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COMMITTEE PRINT

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

The Energy Crisis and Proposed Solutions

PREPARED STATEMENTS PRESENTED IN PANEL DISCUSSIONS

BY

ADMINISTRATION OFFICIALS OUTLINING THE PRESIDENT'S ENERGY PROPOSALS



MARCH 3, 1975

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The Chairman of the Council of Economic Advisers testified but did not have a prepared statement.

FOR THE PRESS
FOR IMMEDIATE RELEASE
THURSDAY, FEBRUARY 20, 1975

COMMITTEE ON WAYS AND MEANS PR #3
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CHAIRMAN AL ULLMAN (D., ORE.), COMMITTEE ON WAYS AND MEANS, U. S. HOUSE OF REPRESENTATIVES, ANNOUNCES THE COMMITTEE'S NEXT ORDER OF BUSINESS WILL BE PANEL DISCUSSIONS ON THE SUBJECT OF THE ENERGY CRISIS AND PROPOSED SOLUTIONS

Chairman Al Ullman (D., Ore.), Committee on Ways and Means, U. S. House of Representatives, today announced that the next order of business for the Committee on Ways and Means will be a thorough consideration and analysis of problems and proposals relating to the subject of energy.

The Committee will conduct two weeks of panel discussions, during the weeks of March 3 through March 7 and March 10 through March 14. The Committee will receive testimony from ten panel groups which will consist of specialists in all fields of energy and from economic and tax specialists on these subjects who have been specifically invited by the Committee to discuss various aspects of the nation's energy crisis and alternative proposed solutions. The initial panel will consist of Administration representatives who will present the details of the President's energy conservation proposals and who will supply the Committee with data relating to the energy crisis.

Following the initial panel, there will be further panels generally addressed to the following subjects:

Tuesday, March 4 - General Economic Discussion of the Effect of Administration and Other Energy Programs

Wednesday, March 5 - National Energy Needs and Alternative Sources

Thursday, March 6 - Tax Policy in the Energy Sector

Friday, March 7 - International Financial Aspects of the Energy Problem

Monday, March 10 - Petroleum Supply

Tuesday, March 11 - Gas and Other Energy Sources

Wednesday, March 12 - Automobile Efficiency and Conservation

Thursday, March 13 - Industrial, Agriculture and Home Energy Problems

Friday, March 14 - Group Transit

All the panel discussions (which include only those individuals invited by the Committee) and the testimony from Administration representatives will be open sessions which may be attended by the interested public and will be printed in due course. These proceedings will be held in the Main Hearing Room of the Committee on Ways and Means across from the staff office of the Committee, Room 1102 Longworth House Office Building, Washington, D. C.

Chairman Ullman stated that the Committee would be pleased to accept from any interested organizations and individuals brief written statements for inclusion in the printed record of the proceedings. It is imperative that such statements succinctly set forth the views of the organization or individual on the President's energy conservation proposals or with respect to alternative recommendations or comments which they wish to submit on the subject of energy for the Committee's consideration. It will be necessary to have such views in the hands of the Committee not later than the close of business Friday, March 14, 1975, in triplicate. These written statements should be submitted to John M. Martin, Jr., Chief Counsel, Committee on Ways and Means, Room 1102 Longworth House Office Building, Washington, D. C. 20515. It is emphasized that such written statements should be brief as possible and should contain a one-page summary attached to the statement so that the Committee can process these submissions as quickly as possible for the use of the Committee in markup sessions to begin immediately following the conclusion of the panel discussions. The staff will summarize and digest the statements for presentation to the Committee.

MATERIAL RELATING TO THE PRESIDENT'S TAX PROGRAM

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

Twenty-six years ago, a freshman Congressman, a young fellow, with lots of idealism who was out to change the world, stood before Speaker Sam Rayburn in the well of this House and solemnly swore to the same oath you took yesterday. That is an unforgettable experience, and I congratulate you all.

Two days later, that same freshman sat in the back row as President Truman, all charged up by his single-handed election victory, reported as the Constitution requires on the State of the Union.

When the bipartisan applause stopped, President Truman said:

"I am happy to report to this Eighty-first Congress that the State of the Union is good. Our Nation is better able than ever before to meet the needs of the American people and to give them their fair chance in the pursuit of happiness. It is foremost among the nations of the world in the search for peace."

Today, that freshman Member from Michigan stands where Mr. Truman stood and I must say to you that the State of the Union is not good.

Millions of Americans are out of work. Recession and inflation are eroding the money of millions more. Prices are too high and sales are too slow.

This year's Federal deficit will be about $30 billion; next year's probably $45 billion. The national debt will rise to over $500 billion.

Our plant capacity and productivity are not increasing fast enough. We depend on others for essential energy.

Some people question their government's ability to make the hard decisions and stick with them. They expect Washington politics as usual.

Yet, what President Truman said on January 5, 1949, is even more true in 1975.

We are better able to meet the peoples' needs.

All Americans do have a fairer chance to pursue happiness. Not only are we still the foremost nation in pursuit of peace, but today's prospects of attaining it are infinitely brighter.

There were 59,000,000 Americans employed at the start of 1949. Now there are more than 85,000,000 Americans who have jobs. In comparable dollars, the average income of the American family has doubled during the past 26 years.

Now, I want to speak very bluntly. I've got bad news, and I don't expect any applause. The American people want action and it will take both the Congress and the President to give them what they want. Progress and solutions can be achieved. And they will be achieved.

My message today is not intended to address all the complex needs of America. I will send separate messages making specific recommendations for domestic legislation, such as General Revenue Sharing and the extension of the Voting Rights Act.

The moment has come to move in a new direction. We can do this by fashioning a new partnership between the Congress, the White House and the people we both represent.

Let us mobilize the most powerful and creative industrial nation that ever existed on this earth to put all our people to work. The emphasis of our economic efforts must now shift from inflation to jobs.

To bolster business and industry and to create new jobs, I propose a one-year tax reduction of $16 billion. Three-quarters would go to individuals and one-quarter to promote business investment.

This cash rebate to individuals amounts to 12 percent of 1974 tax payments -- a total cut of $12 billion, with a maximum of $1,000 per return.

I call today on the Congress to act by April 1. If you do, the Treasury can send the first check for half the rebate in May and the second by September.

The other one-fourth of the cut, about $4 billion, will go to businesses, including farms, to promote expansion and create more jobs. The one-year reduction for businesses would be in the form of a liberalized investment tax credit increasing the rate to 12 percent for all businesses.

This tax cut does not include the more fundamental reforms needed in our tax system. But it points us in the right direction -- allowing us as taxpayers rather than the Government to spend our pay.

Cutting taxes, now, is essential if we are to turn the economy around. A tax cut offers the best hope of creating more jobs. Unfortunately, it will increase the size of the budget deficit. Therefore, it is more important than ever that we take steps to control the growth of Federal expenditures.

Part of our trouble is that we have been self-indulgent. For decades, we have been voting ever-increasing levels of Government benefits -- and now the bill has come due. We have been adding so many new programs that the size and growth of the Federal budget has taken on a life of its own.

One characteristic of these programs is that their cost increases automatically every year because the number of people eligible for most of these benefits increases every year. When these programs are enacted, there is no dollar amount set. No one knows what they will cost. All we know is that whatever they cost last year, they will cost more next year.

It is a question of simple arithmetic. Unless we check the excessive growth of Federal expenditures or impose on ourselves matching increases in taxes, we will continue to run huge inflationary deficits in the Federal budget.

If we project the current built-in momentum of Federal spending through the next 15 years, Federal, State, and local government expenditures could easily comprise half of our gross national product. This compares with less than a third in 1975.

I am now in the process of preparing the budget submissions for fiscal year 1976. In that budget, I will propose legislation to restrain the growth of a number of existing programs. I have also concluded that no new spending programs can be initiated this year, except those for energy. Further, I will not hesitate to veto any new spending programs adopted by the Congress.

As an additional step toward putting the Federal government's house in order, I recommend a five percent limit on Federal pay increases in 1975. In all Government programs tied to the consumer price index -- including social security, civil service and military retirement pay, and food stamps -- I also propose a one-year maximum increase of 5 percent.

None of these recommended ceiling limitations, over which the Congress has final authority, are easy to propose, because in most cases they involve anticipated payments to many deserving people. Nonetheless, it must be done. I must emphasize that I am not asking you to eliminate, reduce or freeze these payments. I am merely recommending that we slow down the rate at which these payments increase and these programs grow.

Only a reduction in the growth in spending can keep Federal borrowing down and reduce the damage to the private sector from high interest rates. Only a reduction in spending can make it possible for the Federal Reserve System to avoid an inflationary growth in the money supply and thus restore balance to our economy. A major reduction in the growth of Federal spending can help to dispel the uncertainty that so many feel about our economy, and put us on the way to curing our economic ills.

If we do not act to slow down the rate of increase in Federal spending, the United States Treasury will be legally obligated to spend more than $360 billion in Fiscal Year 1976 -- even if no new programs are enacted. These are not matters of conjecture or prediction, but again of simple arithmetic. The size of these numbers and their implications for our everyday life and the health of our economic system are shocking.

I submitted to the last Congress a list of budget deferrals and recisions. There will be more cuts recommended in the budget I will submit. Even so, the level of outlays for fiscal year 1976 is still much too high. Not only is it too high for this year but the decisions we make now inevitably have a major and growing impact on expenditure levels in future years. This is a fundamental issue we must jointly solve.

The economic disruption we and others are experiencing stems in part from the fact that the world price of petroleum has quadrupled in the last year. But we cannot put all of the blame on the oil-exporting nations. We in the United States are not blameless. Our growing dependence upon foreign sources has been adding to our vulnerability for years and we did nothing to prepare ourselves for an event such as the embargo of 1973.

During the 1960s, this country had a surplus capacity of crude oil, which we were able to make available to our trading partners whenever there was a disruption of supply. This surplus capacity enabled us to influence both supplies and prices of crude oil throughout the world. Our excess capacity neutralized any effort at establishing an effective cartel, and thus the rest of the world was assured of adequate supplies of oil at reasonable prices.

In the 1960s, our surplus capacity vanished and, as a consequence, the latent power of the oil cartel could emerge in full force. Europe and Japan, both heavily dependent on imported oil, now struggle to keep their economies in balance. Even the United States, which is far more self-sufficient than most other industrial countries, has been put under serious pressure.

I am proposing a program which will begin to restore our country's surplus capacity in total energy. In this way, we will be able to assure ourselves reliable and adequate energy and help foster a new world energy stability for other major consuming nations.

But this Nation and, in fact, the world must face the prospect of energy difficulties between now and 1985. This program will impose burdens on all of us with the aim of reducing our consumption of energy and increasing production. Great attention has been paid to considerations of fairness and I can assure you that the burdens will not fall more harshly on those less able to bear them.

I am recommending a plan to make us invulnerable to cut-offs of foreign oil. It will require sacrifices. But it will work.

I have set the following national energy goals to assure that our future is as secure and productive as our past:

-- First, we must reduce oil imports by 1 million barrels per day by the end of this year and by 2 million barrels per day by the end of 1977.

-- Second, we must end vulnerability to economic disruption by foreign suppliers by 1985.

-- Third, we must develop our energy technology and resources so that the United States has the ability to supply a significant share of the energy needs of the Free World by the end of this century.

To attain these objectives, we need immediate action to cut imports. Unfortunately, in the short-term there are only a limited number of actions which can increase domestic supply. I will press for all of them.

I urge quick action on legislation to allow commercial production at the Elk Hills, California, Naval Petroleum Reserve. In order that we make greater use of domestic coal resources, I am submitting amendments to the Energy Supply and Environmental Coordination Act which will greatly increase the number of power plants that can be promptly converted to coal.

Voluntary conservation continues to be essential, but tougher programs are also needed -- and needed now. Therefore, I am using Presidential powers to raise the fee on all imported crude oil and petroleum products. Crude oil fee levels will be increased $1 per barrel on February 1, by $2 per barrel on March 1 and by $3 per barrel on April 1. I will take action to reduce undue hardship on any geographical region. The foregoing are interim administrative actions. They will be rescinded when the necessary legislation is enacted.

To that end, I am requesting the Congress to act within 90 days on a more comprehensive energy tax program. It includes:

-- Excise taxes and import fees totalling $2 per barrel on product imports and on all crude oil.

-- Deregulation of new natural gas and enactment of a natural gas excise tax.

-- Enactment of a windfall profits tax by April 1 to ensure that oil producers do not profit unduly. At the same time I plan to take Presidential initiative to decontrol the price of domestic crude oil on April 1.

The sooner Congress acts, the more effective the oil conservation program will be and the quicker the Federal revenues can be returned to our people.

I am prepared to use Presidential authority to limit imports, as necessary, to assure the success of this program.

I want you to know that before deciding on my energy conservation program, I considered rationing and higher gasoline taxes as alternatives. Neither would achieve the desired results and both would produce unacceptable inequities.

A massive program must be initiated to increase energy supply, cut demand and provide new standby emergency programs to achieve the independence we want by 1985. The largest part of increased oil production must come from new frontier areas on the Outer Continental Shelf and from the Naval Petroleum Reserve No. 4 in Alaska. It is the intention of this Administration to move ahead with exploration, leasing and production on those frontier areas of the Outer Continental Shelf where the environmental risks are acceptable.

Use of our most abundant domestic resource -- coal -- is severely limited. We must strike a reasonable compromise on environmental concerns with coal. I am submitting Clean Air Act amendments which will allow greater coal use without sacrificing our clean air goals.

I vetoed the strip mining legislation passed by the last Congress. With appropriate changes, I will sign a revised version into law.

I am proposing a number of actions to energize our nuclear power program. I will submit legislation to expedite nuclear licensing and the rapid selection of sites.

In recent months, utilities have cancelled or postponed over 60 percent of planned nuclear expansion and 30 percent of planned additions to non-nuclear capacity. Financing problems for that industry are growing worse. I am therefore recommending that the one year investment tax credit of 12 percent be extended an additional two years to specifically speed the construction of power plants that do not use natural gas or oil. I am also submitting proposals for selective changes in State utility commission regulations.

To provide the critical stability for our domestic energy production in the face of world price uncertainty, I will request legislation to authorize and require tariffs, import quotas or price floors to protect our energy prices at levels which will achieve energy independence.

Increasing energy supplies is not enough. We must also take additional steps to cut long-term consumption. I therefore propose:

-- Legislation to make thermal efficiency standards mandatory for all new buildings in the United States. These standards would be set after appropriate consultation with architects, builders and labor.

-- A new tax credit of up to $150 for those home owners who install insulation equipment.

-- The establishment of an energy conservation program to help low income families purchase insulation supplies.

-- Legislation to modify and defer automotive pollution standards for 5 years to enable us to improve new automobile gas mileage 40 percent by 1980.

These proposals and actions, cumulatively, can reduce our dependence on foreign energy supplies to 3-5 million barrels per day by 1985. To make the United States invulnerable to foreign disruption, I propose standby emergency legislation and a strategic storage program of 1 billion barrels of oil for domestic needs and 300 million barrels for defense purposes.

I will ask for the funds needed for energy research and development activities. I have established a goal of 1 million barrels of synthetic fuels and shale oil production per day by 1985 together with an incentive program to achieve it.

I believe in America's capabilities. Within the next ten years, my program envisions:

-- 200 major nuclear power plants,

-- 250 major new coal mines,

-- 150 major coal-fired power plants,

-- 30 major new oil refineries,

-- 20 major new synthetic fuel plants,

-- the drilling of many thousands of new oil wells,

-- the insulation of 18 million homes,

-- and construction of millions of new automobiles, trucks and buses that use much less fuel.

We can do it. In another crisis -- the one in 1942 -- President Franklin D. Roosevelt said this country would build 60,000 aircraft. By 1943, production had reached 125,000 airplanes annually.

If the Congress and the American people will work with me to attain these targets, they will be achieved and surpassed.

From adversity, let us seize opportunity. Revenues of some $30 billion from higher energy taxes designed to encourage conservation must be refunded to the American people in a manner which corrects distortions in our tax system wrought by inflation.

People have been pushed into higher tax brackets by inflation with a consequent reduction in their actual spending power. Business taxes are similarly distorted because inflation exaggerates reported profits resulting in excessive taxes.

Accordingly, I propose that future individual income taxes be reduced by $16.5 billion. This will be done by raising the low income allowance and reducing tax rates. This continuing tax cut will primarily benefit lower and middle income taxpayers.

For example, a typical family of four with a gross income of $5,600 now pays $185 in Federal income taxes. Under this tax cut plan, they would pay nothing. A family of four with a gross income of $12,500 now pays $1,260 in Federal taxes. My plan reduces that by $300. Families grossing $20,000 would receive a reduction of $210.

Those with the very lowest incomes, who can least afford higher costs, must also be compensated. I propose a payment of $80 to every person 18 years of age and older in that category.

State and local governments will receive $2 billion in additional revenue sharing to offset their increased energy costs.

To offset inflationary distortions and to generate more economic activity, the corporate tax rate will be reduced from 48 percent to 42 percent.

Now, let me turn to the international dimension of the present crisis. At no time in our peacetime history has the state of the Nation depended more heavily on the state of the world. And seldom if ever has the state of the world depended more heavily on the state of our Nation.

The economic distress is global. We will not solve it at home unless we help to remedy the profound economic dislocation abroad. World trade and monentary structure provides markets, energy, food and vital raw materials -- for all nations. This international system is now in jeopardy.

This Nation can be proud of significant achievements in recent years in solving problems and crises. The Berlin Agreement, the SALT agreements, our new relationship with China, the unprecedented efforts in the Middle East -- are immensely encouraging. But the world is not free from crisis. In a world of 150 nations, where nuclear technology is proliferating and regional conflicts continue, international security cannot be taken for granted.

So let there be no mistake about it: international cooperation is a vital fact of our lives today. This is not a moment for the American people to turn inward. More than ever before, our own well-being depends on America's determination and leadership in the world.

We are a great Nation -- spiritually, politically, militarily, diplomatically and economically. America's commitment to international security has sustained the safety of allies and friends in many areas -- in the Middle East, in Europe, in Asia. Our turning away would unleash new instabilities and dangers around the globe which would, in turn, threaten our own security.

At the end of World War II, we turned a similar challenge into an historic achievement. An old order was in disarray; political and economic institutions were shattered. In that period, this Nation and its partners built new institutions, new mechanisms of mutual support and cooperation. Today, as then, we face an historic opportunity. If we act, imaginatively and boldly, as we acted then, this period will in retrospect be seen as one of the great creative moments of our history.

The whole world is watching to see how we respond.

A resurgent American economy would do more to restore the confidence of the world in its own future than anything else we can do. The program that this Congress will pass can demonstrate to the world that we have started to put our own house in order. It can show that this Nation is able and willing to help other nations meet the common challenge. It can demonstrate that the United States will fulfill its responsibility as a leader among nations.

At stake is the future of the industrialized democracies, which have perceived their destiny in common and sustained it in common for 30 years.

The developing nations are also at a turning point. The poorest nations see their hopes of feeding their hungry and developing their societies shattered by the economic crisis. The long-term economic future for the producers of raw materials also depends on cooperative solutions.

Our relations with the Communist countries are a basic factor of the world environment. We must seek to build a long-term basis for coexistence. We will stand by our principles and our interests; we will act firmly when challenged. The kind of world we want depends on a broad policy of creating mutual incentives for restraint and for cooperation.

As we move forward to meet our global challenges and opportunities, we must have the tools to do the job.

Our military forces are strong and ready. This military strength deters aggression against our allies, stabilizes our relations with former adversaries and protects our homeland. Fully adequate conventional and strategic forces cost many billions, but these dollars are sound insurance for our safety and a more peaceful world.

Military strength alone is not sufficient. Effective diplomacy is also essential in preventing conflict and building world understanding. The Vladivostok negotiations with the Soviet Union represent a major step in moderating strategic arms competition. My recent discussions with leaders of the Atlantic Community, Japan and South Korea have contributed to our meeting the common challenge.

