two ways after all the ones that were put forward that survived: by number of automobiles in the family or by licensed drivers. Even before we begin we start with those inequities. If I have six licensed drivers in my family and earn a good living, my next door neighbor has just he and his wife and he drives to work, and earns much less than I do, then if he wants to do anything extra, and in some cases just to get back and forth to work if he drives a long distance he will have to buy coupons on a legitimate market. If we don't have a legitimate market, we will have a significant illegitimate market. So he would have to buy my tickets or coupons.

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The staff says they will be, for the market to work right, somewhere between 80 cents and $1.25 per ticket, plus 50 cents for gasoline, so his extra gasoline will cost him $1.50, $1.75 per gallon. How do you get by that problem? Well, say the analysts, you don't give it out to licensed drivers; you give it out to motor vehicles.

Well, who has more motor vehicles per family? The rich or poor? And what happens to all those who can go out and acquire a few extras at $50 or $60, as I used to do when I was a kid and park them in the back yard and hang a plate on them, and thereby are able to get more books and either use them themselves or sell them in the marketplace.

Now, that is the first level of inequities that you could start to concentrate on to even out. It would be administratively very difficult to sort out between these two types of families in either case. But let's look beyond that.

If I wanted to move my family from California to Washington I would have to use two and a half months' worth of coupons. Or I would have to go to my local board and inquire as to an exception.

Now the way our model reflects the problem, there will be a lot of requests for exceptions and even in World War II there were hundreds of thousands stacked up so the likelihood of getting it isn't all that nifty and I would have to go out and buy the extra gasoline at those extra prices to get the job done, which would say that some people could move and some people couldn't move.

The further you get into these kinds of questions and you get it into plants and plant expansion, including improving your marketing force and getting permission from the Government and then asking the real honest question, who is going to get these exceptions from the appeals boards? Are they going to be the people with the least economic voice in society or are the exceptions that will be granted ultimately given to those with maximum economic voice.

The more you head into it the more you see the same inequities building, but you are not finished, because then you say to yourself, well, maybe all this is worth it if you can keep prices down. But the fellow who is in the energy business says, but you just asked us to go out and do these contemporary things to get the Nation independent. As time goes on that is going to cost money.

He also adds that when you cut back his refinery capacity by some amount because you are shutting down the light end of the refinery, when you do that you have got to write off that excess capacity somewhere to keep your books balanced, and when you run at a lower rate of capacity you have got to pass those costs through your other products.

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So the net conclusion then -- and I sat on the panel with some consumer people the other day who acknowledged that prices would have to go up. Now you could wind up with a situation where you had rationing, you had higher prices, and you had an awful lot of unhappy people. Because the American people will stand on line for gasoline, but as soon as they see somebody getting a better shake or jumping in line and getting a sneak gallon of gasoline they get out of the car and they punch somebody in the nose, and that is what they did last time.

So having gone through all this and looking at the disadvantages in this other program, we concluded, and after talking to the economic people of the economic impacts, that this was the best possible format for the Nation.

I am sorry I took so long.

Q Would you not concede it is possible you are not going to get it? Let's say Congress successfully challenges the President's authority to increase the tariff and either by legislation prohibits it, or wins any kind of legal test. What is your fallback position?

MR. ZARB: All right. I think then we are at a position where we have to say to the Congress, we had a comprehensive plan, it was the best that we think this Nation could put together, all things considered. Now you have stopped us. Now what is your idea?

I don't think that we are going to get a majority of legislators to stand up and vote for rationing after we have had an opportunity to review this, so what will happen? I think no matter what, we are going to come back to some general economic mix and they will have some observations with respect to phasing periods or disparity by geographic area which we will have to respond to.

The worst thing that would happen is that we wind up nine months from now and we don't go back to the American people and say, we understand the problem and your government hasn't answered that it is agreed to, which is a real danger, and that troubles me greatly.

Q But if the scenario is that Congress withdraws the authority of the President on the oil tariff, possibly passes a rationing program, vetoed by the President, he probably won't have enough votes to override, then the initiative is on Congress as you just said, would they come up with their own allocation program that would be acceptable to the White House?

