

FOR IMMEDIATE RELEASE

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OFFICE OF THE WHITE HOUSE PRESS SECRETARY
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THE WHITE HOUSE

PRESS CONFERENCE
OF
FRANK ZARB
ADMINISTRATOR OF THE
FEDERAL ENERGY ADMINISTRATION
AND
ALAN GREENSPAN
CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS

MOUNTAIN HAUS

9:57 A.M. MDT

MR. NESSEN: As we promised, Frank Zarb and Alan Greenspan are here to talk to you and answer your questions about the actions announced by the President yesterday.

Immediately following that, I will give you two or three schedule items. Bill Greener has already told you that we have had some requests for people who want to take pictures of the meeting between the President and Dr. Kissinger at 10:30, so there will be a pool going over to that.

This briefing should be over by 10:30, I would think, so there shouldn't be a conflict with that.

Q Are you expecting any announcement on the Middle East today?

MR. NESSEN: No.

Q Do you expect anything tomorrow?

MR. NESSEN: No.

Q Are you expecting any announcements?

MR. NESSEN: You asked the same questions of Dr. Kissinger. Why do I have to answer the same questions he answered last night?

Q A lot can happen overnight.

MR. NESSEN: Nothing has happened overnight.

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Q Do you expect any announcements out of that meeting?

MR. NESSEN: No.

Q How long have they met so far?

MR. NESSEN: I left them up there last night. How long they went on, I don't know.

The President and Dr. Kissinger spent some time together last night. I don't know how long it was, and they will be meeting for about an hour this morning.

Q Was that after that dinner reception?

MR. NESSEN: Yes. Henry came in at the tailend of the dinner and then stayed.

Frank Zarb and Alan Greenspan.

MR. ZARB: Neither one of us will make opening statements, if that is all right with you, so let's get right to your questions.

Q Can you tell us what, if any, effect decontrol will have on independent operators? Is it true the major oil companies will not have to sell gas to independent operators now and they are likely to go out of business?

MR. ZARB: The make-up of the market, including the independent sector, will be affected by this change. There is no question about that. The best thing that could happen to the independent sector, particularly in reference to the independent refinery group, would be for swift passage of the windfall tax program.

Without going into a lot of detail, you have to just recognize that a windfall tax program would tax the increased revenues from released crude, thereby making it almost impossible for the majors to compete unfairly with the domestic refinery, which is the key question raised. So, the most important thing that could happen would be a swift windfall profits tax program.

I think your question went to the unbranded retail dealer. I would point out the nonbranded retail dealer was a part of the marketplace well before the embargo and well before the allocation act.

So, I would expect that group would not be disadvantaged, and obviously we are going to be looking at each of the microimpacts and make some judgments as we go forward.

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Q What is your assessment of whether the veto will be sustained? Have you had any reading on the Hill?

MR. ZARB: Helen, I will give you my best reading, and it isn't very current, but before we left, it seemed clear to me we had sufficient strength on the Senate side, calculating the votes that we had when the six-month extension was first voted on the Senate side, plus what other things we thought could occur.

I left Washington with the feeling we had sufficient strength to sustain on the Senate side.

Q May I ask you a question about the President's speech yesterday? In the third paragraph, he said we will have a program that decreases energy consumption. I was under the impression energy was going to change its form, but we were still using increasing amounts of energy every year because of industrialization and increases in population.

Do we actually have a plan that decreases energy consumption?

MR. ZARB: My colleague here says not really. We will let him add his views. I will take the opposing point of view.

The answer to your question is yes. It gets to the word that was in the speech several times, called efficiency or the use of energy in a more efficient manner to either live in our homes, drive our automobiles or run our factories.

The program is designed to use a lesser amount of energy than we would without a program. At the end of a unit of time you probably still would be using more than you do today, perhaps, particularly in a growing economy, but far less than you would have consumed without the benefits of the program.

It gets back to what we have been trying to say all year. The momentum toward using energy more wisely in the home, with storm windows and insulation, the inducements toward smaller automobiles and recognition at the factory and plant level, that more efficient machinery and processes are required if they are going to compete in the marketplace with energy being an important P and L factor.