But we have serious problems before us that require cooperation between the President and the Congress. By the Constitution and tradition, the execution of foreign policy is the responsibility of the President.

In recent years, under the stress of the Vietnam War, legislative restrictions on the President's capability to execute foreign and military decisions have proliferated. As a member of the Congress, I opposed some and approved others. As President, I welcome the advice and cooperation of the House and Senate.

But, if our foreign policy is to be successful we cannot rigidly restrict in legislation the ability of the President to act. The conduct of negotiations is ill suited to such limitations. For my part, I pledge this Administration will act in the closest consultations with the Congress as we face delicate situations and troubled times throughout the globe.

When I became President only five months ago, I promised the last Congress a policy of communication, conciliation, compromise and cooperation. I renew that pledge to the new members of this Congress.

To sum up:

America needs a new direction which I have sought to chart here today -- a change of course which will:

-- put the unemployed back to work;

-- increase real income and production;

-- restrain the growth of government spending;

-- achieve energy independence; and

-- advance the cause of world understanding.

We have the ability. We have the know-how. In partnership with the American people, we will achieve these objectives.

As our 200th anniversary approaches, we owe it to ourselves, and to posterity, to rebuild our political and economic strength. Let us make America, once again, and for centuries more to come, what it has so long been -- a stronghold and beacon-light of liberty for the world.

GERALD R. FORD

THE WHITE HOUSE,

January 15, 1975.

THE WHITE HOUSE

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The President's Economic and Tax Program

The President's State of the Union Address outlined the nation's current economic situation and outlook, and his economic and tax program which are designed to wage a simultaneous three-front campaign against recession, inflation and energy dependence.

BACKGROUND

The U.S. economy is faced with the closely linked problems of inflation and recession. During 1974, the economy experienced the highest rate of inflation since World War II. Late in 1974, when a recession set in, unemployment rose sharply to over 7 percent, the highest level in 13 years.

Accelerated inflation had its roots in the policies of the past and several recent developments not subject to U.S. control. Specifically:

-- Excessive Federal spending and lending for over a decade and too much money and credit growth.

-- Unusually poor harvests contributed heavily to world-wide food shortages and escalating food prices.

-- World petroleum product prices increased dramatically due to the Arab nations' embargo on shipments of oil to the U.S., the quadrupling of the price of crude oil by the OPEC nations, and their sharp reductions in crude oil production to maintain higher prices. Higher energy prices were passed through in the prices of other products and services.

-- The decline in U.S. domestic production of oil and natural gas that began in the 1960's also contributed to higher energy prices.

-- An economic boom occurred simultaneously in the industrialized nations of the world.

-- There were two international devaluations of the dollar.

Inflation contributed strongly to the forces of recession:

-- The real purchasing power of workers' paychecks was reduced.

-- Inflation also reduced consumer confidence, contributing to the most severe slump in consumer purchasing since World War II.

-- Inflation forced interest rates to very high levels, draining funds out of financial institutions that supply most mortgage loans and thus sharply reducing construction of homes.

-- Federal Government spending and lending programs, accounting for over half the funds raised in capital markets, reduced the amount of money available for capital investments needed to raise productivity and increase living standards.

CURRENT SITUATION AND NEAR-TERM OUTLOOK

The economy is now in a full-fledged recession and unemployment will rise further. Inflation continues at a rapid pace and the need to take immediate steps to conserve energy will further complicate the problem initially.

There are no instant cures. A careful and balanced policy approach is required. It will take time to yield full results. There is, however, no prospect of a long and deep economic downturn on the scale of the 1930's.

MAJOR ELEMENTS OF THE PRESIDENT'S ECONOMIC AND TAX PROGRAM

I. A $16 Billion Temporary, Anti-Recession Tax Reduction. This major reduction in taxes proposed for individuals and businesses is designed to restore consumer confidence and promote a recovery of production and employment. The recession is deeper and more widespread than expected earlier, but the tax reduction -- together with the easing of monetary conditions that has already taken place -- will support a healthy economic recovery. The tax reduction must be temporary to avoid excessive stimulus resulting in a new price explosion and congested capital markets. The temporary nature of the reduction is consistent with the long-term economic goals of achieving and maintaining reasonable price stability and raising the share of national output devoted to saving and capital formation.

II. Energy Taxes and Fees. Energy excise taxes and fees on petroleum and natural gas will reduce use of these energy sources and reduce the nation's need for importing expensive and insecure foreign oil. Removal of price controls from domestic crude oil (together with other energy actions) will encourage domestic oil production. A windfall profits tax would recover windfall profits resulting from crude oil decontrol. Energy taxes and fees are expected to raise $30 billion in new Federal revenues on an annual basis.

III. Permanent Tax Reduction Made Possible By Energy Taxes and Fees. The $30 billion annual revenue from energy conservation excise taxes and fees and the windfall profits tax on crude oil would be returned to the economy through a major tax cut, a cash payment for non-taxpayers, and direct distribution to governmental units. Tax reductions are designed to go mainly to low-and middle-income taxpayers.

IV. One Year Moratorium on New Federal Spending Programs. The moratorium on new spending programs proposed by the President will permit the Federal Government to move toward long-term budget responsibility and to avoid refueling inflation when the economy begins rising again.

V. Budget Reductions. The President will propose significant spending reductions in his Fiscal Year 1976 Budget. The reductions total more than $17 billion, including $7.8 billion savings from reductions proposed last year and $6.1 billion from the 5 percent ceiling to be proposed on Federal employee pay increases and on Federal benefit programs that rise automatically with the Consumer Price Index.

SPECIFIC PROPOSALS ANNOUNCED BY THE PRESIDENT

I. A Temporary, Anti-Recession Tax Cut of $16 Billion. The President proposed a temporary, tax reduction of approximately $16 billion to provide prompt stimulus to consumer spending and business investment. The tax cut is divided 75 percent to individuals and 25 percent to corporations, which is approximately the ratio that individual income taxes bear to corporate income taxes. The cuts would be:

A. A Tax Reduction for Individuals of $12 Billion.

1. Individuals will receive a cash refund equal to 12 percent of their 1974 tax liabilities, as reported on their 1974 tax returns now being filed, up to a limit of $1,000. Married couples filing separately would receive a maximum refund of $500 each.

2. The temporary reduction will be a uniform 12 percent for all taxpayers up to about the $41,000 income level where the $1,000 maximum takes effect, and will then be a progressively smaller percentage for taxpayers above that level.

3. The refund will be paid in two equal installments in 1975 with payments of the first installment beginning in May and the second in September.

4. The proposal does not affect in any way the manner in which taxpayers complete and file their 1974 tax returns. They will file and pay their tax in accordance with existing law, without regard to the tax reduction. Later they will receive their refund checks from the Internal Revenue Service. Because no changes in deductions and other such items are involved, the Internal Revenue Service will be able to determine the amount of the refund and mail the checks without requiring further forms and computations from taxpayers.

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5. The effect of the tax refund can be illustrated for a family of four as follows:

Adjusted Gross Income	Present Tax	Proposed Refund	Percent Saving
$ 5,000	$ 98	$ 12	-12.0%
7,000	402	48	-12.0%
10,000	867	104	-12.0%
12,500	1,261	151	-12.0%
15,000	1,699	204	-12.0%
20,000	2,660	319	-12.0%
40,000	7,958	955	-12.0%
50,000	11,465	1,000	- 8.7%
60,000	15,460	1,000	- 6.5%
100,000	33,340	1,000	- 3.0%
200,000	85,620	1,000	- 1.2%

Although the taxpayer will not figure his own refund, it is a simple matter for him to anticipate how much the Internal Revenue Service will be sending him, by calculating 12 percent of his total tax liability for the year (on Form 1040 for 1974, it is line 18, page 1, and on Form 1040A, line 19).

B. A Temporary Increase in Investment Tax Credit for Business and Farmers of $4 billion.

1. There will be an increase for one year in the investment tax credit to 12 percent for all taxpayers, including utilities (which presently have, in effect, a 4 percent credit). Utilities will continue to receive a 12 percent credit for two additional years for qualified investment in electrical power plants other than oil- or gas-fired facilities.

2. This increase in the credit will provide benefits of $4 billion in 1975 to immediately stimulate job-creating investment. (In view of the need for speedy enactment and the temporary nature of the increased credit, this change does not include the basic restructuring of the credit as proposed on a permanent basis in October, 1974.)

3. With respect to utilities, it includes a temporary increase in the amount of credit which may be used to offset income tax. Under current law, not more than 50 percent of the income tax liability for the year may be offset by the investment credit. Since many utilities have credits they have been unable to use because of this limitation, under this proposal utilities will be permitted to use the credit to offset up to 75 percent of their tax liability for 1975, 70 percent for 1976, 65 percent for 1977, and so on, until 1980, when they will in five annual steps have returned to the 50 percent limitation applicable to industry generally.

4. The 12 percent credit will apply to property placed in service during 1975 and to property ordered during 1975 if placed in service before the end of 1976. The credit will also be available to the extent of construction, reconstruction or erection of property by or for a taxpayer during 1975, without regard to the date ultimately placed in service. Similar rules will apply to investment in electrical power plants other than oil-or gas-fired facilities, for which the 12 percent credit will continue through 1977.

II. Energy Conservation Taxes and Fees. Energy taxes and fees, in conjunction with domestic crude oil price decontrol and the proposed windfall profits tax, would raise about $30 billion on an annual basis. The fees and taxes and related actions (discussed more fully in Part Two of this Fact Sheet) include:

A. Administrative Actions.

1. Import Fee -- The President is acting immediately within existing authorities to increase import fees on crude oil and petroleum products. These new import fees will be modified upon passage of the President's legislative package.

(a) Import fees on crude oil and petroleum products will be increased by $1 effective February 1, 1975; an additional $1 effective March 1; and another $1 effective April 1, for a total increase of $3.00 per barrel. Currently existing fees will also remain in effect.

(b) FEA's "Old Oil Entitlements" program will be utilized to spread price increases on crude among all refiners, and to lessen disproportionate regional effects, such as New England, or in any specific industries or areas of human need where oil is essential.

(c) As of February 1975, product imports will cease to be covered by FEA's "Old Oil Entitlements" program. In order to overcome any severe regional impacts that could be caused by large fees in import dependent areas, imported products will receive a fee rebate corresponding to the benefit which would have been obtained under that program. The rebate should be approximately $1.00 in February, $1.40 in March, and $1.80 per barrel thereafter.

(d) The import fee program will reduce imports by an estimated 500,000 barrels per day and generate about $400 million per month in revenues by April.

2. Crude Oil Price Decontrol -- To stimulate domestic production and further cut demand, steps will be taken to remove price controls on domestic crude oil by April 1, 1975, subject to congressional disapproval as provided by §4(g) of the Emergency Petroleum Allocation Act of 1973.

3. Control of Imports -- The energy conservation measures to be imposed administratively outlined above, the energy conservation taxes outlined below and other energy conservation measures covered in Part Two below, will be supplemented by the use of Presidential power to limit oil imports as necessary to fully achieve the President's goals of reducing foreign oil imports by one million barrels a day by the end of 1975 and by two million barrels before the end of 1977.

B. Taxes Proposed to the Congress. The President asked the Congress to pass within 90 days a comprehensive energy conservation tax program which will raise an estimated $30 billion in revenues on an annual basis. The taxes proposed are:

1. Petroleum Excise Tax and Import Fee -- An excise tax on all domestic crude oil of $2 per barrel and a fee on imported crude oil and product imports of $2 per barrel.

2. Natural Gas Excise Tax -- An excise tax on natural gas of 37¢ per thousand cubic feet (mcf), the equivalent on a Btu basis to the $2 per barrel petroleum excise tax and import fee.

3. Windfall Profits Tax -- To ensure that the end of controls on crude oil prices does not result in one sector of the economy benefitting unfairly at the expense of other sectors, a windfall profits tax will be levied on the profits realized by producers of domestic oil. This tax is intended to recapture excessive profits which would otherwise be realized by producers as a result of the rise in international oil prices. This tax does not itself cause price increases, but simply recaptures the profits from price increases otherwise induced. It will, together with the income tax on such profits, produce revenues of approximately $12 billion. In aggregate, the windfall profits tax is sufficient to absorb all the profits that would otherwise flow from decontrolling oil prices, plus an additional $3 billion. More specifically the tax will operate as follows:

(a) A windfall profits tax at rates graduated from 15 percent to 90 percent will be imposed on that portion of the price per barrel that exceeds the producer's adjusted base price and therefore represents a windfall profit. The initial "adjusted base price" will be the producer's ceiling price per barrel on December 1, 1973 plus 95 cents to adjust for subsequent increased costs and higher price levels generally. Each month the bases will be adjusted upward on a specified schedule, which will gradually raise the adjusted base price to reflect long-run supply conditions and provide the incentive for new investment in petroleum exploration. Percentage depletion will not be allowed on the windfall profits tax liability.

(b) The windfall profits tax rates will be applied to prices per barrel in excess of applicable adjusted base prices as follows:

Portion of price per barrel in excess of base and subject to tax	Amount of tax
Less than $0.20	15% of amount within bracket
$0.20, under $0.50	$0.03 plus 30% of amount within bracket
$0.50, under $1.20	$0.12 plus 60% of amount within bracket
$1.20, under $3.00	$0.54 plus 80% of amount within bracket
$3.00 and over	$1.98 plus 90% of amount within bracket

(c) The windfall profits tax does not include a "plowback" provision, nor does it contain exemptions for classes of production or producers. It does, however, include the limitation that the amount subject to tax may not exceed 75 percent of the net income from the barrel of crude oil. The tax will be retroactive to January 1, 1975.

(d) The windfall profits tax reduces the base for the depletion allowance.

III. Permanent Tax Reductions and Payments to Non-Taxpayers Made Possible by Energy Conservation Taxes.

Of the $30 billion in revenue raised annually by the proposed conservation taxes outlined above, about $5 billion is paid by governments through the higher costs of energy in their purchases. This $5 billion includes:

. $3 billion by the Federal government.
. $2 billion by state and local governments.

The President is proposing to the Congress that $2 billion of the revenues be paid to State and local governments, pursuant to the distribution formulas applicable to general revenue sharing. The other $25 billion will be returned to the economy mostly in the form of tax cuts. As in the case of the temporary tax reduction, this permanent change will be divided between individuals and corporations on a 75-25 percent basis, about $19 billion for individuals and about $6 billion for corporations. Specifically, this would include:

A. Reductions for Individuals in 1975 -- Tax cuts for individuals will be achieved in two ways: (1) through an increase in the Low Income Allowance and (2) a cut in the schedule of tax rates. In this way, tax-paying individuals will receive a reduction of approximately $16 1/2 billion, with proportionately larger cuts going to low-and middle-income families. The Low Income Allowance will be increased from the present $1,300 level to $2,600 for joint returns and $2,000 for single returns. That will bring the level at which returns are nontaxable to what is approximately the current "poverty level" of $5,500 for a family of 4. In addition, the tax rates applicable to various brackets of income will be reduced. The aggregate effects of these changes are as follows:

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(1975 Levels)
($billions)

Adjusted Gross Income Class ($000)	Income Tax Paid Under Present Law	Amount of Income Tax Reduction	Percentage Reduction in Income Tax (..... % .....)
0 - 3	3	- .25	-83.3%
3 - 5	1.8	- 1.20	-66.7
5 - 7	4.0	- 1.96	-49.0
7 - 10	8.9	- 3.38	-38.0
10 - 15	21.9	- 4.72	-21.6
15 - 20	22.8	- 2.70	-11.8
20 - 50	44.4	- 2.15	- 4.8
50 - 100	13.5	- .11	- 0.8
100 and over	13.3	- .03	- 0.2
Total	130.9	-16.50*	-12.6

*Does not include payments to nontaxpayers

The effect of these tax changes can be illustrated for a family of 4, as follows:

Adjusted Gross Income	Present Tax 1/	New Tax	Tax Saving	Percent Saving
$ 5,600	$ 185	$ 0	$185	100.0%
7,000	402	110	292	72.6
10,000	867	518	349	40.3
12,500	1,261	961	300	23.8
15,000	1,699	1,478	221	13.0
20,000	2,660	2,450	210	7.9
30,000	4,988	4,837	151	3.0
40,000	7,958	7,828	130	1.6

1/ Calculated assuming Low Income Allowance or itemized deductions equal to 17 percent of income, whichever is greater.

B. Residential Conservation Tax Credit (Discussed in the Energy Section of this Fact Sheet). The President seeks legislation to provide incentives to homeowners for making thermal efficiency improvements, such as storm windows and insulation, in existing homes. This measure, along with a stepped-up public information program, could save the equivalent of over 500,000 barrels of oil per day by 1985. Under this legislation:

1. A 15 percent tax credit retroactive to January 1, 1975 for the cost of certain improvements in thermal efficiency in residences would be provided. Tax credits would apply to the first $1,000 of expenditures and can be claimed during the next three years.

2. At least 18 million homes could qualify for these tax benefits, estimated to total about $500 million annually in tax credits.

C. Payments to Nontaxpayers of $2 billion. The final component of the $19 billion distribution to individuals is a distribution of nearly $2 billion to nontaxpayers and certain low-income taxpayers. For this low-income group, a special distribution of $80 per adult will be provided, as follows:

1. Adults who would pay no tax, even without the tax reductions in A above, will receive $80.

2. Adults who receive less than $80 in such tax reductions will receive approximately the difference.

3. Persons not otherwise filing returns but eligible for these special distributions will make application on simple forms provided by the Internal Revenue Service on which they would furnish their name, address, social security number, and income.

4. For purposes of the special distribution, "adults" are individuals who during the year are at least 18 years old and who are not eligible to be claimed as a dependent under the Federal income tax laws.

5. Since most taxpayers will receive their 1975 income tax reductions in 1975 through reductions in withholding on wages and estimated tax payments, the special distribution to non-taxpayers and low-income

taxpayers will also begin in 1975. It is anticipated that disbursement, based on 1974 income can be made in the summer of 1975.

D. Tax Reductions for Corporations. The corporate rate will be reduced by 6 percentage points, effectively lowering the corporate rate from 48 percent to 42 percent for 1975. The resulting benefit in 1975 is estimated at about $6 billion.

IV. Moratorium on New Federal Spending Programs. The President announced that he would propose no new Federal spending programs except for energy. He also indicated that he would not hesitate to veto any new spending programs passed by the Congress. The need for the moratorium is demonstrated by preliminary FY 1976 Budget estimates:

	Fiscal Years			Percent Change	
	1974	1975	1976	75/74	76/75
Revenues	264.9	280	303	5.7%	8.2%
Outlays	268.4	314	349	17 %	11.1%
Deficit	-3.5	32-34	45-47	--	--

NOTE: Estimates for 1975 and 1976 are subject to a variation of $2 billion in the final budget.

V. Budget Reductions.
The budget figures shown above assume that significant budget reductions proposed by the President are effected. Including reductions proposed in a series of special messages sent to the last session of Congress these budget reductions total more than $17 billion. Of this total, over $6 billion will result from the proposed 5% ceiling on Federal pay increases and on those Federal benefit programs that rise automatically with the Consumer Price Index.