MR. ZARB: I guess it would depend really on what they came back with. I tell you the way I would like to see it work. It is too bad, but it doesn't work in the same way here that it used to work in the real world when I worked in the real world. We used to all sit around a table and everybody would bring his facts and we would have the doggonest arguments that you ever saw and before long people who had funny notions were asked to prove them and one at a time they would fall out because the data wasn't there or their ability to defend it wasn't there, and by God, you walked out of the room and you had a program that maybe not everybody believed in for philosophical or other reasons, but you had a program that analytically stood up and then you all went out and supported it.

So what I would like to see happen is for the right committees in Congress, who have the authorities here, to say, O.K., this first dollar went into effect, the impact on our economy won't be felt, the first dollar won't creep into the system until sometime in late March and only a small part of that. We have got a couple of

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months. Let's get on with this kind of dialogue in open air, in public, and everybody bring their data and everybody can march in a specialist, and together if we do that we are going to all see the value of truth and somehow from that process will come a compromise that will develop into a national energy program.

I hope we don't go down the road you just described. If we do, I just don't know what our next step might be. I would guess it would be to go back to the Congress and say, O.K., we have been through this circumstance once. Now let's sit down and work out something that we all believe in.

Do you want to follow that up.

Q Yes. Would allocation have a better chance though in Congress of passing than rationing?

MR. ZARB: Well, I think allocation has a fairly good ring from many people's standpoint because it sounds like a compromise. You can say to yourself, well, the Administration likes this, and some people like rationing, so let's go allocation, which sounds like a mid-stream approach.

As a practical matter allocation is a form of rationing and what we do is create a shortage. Then we make the decision here in Government as to who gets what percentage of the shortage similarly to the way we did it in the embargo. Now over a period of a couple years we might get fairly good at that. But you have got to know an awful lot about the intricacies of a system and industry and all industries and their benefits on our imports and our exports and our balance of payments and their future development in terms of research to be able to make those kinds of decisions wisely.

You have got to be able to make the decisions within an existing supply mechanism, and when we had an embargo we did the best we could as a nation, as any nation could, without great difficulties and great economic disruption. The one allocation system which is a terrible notion is an immediate cutoff of a million barrels of oil, for example, and then allocate that shortage.

From an economic standpoint the Council of Economic Advisers were about ready to jump out the window with that kind of a conclusion.

Irving.

Q I think you would agree that the final solution to this lies not in cutting down the amount of foreign oil we use, but in increasing our own oil, coal and other

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forms of energy. Can you tell us what some of the roadblocks to that are at the moment to which the Administration may be addressing itself in whatever time it has fighting the aspect that you have been devoting your time to?

MR. ZARB: The nature of the problems? They are environmental, they are economic and political. If you look at each individual action -- and they are substantive; I didn't mean to leave that out -- the development of Naval Petroleum Reserves as the first hurdle with respect to the political process in getting the Armed Services Committee allowing us to go up and develop that field and get the oil down to the Lower 48.

Now we think we have a reasonable offset for the first time by demonstrating that we will create a national reserve as proposed by the President, and a portion of that national reserve which would be in salt domes or other facilities would be set aside similarly to the Naval Petroleum Reserves. But we have to get by that point.

Then we have to devise a means to insure that under correct supervision the private sector gets up there and is allowed to do the development and the production under some measure to be agreed upon. But that is more process than it is the major obstacle.

Then we have the physical limitations of running the delivery system down, or the pipeline, so we can deliver it. That just becomes a time question because we can allocate in the materials and get it done. When you go to coal conversion or Outer Continental Shelf, you get into the environmental issues and there you have to look how much you can do near-term without endangering health standards, and we have agreed there is a standard we cannot go below.

Russ Train and I have agreed upon a series of amendments to the environmental laws which would have us provide the near term as best we can, conversion, and long-term increased conversion. We have other constraints there, but they are hardware constraints. We need transportation facilities for coal, we need better mining techniques, but those we can deal with more quickly.

