

FOR IMMEDIATE RELEASE

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THE WHITE HOUSE

PRESS CONFERENCE
OF

FRANK ZARB
ADMINISTRATOR OF THE
FEDERAL ENERGY ADMINISTRATION
AND
ALAN GREENSPAN
DIRECTOR OF THE
COUNCIL OF ECONOMIC ADVISERS

THE BRIEFING ROOM

3:20 P.M. EDT

MR. NESSEN: The veto was signed at 2:35 in the President's office.

To explain to you the reasons behind this veto and to answer your questions we have Frank Zarb and Alan Greenspan.

MR. ZARB: As Ron has said, the veto was signed and is on the way back to the Hill. The veto message is in front of you.

The reasons are outlined carefully in the veto message, and rather than take our precious 20 minutes with my sayings, why don't we get to your questions.

Q Do you anticipate the House will disapprove the President's plan tomorrow?

MR. ZARB: It will be a tough vote. John Rhodes this morning told me he was optimistic and, of course, there are others up there that say that there is no question but what they can muster a simple majority and thereby defeat it.

I am hopeful, and I hope that John Rhodes' estimate of the situation is absolutely correct.

Q Mr. Zarb, the President says in his message that should his plan be rejected he will have no choice but to veto the simple six-month extension. Now, what about a simple 30-day extension, some lesser period? You are not prepared to flatly say that would also be vetoed, are you?

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MR. ZARB: I don't think I would say that flatly. I would not read too much into that, however. If we had come to an agreement and the process worked in such an ecumenical way that we were almost there and it just took some details to close it out, the possibility of the President signing a 30-day extension probably would be considered, which is probably the best word to use in that context, but the President does not want -- what he won't tolerate -- is another round of "Let's avoid a tough issue. Let's wait X number of days without a careful articulation as to what those days are going to produce just to use up more time."

This issue has to be faced and now is the time to face it, and nothing is going to be gained by an arbitrary 30 days or 45 days or whatever.

Q Frank, why does this issue have to be faced? How much extra oil does it mean over what period of time?

MR. ZARB: It has two effects. I will separate this particular bill from the President's initiative. This particular bill would actually reverse where we are presently and cost us in imports within the next several years. That is fairly clear.

There isn't anyone that disputes that, that it will cost us something in imports. We will consume more by virtue of this bill and, as a result, we will import more and the consumer will see higher prices as a result of that.

It is an awfully good model of the various thought processes that go into how we approach the energy problem. Now, decontrol under the President's program would get us conservatively 1.4 million barrels a day by virtue of allowing those depleted old fields to engage in some new investment in the secondary and tertiary levels.

At the same time, it has a conservation effect which contributes to our total conservation program. So, the more you go in this direction, the more you are really just rolling back the hands of the clock.

You are rolling back prices which have some form of immediate political benefits, but at the same time, what you are saying to the consumer is we are going to consume more as a Nation and to make up for that deficit we will import more and sooner or later you are going to pay the price.

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Q If I may follow up on that, when you say 1.4 million additional barrels a day, by when?

MR. ZARB: I said by 1985. It will gradually creep up, and it will take a several year period for that to begin and then it will begin in earnest. But, that is, I think, a conservative estimate.

If we made some breakthroughs in tertiary recovery, which this would provide incentive for, if that occurred, we could improve that substantially.

Q At a recent hearing with Senator Humphrey, you did not dispute his figures of 300,000 or 500,000 barrels a day by 1985. As I recall, your reply was "every little bit helps."

MR. ZARB: No.

Q What do you base the present figures on?

MR. ZARB: The 300,000 barrels a day was between now and 1977 or 1978. I did not dispute that, but I went on to point out we had 1.4 million barrels a day that we could count on by 1985.

Q Mr. Greenspan, if there is no compromise, if for some reason or other August 31 controls go off, two things; what is the price of gasoline going to be and what is the economic inflation effect going to be with all controls off oil?

MR. GREENSPAN: First, it is clear that the President's first preference is phased decontrol. I think, however, that immediate decontrol, should that be necessary, can be accommodated without severe economic consequences, and I would suggest that that is far preferable to the third alternative of continuously doing nothing.

I think that the types of analyses that you have seen with respect to the economic impact of decontrol in virtually all instances do two things, in my judgment. One, I think they overestimate the actual direct fuel bill cost, and then without getting into the very detailed types of analyses, which I think are necessary to make this point, in our judgment, after very thorough study, grossly overestimate the economic impacts and far more importantly, these times of impact and analyses are made without the assumption that is involved in and is very important in the President's program; namely, that there will be a rebating, that is a re-establishment, of the real purchasing power of consumers, which would be eroded as a consequence of a rise in oil prices.

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Our evaluation is that under these particular procedures, there will be no significant economic impact on the recovery, which we see in the process of occurring. So far as the question of what is the rise in oil prices, the effect is about the same as phased decontrol, only it happens sooner.