The following summarizes reductions in 1976 spending to be included in the upcoming budget:

	(Outlays in billions)
Effect of budget reductions proposed last year (including administrative actions)	$8.9
Amounts overturned by the Congress	-1.1
Remaining savings	7.8
Further reductions to be proposed:	
Ceiling of 5% on Federal pay and programs tied to the CPI	6.1
Other actions planned . . .	3.6
Total reductions	17.5

The following lists those programs to which the 5% ceiling will apply and shows spending amounts for them:

Effect of 5% Ceiling on Pay Increases and Programs Tied to CPI
(Fiscal year estimates; Dollars in billions)

Programs Affected	1975 Outlays	1976 Outlays Without ceiling	1976 Outlays With ceiling	Difference 1975-1976 (with ceiling)
Social security ..	64.5	74.3	71.8	+7.3
Railroad retirement	3.0	3.4	3.3	+0.3
Supplemental Security Income	4.7	5.5	5.4	+0.7
Civil service and military retirement payments	13.5	16.2	14.9	+1.4
Foreign Service retirement ...	.1	.1	.1	*
Food stamp program	3.7	3.9	3.6	-0.1
Child nutrition	1.3	1.8	1.6	+0.3
Federal salaries:				
Military	23.2	23.1	22.5	-0.7
Civilian	35.5	38.9	38.0	+2.5
Coal miner benefits	1.0	1.0	1.0	*
Total	150.5	168.2	162.1	+11.7

* Less than $50 million.

The 5% ceiling will take into account increases that have already occurred since January 1, 1975. Under the plan, after June 30, 1976, adjustments would be resumed in the same way as before the establishment of the 5% ceiling. However, no catchup of the increases lost under the ceiling would take place.

SUMMARY OF THE BUDGET IMPACT OF THE NEW TAXES AND FEES AND THE TAX CUTS

The following table summarizes the estimated direct budget impact, on a full-year-effective basis, of the tax and related changes proposed by the President to deal with the economic and energy situations:

Revenue Raising Measures	Estimated Amounts ($ billions)
Oil excise tax and import fee	+ 9 1/2
Natural gas excise tax	+ 8 1/2
Windfall Profits tax	+12
Total	+30

Revenue Disbursing Measures	Estimated Amounts ($ billions)
Energy rebates:	
Income tax cuts, individuals	-16 1/2
Residential tax credit	- 1/2
Nontaxpayer distribution	- 2
Corporate tax cut	- 6
State and local governments	- 2
Federal government costs	- 3
Subtotal	-30
Temporary economic stimulus:	
Individual tax refunds	-12
Investment credit increase	- 4
Subtotal	-16
Total Revenue Disbursing Measures	46

The tax and related changes will go into effect at different times, but all of them during the year 1975:

-- The energy conservation taxes are proposed to go into effect April 1.

-- The increase in import fees would go into effect

- $1 per barrel February 1.
- To $2 per barrel March 1.
- To $3 per barrel, if the energy taxes have not been enacted, April 1.

-- The windfall profits tax on crude oil would be effective as of January 1, 1975. First payments of the tax would be made in the third quarter.

-- The permanent tax cuts for individuals and corporations made possible by the revenues from the energy conservation taxes would be effective as of January 1, 1975. The changes in withholding rates for individuals are expected to go into effect on June 1. The withholding changes will be adjusted so that 12 months reduction is accomplished in the 7 months from June through December.

-- The tax credit for energy-saving improvements to existing residences would go into effect as of January 1, 1975.

-- The special distribution to nontaxpayers is expected to be paid out in the summer of 1975.

-- The $2 billion distribution to State and local governments would be effective with the second quarter of 1975.

-- The temporary anti-recession tax cut for individuals will be paid out in two installments, in the second and third quarters.

-- The one-year increase in the investment tax credit becomes effective retroactively to January 1, 1975.

The timing of the various changes suggests a pattern of direct budget changes as follows. The timing of the economic stimulus or restraint will depend, as well, on such factors as the indirect effects of the budget changes, the timing of the pass-through of higher energy costs to final users, the extent to which the changes are anticipated, and a variety of monetary and financial developments that arise out of these changes.

Timing of Direct Budget Impact

($ billions)

	Calendar Years							
	1975				1976			
	I	II	III	IV	I	II	III	IV
Energy Taxes	+0.2	+4.1	+12.6	+7.6	+7.6	+7.5	+7.5	+7.5
Return of Energy Revenues to Economy								
Tax Reduction	.0	-3.2	- 9.0	-9.0	-5.6	-7.9	-6.3	-6.4
Nontaxpayers			- 2.0				-2.0	
S&L Gov'ts	.0	-0.5	- 0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Federal Govt.	.0	.0	- 0.8	-0.7	-0.8	-0.7	-0.8	-0.7
Temporary Tax Cut	.0	-6.1	- 7.9	-0.6	-0.8	-0.9	0	0
Net Effect	+0.2	-5.7	- 7.6	-3.2	-0.1	-2.5	-2.1	-0.1

INFLATION IMPACT

Both major parts of the tax package require inflation impact analysis. The excise taxes on crude oil and natural gas, combined with the tariff and decontrol of prices of both "old" oil and new natural gas, will add to the general price level immediately. The consumer price index is expected to rise by about two percent when these tax and price increases go into effect. However, this increase has a one-time impact on the price level that, with exceptions in some areas, should not add materially to inflationary pressures in future years.

The inflationary impact of the $16 billion anti-recession tax cut is more difficult to assess. While some economists may argue that a tax cut will add to the rate of inflation during the year ahead, others would contend that under present economic conditions, with unemployment high and many factories operating well below capacity, the predominant effect of the tax cut will be to stimulate spending, and that additional spending will have only a slight impact on prices.

Whatever the precise price impact of this $16 billion tax cut during 1975, the most important fact about it from the standpoint of inflation is that it is temporary. With the recession still under way, the rate of inflation will be coming down -- it will be too high, but nevertheless moving in the right direction. After the economy gets well into recovery, however, too much stimulus would be sure to reverse the slowing of the inflation rate and, indeed, start a new acceleration. Thus, the tax stimulus must be temporary rather than permanent.

The President has declared a moratorium on new Federal spending programs for this same reason. Budget expenditures are rising rapidly this year, in part, because of programs to aid the unemployed. That is acceptable and highly desirable in a recession to relieve the burden on workers who are affected. It is also desirable because spending under those programs phases out as the economy recovers and unemployment falls. The increased Federal spending is only temporary.

Over the long-term, however, both Federal spending and lending have been rising much too fast, a fact that accounts for a substantial part of our current economic problems. A new burst of expenditure programs cannot

help the Nation recover from the current recession -- the impact would come much too late -- but it would surely do much inflationary harm as the economy returns to prosperous conditions in the years ahead. Therefore, at the same time that taxes are being reduced to support a healthy recovery, policies that would revive inflationary pressures must be avoided after the recovery is underway. The size of currently projected Federal budget deficits precludes introduction of new spending programs now that would raise inflationary pressures later. For this reason, the President requested that no new spending programs, except as needed in the energy area, be enacted so that we can regain control of the budget over the long-run and permit a gradual return to reasonable price stability.

PRESIDENTIAL PROPOSALS OF OCTOBER 8, 1974 RESUBMITTED FOR CONGRESSIONAL ACTION

In addition to the comprehensive set of economic and energy policies discussed in the State of the Union Message, the President asked that the new Congress pass quickly certain legislative proposals originally requested in his October 8, 1974, message. Those proposals would:

1. Remove restrictions on the production of rice, peanuts, and extra-long-staple cotton.

2. Amend P.L. 480 to waive certain restrictions on shipments of food under that Act to needy countries for national interest or humanitarian reasons.

3. Amend the Antitrust Civil Process Act to strengthen the investigation powers of the Antitrust Division of the Department of Justice.

4. Eliminate the U.S. Withholding tax on foreign portfolio investments to encourage such investment.

5. Allow dividends paid on qualified preferred stock to be an authorized deduction for determining corporate income taxes to increase incentives for raising needed capital in the form of equity rather than debt.

6. Create a National Commission on Regulatory Reform and take prompt action on other reforms of regulatory and administrative procedures that will be recommended in the future.

7. Strengthen our financial institutions and provide a new tax incentive for investment in residential mortgages.

8. Permit more competition between different modes of surface transportation (The Surface Transportation Act).

9. Amend the Employment Act of 1946 to make explicit the goal of price stability. (Substitute "to promote maximum employment, maximum production, and stability of the general price level" in place of the present language, "to promote maximum employment, production and purchasing power.").

The President's Energy Program
(including energy taxes and fees)

The President's State of the Union Address outlined the Nation's energy outlook, set forth national energy policy objectives, and described actions he is taking immediately and indicated proposals he is asking the Congress to pass.

BACKGROUND

Over the past two years, progress has been made in conserving energy, expanding energy R&D and improving Federal government energy organization. Despite such accomplishments, we have not succeeded in solving fundamental problems and our National energy situation is critical. Our reliance on foreign sources of petroleum is contributing to both inflationary and recessionary pressures in the United States. World economic stability is threatened and several industrialized nations dependent upon imported oil are facing severe economic disruption.

With respect to the U.S. energy situation:

-- Petroleum is readily available from foreign sources -- but at arbitrarily high prices, causing massive outflow of dollars, and at the risk of increasing our Nation's vulnerability to severe economic disruption should another embargo be imposed.

  - Petroleum imports remain at high levels even at present high prices.

  - Domestic oil production continues to decline as older fields are depleted and new fields are years from production; 8.8 million barrels per day in 1974 compared to 9.2 million in 1973.

  - Total U.S. petroleum consumption is increasing, although at slower rates due to higher prices.

-- Natural gas shortages are forcing curtailment of supplies to many industrial firms and denial of service to new residential customers. (14% expected this winter versus 7% last year.) This is resulting in unemployment, reductions in the production of fertilizer needed to increase food supplies, and increased demand for alternative fuels -- primarily imported oil.

-- Coal production is at about the same level as in the 1930's.

-- Nuclear energy accounts for only 1 percent of total energy supply and new plants are being delayed, postponed or cancelled.

-- Overall energy consumption is beginning to increase again.

-- U.S. vulnerability to economic and social impact from an embargo increases with higher imports and will continue to do so until we reverse current trends, ready standby plans, and increase petroleum storage.

Economic impacts of the four-fold increase in OPEC oil prices include:

-- Heavy outflow of U.S. dollars (and, in effect, jobs) to pay for growing oil imports -- about $24 billion in 1974 compared to $2.7 billion in 1970.

-- Tremendous balance of payments deficits and possible economic collapse for those nations of Europe and Asia that must depend upon expensive imported oil as a primary energy source.

-- Accumulation of billions of dollars of surplus revenues in oil exporting nations -- approximately $60 billion in 1974 alone.

U.S. ENERGY OUTLOOK

I. Near-Term (1975-1977): In the next 2-3 years, there are only a few steps that can be taken to increase domestic energy supply particularly due to the long lead time for new production. Oil imports will thus continue to rise unless demand is curbed.

II. Mid-Term (1975-1985): In the next ten years, there is greater flexibility. A number of actions can be taken to increase domestic supply, convert from foreign oil to domestic coal and nuclear energy, and reduce demand -- if the Nation takes tough actions. Vulnerability to an embargo can be eliminated.

III. Long-Term (Beyond 1985): Emerging energy sources can play a bigger role in supplying U.S. needs -- the results of the Nation's expanded energy research and development program. U.S. independence can be maintained. New technologies are the most significant opportunity for other consuming nations with limited domestic resources.

NATIONAL ENERGY POLICY GOALS AND PRINCIPLES ANNOUNCED BY THE PRESIDENT

I. Near-Term (1975-1977): Reduce oil imports by 1 million barrels per day by the end of 1975 and 2 million barrels by the end of 1977, through immediate actions to reduce energy demand and increase domestic supply.

(A) With no action, imports would be about 8 million barrels per day by the end of 1977, more than 20 percent above the 1973 pre-embargo levels.

(B) Acting to meet the 1977 goal will reduce imports below 1973 levels, assuring reduced vulnerability from an embargo and greater consumer nation cooperation.

(C) More drastic short-term reductions would have unacceptable economic impacts.

II. Mid-Term (1975-1985): Eliminate vulnerability by achieving the capacity for full energy independence by 1985. This means 1985 imports of no more than 3-5 million barrels of oil per day, all of which can be replaced immediately from a strategic storage system and managed with emergency measures.

(A) With no action, oil imports by 1985 could be reduced to zero at prices of $11 per barrel or more -- or they could go substantially higher if world oil prices are reduced (e.g., at $7 per barrel, U.S. consumption could reach 24 million barrels per day with imports of above 12 million, or above 50% of the total.)

(B) The U.S. anticipates a reduction in world oil prices over the next several years. Hence, plans and policies must be established to achieve energy independence even at lower prices -- countering the normal tendency to increase imports as the price declines.

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(C) Actions to meet the 1985 goal will hold imports to no more than 3-5 million barrels per day even at $7 per barrel prices. Protection against an embargo of the remaining imports can then be handled most economically with storage and standby emergency measures.

III. Long-Term (Beyond 1985): Within this century, the U.S. should strive to develop technology and energy resources to enable it to supply a significant share of the Free World's energy needs.

(A) Other consuming nations have insufficient fossil fuel resources to reach domestic energy self-sufficiency.

(B) The U.S. can again become a world energy supplier and foster world energy price stability -- much the same as the nation did prior to the 1960's when it was a major supplier of world oil.

IV. Principles: Actions to achieve the above national energy goals must be based upon the following principles:

-- Provide energy to the American consumer at the lowest possible cost consistent with our need for secure energy supplies.

-- Make energy decisions consistent with our overall economic goals.

-- Balance environmental goals with energy requirements.

-- Rely upon the private sector and market forces as the most efficient means of achieving the Nation's goals, but act through the government where the private sector is unable to achieve our goals.

-- Seek equity among all our citizens in sharing of benefits and costs of our energy program.

-- Coordinate our energy policies with those of other consuming nations to promote interdependence, as well as independence.

ACTIONS ANNOUNCED TODAY BY THE PRESIDENT

I. ACTIONS ANNOUNCED BY THE PRESIDENT TO MEET NEAR-TERM GOALS (1975-1977)

To meet the national goals, the President outlined a comprehensive program of legislative proposals to the Congress which he requested be enacted within 90 days and administrative actions that he will begin implementing immediately. The legislative package is more effective and equitable than the administrative program, but the President indicated that the seriousness of the situation demanded immediate action. These actions will reduce overall energy demand, increase domestic production, increase conversion to coal, and reduce oil imports. They include:

(A) Administrative Actions

1. Import Fee -- Because of the seriousness of the problem and because time is required for Congressional action on his legislative proposals, the President is acting immediately within existing authorities to increase the import fees on crude oil and petroleum products. These new import fees would be modified upon passage of the President's legislative package.

(a) Import fees on crude oil and petroleum products under the authority of the Trade Expansion Act of 1962, as amended, will be increased by $1 effective February 1, 1975, an additional $1 effective March 1; and another $1 effective April 1, for a total increase of $3.00 per barrel. Currently existing fees will also remain in effect.

(b) FEA's "Old Oil Entitlements" program will be utilized to spread price increases on crude among all refiners and to lessen disproportionate regional effects, particularly in the Northeast.

(c) As of February 1975, product imports will cease to be covered by FEA's "Old Oil Entitlements" program. In order to overcome any severe regional impacts that could be caused by large fees in import dependent areas, imported products will receive a rebate corresponding to the benefit which would have been obtained under that program. The rebate should be approximately $1.00 in February, $1.40 in March, and $1.30 per barrel in April.

(d) This import fee program would reduce imports by about 500,000 barrels per day. In April it would generate about $400 million per month in revenues.

2. Backup Import Control Program -- The energy conservation measures and tax proposals will be supplemented by the use of Presidential power to limit oil imports as necessary to achieve the near-term goals.

3. Crude Oil Price Decontrol -- To stimulate production and further cut demand, steps will be taken to remove price controls on domestic crude oil by April 1, 1975, subject to congressional disapproval as provided by §4(g) of the Emergency Petroleum Allocation Act of 1973.

4. Increase Public Education on Energy Conservation -- Energy Resources Council will step up its efforts to provide information on energy conservation methods and benefits.

(B) Legislative Proposals

1. Comprehensive Tax and Decontrol Program -- The President asked the Congress to pass within 90 days a comprehensive legislative package which could lead to reduction of oil imports of 900,000 barrels per day by 1975 and 1.6 million barrels by 1977. Average oil prices would rise about $4.00 per barrel of $.10 per gallon. The package which will raise $30 billion in revenues on an annual basis includes:

(a) Windfall Profits Tax -- A tax on all domestic crude oil to capture the windfall profits resulting from price decontrol. The tax would take 88% of the windfall profits on crude oil and would phase out over several years. The tax would be retroactive to January 1, 1975.

(b) Petroleum Excise Tax and Import Fee -- An excise tax on all domestic crude oil of $2 per barrel and a fee on imported crude oil and product imports of $2 per barrel. The new, administratively established import fee of $3 on crude oil would be reduced to $2.00 and $1.20 fee on products would be increased to $2.00 when the tax is enacted. The product import fee would keep the excise tax from encouraging foreign refining and the related loss of jobs to the U.S.

(c) New Natural Gas Deregulation -- Remove Federal interstate price regulation on new natural gas to increase domestic production and reduce demand for scarce natural gas supplies.

(d) Natural Gas Excise Tax -- An excise tax on natural gas of 37¢ per thousand cubic feet (mcf), which is equivalent on a Btu basis to the $2 per barrel petroleum excise tax and fee. This will discourage attempts to switch to natural gas and acts to reduce natural gas demand curtailments. Since the usual results of gas curtailments is a switch to oil, this will limit the growth of oil imports.

2. Elk Hills Naval Petroleum Reserve. The President is asking the Congress to permit production of the Elk Hills Naval Petroleum Reserve (NPR #1) under Navy control. Production could reach 160,000 barrels per day early in 1975 and 300,000 barrels per day by 1977. The oil produced would be used to top off Defense Department storage tanks, with the remainder sold at auction or exchanged for refined petroleum products used by the Department of Defense. Revenues would be used to finance further exploration, development and production of the Naval petroleum reserves and the strategic petroleum storage.

3. Conversion to the Use of Domestic Coal. The President is asking the Congress to amend the Clean Air Act and the Energy Supply and Environmental Coordination Act of 1974 to permit a vigorous program to make greater use of domestic coal to reduce the need for oil. This program would reduce the need for oil imports by 100,000 barrels per day in 1975 and 300,000 barrels in 1977. These amendments would extend FEA's authority to grant prohibition orders from 1975 to 1977, prohibit powerplants early in the planning process from burning oil and gas, extend FEA enforcement authority from 1978 to 1985, and make clear that coal burning

installations that had originally planned to convert from coal to oil be eligible for compliance date extensions. It would give EPA authority to extend compliance dates and eliminate restrictive regional environmental limitations. A plant could convert as long as its own emissions do not exceed ambient air quality standards.

II. ACTIONS ANNOUNCED BY THE PRESIDENT TO MEET MID-TERM GOALS (1975-1985)

These actions are designed to meet the goal of achieving the capability for energy independence by 1985. The actions include measures to increase domestic energy production (including measures to cope with constraints and strike a balance between environmental and energy objectives), reduce energy demand, and prepare for any future emergency resulting from an embargo.

(A) Supply Actions

1. Naval Petroleum Reserve No. 4 (Legislative proposal) -- The President is asking the Congress to authorize the exploration, development and production of NPR-4 in Alaska to provide petroleum for the domestic economy, with 15-20% earmarked for military needs and strategic storage. The reserves in NPR-4 which are now largely unexplored could provide at least 2 million barrels of oil per day by 1985. Under the legislative proposal:

   (a) The President would be authorized to explore, develop and produce NPR-4.

   (b) The Government's share of production (approximately 15-20%) would be used to help finance the strategic storage system and to help fulfill military petroleum requirements. Any other receipts go to the United States Treasury as miscellaneous receipts.

2. OCS Leasing (Administrative) -- The President reaffirmed his intention to continue an aggressive Outer Continental Shelf leasing policy, including lease sales in the Atlantic, Pacific, and Gulf of Alaska. Decisions on individual lease sales will await completion of appropriate environmental studies. Increased OCS leasing could add domestic production of 1.5 million barrels of oil and additional supplies of natural gas by 1985. There will be close cooperation with Coastal states in their planning for possible increased local development. Funding for environmental studies and assistance to States for planning has been increased in FY 1975.