Nuclear power is another issue. We have areas of the country who have turned away nuclear power for economic reasons, where the utilities simply couldn't afford it. In the last six months 50 or 60 percent of all nuclear construction in planning has been postponed or canceled. Financial reasons, environmental limitations, local objection, a series of things that delay it in addition to the laws which now prevail which have us bring a nuclear plant on line in somewhere between eight and ten years. None of those steps are easy, but those steps are manageable.

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We can confront the issue head on. We can say, this step has a 2 million barrel a day value. Here is what we can do to protect the environment, can ensure safety, what are your objections and one by one we can overcome them. From a sheer management standpoint those are a lot more manageable than the heat that is generated by the issue of taxes or rationing.

Q How much unemployment do you expect from cutting back a million barrels a day?

MR. ZARB: I will give you my noneconomic approach, my personal view. If the Congress goes along with our approach and we do put the taxes on, and do put the money back into society, my view of the unemployment number is that it is not anywhere in a significant level where I could calculate the number. The price you pay, that we pay with this program, it seems to me, is more clearly the inflationary impact of 2 to 2.5 percent.

If you go the other way, then you don't pay that price, at least at the outset, although the economists say that prices are going to rise anyway. At the outset you don't, but you have the dislocation problem, the industry that does not get sufficient quantities and as a result has to phase back or shut down.

As as a noneconomist this kind of approach has enough gradualism to it, and so long as we take care of those peculiar situations where you have got an industry that is going to go bankrupt because of the way they are configured in energy and the way this tax affects them, so long as we have provision to take care of those special wrinkles in the rug, I don't think it is calculable.

Now we may get some arguments from some of the economists, but ---

Q A while ago Mr. Simon said that, in his words, as I remember them, we tell Congress and the people what the problems are, and I presume that is what you folks are doing today for us. Seidman described the failure of economists to predict what was happening now, and he talked about the conferences that people in Government are having these days, discussing among other things that he mentioned a project to turn around progressive taxes, and you have been talking about sitting down with reasonable or reasoning people to discuss these issues, and I presume from what we have heard that the reasonable or reasoning people are bankers or economists or academics or lawyers.

Is there any bringing in of the poor or unorganized labor, or young people or old people into the discussions of what should be done rather than tell these people what you are going to do?

MR. ZARB: You forgot Congressmen in your reasonable people model. I think we ought to slip them in just for the record.

Yes, there is this kind of dialogue, not enough. I can give you one live example. The President submitted legislation in the State of the Union package which will take care of the poor family that can't afford to do enough insulation to take advantage of the tax credit.

Now the way that we are going to approach that is to follow a demonstration program which we helped to fund and name whereby the Federal Government bought the insulation material and voluntary organizations installed it and they affected some 1500 homes at a reasonable cost and if the report is accurate did a whale of a job.

Now it just so happens that I have a special impact advisory committee which has on it consumer advocates, minorities, those who represent the mature element of our society, and early on, while I was in the process of trying to pull together this year's worth of data and help to construct options, I raised with them in general terms the way things were shaping up and they raised with me this main program that I had never heard of and I went back to my desk and asked for whatever we had on it. A report was delivered to me that night. I read it that night and we did some confirmation work on it and had some numbers checked out, and in our final recommendations to the President, lo and behold, was a program that is worth $55 million a year that will spread that program throughout the Nation.

So while any government always will be criticized, properly so, for not reaching out enough, early enough, with enough scope and depth to all elements of society, we sure are trying, and here is a live example of how it helped formulate public policy. That idea came straight from that group.

Q In return for delaying auto pollution regulations, have the auto makers given you a model year to achieve the 40 percent improved efficiency rate on mileage?

MR. ZARB: The arrangement is 1980 model cars, 40 percent improvement on average miles per gallon. We will monitor that regularly. DOT will provide public reports on a regular basis to insure that it is achieved.

Q Why did the New England Governors leave yesterday, at least some of them, feeling that that area of the country was being held in hostage for the total program? They are reasonable men and one woman.