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MR. GREENSPAN: I think the question really amounts to, we conceive of a significant reduction in what we call per unit energy consumption, in the way that Frank indicated.

We can, as a nation, actually increase our consumption of energy without concern, but what we cannot do is increase it at the rate it has been going and in line with the growth of economic activity and population so that the critical issue of the President's program is to cap off the very deleterious increase in aggregate energy consumption which would require, as the marginal source of energy, significant imports of crude oil from unreliable foreign sources.

Q Not to nitpick, but wouldn't it then be more accurate if he had said that decreases the increase of energy consumption?

MR. GREENSPAN: Not really because when the term is used, it usually means per unit. In other words, unless you can reduce per unit consumption, then, in effect, you will not have the type of effect which we need.

Q What is the unit you are speaking of, Mr. Greenspan? Is it per person, per family or what?

MR. GREENSPAN: To be very exact, it is really per unit of economic activity. That can be defined in a number of different ways. That is, in the industrial area, what we would have would be lower aggregate consumption of energy per unit of industrial output.

In the household sector, we would have less per unit per household. And it is in that context. You can, of course, summarize it in terms of per capita, but I would not want to characterize it as such. We have never made that kind of calculation.

Q On the assumption the Senate would sustain the President's veto, what impacts would this have on two things -- economic recovery and inflation?

MR. GREENSPAN: The best we can judge, immediate decontrol with the dropping of tariffs and fees would increase average petroleum prices by approximately three cents a gallon. Translated into the Consumer Price Index, this corresponds to a one-shot increase of approximately 1/2 percent. Now, it is important to understand the fact that what we are talking about is not a change in the rates of increase of inflation forever, but really a one-shot adjustment.

Our analysis of the impact on economic activity and employment under conditions of a windfall profits tax and rebates is that the effects are negligible and would have no impact of significance on our economic recovery, which is clearly underway.

Q What about without rebates and windfall?

MR. GREENSPAN: First of all, I must say that is a hypothetical question because I cannot conceive of the Congress not passing a windfall profits tax and rebates.

Q This three-cent a gallon increase, that is based on what? Have you talked to the oil companies? Are you going to jawbone them? Is there going to be a two to four cent a gallon increase maybe within six months? What is this estimate based on?

MR. ZARB: The estimate is based on the net increase that would flow through at the retail level from the increase in crude prices from \$5.25 to current market. It is net of the effect of the tariff, obviously, so we are six cents less three cents.

It will take place over some reasonable period of time, from one to nine months. There is enough in the marketplace as far as I can determine, sufficient forces to assure this happens in some form of gradualism. It won't happen the first day that controls are off.

I don't anticipate a major jawbone effort, although there will undoubtedly be some communications between my office and the industry as we take measurements of the changes that are occurring within the industry within the initial days.

Q Mr. Zarb, now maybe the consumers don't understand this. They just seem to be, every time they turn around, getting another two or three cents. Don't you think for public relations and the good of the country the government should start putting pressure on the oil companies to do something for this country without getting paid for it every time?

MR. ZARB: Well, the way you ask your question, the answer has to be obviously yes, when a question is asked in that manner. And I think we have in recent months generally followed that line of thinking.

A jawbone exercise, which sounds awfully neat, has inherent within it some anti-trust implications that appear to be very difficult. Whereas, we can relieve, perhaps, the industry of some of the prosecution by asking the Justice Department to indicate it would not prosecute.

We are informed that anything of a formal nature, some have described, would not relieve them of civil suits that could come from anti-trust implications. On the other hand, in the non-price areas where reasoned judgment with respect to supplying historic customers or the independent sector of the market, in these areas there seems to be ample room for the government to indicate the kinds of good judgments that we anticipate to prevail. And in that area we will see some activities.

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Q Were Kennedy, Johnson and so forth violating the anti-trust laws when they did jawbone management in some instances through those years? How come it is suddenly a problem?

MR. ZARB: I don't know, but Justice's view is that in this case, with eight or nine major producers and the nature of the industry, that it would be a problem, particularly from the civil side. As I said, in the non-price area, there are a number of things the Government can do and will do.

Q Like what?