3. Reducing Domestic Energy Price Uncertainty (Legislative proposal) -- Legislation will be requested authorizing and requiring the President to use tariffs, import quotas, import price floors, or other measures to achieve domestic energy price levels necessary to reach self-sufficiency goals. This legislation would enable the President to cope with possible large-scale fluctuations in world oil prices.

4. Clean Air Act Amendments (Legislative proposal) -- In addition to the amendments outlined earlier for short-term goals, the President is asking for other Clean Air Act amendments needed for a balance between environmental and energy goals. These include:

(a) Legislative clarification to resolve problems resulting from court decisions with respect to significant air quality deterioration in areas already meeting health and welfare standards.

(b) Extension of compliance dates through 1985 to implement a new policy regarding stack gas scrubbers -- to allow use of intermittent control systems in isolated power plants through 1985 and requiring other sources to achieve control as soon as possible.

(c) A pause for 5 years (1977-1981 model years) for nationwide auto emission standards at the current California levels for hydrocarbons (0.9 grams per mile) and carbon monoxide (9 grams per mile), and at 1975 standards (3.1 grams per mile) for oxides of nitrogen (with the exception of California which has adopted the 2.0 standard). These standards for hydrocarbons (HC) and carbon monoxide (CO) are more stringent than now required nationwide for 1976 model year's cars. The change from the levels now required for 1977-1981 model years in the law will have no significant impact on air quality standards, yet they will facilitate attainment of the goal of 40% increase in auto fuel efficiency by the 1980 model year.

(d) EPA will shortly begin comprehensive hearings on emission controls and fuel economy which will provide more detailed data for Congressional consideration.

5. Surface Mining (Legislative proposal) -- The President is asking the Congress to pass a surface mining bill which strikes a balance between our desires for reclamation and environmental protection and our need to increase domestic coal production substantially over the next ten years. The proposed legislation will correct the problems which led to the President's veto of a surface mining bill last year.

6. Coal Leasing (Administrative) -- To assure rapid production from existing leases and to make new, low sulfur coal supplies available, the President directed the Secretary of the Interior to:

(a) Adopt legal diligence requirements to assure timely production from existing leases.

(b) Meet with Western Governors to explore regional questions on economic, environmental and social impacts associated with new Federal coal leases.

(c) Design a program of new coal leasing consistent with timely development and adequate return on public assets, if proper environmental safeguards can be provided.

7. Electric Utilities -- The President is asking the Congress for legislation concerned with utilities. In recent months, 60% of planned nuclear capacity and 30% of non-nuclear capacity additions have been postponed or cancelled by electric utilities. Financing problems are worsening and State utility commission practices have not assured recovery of costs and adequate earnings. The transition from oil and gas-fired plants to coal and nuclear has been slowed greatly -- contributing to pressure for higher oil imports. Actions involve:

(a) Uniform Investment Tax Credit (Legislative) -- an increase in the investment tax credit to eliminate the gap between utilities and other industries -- currently a 4% rate applies to utilities and 7% to others.

(b) Higher Investment Tax Credit (Legislative) -- An increase in investment tax credit for all industry, including utilities, for 1 year -- to 12%. The 12% rate would be retained for two additional years for all power plants except oil and gas-fired facilities.

(c) Preferred Stock Dividend Deductions (Legislative) -- A change in tax laws applicable to all industries, including utilities, which allows deductions of preferred stock dividends for tax purposes to reduce the cost of capital and stimulate equity rather than debt financing.

(d) Mandated Reform of State Utility Commission Processes (Legislative) -- The legislation would selectively reform utility commission practices by: (1) setting a maximum limit of 5 months for rate or service proceedings; (2) requiring fuel adjustment pass-throughs, including taxes; (3) requiring that construction work in progress be included in a utility's rate base; (4) removing any rules prohibiting a utility from charging lower rates for electric power during off-peak hours; and (5) allowing the cost of pollution control equipment to be included in the rate base.

(e) Energy Resources Council Study (Administrative) -- Review and report to the President on the entire regulatory process and financial situation relating to electric utilities and determine what further reforms or actions are needed. ERC will consult with State utility commissions, governors, public utilities and consumers.

8. Nuclear Power -- To accelerate the growth of nuclear power which supplies only one percent of our energy needs, the President is proposing, in addition to actions outlined above:

(a) Expedited Licensing and Siting (Legislative) -- A Nuclear Facility Licensing Act to assure more rapid siting and licensing of nuclear plants.

(b) 1976 Budget Increase (Legislative) -- An increase of $41 million in appropriations for nuclear safety, safeguards, and waste management.

9. Energy Facilities Siting (Legislative) -- Legislation would reduce energy facility siting bottlenecks and assure sites for needed facilities with proper land use considerations:

(a) The legislation would require that states have a comprehensive and coordinated process for expeditious review and approval of energy facility applications; and state authorities which ensure that final State energy facility decisions cannot be nullified by actions of of local governments.

(b) Provision for owners of eligible facilities or citizens to sue States for inaction.

(c) Provide no Federal role in making case by case siting decisions for the States.

(B) Energy Conservation Actions

The President announced a number of energy conservation measures to reduce demand, including:

1. Auto Gasoline Mileage Increases (Administrative) -- The Secretary of Transportation has obtained written agreements with each of the major domestic automobile manufacturers which will yield a 40 percent improvement in fuel efficiency on a weighted

average for all new autos by 1980 model year. These agreements are contingent upon relaxation of Clean Air Act auto emission standards. The agreement provides for interim goals, Federal monitoring and public reporting of progress.

2. Building Thermal Standards (Legislative) -- The President is asking Congress for legislation to establish national mandatory thermal (heating and cooling) efficiency standards for new homes and commercial buildings which would save the equivalent of over one-half million barrels of oil per day by 1985. Under this legislation:

(a) The Secretary of Housing and Urban Development shall consult with engineering, architectural, consumer, labor, industry, and government representatives to advise on development of efficiency standards.

(b) Thermal standards for one and two-family dwellings will be developed and implementation would begin within one year. New minimum performance standards for energy in commercial and residential buildings would be developed and implemented as soon thereafter as practicable.

(c) Standards would be implemented by State and local governments through local building codes.

(d) The President also directed the Secretary of Housing and Urban Development to include energy conservation standards in new mobile home construction and safety standards.

3. Residential Conservation Tax Credit -- The President is asking Congress for legislation to provide incentives to homeowners for making thermal efficiency improvements in existing homes. This measure, along with a stepped-up public information program, could save the equivalent of over 500,000 barrels per day by 1985. Under this legislation:

(a) A 15 percent tax credit retroactive to January 1, 1975 for the cost of certain improvements in thermal efficiency in residences would be provided. Tax credits would apply to the first $1,000 of expenditures and can be claimed during the next three years.

(b) Improvements such as storm windows, and insulation, would qualify for the tax credit.

4. Low-Income Energy Conservation Program (Legislative) -- The President is proposing legislation to establish a Low-Income Energy Conservation Program to offer direct subsidies to low-income and elderly homeowners for certain energy conservation improvements such as insulation. The program is modeled upon a successful pilot program in Maine.

(a) The program would be administered by FEA, under new legislation, and the President is requesting supplemental appropriations in 1975 and $55 million in fiscal year 1976.

(b) Acting through the States, Federal funds would be provided to purchase materials. Volunteers or community groups could install the materials.

5. Appliance Efficiency Standards (Administrative) -- The President directed the Energy Resources Council to develop energy efficiency goals for major appliances and to obtain agreements within six months from the major manufacturers of these appliances to comply with the goals. The goal is a 20% average improvement by 1980 for all major appliances, including air conditioners, refrigerators and other home appliances. Achievement of these goals would save the equivalent of over one-half million barrels of oil per day by 1985. If agreement cannot be reached, the President will submit legislation to establish mandatory appliance efficiency standards.

6. Appliance and Auto Efficiency Labelling Act (Legislative) -- The President will ask the Congress to enact a mandatory labelling bill to require that energy efficiency labels be placed on new appliances and autos.

(C) Emergency Preparedness

The President announced that comprehensive energy emergency legislation will be proposed, encompassing two major components.

1. Strategic Petroleum Storage (Legislative) -- Development of an energy storage system of one billion barrels for domestic use and 300 million barrels for military use. The legislation will

authorizes the government to purchase and prepare the storage facilities (salt domes or steel tanks), while complex institutional questions are resolved and before oil for storage is actually purchased. FEA will develop the overall program in cooperation with the Department of the Interior and the Department of Defense. All engineering, planning, and environmental studies would be completed within one year. The 1.3 billion barrels will not be complete for some years, since time is required to purchase, prepare, and fill the facilities.

2. Standby and Planning Authorities (Legislative) -- The President is requesting a set of emergency standby authorities to be used to deal with any significant future energy shortages. These authorities would also enable the United States to fully implement the agreement on an International Energy Program between the United States and other nations signed on November 18, 1974. This legislation would include the authority to:

   (a) Implement energy conservation plans to reduce demand for energy;

   (b) allocate petroleum products and establish price controls for allocated products;

   (c) ration fuels among end users;

   (d) allocate materials needed for energy production where such materials may be in short supply;

   (e) increase production of domestic oil; and

   (f) regulate petroleum inventories.

III. ACTIONS ANNOUNCED BY THE PRESIDENT TO MEET LONG-TERM GOALS (BEYOND 1985)

The expanded research and development program on which the nation is embarked will provide the basis for increasing domestic energy supplies and maintaining energy independence. It will also make it possible in the long run for the U.S. to export energy supplies and technology to others in the free world. Important elements are:

(A) Synthetic Fuels Program (Administrative) -- The President announced a National Synthetic Fuels Commercialization Program to ensure at least one million barrels per day equivalent of synthetic fuels capacity by 1935, using technologies now nearing commercial application.

1. Synthetic fuel types to be considered will include synthetic crude from oil shale and a wide range of clean solid, liquid, and gaseous fuels derived from coal.

2. The Program would entail Federal incentives (possibly including price guarantees, purchase agreements, capital subsidies, leasing programs, etc.), granted competitively, and would be aimed at the production of selected types of gaseous and liquid fuels from both coal and oil shale.

3. The program will rely on existing legislative authorities, including those contained in the Federal Non-Nuclear Energy Research and Development Act of 1974, but new legislative authorities will be requested if necessary.

(B) Energy Research and Development Program -- In the current fiscal year, the Federal Government has greatly increased its funding for energy research and development programs. These Federal programs are a part of a much larger national energy R & D effort and are carried out in cooperation with industry, colleges and universities and others. The President stated that his 1976 Budget will continue to emphasize these accelerated programs which include research and the development of technology for energy conservation and on all forms of energy including fossil fuels, nuclear fission and fusion, solar and geothermal.

(C) Energy Research and Development Administration -- (ERDA). The President has signed an Executive Order which activates, effective January 19, 1975, the Energy Research and Development Administration. ERDA will bring together in a single agency the major Federal energy R & D programs which will have the responsibility for leading the national effort to develop technology to assure that the U.S. will have an ample and secure supply of energy at reasonable prices. ERDA consolidates major R & D functions previously handled by the AEC, Department of the Interior, National Science Foundation and Environmental Protection Agency. ERDA will also continue the basic research, nuclear materials production and weapons programs of the AEC.

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IMPACTS OF NEAR AND MID-TERM ACTIONS ON PETROLEUM CONSUMPTION AND IMPORTS

NEAR TERM PROGRAM (MMB/D)

	1975	1977
CONSUMPTION IF NO NEW ACTIONS	18.0	18.3
IMPORTS IF NO NEW ACTIONS	6.5	8.0
Less Service Savings by Short-term Actions:	IMPORT SAVINGS 1975	1977
Production from Elk Hills	0.2	0.3
Coal Conversion	0.1	0.3
Tax Package	0.9	1.6
TOTAL IMPORT SAVINGS	1.2	2.2
REMAINING IMPORTS	5.3	5.8

MID-TERM PROGRAM

CONSUMPTION IF NO NEW ACTIONS	23.9 MMB/D
IMPORTS IF NO NEW ACTIONS	12.7 MMB/D

Less Savings Achieved by Following Actions:	1985 IMPACT ON IMPORTS	
OCS Leasing	1.5	
NPR-4 Development	2.0	
Coal Conversion	0.4	
Synthetic Fuel Commercialization	0.3	
Auto Efficiency Standards	1.0	
Continuation of Taxes	2.1	
Appliance Efficiency Goals	0.1	
Insulation Tax Credit	0.3	
Thermal Standards	0.3	
Total Import Savings by Actions		8.0
Remaining Imports		4.7
Less:		
Emergency Storage	3.0	
Standby Authorities	1.7	
NET IMPORT VULNERABILITY		0

INTERNATIONAL ENERGY POLICY AND FINANCING ARRANGEMENTS

BACKGROUND

The cartel created by the Organization of Petroleum Exporting Countries (OPEC) has successfully increased their governments' price for exports of oil from approximately $2 per barrel in mid-1973 to $10 per barrel today. Even after paying for their own increased imports, OPEC nations will report a surplus of over $60 billion in 1974, which must be invested. Oil price increases have created serious problems for the world economy. Inflation pressures have been intensified. Domestic economies have been disrupted. Consuming nations have been reluctant to borrow to finance their oil purchases because of current balance of payments risks and the burden of future interest costs and the repayment of massive debts. International economic relations have been distorted by the large flows of capital and uncertainties about the future.

U.S. POSITION

The United States believes that the increased price of oil is the major international economic problem and has proposed a comprehensive program for reducing the current exorbitant price. Oil importing nations must cooperate to reduce consumption and accelerate the development of new sources of energy in order to create the economic conditions for a lower oil price. However, until the price of oil does decline, international stability must be protected by financing facilities to assure oil importing nations that financing will be available on reasonable terms to pay for their oil imports. The United States is active in developing these financing programs. Once a cooperative program for energy conservation and resource development and the interim financing arrangements are agreed upon, it will be possible to have constructive meetings with the oil producers.

ACTIONS TAKEN BY OIL CONSUMING NATIONS

The oil consuming nations have already created the International Energy Agency to coordinate conservation and resource development programs and policies for reacting to any future interruption of oil exports by producing nations. The four major elements of this cooperative program are:

An emergency sharing arrangement to immediately reduce member vulnerability to actual or threatened embargoes by producers

A long-term cooperative program to reduce member nation dependence on imported oil,

A comprehensive information system designed to improve our knowledge about the world oil market and to provide a basis for consultations among members and individual companies; and

A framework for coordinating relations with producing nations and other less developed consuming countries.

The International Energy Agency has been established as an autonomous organization under the OECD. It is open to all OECD nations willing and able to meet the obligations created by the program. This international agreement establishes a number of conservation and energy resources development goals but each member is left free to determine what domestic measures to use in achieving the targets. This flexibility enables the United States to coordinate our national and international energy goals.

OTHER U.S. ACTIONS AND PROPOSALS

The United States has also supported programs for protecting international stability against distorting financial flows created by the sudden increase of oil prices. Although the massive surplus of export earnings accumulated by the producing nations will have to be invested in the oil consuming nations, it is unlikely that these investments will be distributed so as to match exactly the financing needs of individual importing nations. Fortunately the existing complex of private and official financial institutions has, in the case of the industrialized countries, been effective in redistributing the massive oil export earnings to date. However, there is concern that some individual industrialized nations may not be able to continue to obtain needed funds at reasonable interest rates and terms during the transition period until supplies are increased, conservation efforts reduce oil imports and the price of oil declines. Therefore, the United States has supported various proposals for "reshuffling" the recycled funds among oil consuming nations, including:

Modification of International Monetary Fund (IMF) rules to permit more extensive use of existing IMF resources without further delay;

Creation of a financial solidarity facility as a "safety net" for participating OECD countries that are prepared to cooperate in an effort to increase conservation and energy resource development actions to create pressure to reduce the present price of oil;

Establishment of a special trust fund managed by the IMF which would extend balance of payments assistance to the most seriously affected developing nations on a concessional basis not now possible under IMF rules. The United States hopes that oil exporting nations might contribute a major share of the trust fund and that additional resources might be provided through the sale of a small portion of the IMF's gold holdings in which the differential between the original cost of the gold and the current market price would be added to the trust fund; and

An increase in IMF quotas which would make more resources available in 1976.

These proposals will be discussed at ministerial level meetings of the Group of Ten, the IMF Interim Committee and the International Monetary Fund/International Bank for Reconstruction and Development Committee in Washington, D.C. January 14 to 17.

In these meetings, the United States will continue to press its views concerning the fundamental importance of international cooperation to achieve necessary conservation and energy resources development goals as a basis for protecting our national security and underlying economic strength.

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
WASHINGTON, D.C., WEDNESDAY, JANUARY 22, 1975

It is a privilege to appear before this Committee as you begin the work of the 94th Congress. During the next two years, you will be considering many of the most significant issues facing the United States. There will be times when we will differ on those issues, but as in the last Congress, I want to work with you as closely as possible to ensure that those who are served best are those whom we all serve, the people of this country. Toward that end, I pledge to this Committee the full cooperation of my office and of all who work at the Treasury Department.

President Ford, after considerable study and consultation, has proposed to the Congress an integrated and comprehensive program in both the economic and energy fields. In my view, the President's program represents the best means of dealing with those problems. In working with you, my first objective will be to obtain swift passage of legislation that is necessary to carry out our program.

The occasion for my appearance this week is to discuss two items: First, the President's tax proposals and their impact on the economy; and secondly, the need to raise the federal debt limit. With the consent of the Committee, I propose to discuss the first of these items today and to address the second tomorrow.

The President's program is designed to deal with three basic and urgent problems:

--inflation;

--recession; and,

--energy independence.

These problems are difficult and complex, and their solutions will also be difficult and complex. To some extent, the remedies work at cross purposes with each other. The answers are neither black nor white, but matters of balance and judgment.

Some say we can't solve all these problems, at least not all at the same time. I believe we can. The President believes we can, and has charted the course to do it. Indeed, we have no other choice, for the penalty for inaction could be frightening. We will ultimately be held responsible for the results, no matter what the pollsters say today about our approach.

The proposal for a temporary tax reduction to stimulate the economy has the very highest priority and we urge that you enact it immediately, even if that means separating it from the other elements of the President's proposals. However, all of the elements in the proposal are interrelated and, therefore, I need to deal with them all here today.

Inflation.

Inflation, like interest, tends to compound. It reached an annual rate of more than 12% in 1974, the highest level in peacetime history. The damage has been extensive. The lifetime savings of many have shriveled in real terms. Interest rates have risen to all time highs, with adverse effects on the livelihoods of millions, on the opportunity for families to own their own homes, and on the ability of others to start or stay in business. The uncertainties created by inflation undermined the confidence of both consumers and investors, with consequent damage to jobs and to the new investment and increased productivity which are required to stem inflation. I do not believe that our economic system, as we know it, could long survive such a trend. In 1919, J. M. Keynes wrote:

> "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."

I'm told that statement was a follow-up by Keynes on a similar remark of Lenin, to the effect that inflation could destroy capitalism.

Inflation is popularly said to be caused by "too much money chasing too few goods." That is an oversimplification, but it captures the essential truth.

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 lending and loan-guarantee programs.

The momentous growth in federal expenditures and federal deficits has been truly startling. It took 186 years for the federal budget to reach $100 billion, a line it crossed in 1962, but then only nine more years to reach $200 billion, and only four more years to break the $300 billion barrier. Revenues, of course, have not kept up with expenditures, so that when we close the books on fiscal year 1975, we will have had budget deficits in 14 of the last 15 years--and the accumulated debt for that period alone will exceed $130 billion.