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MR. ZARB: I was going to ask you that question. New England is in a particular position in energy that has been felt particularly in the last year. The Northeastern part of the United States is dependent upon oil for its energy. I think about 85 percent of its energy comes from oil. The rest of the Nation is 50 percent.

When the embargo hit and the prices went up via cartel action, they were hit very badly. So the fact that they are particularly sensitive to any change at this moment shouldn't be a surprise to anybody.

Now there are a number of things we can do short-term to help mitigate that problem, and when the President's program is fully looked at and fully implemented, New England is not any more burdened than any other part of the country. On the contrary, there are one or two other areas of the country which take a little bit more of a burden because of their driving habits. New England folks don't drive quite as much as folks in Wyoming or Montana and with gasoline prices going up slightly more than heating oil, those areas are going to be more seriously affected than New England.

Now New England says, don't tell me that. I have got a problem now. I have got a problem even before this program. Look what has happened to our rates in the last year. The answer to that is a more permanent solution. They are now dependent upon foreign sources for about 85 percent of the oil they use to fire their utilities. Now that is a heck of a predicament to be in, to be dependent on foreign governments to 85 percent of the oil used to make electricity in a given part of the country. Pretty serious.

So we ought to be thinking about what needs to be done to change that around. That gets us back to Outer Continental Shelf along the Atlantic, refineries in the Northeast, nuclear power in the Northeast, and in the interim everything we can possibly do to help cushion the burden.

We have dropped the tariff that will affect that residual product to $1.20 rather than $3. It will not go into effect at all the first month. In the last month we put together an entitlements program which has the rest of America share their old oil value with those parts, the small independent refineries who have no control over old oil, and the Northeast.

Now I should also add that we have a letter from 20 Senators from the other side of the country that are particularly unhappy with that step and have threatened to legislate our powers away to take care of the Northeast problem.

MR. WARREN: Let me interrupt just a moment, if I may. I will point out this. Frank will be here after the

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President arrives and speaks, and I would like to interrupt Frank's presentation right now to introduce Jim Lynn, who is, as you know, Secretary of HUD and will discuss briefly with you the impact on housing and, as has happened in recent briefings, Jim will probably be interrupted by the President, but when he becomes Director of OMB he can look forward to a lot of that.

MR. LYNN: I am here with the HUD hat on. I might, since if the Senate is willing, I am to go over to the OMB, say one or two things that are directed to that.

This was captioned, I believe, where we are in housing now and where is it going? Let me break that into two pieces: What I would call generally the housing market apart from assistance to lower income people, and then where we are on lower income people.

To give you a very brief synopsis, as you know, we had three of the higheset starts levels, three annual levels, that we have ever had in this country in 1971, '72 and '73. In the fall of '73 it started coming down for a number of reasons: One, was the oil embargo caused problems, dislocation and the like, uncertainty among the consumers. Also we had had a lot of building before that.

Along about in early spring it started looking up again. Money started coming back into the Savings and Loans and for about a month or two months everything looked like we were going to head back up again. Then the inflation hit very, very hard in along about March-April, and as a result of that inflation plus the efforts made to combat it by way of monetary control, the money started flowing out of the Savings and Loans again. In other words, with higher interest rates depositors could find other uses, higher yields for their money, the money went out of the Savings and Loans and by April we found ourselves with builders without money for the take-out mortgages for the consumers buying the housing, construction loan rates up around 15, 16, 17 percent, squeezing builders tremendously and the downtrend has continued just about ever since to which point the first quarter I think we are at a level of 1.7, 1.8 million in starts a year to where our announcement for the month of December was a starts rate of 836,000, if I remember the figure. That is a very precipitous drop.

We have tried to fight this along the way the best we can within the Federal Government. One way or another, we have provided through Federal mechanisms $26 billion of mortgage credit commitments to help housing during this period of time.

Now when you understand that, the normal additional mortgages a year in this country is $70 billion -- $26 billion although far and away larger than anything we have ever done

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through all these financial institutions -- GNMA, FNMA, FRDMC, the Federal Home Loan Bank system -- you name them. All these devices we have -- it isn't anything that gets housing back up to where it was. All it does is cushion the effect of the drop.