MR. ZARB: A review with various major producers of their supply practices over recent years and insuring that independent refineries and independent retail outlets, whom they have historically been serving, are not abruptly changed or reduced in terms of supplies.

That is the bulk of the area. There are many microelements of that particular sector we can attend to, but it is in those areas, I think, most of the concerns have been and not with respect to the immediate 3 cent price impact that those who have suggested jawboning have asked us to emphasize.

Q What can you do if they decide not to sell to independents?

MR. ZARB: It just seems to me that given the public image of big oil in our Nation today that we are not going to have any difficulty insuring compliance in these areas, that just would demonstrate reasoned, good American motivation.

The implications as to what could happen down the road if that kind of judgment didn't prevail I think are quite obvious, and you can hypothesize as well as I can.

I would point out to you before we close here today -- you didn't raise the question -- we are doing a good deal of work in the propane area inasmuch as it particularly relates to the natural gas question.

Within the next several weeks, we will have something more formal to talk about in this area, but we are going to have to provide some extra protection for propane users during the winter months.

Q Could we return to the price situation for just a moment? You said a moment ago, I believe, this 3 cent increase could occur anytime within one month to nine months. Does the situation exist whereby we could expect to see a 3 cent increase in the pump price of gasoline on October 1?

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MR. ZARB: It is really highly unlikely. Technically, in Alan's models, he could demonstrate where under certain circumstances it occurs. In both our views, it is very unlikely that we would see that kind of price increase that rapidly.

MR. GREENSPAN: Could I follow up one thing about this 3 cents? Remember that what that 3 cents is is the effect of decontrol and the way that calculation is made is to, in effect, project what petroleum prices would have been under the existing circumstance of controlled oil, which, incidentally, would be a slightly higher increase because as you get continued declines in domestic controlled oil production and increases in imports, the average price of petroleum products would rise in any event -- not much, but it would rise.

The 3 cents is the estimate of what, in effect, would be the price effect over and above that.

Now, as it turns out, we have some estimates which actually are less than 3 cents net -- but I like to use a figure of roughly 3 -- so when we talk in terms of the effects of decontrol, what one must analyze is the effect of that program only. What we are not forecasting is the other factors, which affect gasoline prices.

For example, the normal seasonal effect of gasoline prices after Labor Day as they start to edge lower after the big automobile season, what we are not doing is projecting prices. We are evaluating the impact of the President's decontrol and dropping of the tariff and fees.

Q Can you give us a rough picture or broad picture of what the economic situation is today in the country?

MR. ZARB: I would best describe it as in the early stages of recovery. As you know, we have seen a fairly considerable favorable set of statistics in recent weeks which suggest that we are on the way up.

I might caution you, however, that 8.4 percent unemployment rate appears to be slightly out of line with some of the other data that we are getting. We have, as many of you may have known, several different estimates of employment, and we are getting slight statistical discrepancies.

So, I merely would caution you that in the event -- and I am not forecasting it -- that we get an uptick in the unemployment rate, either one month away or two months away, that is not to be interpreted as any particular change in the recovery itself.

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The basic data which we are looking at at this particular point all points to a fairly firm and solid recovery in the economy throughout this year and next, with the trend of the unemployment rate moving downward pretty much throughout the latter part of 1975 and throughout 1976.

On the inflation front, we were somewhat disturbed by the little blip that we had in the Wholesale Price Index for the month of July and the Consumer Price Index for the month of June, and our preliminary evidence suggests that meat prices and food prices generally did increase again in July.

We have had another index for July for the CPI, which was not particularly favorable. Those data, I might say, have not been calculated, and what I am indicating is based on very fragmentary information.

All I could suggest to you is that I don't expect the July CPI to show a significant improvement over June. However, early indications indicate that the rise in food prices, which persisted through the month of July, have simmered down in August and that even though we have a fairly significant rise in the Wholesale Price Index for the month of July, we will not get a repeat of that in the month of August.

So, as I interpret the inflation data which we have been getting in recent weeks, and will get in the next couple of weeks or so, it appears as a blip in the statistics rather than any indication of a re-emergence of strong inflationary trends.

This is not to say that we are not concerned about inflation but merely that we don't read the statistics that we are seeing in this period as an indication of the re-emergence of inflationary pressures.