There can be no doubt about the inflationary impact of such huge deficits. They added enormously to aggregate demand for goods and services and were thus directly responsible for upward pressures on the price level. Heavy borrowing by the federal government has also been an important contributing factor to the persistent rise in interest rates and to the strains that have developed in money and capital markets--a subject I will address in more detail tomorrow. Worse still, continuation of budget deficits has tended to undermine the confidence of the public in the capacity of our government to deal with inflation. In short, when the federal budget runs a deficit year after year, especially during periods of high economic activity such as the ones we have enjoyed over the past decade, it becomes a major source of economic and financial instability.

When the government runs a deficit--when it spends more than it receives--it must borrow to make up the difference. Under 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.

Government borrowing does not necessarily require the immediate creation of too much money, for the government can borrow existing money in the private capital markets. To that extent, it competes with private demands for capital, preempts funds that would otherwise be used for private investment and, in a period of strong private demand, causes interest rates to rise.

If government borrowing in the private capital market grows so large that it threatens to dry up credit for private borrowers or causes abrupt changes in interest rates, the Federal Reserve customarily steps into the market and purchases government bonds for its own account. The Federal Reserve pays for that purchase not with money already in the system, but by setting up a new credit balance on its books. That almost immediately causes the total money supply to increase by several times the amount of the credit. In this way, the financing of large deficits causes the money supply to increase substantially, which creates more inflation. This has been a major part of the inflation explosion over the past decade.

In times of recession, private borrowing typically slackens as businessmen have fewer needs for credit. If additional government deficits simply take up that slack, it does not jeopardize the needs of the private sector and does not drive up interest rates. In the current recession, however, there may be less slackening in private demands than usual because of the high debt-equity ratios that have become typical, the general illiquidity of business, the inability of corporations to raise capital in the equity markets, and the necessity to finance inventories and capital goods at inflated prices.

If we cannot finance the deficit within the recession induced slack in the capital markets, then we shall have a credit "shortage" that will drive up interest rates significantly. The Federal Reserve could prevent that only by significantly increasing the supply of money. As we assess that situation, we must remember, too, that what appears to be slack at the moment may disappear as business bounces back

and its demand for credit returns to normal. When the recession is over, and goods and services have returned to their original pre-recession levels, if the money supply has been significantly increased, we shall have created additional inflation.

There is no way to escape the basic dilemma presented by large government deficits. On the one hand, if the deficits cause a significant increase in the money supply, we shall have further inflation. On the other hand, if deficits are not permitted to increase the money supply, we must be prepared to endure tight credit and high interest rates.

This is a very difficult circle to break. The only solution is to take a long-term view and resist the temptation to deal with each painful aspect of the cure as a crisis to be solved by short-term remedies, i.e., by more deficits.

A most important tool in beating inflation is increased productivity. We need to encourage and facilitate conduct that will increase the supply of goods and services, so that the increased money supply that will surely flow from these deficits will be chasing an amount of goods and services that has also increased. Just getting back to pre-recession levels of goods and services is obviously not enough.

Recession.

We are presently in a full-fledged recession. It is in substantial part attributable to our inflationary excesses. It is the hangover that follows the revelry.

One of the major factors in the current recession is the decline in the housing industry, which is a key component in our economy. The housing industry is especially vulnerable to high interest rates, and was thus hard hit when inflation caused interest rates to rise to all time highs. Thus, so far as housing goes, it is inflation itself which caused the recession. We cannot expect the housing industry to regain its full health until we get inflation under better control.

It is tempting to believe that housing can be helped by driving down interest rates through a more rapid increase in the supply of money. That does not work in an inflationary climate, however, because the increase in the money supply further increases inflationary expectations, sometimes with a lag and sometimes almost immediately, and thereby sends interest rates not lower, but higher. Thus, housing is hurt, rather than helped, by such policies.

In the same way, inflation was a major factor--perhaps the major factor--in demolishing consumer confidence. Polls taken by the Survey Research Center at the University of Michigan show that the precipitous decline in consumer confidence began when prices started hitting new peaks--well before the effects of the recession were clearly felt. While the recession has driven confidence even lower, it was inflation that pushed it over the brink. This loss of consumer confidence has caused the biggest drop in consumer purchases since the Second World War and is a significant part of the current recession.

Some part of the recession is also attributable to the program to bring inflation under control. When we embarked on that program, we knew that it would dampen economic activity, for that is an inevitable side effect of the process of slowing inflation. The principal tool in winding down inflation has been a policy of monetary restraint, which was in effect most of last year. If the money supply had been permitted to increase fast enough to accommodate all of the price increases we were experiencing, the additional money would have caused the prices to spiral even faster. Thus, it was necessary to slow down the rate of growth in the money supply. Whenever that is done, some are caught in the crunch.

Those are the hard trade-offs. Inflation causes dislocations. And stopping inflation causes additional dislocations. Dislocations cause the economy to fall off.

To cure our economic problems, we will have to administer the medicine continuously over a period of years. We are a long way from full recovery. And we have to watch the patient carefully all the while, because the side effects of the medicine are strong and we may need to adjust the prescription from time to time.

Our goal must be to keep a balance. We want to do as much as we can to stop inflation without unduly hampering economic activity. At the same time, we all recognize today that recession has become a much more serious problem, causing widespread hardships and unemployment. Moreover, it has developed more rapidly and has been steeper than anyone expected. It is apparent that under these circumstances we must shift the balance of our policies more heavily in the direction of fighting the recession. The President's recommendations for a temporary tax cut are designed to ensure that the recovery we expect in the middle months of the year is sharper and stronger than would otherwise be the case.

We can and must have recovery from the current recession, but we must do that in a way that does not lead to an overheating of the economy again. We will lose the opportunity to achieve stable economic growth if we switch to excessively stimulative policies. That has been the repetitive pattern over the past decade. Every time the economy showed signs of hesitation, there was a pronounced shift to stimulative monetary and fiscal policies.

One of the best examples occurred only a short time ago. After a rapid acceleration in the rate of inflation during the late 1960's, a program of fiscal and monetary restraint was started in 1969. As a result, inflation peaked out at 6% and then declined slowly to about 3-1/2% by 1972. The upward momentum of inflation had been stopped. But then, instead of maintaining the policies of moderation, we became more expansive again and we very swiftly propelled ourselves into the inflation that we are experiencing today.

The result of such stop-and-go policies is that w have pushed the inflation rate up onto higher and higher pl caus. In 1966, the peak inflation rate was about 4%; in 1970 it was about 6%; and now prices are rising at about a 12% rate. The same process ratchetted interest rates higher and higher. In 1966, rates on long corporate bonds peaked at a little over 6%; in 1970, they reached almost 10%; and this past year, the high was 12%.

Energy Independence.

Energy independence is both a political and an economic problem for the United States.

Oil is an extremely important and pervasive commodity in our economy. In recent years, our consumption has risen rapidly but our production has declined. We are now dependent on foreign sources for nearly 40% of our needs. Major foreign suppliers have organized a cartel and, at least at present, have the power to bring about political and economic spasms of the kind which we have recently experienced. In the last year and half, the Arab embargo created major disruptions throughout our economy, and the quadrupling of foreign oil prices has contributed significantly to both the inflation and the recession we are now experiencing.

Our economic system is strong and resilient and can undoubtedly survive almost any unfortunate development that is likely to occur in the near future with respect to oil. But many other nations are less fortunate, and our own economy is so interconnected with that of other nations that their problems are in substantial degree our problems. Trouble in one or more national economies abroad could have very serious effects on our own.

If we are to retain control over our own economic destinies, we must 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 will control very little 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 will need to develop alternatives for oil and we will also need to reduce our total demands for energy of all kinds.

We are dealing with a long-term program. We believe we can achieve virtual independence in 10 years, but only if we start promptly, work hard and continuously, and make significant reductions in our demands for energy.

Rationing is one way of curbing demand and a number of national leaders have proposed it. Public polls also show a surprising amount of support for rationing. I cannot imagine, however, that the American public will really want it once they think it through or would live with it if they got it. Remember that we are talking about a permanent program. If we should opt to travel the rationing route, we will not get rid of it. If we were to let it go we would--overnight--be again non-self-sufficient.

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 spirit of the American public.

Even in times of emergency, rationing has never worked fairly or efficiently. To cut a million barrels a day from our consumption by rationing only gasoline for private households, we would have to hold drivers to an average of less than 9 gallons per week--a reduction of about 25% from today. To reach the 1977 goal of a 2 million barrels a day reduction would require a second 25% reduction. Some persons would obviously need more, which means that the basic ration for ordinary persons would have to be even less. But gasoline accounts for only part of each barrel of oil, and we would clearly need to ration the remaining products, too--fuel oil, jet fuel, diesel fuel, refinery products going into petrochemicals, etc. Who would decide which persons needed more and which needed less of each of these things? Every family, every car and motorbike, every store, school, church, every manufacturer--everything and everybody--would have to obtain a permit for a certain quantity of gasoline, electricity, natural gas, etc. Those allocations would have to be changed every time someone was born or died or moved or got married or divorced, and every time a business was started, merged, sold out or bought another, or the church or school added on a new room. And some government official would have to approve it.

What would the rationing bureaucracy do about such cases as:

. The low-income worker who owns an old car that gets only nine miles per gallon but can't afford to trade it in? His affluent neighbor who buys a new car that gets 22 miles per gallon?

. The low-income family that heats with oil a small but poorly insulated house, while their wealthy neighbor heats a large, well-insulated house with gas?

. The Montana rancher who drives nearly 600 miles per month and the Manhattan apartment dweller who drives less than 100 miles?

. The family that has to move from New York to California and use up several months' coupons in making the trip? One out of every five families moves every year.

. The family with sick members? The family that does turn off the heat in empty rooms and the family that does not? The family with few children and many rooms to heat and the family with many children but few rooms?

. The migrant worker who drives large distances every year but can't afford a more economical car?

. The shortages that would inevitably develop in areas where the coupons happen not to match the gasoline supplies?

. The gas stations, with limited quantities to sell, that maintain only limited services and are always closed on evenings and weekends?

. The collusion, counterfeiting and illegal activities that would inevitably develop?

Last year, when we considered the feasibility of rationing gasoline, we concluded that while it could be implemented, it would take four to six months to set up, employ about 15 to 20,000 full-time people, incur $2 billion in federal costs, use 40,000 post offices for distribution, and require 3,000 state and local boards to handle exceptions. When we consider the problems of just getting the mail delivered, are we really ready to trust an army of civil servants--however able and well-intentioned--to decide who deserves just what of this basic commodity?

People should ask themselves which they prefer: the suggested increase in prices, or a system in which someone else could tell them now and for the indefinite future where and when they might drive or how warm they might keep which rooms.

Does anyone honestly believe that the American public is willing to trade these basic freedoms--in perpetuity--for 10¢ a gallon?

The President has proposed instead that we reduce 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 purchase more expensive oil and oil products. And they would have extra money to do it with. The question they would face is whether they wish to spend that extra money for more expensive oil or whether they wish to use it for some other purpose. A great many will choose to use it for other purposes. That is particularly true of businesses, which alertly switch to alternative products when a price advantage appears. The economic data available, updated by the experience of the last year, indicate that a tax of 10¢ a gallon spread across all the products manufactured from a barrel of crude oil will reduce consumption enough to meet our goals.

There has been a great deal of talk about the public being willing to make sacrifices. I believe they are. But for the average consumer this program should involve little sacrifice. For most, it would not even involve inconvenience or extra expense. The average consumer would be faced with higher oil prices, but he would also have additional money that would fully compensate him. He would retain total freedom of choice.

I realize that it is not immediately apparent to the average citizen how this program as a whole would reduce consumption and yet cost him little or nothing. Education is essential and I am counting heavily on the objectivity and expertise of this Committee and its able staff to achieve it.

The Need for Business Tax Relief.

The proposed program provides tax relief for both individuals and business. Individual income taxes account for about three times as much revenue as corporate income taxes, and relief would be allotted in that same three-to-one ratio.

Businesses, like people, have been badly buffeted by our economic difficulties. Many are in precarious financial situations. One need only look at the unemployment rolls in Detroit to see how important it is to all of us to maintain a healthy climate for business. Surely, the misfortunes of the auto industry have created many more hardships for auto workers than for auto stockholders. We will all be losers if our businesses are unable to earn reasonable profits and thus to make the investments that will mean more jobs and greater productivity in the future.

The suggestion in recent years that businesses have prospered while individuals have suffered is simply untrue. Corporate profits in the aggregate, realistically stated, are at an all time low as a percentage of our total national income.

Reported profits may be higher than in the past, but they do not tell the full story. There are two major elements which substantially overstate reported earnings in periods of inflation. They are inventories and depreciation.

The inventory situation may be illustrated by assuming a company that normally maintains an inventory of 100,000 widgets. If inflation causes the price of widgets to increase by $1, from $2 to $3, under traditional FIFO accounting the $100,000 increase in the value of the inventories is reported as profits, even though the company is no better off in real terms than it was before the inflation. Economists have long recognized that this increase is not a true "profit" and the Department of Commerce national income accounts have, from the inception of those accounts in the 1940's, separated it from profit figures.

For 30 years, business taxpayers have been permitted to exclude these amounts from taxable income, but only if they reported on the same basis to their shareholders and the public. Many businesses have preferred to pay higher taxes rather than report lesser earnings to their shareholders. With the rapid inflation which has occurred in the last year, however, the penalty in increased taxes on unreal income has

become so great that there has been a major shift to LIFO accounting. This is long overdue and I regret that it has taken the business world and the accounting profession so long to get there.

A similar situation exists with respect to depreciation. In a period of rapid inflation, depreciation deductions based on historical cost result in reporting as income amounts which do not represent an increase in wealth but which are required merely to stay even. In a period of constant and substantial inflation, this subject urgently needs re-examination. Under current tax and accounting rules, business management is powerless to deal effectively with this problem. Businessmen often complain that depreciation charges are too low for tax purposes because of this factor but their credibility is severely impaired by the fact that, more often than not, they report to their shareholders and the public less depreciation (and therefore more income) than that which they are permitted to deduct for tax purposes.

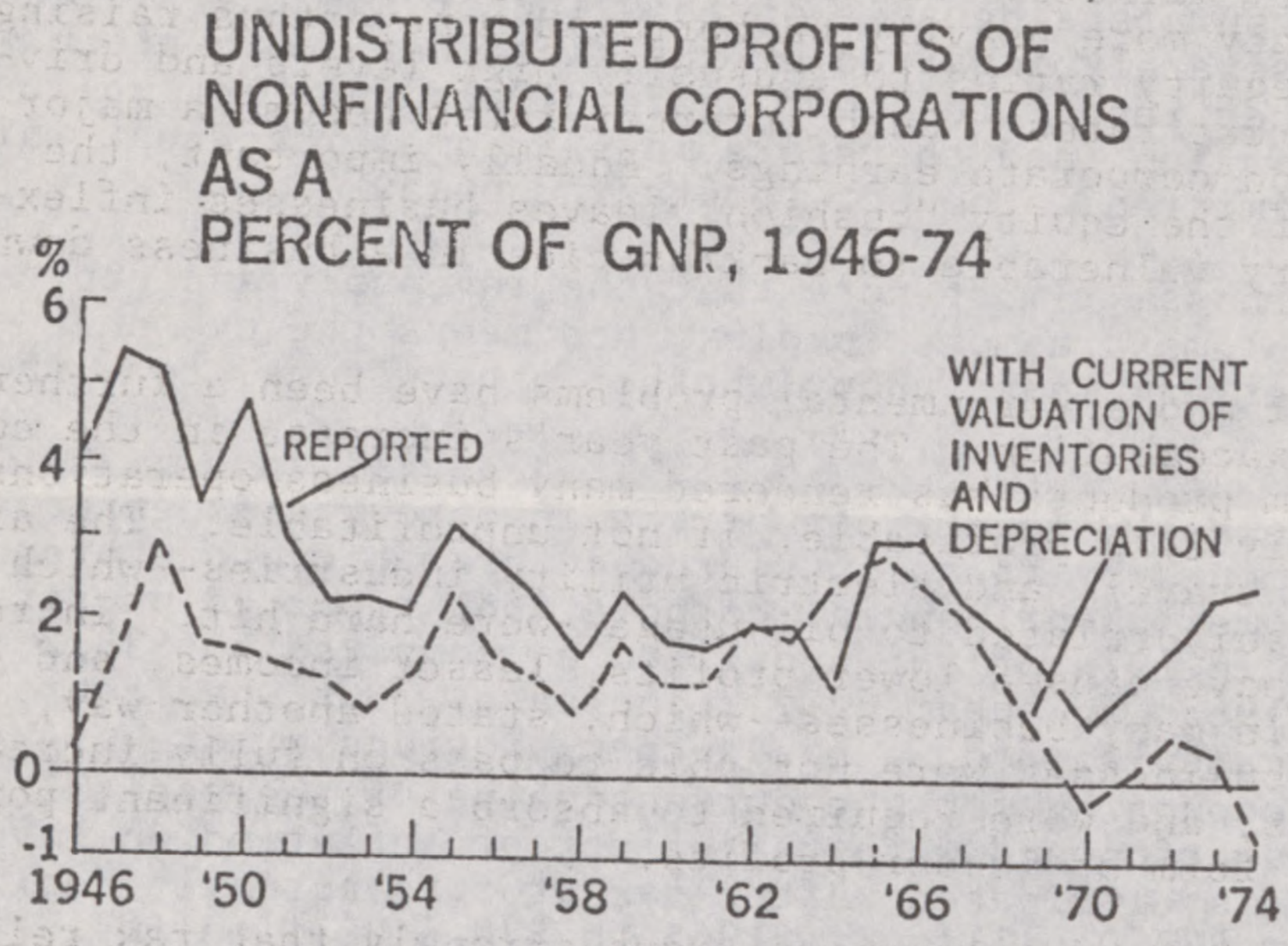
In fairness, I must note that the inventory and depreciation problems are more complex than meets the eye and raise further arguments about whether other items, too, should be adjusted.

Nonetheless, the effects of the inventory and depreciation adjustments by themselves produce dramatic overstatement of real income: Nonfinancial corporations reported profits after taxes in 1974 of $65.5 billion as compared to $38.2 billion in 1965, an apparent 71% increase. But when depreciation is calculated on a basis that provides a more realistic accounting for the current value of the capital used in production and when the effect of inflation on inventory values is eliminated, after-tax profits actually declined by 50%, from $37.0 billion in 1965 to $20.6 billion in 1974. A major factor contributing to this decline is that income taxes were payable on these fictitious elements of profits. That resulted in a rise in the effective tax rate on true profits from about 43% in 1965 to 69% in 1974. Thus, a realistic calculation shows that the sharp rise in reported profits was an optical illusion caused by inflation.

Since, in our economy, corporate profits are the major source of funds for new investment in productive capacity, all of this has grave implications for investment and growth. That is perhaps seen best in the figures for undistributed profits of nonfinancial corporations, restated on the same basis to account realistically for inventories and depreciation. It is the undistributed profits that corporations have left to fund additional <u>new</u> capacity as distinguished from

the replacement of existing capacity). In 1965, there were $20 billion of undistributed profits. By 1973--after eight years in which real GNP (the rest of the economy) grew 36%--the undistributed profits of nonfinancial corporations had dropped to $6 billion. And for 1974, our preliminary estimate is that the figure for undistributed profits is a minus of nearly $10 billion. That means that there was not nearly enough even to replace existing capacity, and nothing to finance investment in additional new capacity.

The following chart shows with dramatic--and frightening--clarity the true state of affairs.



The business community is properly distressed that the public does not realize the seriousness of this situation. I have to say, however, that at least a portion of the blame can be laid at the door of business itself. Businesses like to report high earnings to their shareholders and to the public. Reported earnings are the "report card" for management. The willingness of business to continue using methods which overstate real economic incomes in an inflationary period leads the public to believe that business is a major beneficiary of rising prices. That causes the man in the street to believe that the total income pie is larger and that he has a legitimate claim on it, which, in turn, heightens the wage spiral and intensifies the squeeze on corporate profits and the difficulty of capital formation.