On single-family housing the drop has not been nearly as severe as it has been on multi-family. On single-family we have had a drop of somewhere around 15 or 16 percent in our last figures that we had. On multi-family housing it is down 75 percent from a year ago.

Now that is not all due to the impact of there not being money. Some of it is over-building in various places in the country. But when the President sought from the Congress and received the Emergency Home Purchase Assistance Act in October, although we asked for this same kind of assistance to provide money as subsidized interest rate for housing for multi-family as well as single, Congress didn't give us the multi-family assistance.

If there were any place where we had needed it throughout the period of the last three or four months, it was in multi-family and the President continued thereafter to request assistance in that regard. But as I indicated, there is no way the Federal Government could come in and fully substitute for the private market even if we wanted to, because every time we offer assistance we go to the same well that the Savings and Loans go to. The Federal Government ends up borrowing in the market. If we borrow too much money in the market, we boost the interest rates higher, we take more money out of the Savings and Loans as depositors seek higher yields, and we end up chasing our tail.

The situation today for the first time in many months is a lot less gloomy. In fact, it has some real signs of hope in it because starting in November the money started coming back into the Savings and Loans. Why? Well, there are a couple of reasons, but the main one is that as market interest rates have trended downward in the last two or three months, Treasury yields are down so the competition is down, the depositor is putting his money or her money back into the Savings and Loan.

Another reason is there is some propensity to save in an uncertain period where there are consumer confidence problems in the market. With the money coming back into the Savings and Loan we can expect over a period of time -- late spring, early summer -- to see a recovery from where we are and it getting better the remainder of '75.

It is not going to be up to a starts rate, in my humble judgment looking into a crystal ball -- and this is a

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business to look into the crystal ball -- by the end of the year, but most forecasters are predicting that by the end of the year the starts rate will be somewhere around 1.7 or 1.8 million a year, which is a healthy way on the way to recovery. But for the next three to four months I think we can still expect to see starts rates around the low levels that we have now, maybe up a little, maybe down a little, but with the lag effects that there are with builders, where they have to get permits, submit plans and the rest, it will be three or four months before there is recovery or a starting of recovery in my judgment.

Going on to lower income housing, all of you are familiar that the old programs for providing assistance for lower income families were suspended except for bona fide commitments and certain things in the pipeline back in January of '73. In August of last year the Congress passed the Housing and Community Development Act of 1974. One of the things this Act did is authorize a new approach for helping lower income families. That approach essentially is that we can go to a builder, a private developer, we can go to a housing authority as far as new construction is concerned or existing housing that is out there, and pay the difference between the fair market rental of those units, new or existing, and what a lower income family can afford to pay with a reasonable proportion of this family's income.

A "reasonable proportion" is defined as somewhere between 15 and 25 percent, depending on how poor the family is, how big the family is, and so on. That is 25 percent of gross income.

We released the monies to the field, the first monies for this, about a week ago, a little less than a week ago, as a matter of fact, $900 million. Now that is a figure that doesn't tell you the whole story. That $900 million means one year's payments on the commitments that we enter into, sometimes that helped build the project, and the commitments go 20 years, so $900 million of contract authority means a taxpayer obligation over 20 years of somewhere around $14, $15, $16 billion. That amount of money will help finance some 350,000 to 385,000 units of housing for lower income families, either existing or new construction or rehabilitated construction.

If you will recall, during the period '69 to '72 more subsidized housing assistance was given under the old programs than have been given in the prior 50-some years of subsidized housing before and even with that $90 billion or $100 billion committed on these 20- or 30-year commitments, we have only been helping one out of 15 families that qualify for the program. This carries you over to the basic kind of problem we have.

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When you attach the assistance to the housing rather than the people particularly, you get horizontal inequities as well as vertical ones. By that I mean you have people waiting for what you do have to offer. This is one of the reasons why during the course of the last year we made fully operational a program of testing housing allowance, some people will call them. We call them direct cash assistance that involves over $2 million, 18,000 families, where we are trying to see whether direct cash assistance given to the families to seek their own housing is better or worse than what we have now with a system that emphasizes the supply side rather than the demand side.