It will not happen, in my judgment, immediately; that is, within a matter of weeks, because it takes a good long time for these processes to work themselves out, but I think it is perfectly fair to say it is very likely to occur in a much shorter time span than would be implicit in the phased decontrol program, which is now before Congress.

Q You mean 7 or 8 cents a gallon, and when?

MR. GREENSPAN: One of the problems you have on this type of calculation is there are numerous other things going on simultaneously, and what you are trying to do is take one segment of a particular change in the determinants of the price of petroleum products and impose it there, and I think there are ranges -- we all get different sets of numbers -- but 5 to 7 cents a gallon in six months is not a bad number.

It might happen sooner. It might happen later and it might be less.

Q Mr. Greenspan, I don't believe you responded to a question earlier because you did bring in the fact that the President's program calls for a rebate, and if there is no compromise, there will be no rebate so why don't you talk about the economic impact without the rebate?

MR. GREENSPAN: We would suggest that the President will be proposing a mechanism for rebating it, and we will assume the Congress will enact such legislation.

Q But when will he do that, Mr. Greenspan?

Q What impact will there be if there is no rebate and this 7 cent rise in a six- to nine-month period?

MR. GREENSPAN: First, I don't believe that Congress would not enact a rebate under those conditions. Should that occur, under those conditions there clearly would be some impact, but I must say to you, I just do not believe that that is any more than a hypothetical question.

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Q By rebate, do you mean a tax reduction?

MR. GREENSPAN: In effect, or some other mechanism to restore the purchasing power of consumers, which would be eroded by a rise in oil prices.

Q When will the President propose that, and what form will it take, just an extension of the current tax cut?

MR. GREENSPAN: At the moment, the President has before the Congress what he considers is a most desirable form of phased decontrol, and at this particular stage, we hope that that will be enacted.

Q But that does not have a windfall profits proposal in it, nor an excise tax proposal in it, nor a rebate proposal.

MR. ZARB: That is not quite accurate. The January proposal has the excise tax, has a windfall program, and it has the details of a rebate mechanism. It has only been changed to the extent of depletion, but the principle still is maintained.

If the Congress allows the decontrol and will go forward with the windfall and puts on the excise tax, that was part of the program in January, then we can begin work on the method to get it returned to the economy if they want to vary it from where we were.

Q Would you explain what your windfall proposal is now and how you would rebate this money?

MR. ZARB: The windfall proposal is a scaled down version of the one we sent up in January to the extent the plowback would have to recognize the change in the depletion, but we seek to have the same kind of effects.

The excise tax, if enacted, would also change the character of the windfall program. You recall originally we asked for both excise tax and windfall. If the Congress elected to go only for windfall, we would have to readjust our current position for that.

The principles are very simple. During this process of decontrol, that we agree on how much should be returned to the industry to create the proper amount of incentive and over what period of time.

We have also been very flexible. A lot will depend on whether Congress will agree to a decontrol program or not. On economic impact, I would just add one other question, rather than a statement. We ought to be asking ourselves what the economic liabilities are of continuing to go forward without an energy program in place and what that is going to cost the Nation with or without an embargo.

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Q I did not get an answer to what the rebate proposal is.

MR. ZARB: The original rebate proposal is for all these monies collected, two-thirds went back to individuals with a higher amount going back to those in middle income and lower tax brackets, and a special provision for those who paid no taxes at all.

The principle there was the return to those in the lower income strata was to be enough to not only make up for the difference in this particular program, where they would be paying higher taxes because of decontrol and other tariffs and so on, but also to help make up for the inflation that distorted that part of the taxable in the last two years.

So, it was bias toward the second and the middle to lower income taxpayers with a special provision for those who did not pay taxes. The other one-third was roughly split in half as a return to corporations and corporate tax change and also to State, local and Federal Governments that have to run municipal activities.

That program is still there on the table, and if the Congress goes ahead and we start getting some forward movement in any of this, they may want to have their ideas as to how that could be changed or adjusted and we are certainly willing to sit down and look at that.

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Q But that is still your proposal?

MR. ZARB: That is correct.

Q On the immediate showdown on the 30-month versus instant decontrol, do you know of, or are you involved in any negotiations now that might change this scenario that seems to be unfolding?

MR. ZARB: I am sorry you asked that question. Yes, we met this weekend, both Saturday and Sunday, with Members of the Congress at their suggestion to explore the existing differences that seem to be between us at the moment, with respect to decontrol, and to explore how those differences might be accommodated in one form or another.

These discussions to date have been very general. We had another meeting this afternoon, a few minutes ago, and we are going to continue to talk about those areas that seem to trouble Members of Congress, with respect to this decontrol process, and look for remedies.

I might add that the one area I will comment on, a great deal of time has been devoted to the wind-fall mechanism that could be applied to assure that an unfair amount does not return to one sector of our economy and also to visit a little bit on the kinds of rebate machinery that could be put in place to insure equity during this process.