Q Then the confusion over these unemployment statistics, is this over the rate of unemployment? Is this over the number of people unemployed?

MR. ZARB: Phil, what it is is that, as you recall, we had expected that the unemployment rate in the month of June would drop for statistical reasons and, as you recall, it dropped from 9.2 to 8.6, which we estimated probably meant that both May and June were 8.9 percent.

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We have certainly had a recovery in economic activity from June to July and all indications point to it, but it just does not seem consistent with the type of recovery we are having to have a drop of the dimension of 8.9 to 8.4 in one month without there being perhaps some statistical aberration in the figures themselves.

Q Your comment was kind of broad, but you basically talked about the problems. What are the positive signs that the recovery is firm?

MR. ZARB: The positive sides are clearly that the unemployment rate is clearly declining. This is true even when one qualifies the basic statistics and perhaps it is declining at a fairly pronounced rate.

Certainly the level of the insured unemployment -- the data for which we have weekly -- shows a fairly marked decline in the level of insured unemployment since the month of May, seasonally adjusted.

We have increases in industrial production during the past two months approximating almost 1 percent. We have major increases in personal income and in retail sales.

The retail sales, as you know, in July were up quite significantly. New orders are behaving well, and perhaps just as importantly we have continued confirmation that the level of economic activity in the month of June, even though it was improving, was nonetheless still being depressed by very heavy rates of inventory liquidation, which suggests that as that rate of liquidation slows, as it invariably must, you have a major push in the levels of production and employment in the months ahead.

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Q Mr. Zarb, you talked yesterday about the oil companies using good American common sense earlier. You talked about some of the independents. Are you also talking about that, keeping the gasoline price increase down to approximately three cents? They would realize what the public reaction would be to a higher tariff?

MR. ZARB: To be honest, I think the marketplace is going to do more to constrain that number than anything else. We have watched the market pretty carefully in the last six or seven months and, as you know, the industry has had approximately a billion dollars in bank costs which they were allowed to pass through under the law, and which they haven't passed through. And the reason they haven't is primarily because of market constraints.

I think that will be more effective than almost anything else we can perceive. Both Alan and I believe the three-cent increase is a reasonable number barring any other bold change that could occur, which raises a question that hasn't been raised here this morning of OPEC.

As you know, the Ministers are due to meet in September on the question of price, and it seems to those of us who worry a little bit about vulnerability that the Congress, when it went on recess, left the President with one or two choices -- do nothing and stall around for another six months or else continue some forward movement through the use of his veto.

And to have taken the first option, in my view, would have been a clear signal to OPEC that we have no capability whatsoever of coming to grips with this issue at the same moment they are sitting together on price increases.

Q What would be the effect of a \$2 increase in the price of foreign oil on our domestic prices?

MR. ZARB: It depends upon the nature of the market if given time, but it could be somewhere between four and six cents. I am making a very quick judgment for you.

Again, it depends upon the nature of the market. In the fall, gasoline demand falls off, and we will most likely see a fall off in price, other things being equal. So you can see that with even a net three-cent increase, with the normal declines that occur in the fall, it could be below that.

Q The President has promised to lift that tariff if they would sustain the veto. That sounds a little hollow in light of the Court of Appeals decision. With the timing on that Court decision, is that going to make your efforts to sustain more difficult, since the tariff might well go off at any rate?

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MR. ZARB: I cannot make that judgment. I don't know how it will affect people in the Congress. I would say that the most compelling thought that should be in the minds of those who will vote to sustain should be the fact that about the same time such a vote is being taken, the producers of foreign oil are meeting to make a judgment as to whether or not they are going to visit us with another increase of some dimension.

It is a simple postponement of this issue for another six months, which brings it into the year 1976, and would most likely stall us for another year entirely in any forward movement on this front.

Q Is there a direct cause and effect between OPEC and the Senate action on OPEC's decision and Senate action on this veto?

MR. ZARB: I think there is a direct cause and effect between how much OPEC will take advantage of the situation and their perception of how weak or how strong we are in putting together an energy program that is going to get the job done. It gets down to a measurement of guts, I suppose.

THE PRESS: Thank you.

END (AT 10:25 A.M. MDT)