Under the new Housing and Community Development Act there is something new that you people particularly ought to be aware of.

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As you know, we have community development block grants now, instead of urban renewal money, model cities, water and sewer grants, neighborhood preservation, neighboorhood facilities, public facilities, historical preservation grants, and on and on, categorical grants each for each project.

In the larger cities it is a formula passed.

Pass-through of $2.5 billion has been provided by the Congress pursuant to the President's budget to consolidate these programs and the communities come in once a year for funding. They get an automatic amount of money provided that their plan is okay.

We are kind of like an appellate court on the plan. We can't overrule it unless it is clearly unreasonable. But the Act provides that in the development of that plan, by that city, they must have public hearings in the development of the plan. They must have citizen participation as the development goes along so that the various segments of the community, whether it is the establishment, whether its minority groups, lower income groups, people that just have good government at heart one way or another, all have an opportunity to be heard.

Final judgment lies with the city fathers but that caldron of activity, that interplay of forces, should make the people in the city very much aware of what the competing forces are for what always are limited funds.

It seems to me that here is a place where the media can be of particular value and service to that community to be sure that the community knows how much money is to be given to that city that year and in the years ahead with reasonable prediction, what plans are being proposed, and some evaluation of what these various conflicting proposals are.

One thing, incidentally, we are going to be looking for, and I urge all of you to take a look for, is economic development because one of the things I am convinced of after two years in HUD is that there isn't any way of planning housing; there isn't any way of seeing whether housing is going to be good for five years, 10 years, or 20 years, without knowing what are the prospects for that area and that city for jobs in the future and what kind of jobs. I would hope that under this program over a period of two to three years we will develop sophistication in the communities to do a realistic assessment of what their competitive position is vis-a-vis other places in this country for jobs.

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There is a housing assistance plan required with every plan we get which says the community must give us a plan for how they are going to take care of their lower income people, where they think the site facilities should be located in this regard, how they are going to carry out this plan. Again, there is something that would seem to me to require media attention.

For the longer haul I would like to mention some of the things I think we are going to be talking about more in the next one, two, three, four years. One of the things is coordination within the Federal Government. As I have been here six years now it impresses me more and more that there is hardly an important initiative that comes out of any particular department or agency, a proposal that doesn't impact on or couldn't use the views of other departments and agencies.

What Claude Brinegar has done in DOT on highways vitally affects what happens to me with respect to housing; it vitally affects Commerce as to what happens to jobs, and so on, and I can give you one example after another.

Land use may be the most beautiful example of that at all. Land use is just a definitional term for all the competing uses for which land can be put and that includes housing, it includes industry, commercial useages, open spaces, it gets you into the environment, into the highways, airport locations. Find one aspect of Government that land use doesn't affect. So whether or not -- energy, excuse me.

Energy, too, most certainly. But you make my point, Frank.

There isn't anyone approaching that except on a coordinated basis. I think that the Domestic Council has been of use in this but can be of far greater use in the sense of Cabinet officers and agency heads getting together on a coordinated basis, task by task, and in my humble judgment, that is something that has got to be worked very, very hard in the years ahead.

I have to say subsequently that I think work has to be done in that regard elsewhere. Congress has taken an important first step with the budget control act, with the Budget Reform and Impoundment Act where they are to get together at the beginning of the year and make allocations, priority-setting with respect to various kinds of spending programs for the year ahead and after the activity is done with their legislative year, get back together again, add it all up and make three decisions: live with a deficit, increase taxes, or cut down on the programs before they go to press.

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Now that is a first step, but I am not alone. Senator Humphrey feels this way on the Democratic side as do a number of people on both sides of of the aisle. There have to be efforts made both in the Executive Branch and in the Congress to try to bring about that kind of coordination as much as we can. It is not easy.

Other major issues that again will be in the forefront, and you know it and I know it, will again require the coordinated efforts, welfare reform; certainly, health initiatives. On welfare reform let me tell you from my standpoint, if we were to go to direct cash assistance for housing, would there be a separate discrete categorical program, or should it be thrown into a bigger pot and handled that way?