The fact that these overstated profits are also subject to tax presents a serious problem that we hope you will look into when you turn to tax reform later this year. The problem is too complex to deal with quickly, but it may affect the ultimate use of the revenues allotted to business relief.

While the deterioration of business profits may not be apparent to the man in the street, or even in the stockholders' reports, the professionals have not been fooled. The devastating effect of inflation on business profits has been reflected in sharp price drops in the equity markets. This decline in the stock market has rendered it practically impossible for most companies to raise money on favorable terms in the equity markets. As a result, corporations have been forced to rely more heavily on borrowed money, thus raising their debt-equity ratios to unusually high levels and driving up interest rates. Such interest rates become a major depressant on corporate earnings. Equally important, the lessening of the equity "cushion" leaves businesses inflexible and very vulnerable to bankruptcies in a business downturn.

The oil and environmental problems have been a further and major exacerbation. The past year's increase in the cost of petroleum products has rendered many business operations substantially less profitable, if not unprofitable. The airline, auto, travel, and electric utility industries--which are all closely related to oil usage--were hard hit. Increased oil prices have caused lower profits, lesser incomes, and fewer jobs in many businesses--which, stated another way, means that businesses were not able to pass on fully increased energy costs, and were required to absorb a significant portion in the form of lesser profits.

All of these developments argue strongly that tax relief for business is both deserved and required. We should also keep in mind that our system of business taxation bears more heavily on corporations than do the tax systems of almost every other major industrial nation. Our provisions for capital recovery are more restrictive than those in most other countries. More importantly, almost all our major trading partners have in the last few years largely eliminated the classical two-tier system of corporate taxation in which income is taxed once at the corporate level and again at the shareholder level. Through a variety of mechanisms they have adopted systems of "integrating" the personal and individual income taxes so that the double taxation element is eliminated or radically lessened. This has occurred in Canada, the

United Kingdom, France, Germany, Japan, and Belgium. The European Economic Community is asking that all of its members adopt such a system. While the complexities of this subject are best left for another occasion, the point I am making does bear on the general question of whether the tax burden on our corporations is excessive and should be relieved in some degree.

The Need for Anti-Recession Stimulus.

The need for some form of stimulation must be apparent to every member of this Committee. The recession is already serious and it will get worse before it gets better. Our latest estimates indicate that the rate of unemployment should rise to approximately 8%. We continue to believe, in fact, that even in the absence of further stimulation the economy should bottom out in the middle months of the year and that we should begin a recovery phase thereafter. The temporary tax cut would be of significant help in making the recovery more solid and 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. Under these circumstances, we should do what we can to strengthen the economy through a temporary reduction in taxes.

$16 Billion Temporary Anti-Recession Tax Cut.

In order to provide the needed economic stimulus, the President proposes a one-time, temporary tax 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 would later refuel inflation.

The temporary tax reduction will be an across-the-board refund or tax reduction for all taxpayers. The total of $16 billion is allotted $12 billion to individual taxpayers and $4 billion to business taxpayers, which is the same 3 to 1 ratio that individual income taxes bear to corporate income taxes.

Refund of 1974 Taxes to Individuals.

Individual taxpayers will receive a refund of 12% of their income taxes for 1974, with a maximum refund of $1,000 per tax return. The great majority of taxpayers would thus benefit in proportion to the income taxes they pay for 1974, but high-income individuals would not receive excessively large refunds.

Taxpayers are now filing their income tax returns for 1974 and nearly all will be filed by April 15. All taxpayers will continue to file their returns and pay income tax in accordance with present law. After their returns are filed, the Internal Revenue Service will calculate the amount of their refund, which will then be paid to them by checks in two equal installments.

I cannot emphasize too strongly the point that individuals should continue to file their tax returns in accordance with existing law. The sooner they do that, the sooner the system will be able to process their returns and mail their refunds. They should, under no circumstances, try to compute and deduct their own refunds. If they do, they will face possible fines and penalties and, at a minimum, an Internal Revenue Service examination of their return will probably be necessary to straighten out their final liability.

If, as requested by the President, the 12% refund is enacted by April 1, 1975:

--refund checks for the first installment--in total about $6 billion--would begin to be mailed in May and would continue through June as the later filed returns are processed; and

--refund checks for the second installment of the remaining $6 billion would be mailed in September.

The effect of the tax refund can be illustrated for a family of four as follows:

Adjusted Gross Income	Present Tax	Proposed Refund	Percent Saving
$ 5,000	$ 98	$ 12	-12.0%
7,000	402	48	-12.0
10,000	867	104	-12.0
12,500	1,261	151	-12.0
15,000	1,699	204	-12.0
20,000	2,660	319	-12.0
40,000	7,958	955	-12.0
50,000	11,465	1,000	- 8.7
60,000	15,460	1,000	- 6.5
100,000	33,340	1,000	- 3.0
200,000	85,620	1,000	- 1.2

Taxpayers with incomes of less than $15,000 now pay 31% of the income tax, and they will receive 36% of the refund. Eighty percent of the refund will go to taxpayers with less than $30,000 of income who pay 68% of the income tax. At the upper extreme, 24% of the income tax is paid by taxpayers with incomes in excess of $40,000. These taxpayers will receive only 11% of the refund.

Adjusted Gross Income Less Than:	Percent of 1974 Tax Liability Before Refund	Percent of Refund
$ 10,000	13.0%	15.1%
15,000	30.8	36.0
20,000	48.4	56.6
30,000	68.5	80.0
40,000	76.3	89.1
50,000	80.8	93.4
100,000	90.8	98.7

This proposed method of tax relief has the following advantages:

. Larger amounts can be returned faster by mailing refund checks based on 1974 taxes, than by reducing tax liabilities for the year 1975.

. A reduction in 1975 tax liabilities would be achieved through reductions in withholding. It would not occur for at least a month after enactment of the tax reduction and then only in relatively small weekly or biweekly amounts stretching all the way through December of this year.

. With a refund based on 1974 taxes, taxpayers will know more precisely the total reduction they will receive and can plan accordingly, thus accelerating the stimulative impact.

. Receipt of two relatively large refund checks should have a greater psychological effect on family budget decisions and consumption attitudes than receiving the same total a few dollars at a time, thus increasing the impact of the $12 billion temporary tax reduction. This should also help the sales of cars, furnishings and other big ticket items that have been depressed by the recessior.

. With a refund based on 1974 taxes, taxpayers will be assured of getting the refund whether or not their incomes may be reduced or uncertain in 1975. Thus, taxpayers who had jobs in 1974 but are now unemployed would be assured of refunds; they would not receive such refunds if they were applied only to 1975 income.

. Paying the refund in two checks rather than one will ease the strains on the capital markets that would be caused by the Treasur 's financing of the entire amount all at once.

Emergency 12% Investment Credit.

The remaining $4 billion of the total $16 billion temporary tax refund and reduction will go to corporations, farmers and other business firms in the form of a one-year increase in the investment tax credit. That should stimulate the demand for capital goods and help increase productivity and employment.

The investment tax credit would be increased temporarily to 12% for qualified machinery and equipment placed in service in 1975 or ordered by the end of 1975 and placed in service by the end of 1976. As under existing law, special rules apply to property constructed by the taxpayer or to his special order.

We propose that this increase in the investment credit be effective beginning January 1, 1975. That is extremely important, as we want businesses to move ahead promptly with new investment, and it would be most undesirable if they were to suspend purchases and orders until Congress has finally acted. For this reason, Congress has in the past adopted a retroactive effective date like that proposed, and based on our conversations with members of the tax writing committees we are confident that it will do so here, too, if the proposal for an increase is ultimately enacted.

Because of the need for speedy enactment and because this emergency increase in the rate of the investment tax credit is for only one year, no other changes or restructuring of the present investment tax credit are proposed at this time, except for utilities. Because of the particular plight of the Nation's regulated public utilities, we recommend that the following additional changes be made:

- The discrimination against publi utilities, which under current law are allowed only a 4% investment credit, would be eliminated permanently. Under the temporary emergency investment tax credit, and thereafter, public utilities would receive the same general investment credit rate as other businesses.

- The provision of present law which limits the maximum credit to 50% of liability for tax in excess of $25,000 would be modified in the case of regulated public utilities. The limitation would be increased to 75% in 1975, and be reduced by 5 percentage points each year through 1979, returning to 50% in 1980.

The proposed 12% rate would be extended for two additional years, through 1977, for property, not fired by oil or gas, that provides power to electric generating facilities, including property converted from oil or gas use. This two-year extension will provide significant incentives for the development and use of nuclear, geothermal, coal, hydro, solar and other petroleum-saving power sources.

Increasing the rate of the investment tax credit has proved very helpful in reversing adverse economic trends. When the investment tax credit was repealed and other provisions increasing the tax burden on business were enacted in 1969, there followed a period of rising unemployment and business stagnation. Subsequent to the reenactment of the credit in 1971, new investment increased by 9% in 1972 and 13% in 1973. Further, in the period 1972-1973 industrial production increased 19% and there was a significant decline in unemployment.

Energy Taxes in General

The goal of the energy tax package is to reduce total consumption of oil and natural gas, which will reduce imports in like amount.

The package has three parts:

(1) An import fee increase ultimately settling at $2 per barrel on crude oil and products and a corresponding excise tax on domestic crude oil.

(2) Decontrol of crude oil prices and a Windfall Profits Tax.

(3) Price decontrol of new natural gas and the equivalent of the $2/bbl. oil excise tax (namely, 37 cents/thousand cubic feet) on all natural gas, to curtail its use and discourage switching from fuel oil to natural gas.

This combination of fees, taxes and decontrol will raise the prices of oil, and gas and related products relative to other prices. That will discourage their unnecessary use, encourage the substitution of other energy sources, and induce the replacement of existing energy-using devices.

Gasoline Tax as Alternative.

Many persons have suggested that a gasoline tax would be preferable to taxes on crude oil.

There are several reasons for preferring a tax on crude oil to a gasoline tax:

. A price increase in crude oil is far more effective in reducing consumption than a gasoline price increase. The increased prices under the proposals amount to about 10¢ per gallon, distributed across all of the products that come from a barrel of crude. It would take a gasoline tax of 45¢ to 50¢ per gallon to achieve the same reduction in consumption. There are two explanations for that. First, since the price of gasoline is higher than for other refinery products, a larger cents per gallon change is required to get the same percentage change. Second, gasoline accounts for only about 40% of the barrel of crude and a tax on only 40% must obviously be higher than a tax on 100%.

. With a 45¢ to 50¢ gasoline tax, gasoline prices would rise an aggregate of $45 billion. That compares with oil price increases of only $21 billion under the proposed program.

. Crude oil--not gasoline--is the problem. We want to reduce consumption of each of the elements in a barrel of crude.

. There is just as much opportunity to conserve other petroleum products and other forms of energy and energy intensive products as there is to conserve gasoline. For example, many thermostats could be turned down with no real discomfort. Our trash cans are heaped with direct petroleum products such as plastics, and other products that require large amount of petroleum related energy to create, such as aluminum. We can conserve a little on a wide range of items and save a lot in total.

. It is fairer to let all petroleum users make a moderate adjustment than to impose a drastic increase on just gasoline users. And it is

easier for the economy as a whole to accommodate a moderate, broadly distributed increase than a very large, more narrowly based increase. The proposals avoid devastating the automobile industry, the travel industry, and others which depend on gasoline for survival.

$2 License Fee and Excise.

The U.S. now imports about 4.1 million barrels per day of crude oil and about 2.6 million barrels per day of fuel oil and other refinery products. An additional import fee of $2 per barrel on crude and product is to be imposed in stages of $1 each on February 1 and March 1 by Presidential Proclamation under the authority of the Trade Expansion Act of 1962. In addition, if Congress has not enacted the excise tax on domestic oil by that time, the import fee will be raised another $1 on April 1, for a total increase of $3. Adjustments in the fees on imported products will be made to reflect obligations under the old entitlements program.

The $2 per barrel increase in the fee will raise the average price of imported crude oil and its products by $2 per barrel. In the case of crude oil, that means an increase from around $11 per barrel to $13 per barrel. Domestic crude would also sell at about $13 per barrel, and the excise tax of $2 would leave the effective price to domestic producers also at $11 per barrel.

The import fees will bring in revenues of $3.2 billion in 1975 and $4.1 billion in 1976 and the excise tax will raise $4.8 billion in 1975 and $7.2 billion in 1976.

Decontrol and Windfall Profits Tax.

Last year the United States produced 9.2 million barrels of crude oil per day. We now produce only about 8.8 million barrels of crude oil per day, approximately 60% of which, or 5.3 million barrels, sell at an average price of $5.25 per barrel because of price controls. If present controls continue, this year's production will decline further to perhaps 8.6 million barrels per day. Our system of price controls is seriously counterproductive to our need for greater domestic supplies.

An illustration of the way that price controls discourage production occurs in connection with the "stripper well" exemption, which permits oil produced from leases which average fewer than 10 barrels per day per well to sell at the world price. The exemption encourages producers to let their wells decline from 15 or 16 barrels a day to 9.9 barrels per day. They actually make money by suffering a production decline.

Another illustration arises in connection with secondary and tertiary recovery processes, which are used to stimulate additional production after original production has declined. Those processes are costly and part of our production decline is attributable to the fact that they are uneconomic at controlled prices. Money will not be invested to produce more controlled oil at $5.25 per barrel if it can be invested in producing uncontrolled oil at $11 per barrel, or in some completely unrelated business at a higher rate of return. Regulation of prices drives people out of the regulated business and into other lines of business not so subject to uncalculable, nonmarket risks. Price controls were imposed as a means of preventing windfall profits, but clearly we must find a more sensible approach.

The combination of price decontrol and the Windfall Profits Tax is a workable solution to the problem. In 1975, we estimate that a producer of controlled oil would receive $11 per barrel after decontrol (net of the $2 excise), or an increase in price of $5.75 per barrel ($11.00 - $5.25 = $5.75). The Windfall Profits Tax proposed would average $4.53 per barrel, reducing the producer's net price increase to $1.22 per barrel. That $1.22 translates into about 76¢ per barrel after tax.

After decontrol, the price for all oil will be the same, thus eliminating all the inefficiencies of the two-tier pricing system. Producers of uncontrolled oil will begin to pay a windfall tax on the increased prices they have enjoyed for more than a year. As a result, they will pay $2.81 per barrel more tax on those increased profits than they paid last year. Producers of controlled oil will begin to receive the same increased prices but will be permitted to keep only 76¢ of that increase. Both controlled and uncontrolled oil will receive the same prices and pay the same taxes.

	Uncontrolled Oil	Controlled Oil
Price per barrel	$11.00	$11.00
Former price	(11.00)	(5.25)
Net price increase	-0-	5.75
Windfall Profits Tax	(4.53)	(4.53)
Gain (loss)	(4.53)	1.22
Income tax at 38%*	1.72	(.46)
Net effect after tax	($ 2.81)	$ .76

*Corporate rate of 48% adjusted for percentage depletion and minimum tax.

Most significant producers have both controlled and uncontrolled oil and, compared with last year, they will net less on the uncontrolled oil and net more on the controlled oil. For the industry as a whole, net after-tax income will be reduced by $2 billion, which means that the benefits from decontrol will be more than offset--by $2 billion--by additional taxes paid to the Treasury. Those Treasury revenues are among those to be returned to taxpayers in the form of tax reductions.

The concept of the proposed Windfall Profits Tax is the same in general as the Windfall Profits Tax proposed last year, although the new proposal has been structured to raise substantially higher revenues. In summary, the tax is designed to capture a windfall profit--that is, one which results from a sudden change in price caused by a circumstance which is accidental and transitory. It is difficult to separate ordinary market prices from prices which permit windfall profits (or "excess" profits if one wishes to think of it that way). We have made an estimate--a judgment--as to the "long-term supply price," i.e., the minimum price to producers that will be sufficient to induce an increase in our supplies of oil sufficient to make us energy independent by 1985. Our judgment is that the price required for this is around $7 to $8 at today's price levels, assuming the continuation of percentage depletion. The tax is designed to permit producers to retain an amount equal to the long-term supply price by the time additional oil supplies will be coming on line three to five years from now.*

*If percentage depletion should be eliminated, net to producers from a $7 to $8 price would be reduced, a higher price would be required to produce the same net return and the same oil production, and the proposed Windfall Profits Tax base and brackets would need to be revised upwards accordingly.

The proposal does not include a credit for so-called "plowback" investments, nor does it include exemptions for certain classes of producers. Plowback is not justified because the amounts oil producers will retain, after the tax as it is structured, will provide a price incentive sufficient to attain our energy independence goals. To put it another way, there is no convincing evidence that permitting a plowback credit will produce significantly more energy than not doing so. Further, a plowback credit means that persons already engaged in oil production can make investments with tax dollars supplied by the government, while new investors must use their own money. We do not believe that kind of discrimination and anti-competitive effect can be justified.

In the case of different classes of producers, we simply believe that a windfall produced by cartel prices is a windfall to large and small producers, high- and low-cost producers and producers located everywhere. Producers all receive a cartel price and not a free-market price.

The issue of plowbacks and special exemptions ultimately boils down to whether windfall profits should go to oil producers or to the public in the form of tax reductions. The permanent tax reductions proposed depend upon the government receiving these revenues. If the revenues are curtailed, the tax reductions will need to be curtailed, too. We have tried to design a tax that will not inhibit those investments in oil production which are economic and which are needed to reach our goals. If we believed that the tax would inhibit needed investment, we would not propose it. Plowback credits and special exemptions would undoubtedly make existing oil producers wealthier than they would otherwise be, but would not significantly increase oil production. It is taxpayers generally who pay the prices that produce the windfall, and the revenues should go for the benefit of taxpayers generally.

Decontrol of New Natural Gas and Excise Tax.

Natural gas shortages last year forced major curtailments of supplies to many industrial firms and denial of service to many new residential customers. Curtailments and denials are much greater this year and are causing not only extra costs and hardships, but, in many cases, business close-downs and loss of jobs.

New natural gas goes primarily into intrastate, uncontrolled markets where prices range around $1 per thousand cubic feet ("m.c.f."). Gas in the interstate market averages less than 40¢/m.c.f. The result is that interstate supplies are insufficient, and the energy gap in nonproducing states is made up with imported oil, which on a BTU equivalent basis costs about $2.00, and with imported liquefied natural gas at $1.80/m.c.f. Deregulation will permit new domestic gas to flow into the interstate markets with an aggregate savings to existing customers in those markets, an end to curtailments, and a net saving in national resources.

Whether or not new natural gas is deregulated, the President proposes an excise tax of 37¢/m.c.f. on natural gas. That is equivalent, on a BTU basis, to the proposed $2.00 excise tax on oil and will prevent fuel oil users from switching to gas. It will also bring the average interstate price close to the market clearing price (the price at which supply and demand will coincide), and end the careless use of this fuel by those for whom it is cheap at present prices.

An equivalent tax, based on BTU content, will also be placed on natural gas liquids. Gas wells produce about 86 percent "wet" gases and 14 percent "dry" gases. The wet gases are treated to remove the natural gas liquids, such as propane and butane, and the dry gas goes on into the natural gas pipeline. The dry gas and liquids will thus be treated consistently. For example, the tax on natural gas liquids sold in mixed stream would be $1.43 per barrel.

The liabilities for this tax would be $6.3 billion in calendar 1975 and $8.5 billion in calendar 1976.

Effectiveness of Energy Package.

The energy package will reduce consumption significantly, with modest adjustments by most of our citizens.

It is natural for businessmen and consumers to react to a sudden increase in price of particular goods with the thought: "This will merely increase my costs. It won't cause me to reduce my purchases." That reaction reflects the fact that we are creatures of habit. But we are also rational beings who adapt our habits to changing circumstances.