Q Mr. Zarb, the President some time over the weekend went out and talked to some tourists, and some small boy asked him if he was going to try to bring down the price of gasoline, and the President said, "We will try."

My question to you is this: How could he say that when the policy of the Administration is to increase the price? (Laughter)

Q What would you have said to that little boy?

Q What is the answer to that?

MR. ZARB: The answer is --

Q He has you, Frank. Why don't you give up. (Laughter)

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MR. ZARB: Should I go on to the next question?

It seems pretty clear that if we don't get something in place that is going to slow up our insatiable appetite for energy and bring on new production, that that little boy is going to face uncontrolled prices, like we never dreamed about, in the years ahead.

Q That is not an answer.

Q Did your weekend discussions leave you hopeful that you could solve something?

MR. ZARB: The Members present were all close enough to what we think is important to accomplish, so to that extent it left me hopeful.

Q Was it mostly Republicans?

MR. ZARB: No. As a matter of fact, 90 percent of those Members present were Democrats.

Q Who were they?

Q Dingell?

MR. ZARB: John Dingell was there. I will give you the ones I remember offhand.

Tim Wirth from Colorado; Joe Fisher from Virginia; Bob Krueger, who has been active in the decontrol measure; Bud Brown from Ohio; Herman Schneebeli from Pennsylvania -- I am sure I left some people out but those are the ones that come to mind.

Q Ullman?

MR. ZARB: Mr. Ullman was not there but his representative was.

Q How about Senators? Any Senators?

MR. ZARB: No, inasmuch as the action on the decontrol seemed to emanate -- again I will say they initiated the meeting and asked that we have it.

Q Where did you meet? Did you meet in an informal atmosphere, or what?

MR. ZARB: We met in an informal atmosphere in shirtsleeves in my office, with the air conditioner turned off on Saturday, and then moved to another room on Sunday because it was unbearable.

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Q You said a moment ago there would be no significant impact on the economic recovery if there were a decontrol. Is the converse of that true as well?

MR. GREENSPAN: What do you consider the converse?

Q If there is no decontrol, that economic recovery's pace will continue to remain the same?

MR. GREENSPAN: I am saying the economic recovery as it is now moving into place is not going to be significantly affected in the shortrun -- by that I mean the next eight months -- by this particular issue of decontrol, unless we run into an embargo later on in the differential imports that would be involved with respect to this issue and that would clearly have an impact.

Q You said a great deal of time was spent on the discussion of the windfall mechanism, but did you also discuss expanding the President's 30-month proposal, and did you also discuss changing the percentages of the 3.3 percent in any direction? In other words, only two things the President can compromise -- time and percentages. Did you discuss that?

MR. ZARB: They are both the same. If you modify the timetable you modify the percentage change. I would say that we did have a general discussion on that point without getting awfully specific at this time.

There were suggestions as to modest changes in the President's rate of decontrol, and then, of course, there was an examination of the bills that were up on the Hill, the one being Bob Kreuger's amendment that had a 40-month mechanism in place and was very close.

I would say just before I have to leave and go up to the Hill, if we continue to drive in the direction of having a program on the table that has certain important elements to it -- a decontrol program is critical to the program that we have on the table -- and continue to respond not to another program that would get the job done in another way but to discuss the benefits and difficulties that our program might incur, I must say I am a little heartened by the level of understanding and the seeming level of sympathy that has come from some Members of Congress.

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Q Why do the oil companies have to have more money to bring out more oil? You have asked the people to conserve. Isn't it about time a little jaw-boning or a little public pressure be put on these oil companies to bring the oil out?

MR. ZARB: And the 30-month proposal we have up there -- and this will be my last question -- the effect would be to reduce the revenues to the producers for a new released oil which is currently close to \$13 a barrel. That would go back and be frozen at the January 1975 levels.

So far as returns to the producer are concerned, approximately \$11.50, the market price would still be at the \$13 level because that is where we are getting some incentive for conservation.

With respect to the release of old oil and the need for that kind of return to continue to attract private capital to develop oil, particularly in the old fields where, as you know, if you have an old field that is depleting and drying up, and most all of them are, if you want to drill a new deep hole in that old field, typically you can't do that except under the \$5.25 rate of return so it is oftentimes not economical.

Once you free up old oil over a 30-month period, a judgment that can be made that is very reasonable and we can do it together with Congress, is to determine how much of that should or should not go back to the oil companies and over what period of time so that you insure they get a fair rate of return, and what is leftover comes into the Government and gets returned to the American people through the rebate mechanism which we talked about a moment ago.

MR. GREENER: I just want to point out in supplementing Frank's answer, there is an awful lot of small oil companies, independent investors, and a great deal of miscellaneous type people who are involved in this, and I think that a lot more are involved in the exploration and development of oil than large oil companies.

THE PRESS: Thank you.

END (AT 3:40 P.M. EDT)