Do you put food stamps together with housing? Do you put that together with Aid to Dependent Children? Or do you try to do it categorically area by area but have better linkage between them so that you don't get the notch effects that Martha Griffiths talks about where if you have a welfare family that is on three or four programs, you end up with every dollar more the family earns they lose $1.35 or more in benefits.

So, what I am saying is the kind of issues we have for the years coming ahead are ones that will require coordination more than almost any other thing, an art that has only started to be developed, both in the Executive Branch and in the Congress but one we have got to develop to a fine edge in the years ahead.

With that background, let's have some questions until I am interrupted.

Q Mr. Lynn, maybe we shouldn't talk to city managers, but we occasionally do, and they tell us that the block grant program was to determine ---

THE PRESIDENT: Jim, I am sorry I interrupted. I should have stayed outside and listened for the answer.

Let me express my appreciation to Jim Lynn and Frank Zarb and Mike Duval and others who have been here. They know the subject matter extremely well. They were my important advisers in the process of working out the economic program and the energy program and they are going to be working with me in explaining the justification and the details of the several plans as we move down in the months ahead to get some action in the Congress on both plans.

It is a privilege and a pleasure to be here to meet with the news directors. I had the great pleasure, I think, back in 1968 following the election of making a speech to your convention in Los Angeles when my good friend at that time, Bill Roberts, was either the in-coming or outgoing president of your organization. Bill has been with

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me on my staff when I was Vice-President and is now, of course, with me on the staff under Ron Nessen as President.

I am obviously delighted to have an opportunity to say a few words on the programs that I have proposed to the Congress. I think the success in the implementation of those plans through the Congress depends to a very large extent on the understanding and the cooperation of the American public and in my judgment the more information the public receives on what I have proposed in these two very important areas, the better chance they have of being implemented, not only in the Congress but through the efforts of the American people. Because of the great influence of the electronic media your role in giving the facts to the American people is especially a vital one.

You may have heard or read the remarks that I made over national television a week ago Monday night and followed on the State of the Union on Wednesday of the same week, so I assume that in many details you are fully informed. Some of the broader background, of course, will be explained or has been explained by the three that are on the platform or others who have been here.

There are some very crucial parts of the program that I would like to make a comment or two on: the tax rebate, the increase in the oil import tariffs and the proposed ceiling on increases in Government wages and Social Security and other benefits. These three are only part of a much more complex design for pulling the Nation out of the economic doldrums and the energy crisis. Unfortunately, we are in a status of economic doldrum and we do have an energy crisis.

It seems to me that it is vital in both cases that action be taken immediately by the Congress. It appears that in the tax rebate for 1975 presented I indicated on 1974 income, the Congress is going to respond quite quickly. And I am extremely interested, of course, in getting the Congress to act immediately thereafter on the energy package.

Now, the important fact is that the energy plan which has been reviewed by others here today goes far beyond trying to reduce consumption of imported oil through price levers. The plan that is very comprehensive tackles the need for more domestic sources, the better use of energy and the research for new energy sources, and let me say a word or two about each of the three categories.

Better or more domestic sources. This includes a much broader program of oil and gas exploration in the United States. The facts are that since 1968 or '69 our exploration for more gas and more oil in the United States has dropped off significantly. If we are going to develop more domestic oil and gas we have to have an incentive for those people who are in that business and the program that I have submitted to the Congress provides for that.

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Now, the second is the better use of energy. What we hope to do here in a number of cases, and I will just give one or two, is to cut down the use of energy by, for example, the insulation in homes and in buildings generally. The program provides a 15 percent tax credit for up to $1,000 for a homeowner to install storm windows or insulation. The best estimate is that this will save about 200 ---

MR. ZARB: 300,000, Mr. President.

THE PRESIDENT: --- 300,000 barrels per day and it will cost the Federal Treasury approximately $500 million, but it will improve the efficiency of homes and it will cut down as I indicated, the utilization of some 300,000 barrels a day.