When meat prices rose sharply in the early months of 1973, the instantaneous response was a loud complaint as each of us found his grocery bill inflated. In time, we adjusted to the higher price by buying less meat. There is no doubt that the portions of meat being served by many families today are smaller than they were only three years ago. We didn't like it, but it had to be done. There was no other way to adjust to the new situation--no way that was better.

So it will be with energy. 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 of energy. As in the recent experience with meat, after the initial shock of resentment at the higher prices of petroleum products and gas, our rational selves will take over and we individually and collectively will find ways to reduce our useage of energy.

Immediately, we will slice smaller portions of the energy pie for ourselves:

- We will turn off the lights when we leave the room to save electricity bills.

- Thermostats will be adjusted downward in winter, upward in summer, and heat will be turned off in rooms not in use.

- Marginal trips in cars will not be taken; some second and third cars will be scrapped.

- Married couples will look closer-in for their first home, and possibly settle for an apartment instead of a detached home; and owners of homes and buildings who formerly considered the fuel savings from insulation, weather-stripping, and otherwise improving the thermal efficiency of structures too costly to obtain will now reconsider.

Equally important, over the longer run:

- Industrial firms, ever on the lookout to cut costs, will speed-up the replacement of energy-using machinery and processes that were perfectly adequate in the days when oil cost $3 a barrel and gas only a few cents per thousand cubic feet, with substitute equipment and processes that may have higher initial costs but which consume less energy and thus have lower over-all costs of operation.

- Families will replace their present autos featuring comfort and speed at the expense of low mileage with lighter and more utilitarian cars that use less of the now expensive energy; and they may eliminate some of their most frivolous appliances while replacing others with initially more costly but more energy-efficient substitutes.

- Materials which require large amounts of energy to produce will be displaced by substitute materials which have become relatively cheaper because their production consumes less energy.

- More recycling will occur.

- The higher relative cost of oil and gas as energy resources will stimulate the development of other energy sources. Oil and gas will fill a smaller share of energy requirements. Just as coal displaced wood as our basic energy source; and oil and gas displaced coal, oil and gas will be displaced.

All of these examples are illustrations of what in the technical jargon of economics is known as "price elasticity of demand": quantities of things consumed decrease when their prices rise relatively to other prices. Every food merchant knows he will sell more bananas and oranges when a crop failure causes the prices of apples and pears to be high, and vice-versa. He may not have heard the term "price elasticity," but he knows how it operates.

Yet many remain skeptical that there is price elasticity in the demand for oil, or that if there is any, whether it is sufficiently large to make any difference in the volume of our oil imports. Experience since 1973 should put doubt to rest even if the findings of such major research efforts as those of the Ford Foundation Energy Project and the Federal Energy Administration do not.

For example, during the decade prior to 1974 when utility rates were steady, consumption of electric energy increased at a rate of 7.4%. Normally, one would expect any given period in 1974 to be 7.4% higher than the comparable period of 1973. But for the six-month period April through September, 1974 consumption was not 7.4% above 1973, it was one percent less, a swing of 8.4 percentage points below expectation. Some of this reduction in consumption could be attributed to the then just perceptible slowing-down of the economy, but a major portion of the reduction can be attributed to the energy price effects on electric utility rates. Experience with oil demand and prices is similar. During the decade prior to 1974, total U.S. petroleum demand increased at an annual rate of just over 5%. But the April-September 1974 petroleum demand was under the comparable 1973 period by 2.7%, a swing of 7.7 percentage points below expectation.

We need another reduction in petroleum useage of about 5% in order to reduce consumption by a million barrels a day. All of the econometric data indicates that the proposed price changes are on target.

Econometric models of the economy, such as those underlying the Ford Foundation Energy Project report, A Time To Choose, and the Project Independence Report, suggest that the short-term responses to energy price increases that we have already seen are half, or less, of the long-term response we can expect after households and business firms have had an opportunity to adapt fully to the higher costs of energy.

Thus, we have confidence that the President's energy program will easily achieve the one million barrel reduction in consumption by the end of this year and an additional one million barrel reduction by 1977.

Permanent Tax Reduction and Restructuring.

The Treasury will collect an additional $30 billion in taxes from the windfall profits tax and the excise taxes and fees on oil and natural gas. The private sector will bear an estimated $25 billion of that in the form of higher costs of energy related items they buy, and Federal, state and local governments will bear the remainder.

The $25 billion paid by individuals and businesses will be returned to the economy by the permanent reductions in individual and corporate income taxes. Like the temporary anti-recession tax cut, the $25 billion total is divided in approximately the ratio of individual and corporate income tax payments generally, so that about $19 billion is allocated to individuals and $6 billion to corporations.

These are major income tax reductions. They accomplish multiple purposes, rest on multiple foundations, and should be considered in that way.

First, the changes proposed in the individual and corporate income tax structures are desirable on their own merits. They have heretofore been too expensive to accomplish within existing revenue constraints.

Second, these tax reductions return to the economy the energy conservation taxes. Thus, the energy conservation measures reduce energy consumption without reducing the aggregate purchasing capacity of the private economy.

Third, these income tax reductions will provide energy consumers with additional after-tax spendable income to help meet higher energy costs if they still wish to consume the same amount of energy as before. Alternatively, they can buy more of other products and cut back on their energy consumption--and many will do that. The income tax reductions are such that most individuals in the lower and middle income range, up to about $15,000, will receive tax reductions greater than their increased energy costs even if they should choose to continue consuming the same amount of higher-cost energy. Taxpayers in higher income brackets will receive significant income tax reductions also, but generally less in proportion to their greater expenditures for energy.

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Fourth, these permanent income tax reductions are approximately similar to what is required to offset the so-called "bracket and deduction compression" caused by inflation over the last three years. Because deductions and rate brackets are stated in dollar terms, when inflation causes money incomes to rise, deductions offset a lesser portion of the same real incomes and the remainder is taxable in higher brackets.

Benefit for Individuals.

For individuals, the President proposes an income tax reduction of $16-1/2 billion beginning in 1975. This will be accomplished--

. By increasing the Low Income Allowance from its present level of $1,300, to $2,600 for a couple and $2,000 for single taxpayers, which will provide benefits of---------- $5 billion

. And by cutting in half, from 14 to 7%, the tax rate for the first taxable income bracket and making substantial, but smaller, reductions in tax rates in the next four brackets,[1/] which will provide additional benefits of------- $11-1/2 billion

Low Income Allowance.

The Low Income Allowance is the minimum standard deduction allowed to everyone regardless of his income level or the amount of deductions he actually has. In combination with the $750 personal exemption, the Low Income Allowance determines the minimum or base income on which no income tax is levied. In 1969, Congress defined the threshold taxability level by reference to so-called "poverty level" data, the assumption being that families with "poverty level" incomes did not have the requisite ability to pay and should be excused from liability. The Low Income Allowance was the mechanism adopted to achieve that result.

The Low Income Allowance is now $1,300. That means that a family of four with four $750 personal exemptions for a total of $3,000, plus a $1,300 Low Income Allowance, currently does not pay income tax if its income is $4,300 or less.

1/ Illustrates rate changes for married persons filing jointly. Comparable changes are made in other rate schedules.

Because of inflation, the poverty level for a family of four is now estimated to be about $5,600. Nevertheless, under present law, this family would in 1975 be required to pay income tax of $185.

The proposed increase of the Low-Income Allowance to $2,600 on a joint return will bring the nontaxable level for the family of four up to the new poverty level of $5,600, which is $3,000 of personal exemptions plus the new Low-Income Allowance of $2,600. The proposed increase in the Low-Income Allowance will also make comparable changes for single persons and families of other sizes, as shown by the following table.

No. in the Family	Estimated 1975 Poverty Level	Tax-Free Income Level	
		Present	Proposed
1	$2,850	$2,050	$2,750
2	3,686	2,800	4,100
3	4,382	3,550	4,850
4	5,608	4,300	5,600
5	6,618	5,050	6,350
6	7,446	5,800	7,100

Increasing the Low-Income Allowance to the levels proposed will provide benefits of about $5 billion to low-income taxpayers and relieve from income tax altogether over 5 million presently taxable returns.

Reduction of Tax Rates.

In addition to the change in the Low-Income Allowance, which benefits the lower income taxpayers, the proposals will reduce income tax rates for the 62 million remaining taxpayers in a generally progressive manner.

The present income tax rates for married persons filing jointly would be reduced as follows: The 14% rate reduced to 7%; the 15% rate reduced to 10%; the 16% rate reduced to 13%; the 17% rate reduced to 15%; and the 19% rate reduced to 17% for part of the present bracket and the balance of that bracket to remain at 19%. Rates for other income brackets would remain the same, except that the present 28% and 32% rates would be increased 1 percentage point each. Taxpayers with incomes falling in those brackets would still have a

substantial net reduction in liability because a part of their income will also be taxed in the brackets in which rates have been reduced. Comparable reductions will be made in the tax rates for single returns and other types of returns also. The revised rate schedules are set forth in the appendix.

Progressive Income Tax Reduction.

The effect of the two elements of the proposed income tax reduction for individuals, both singly and in combination, is progressive. The proposed tax reductions are proportionately greater in both dollar amounts and percentages toward the lower end of the income spectrum. Nevertheless, taxpayers at all income levels share significantly in the proposed reductions.

The benefits from doubling the Low-Income Allowance are heavily concentrated in the adjusted gross income classes below $5,000, $10,000 and $15,000. The benefit of the reduction in tax rates goes 96% to persons with adjusted gross incomes below $20,000 and 89% to those below $15,000. When the two tax reductions are combined, 41% goes to persons with adjusted gross incomes below $10,000, 70% to persons with adjusted gross incomes below $15,000 and 86% to those below $20,000.

The following table shows the percentage reduction in the income tax by income class:

1975 Levels

Adjusted Gross Income Class ($000)	Income Tax Paid Under Present Law	Amount of Income Tax Reduction	Percentage Reduction in Income Tax
	($ billions)		
0 - 3	$ 0.3	$- 0.25	-83.3%
3 - 5	1.8	- 1.20	-66.7
5 - 7	4.0	- 1.96	-49.0
7 - 10	8.9	- 3.38	-38.0
10 - 15	21.9	- 4.72	-21.6
15 - 20	22.8	- 2.70	-11.8
20 - 50	44.4	- 2.15	- 4.8
50 - 100	13.5	- 0.11	- 0.8
100 and over	13.3	- 0.03	- 0.2
Total	130.9	-16.50*	-12.6

*Does not include payments to nontaxpayers.

Some have suggested that there is no reason to cut taxes at all for upper bracket taxpayers. We believe, however, that fairness requires some--though lesser--relief in the upper brackets. It is important to remember that:

- Only about 12% of all taxpayers have gross incomes above $20,000, and they now pay about 52% of total individual income taxes. They will pay an even higher percentage of individual income taxes if our proposals are enacted.

- Upper income individuals have been adversely affected by inflation, just as lower income individuals. The prices of the things they buy have increased too, and since they buy more, the increase is greater. Also, "bracket and deduction compression" has adversely affected high-income taxpayers just as it has affected lower income taxpayers. Everybody has had, in effect, an income tax increase because of inflation.

- Upper income taxpayers play a disproportionately large role in providing the investments which help everyone's income to increase.

The following table illustrates the tax reductions that will be received by a typical family of four at various income levels.

Adjusted Gross Income	Present Tax 1/	New Tax	Tax Saving	Percent Saving
$ 5,600	$ 185	$ 0	$185	100.0%
7,000	402	110	292	72.6
10,000	867	518	349	40.3
12,500	1,261	961	300	23.8
15,000	1,699	1,478	221	13.0
20,000	2,660	2,450	210	7.9
30,000	4,988	4,837	151	3.0
40,000	7,958	7,828	130	1.6

1/ Calculated assuming Low-Income Allowance or itemized deductions equal to 17% of income, whichever is greater.

Increased Energy Costs Compared with Tax Reductions.

The proposed changes in the structure of the individual income tax stand on their own merits and were not designed primarily to offset increased energy costs.

Solving the oil problem will require the public, and particularly large energy users, to make adjustments that will be unpopular and which in some cases will cost money. Nonetheless, the proposed tax reductions are very substantial for low and middle income taxpayers below the $15,000 income level and we believe are, on average, sufficient to more than offset the average increases in their energy costs. The Council of Economic Advisers has calculated that the increase in the Consumer Price Index attributable to this program will be 2% or less. Others have suggested different percentages.

The following table provides some guidance, by indicating how much the tax reductions add to after-tax disposable income. It is after tax income which individuals have at their disposal to buy goods and services, including energy. If the cost of living goes up 1%, a 1% increase in after-tax income should leave the average taxpayer even. The table indicates that with a rise in prices of 2% or less, average taxpayers through the $15,000 AGI class will be ahead.

Adjusted Gross Income Class	After-tax Income	Proposed Tax Reduction	Reduction as a Percent of Present After-tax Income
($000)	(.....Billions.....)		(.....Percent.....)
0 - 3	21.7	0.3	1.2 1/
3 - 5	33.2	1.2	3.6 1/
5 - 7	46.0	2.0	4.2
7 - 10	86.1	3.4	3.9
10 - 15	183.1	4.7	2.6
15 - 20	162.2	2.7	1.7
20 - 50	235.6	2.2	0.9
50 - 100	36.5	0.1	0.3
100 and over	21.7	*	0.1
Total	826.1	16.5	2.0

*Less than 50 million

1/ Many taxpayers in the two lowest income classes will benefit from the $80 special distribution.

$2 Billion for Payments to Nontaxpayers.

Individuals whose incomes are so low that they do not pay any income tax will not benefit from the income tax reductions. Because of their low incomes, these persons are likely to have the least flexibility in shifting their consumption patterns as energy becomes relatively more costly.

In order to avoid hardships from higher energy costs, an additional $2 billion of the energy tax revenues has been allocated to provide cash payments of $80 to each adult in this low income, nontaxpayer category. These persons will thus not be forced to reduce their energy consumption, although they, like others, will have the choice. In addition, very low income persons who now pay some income tax and who will receive some benefit from the proposed tax reductions will also be eligible to receive distributions in amounts approximately sufficient, when added to the income tax reduction, to give them a total benefit of about $80 per adult. In total, this payment system is estimated to involve about 26 million adults, 21 million of whom are nontaxpayers under present law, and to provide a total benefit to them of about $2 billion.

Payments will be made as early in 1975 as possible, and if the energy taxes are enacted by April 1st, as the President requests, we believe that payments can be made in the summer. The payments will be made by the Internal Revenue Service and will be based on a return--comparable to a very simple income tax return--filed by those persons eligible. In designing this system for payments, emphasis has been placed on making it simple and speedy. While we should be generous in order to be certain that we have avoided genuine hardships, we should not create an additional welfare system or bureaucracy.

The essential details of this system for cash payments are as follows:

- Adults 18 years or older and not eligible to be claimed as a dependent on an income tax return would file with the Internal Revenue Service a simple income tax return showing their name, social security number and their adjusted gross income for 1974.

. Adults are eligible to file and receive a payment if they are married persons filing a joint return and their adjusted gross income is less than $5,500 and if they are single persons and their adjusted gross income is less than $2,750.

To take account of the fact that some persons eligible for payments will also receive income tax reduction, payments will be made under the following schedule:

For Married Persons Filing Joint Returns

If their income is $4,500 or less, the payment is---------- $160

If their income is more than $4,500, the payment is reduced by $4 for every $25 of income over $4,500

For Single Returns

If their income is $2,250 or less the payment is---------- $ 80

If their income is more than $2,250, the payment is reduced by $4 for every $25 of income over $2,250

This schedule of payments will result in phasing-out the payments as income rises to the level where the amount of income tax reductions that have been received equal $80, or $160 on a joint return. For example, a married couple with two children and income of $5,600 would have received $185 of income tax reduction and would therefore receive no additional cash payment.

Because the payment system is simple and distinguishes only between single returns and joint returns, there cannot be complete precision and some persons will receive payments which, when combined with income tax reductions, will vary somewhat from the $80 per adult minimum. Imprecision is the price of simplicity. Precision can be obtained only with returns that report the number of personal exemptions and itemized deductions--i.e., a full tax return. Exemptions and deductions are major problems, even with higher income persons, and, as a practical matter, would be unpoliceable on these returns. The $80 per adult minimum is an average and somewhat arbitrary (though generous) figure in the first

instance, and it would be quixotic to construct a second and complicated tax system to see that no family, regardless of size or need, varied slightly from the figure.

The amount of $80 per adult appears adequate to compensate individuals in these low-income classes generally, with a margin for extraordinary situations. The total increase in energy cost for the households represented by the about 26 million adults who will participate in the $80 payment system is estimated to be $1.3 billion, an average of $50 per adult. This group includes 17 million single adults and 9 million married persons who would file jointly. Thus, the average increase in energy cost per filing unit, or roughly speaking, "household," in this category is about $60. Looked at another way, the increase in energy cost may induce an increase in the Consumer Price Index of as much as 2%. A 2% increase for a person with $2,000 income would be only $40, and for a family with an income of $5,000 would be only $100.

In contrast, total benefits of $2.1 billion are proposed for this group by the combination of cash payments and income tax reductions. The basic benefit will be $80 for a single adult and $160 for a married couple.

In addition there are another 7 million adults whose adjusted gross incomes are below $5,000, but who will receive $80 or more entirely through income tax reductions.

Residential Conservation Tax Credit.

To complete the total of $19 billion of tax and cash payment benefits for individuals, a residential conservation tax credit will be allowed for expenditures for thermal efficiency improvements for existing homes. Such improvements include storm windows and doors, and insulation and weather-stripping. The credit will be effective for years 1975, 1976 and 1977 and the maximum credit allowed over that three-year period will be $150 per family. It is estimated that at least 18 million homes will be eligible for the credit and that the total credits will be $500 million annually for the three years.

Corporate Tax Rate Adjustment.

The President proposes that the corporate tax rate, which is now 48%, be reduced to 42%. This will provide benefits of approximately $6 billion. This reduction will be accomplished by reducing the corporate surtax rate on taxable income in excess of $25,000 from the present 26% to 20%. The basic or normal rate applicable to all corporate taxable income will remain at the present 22%. Thus, the first $25,000 of a corporation's taxable income will continue to be taxed at a rate of 22%. The balance will be taxed at a total normal and surtax rate of 42%. We propose that the reduction be made in the high surtax rate because that is where the excessively heavy double tax burden on corporate earnings falls. Corporations that pay only the normal tax rate of 22% are paying tax at about the average top marginal tax rate of individuals.

The reasons for recommending reduction in corporate taxes by means of a rate reduction instead of by some other means are as follows:

Rate reduction is the most neutral way of reducing corporate taxes. Neutrality means that all corporations now paying at a 48% rate will share in the tax reduction, will have maximum flexibility in making business and investment decisions, and can therefore operate most efficiently without regard to tax consequences.

Reduction of the presently high corporate tax rate will be the most meaningful and symbolic signal to business, to investors and to the market of a serious intent to assist business. This type of tax reduction will provide corporations the maximum assurance of continued more favorable climate for the long-term investment decisions that are necessary to ensure prosperity and control inflation.

Rate reduction has a character of permanence. We have proposed to make the permanent tax reduction for individuals in large part by rate reduction. We should do the same for corporations.

The amount of the proposed corporate tax reduction of about $6 billion is approximately the 25 percent corporate share--when divided in the 75%-25% ratio of corporate and individual tax payments--of the total of $25 billion of permanent tax reductions and payments we propose to make. This proposed corporate tax reduction of $6 billion reflects

the fact that corporations, too, will have an additional burden from higher energy costs. Corporations will bear these additional costs in a variety of ways--higher energy costs reflected in costs of equipment they buy, not all of which they will be able to pass on to consumers; reduced sales and lower prices for some products as demand for energy is reduced; and the additional capital equipment and other costs that will be involved for many corporations in shifting over to lesser energy using processes and products.