Research for new sources: New sources of energy, solar, geothermal -- I was in Los Alamos last July and saw some of the research and development work that was being undertaken by the AEC at that time. Geothermal has a great potential, certainly in particular areas of our country and under the new energy research and development agency, ERDA, with Bob Seamans as the head of it, we are consolidating and coordinating the research in this area as well as solar and some of the others.

What we need is to actually restyle our entire national approach to energy production and energy consumption. It is a complex subject and if you had seen the number of volumes that were presented to me for reading, the number of volumes that I have to look at in selecting options, I think you would share the view that it is a very complex subject. But it is a problem that has to be met and the program that I have submitted in my judgment will meet and will solve it.

But in order to get it going both in the Congress and otherwise, the public has to understand it. And all we ask of you is to understand it yourselves and give the facts.

I think if the facts are laid out on the table, the American people will support it.

Now, the one-time tax rebate is a matter of great concern because it deals directly with the manner and the amount of money to be put back into the taxpayer's pocket. This rebate has been integrated very carefully with the other tax proposals. We are not looking at just one segment of the economic picture.

In the drawing up of these proposals the emphasis was on the continuing economic health of all taxpayers, low as well as middle income citizens. Our economic recovery, obviously, cannot be accomplished simply by a one shot tax rebate. If we are to return to a stable, balanced and growing

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economy, a good business climate, we have to pursue a program that treads a very prudent line between economic stimulation and personal sacrifice.

Of course, a proposal such as the five percent ceiling on Social Security increases for 1975 is a perfect target for irresponsible politicking. I emphasize that this is a ceiling. We expect increases, but a ceiling of five percent under the current circumstances in my judgment can be justified.

There is a legitimate national concern which I happen to share about the impact of inflation on fixed income of our older citizens. The proposed ceiling on the size of these increases in Federal benefits is coupled with plans for a moratorium on new Federal spending programs and a ceiling on Federal salaries and let me illustrate what I mean.

Shortly after I became President in October of last year I proposed to the Congress that the cost of living increase that was then expected of about a 5.4 percent for Federal salaries, I recommended that it be deferred for six months and the justification for it was that a six-month deferral of a pay increase for Federal employees, some 2,100,000 and roughly 2,100,000 for military personnel, would have saved the Federal Treasury $700 million.

Now at that time we were faced with the serious problem, with the prospective deficit. I thought it made sense to ask for that deferral. Unfortunately, the Congress under the procedure that was available rejected my recommendation. I think it made sense. I wish the Congress had approved it.

But what we are trying to do in 1975 is to put a five percent ceiling on Federal pay increases just as we have recommended a ceiling for Social Security, Federal retirement, both civilian and military.

Now it may be good politics for some critics to suggest that we start reducing the growth in Federal spending somewhere else, areas other than Social Security, pay increases for Federal employees, both civilian and military, retirement benefits for Federal employees and the military, but in my judgment the time has arrived when politically unpopular decisions must be made and in this case if we put this five percent cap or ceiling on all of these categories the reduction in anticipated expenditures for the Federal Government will be $6.6 billion, a fair amount of Federal funds.

My point is quite simple. If we do not begin the task and as I see the picture we will be doing disservices to the people we most want to help. Fortunately, there is something in our national character that seems to summon strength when the country is confronted with difficult

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challenges and that is why I happen to believe that the American people will accept, and will respond to the economic and energy proposals we have laid before them and before the Congress.

I intend to explain, to hopefully persuade the Congress and the American people to respond. I will take my case directly to the American people. Just as I believe it is the President's duty to make hard choices, I also believe the choices must be explained to the most important forum there is, some 213 million Americans. Your help in just explaining the facts -- we don't expect you to be prejudiced one way or another, but if you can get the facts out, this is vitally important to an honest dialogue and effective decision-making.

I appreciate your concern by being here today and I look forward to seeing you around the country where I hope to be in the next several months.

Thank you very much.

(Applause.)

MR. WARREN: Thank you.

That completes our session today. We have complete packets of information out here for those of you who want them.

END (4:50 P.M. EST)