As their energy costs increase, business will be under pressure to pass these costs through to consumers and they will be successful in varying degrees. To the extent that this increase in cost is offset by a decrease in income tax cost, a part of that pressure to pass through energy costs to consumers will be relieved.

Corporate tax reduction is seldom politically popular, because it is levied against an inanimate entity. But corporate taxes are borne by people--in part by people generally in the cost of what they buy from corporations, and in part by shareholders in the form of a reduced return on the capital they have invested in the businesses.

In recent years other nations, including our principal trading partners, have recognized this and adopted various "integration" plans which move towards eliminating the double tax on income earned in corporate form. But the United States still imposes a double tax on income earned from a business conducted in corporate form, thus taxing that income more heavily than other income.

As you consider the President's proposal to reduce the corporate rate from 48% to 42%, you should have firmly in mind that income earned in a corporation would still be taxed at 42%, and then taxed again at rates going up to 70% when paid out as a dividend--producing a maximum tax of 82.6%.

I have already discussed the compelling reasons for a reduction in corporate taxes wholly apart from any increase in energy costs. These reasons are real and serious. While corporate tax reduction may be unpopular, the consequences of increasing unemployment and declining productivity will be even more unpopular. They already are.

Conclusion.

It is clear that our country faces serious economic problems. I am confident that we can solve them. They are complicated problems and their solutions will require painstaking attention and balanced judgments. The President's program, which I have outlined to you, provides an integrated blueprint for action. I am confident that as we consider the problems in the objective and professional manner for which this Committee is distinguished, we will be able to reach joint decisions that will set us back on the path to continued prosperity. I look forward to working with you.

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
WASHINGTON, D.C., MONDAY, MARCH 3, 1975

I am pleased to be with you this morning to consider the President's energy proposals.

When I was here on January 22, I presented a comprehensive and detailed statement dealing with the President's energy proposals as well as the need for stimulating the economy and controlling inflation. On the assumption that the earlier statement can be included in the record, I will confine my remarks this morning to some summary observations.

What Sacrifices are We Willing to Make?

There appears to be near universal agreement on the need to conserve energy and, in particular, to reduce our imports of petroleum. As a nation we have become addicted to cheap oil and to a level of oil consumption unknown elsewhere in the world. As a consequence we are at the mercy of a small cartel, which has the power to bring about international political and economic spasms of the kind we have recently experienced. We must extricate ourselves from this situation.

In the process of facing up to the problem, there has been a growing awareness that there will be some withdrawal pains. One result has been the emergence of a "manana" cult that says, "Yes, we must solve the problem, but 'manana'--not today." That is, in my view, a dangerous philosophy. The present level of petroleum imports is a direct threat to our national security. I say that for these reasons:

1. Petroleum is a unique commodity, entering into almost every facet of our economy, either as the fuel for transportation of goods and people or as the raw material for a myriad of products like fertilizer and petrochemicals. It is hardly an exaggeration to say that petroleum has become the lifeblood of our economy.

2. Because our demands for energy have been outstripping the growth in domestic production, we have become increasingly reliant upon foreign sources of oil. We are now importing about 40% of our total petroleum consumption; by 1985, if present trends continue, we would be dependent on foreign nations for more than half of the oil we consume.

3. Only a small portion of these imports can be deemed to be secure from interruption in the event of a political or military crisis, and recent history strongly indicates that such a crisis is by no means a remote possibility in an area where two-thirds of the world's known petroleum reserves are located.

4. Most of the countries which export the oil that we import are organized into a cartel which has managed to raise international oil prices to a level four times above that which prevailed prior to the 1973-74 embargo.

5. The outflow of U.S. funds to those oil-rich countries greatly enhances their economic and political power and weakens our own and that of our allies. In 1970, our total bill for foreign oil was $2.7 billion. In 1974, that figure shot up to approximately $24 billion, and unless we act to restrict imports, the bill will rise within a short time to over $30 billion a year.

I believe the American public understands this threat to our security and the need to act decisively. We are often assured by public spokesmen that the American people are willing to "sacrifice" and are only waiting for leadership. I believe that, too.

We are the wealthiest nation the world has ever known. Our citizens are the most affluent. In the last 15 years, our per capita income has risen by 50%. We pay less for oil and oil products than almost any other major industrial nation. Around the world, gasoline sells for two to three times as much as here. If this country can't face up to the problem, which can?

The President has proposed a program which will, by the end of the first year, reduce our consumption of oil by about 5%. That will be accomplished principally by price increases of roughly 10¢ a gallon. That is about the same price increase for oil that we had last

year. Oil was only one of many increases last year, and we lived through them all. The difference this time is that we plan to give it all back.

We simply must keep a sense of perspective. We are talking about 10¢ a gallon, and most people will get it all back. For the majority, it will not even be an inconvenience, let alone a sacrifice. For a great many--particularly in lower income classes, there will be a net benefit.

It will be a tragedy if for fear of public reaction to 10¢ a gallon--which will be given back--we fail to take these critical measures. And it will be equally tragic if we insist on building into the solution a series of bureaucratic changes which are wholly disproportionate to the size of the problem and which will permanently disable the efficient operation of our economic system.

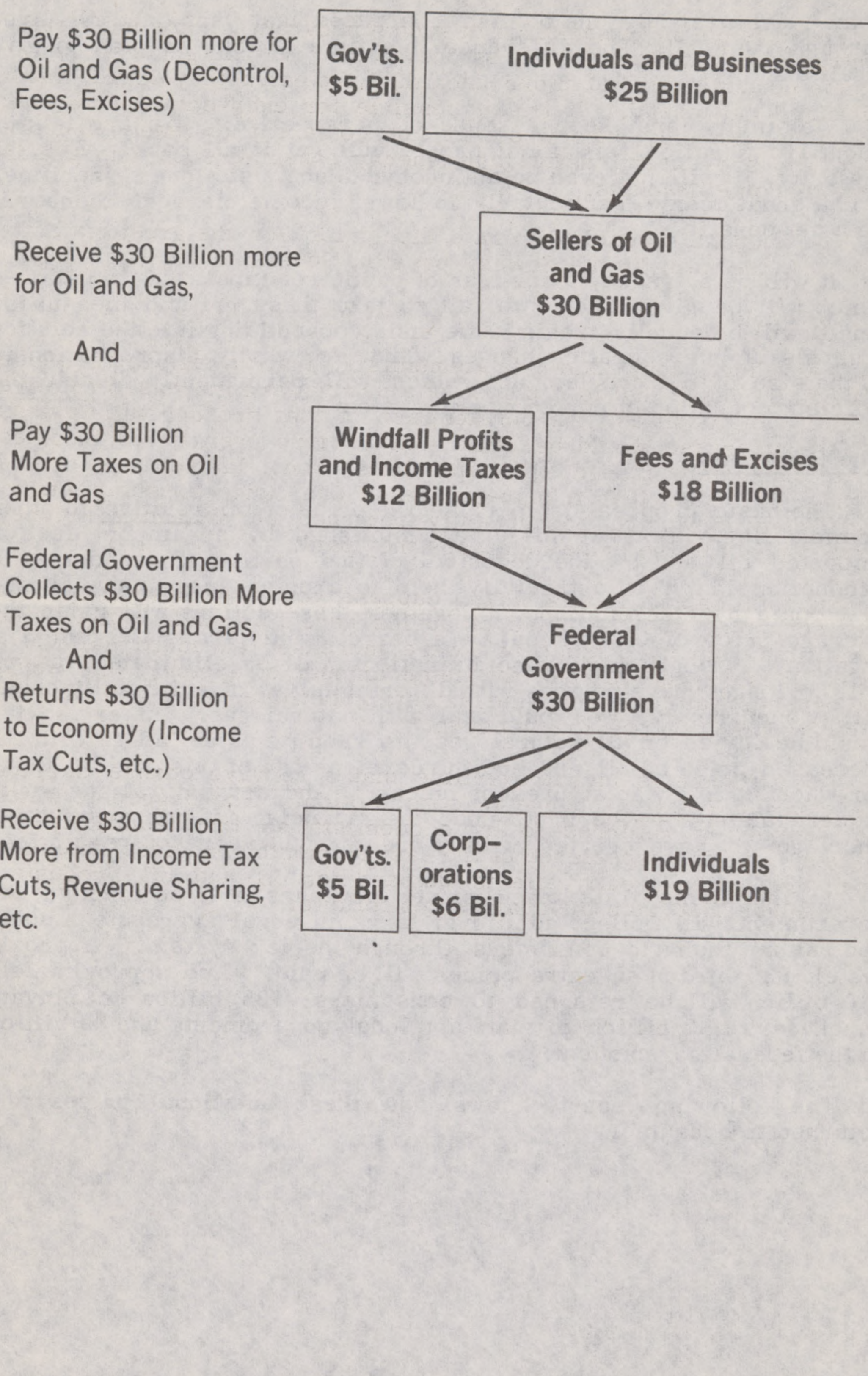
The Proposals.

The basic proposal is to raise the price of oil relative to other commodities. That would be accomplished by an import fee on imported oil and by the decontrol of that portion of our domestic production which is artificially held to a price less than half the price paid by other nations. Together those actions will raise the average price of oil by about $4 a barrel, which translates into 10¢ a gallon. Geographical discriminations will be eliminated, as we will no longer have regions with differing mixes of artificially cheap oil. Concurrently, we would deal with natural gas. An excise tax would be levied on all natural gas, to keep its price in line with the increased price of oil and end the careless use of this fuel by those for whom it is cheap at present prices. And new natural gas would be deregulated, to begin to undo the artificial and job destructive shortage we have created with more than 20 years of regulation.

At the same time these price increases are occurring, the government will collect additional taxes in equal aggregate amount and return them to consumers through the tax system. Approximately $30 billion in extra prices will be paid. And approximately $30 billion will be returned to consumers--$25 billion to private purchasers, $2 billion to state and local governments and $3 billion to the federal government.

The following chart shows how these additional prices are returned to consumers.

President's Energy and Tax Package



There is not much sacrifice in such a program. Some individuals won't get back quite as much as they paid. But, in general, lower income persons will get more back than the extra they spend. Most will come out ahead. It is not possible for everyone to come out ahead, but the only ones who will not come out at least even are those who are exceptionally high energy consumers or who are in higher income brackets.

The proposals would eliminate discomfort for the great majority and keep the pain at the lowest possible level for the remainder.

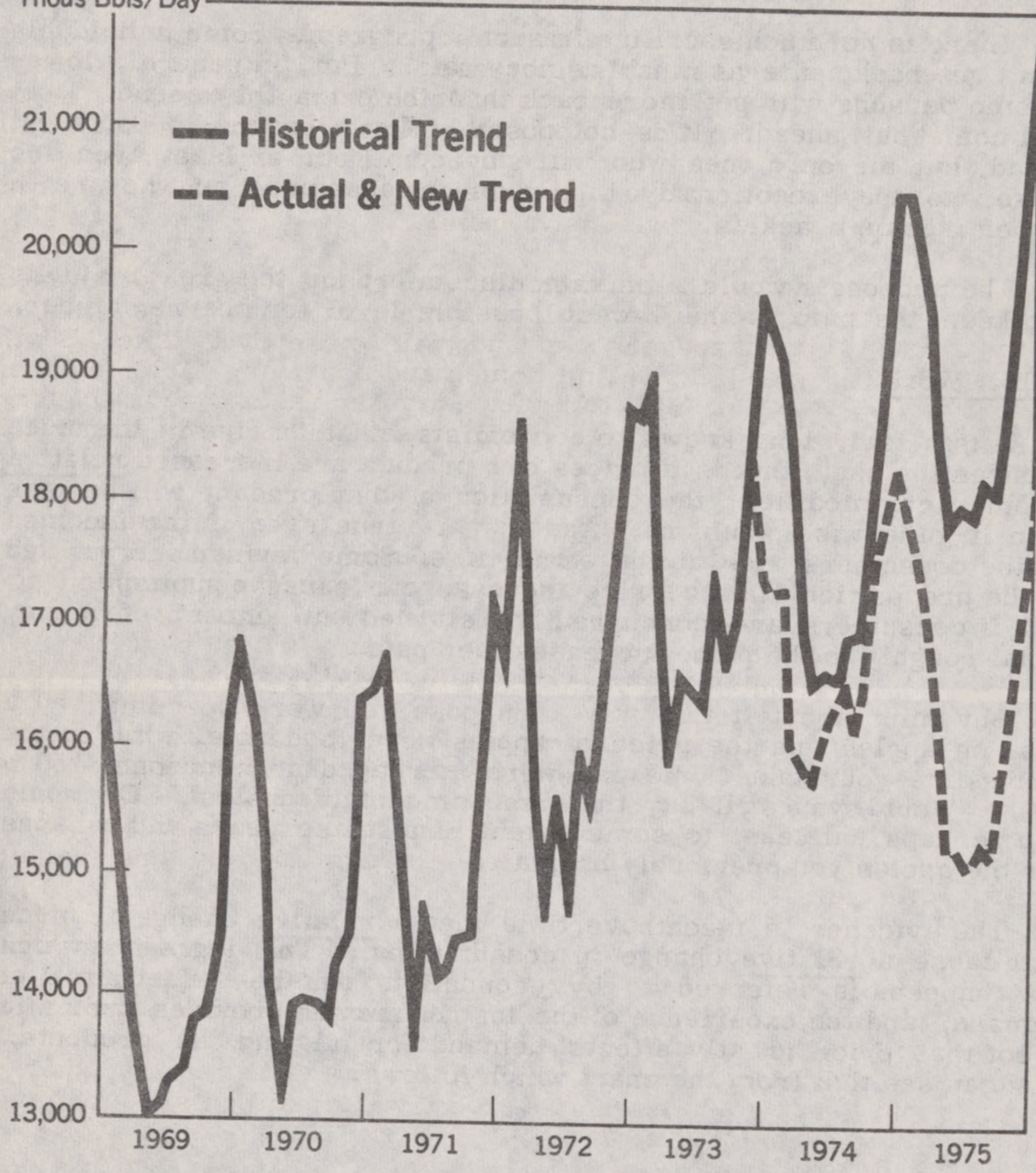
Will It Work?

It is a fact, long known to economists, that "a rise in the price reduces the use"; that is if prices of a product are increased relative to other commodities, the consumption of that product will be less than it otherwise would be. And that is true even if the incomes of the consumers rise at the same time. Some laymen are puzzled by the proposition that a price increase can cause consumption to fall if consumers are concurrently returned an amount of money equal roughly to the price increases they paid.

But think about it this way. Suppose you were spending $50 a year on apples and the price of apples were to double, while at the same time your take home pay were increased an additional $50 a year. Would you still buy the same amount of apples? Or would you perhaps, at least to some extent, substitute pears and bananas for the apples you previously bought?

The evidence is incontrovertible that a relative change in price will cause a relative change in consumption. The degree to which that happens is referred to by economists as the "elasticity" of demand, and the experience of the last 18 months provides dramatic proof that price greatly affects demand for oil and oil products. You can see that from the chart which follows:

Comparisons of Total Product Demand



The chart shows that the consumption of petroleum has great seasonal variation, but has increased steadily for some years. However, the major price increases which occurred last year helped arrest that upward climb and caused consumption to be substantially less than it would otherwise have been. There was some absolute drop in consumption, and a very substantial relative drop from what consumption would otherwise have been.

In the longer run, the reduction in energy use from the price rises which have already occurred will be still greater, as there are many adaptations which taxpayers can and will make over time. Buying better mileage cars, insulating homes and switching factories from oil to coal are just a few examples. Similar results have occurred in other countries. Thus, the Wall Street Journal for January 29 reports:

> "Britain, West Germany and a majority of countries depend upon rising prices to encourage cuts in energy use. The Petroleum Economist, an oil weekly published in London, estimates that in the first half of last year, fuel consumption dropped from a year earlier by 14% in West Germany, by 9% in Britain, by 6% in France..."

Several econometric studies have been made, inside the government and out, to measure the elasticities of demand for energy products. The experience of the last year provided a unique laboratory to test the reliability of these measures of elasticity, and as a result we have confidence in our estimates--keeping in mind that they are still only estimates.

Do we know exactly how much 10¢ a gallon will reduce consumption? The answer is no. Do we need to know exactly how much consumption will be reduced? The answer again is no. The important thing is that we move in the right direction and that our estimates be roughly correct over a period of several years. If it turns out that we are too high or too low, adjustments can be made in the import fees and excises.

Are we reasonably sure that we are in the ballpark? The answer to that is yes. We believe that the econometric data, updated by the experience of last year, provides a reasonably reliable basis for estimates.

Quotas as an Alternative.

There has been considerable discussion about using a series of gradually more restrictive quotas rather than price changes to achieve import reductions. Proponents of quotas seem to assume that it is critical to know precisely how much imports would be reduced and argue that quotas would provide that answer.

But most of the arguments for quotas I have seen leave off in mid-air, and do not consider what happens after the quantity reducing quota is imposed. One of two things is possible: prices of oil will rise just as in the case of an import fee, or, alternatively, shortages and/or rationing will occur.

Quota without further controls.

If a quota is imposed to restrict imports, the price of oil will rise unless further action is taken to prevent that rise. If we knew for sure that a 10¢ a gallon price increase would reduce consumption by 1 million barrels, we could be equally sure that an import quota that reduced consumption by 1 million barrels would increase U.S. prices by the same 10¢. We are dealing with the same supplies and the same demand and they will balance out at the same place. Thus, an import fee and a quota have identical price implications.

A quota system, however, has two disadvantages. First, a quota leaves the additional price increase in the hands of importers and producers rather than in the hands of the government, unless an elaborate quota auctioning scheme is developed.

Second, a series of quotas would be more disruptive of economic activity because the expectation of quota reductions would create business uncertainties as to how prices would react. It is much better to have certainty about prices (and be less certain about the size of import reductions), because it is price data that businessmen need in order to make intelligent decisions about running their businesses and making their capital investments. For a company assessing the risks of going into the oil-shale business, for example, the critical data are oil prices.

Quota with controls.

Some proponents of quotas would prohibit the price increases that would normally follow from a quota. That could be accomplished by a system of price controls, and would in turn, create shortages. At artificially low prices the quantities demanded will exceed the supply. The shortages could then be distributed across the population by a system of allocation or rationing. We would be embarked on an era of chronic shortage and maladjustment, without the efficient incentives provided by the price system for producers to develop additional sources of supplies and for consumers to accept substitutes. I do not think the public would stick with such a system.

An allocation program is sometimes cited as a solution--primarily, I think, on the mistaken notion that it would avoid rationing. But allocation is itself a system of partial rationing which occurs at the business level rather than at the consumer level. An allocation program would deny businesses some of the supplies they need to continue functioning, and would lead to business dislocations and the loss of jobs. The same kind of thing would happen that we have seen this winter when plants have closed because they could not get a sufficient "allocation" of natural gas. We estimate that several hundred thousand jobs would be lost. At the retail level, quantities would be rationed by queueing, as was gasoline last winter. Nor would all of this necessarily prevent consumer prices from rising. To fully ensure that prices will not rise due to restrictive supplies of oil, the ultimate requirement is rationing of gasoline, fuel oil, fertilizer and petrochemicals.

In sum, if prices were not permitted to rise, a major bureaucracy would have to be created and permanently maintained to decide how the resulting shortages would be allocated. I cannot imagine that many citizens who lived through the rationing experiences of World War II would willingly elect the massive interference with their freedom of choice which rationing entails--certainly not in preference to a price increase of 10¢ a gallon which they get back. Those who are too young to remember the rationing experience of World War II would be quickly disenchanted.

Effect on the Economy.

The effect of the program on the economy will in broad outline be neutral. $30 billion is taken out of the private economy and $30 billion is put back in. The mere enactment of a clear energy policy should have a beneficial effect, regardless of details, for it will remove many uncertainties that presently inhibit economic and business planning. In a few industries, substantial readjustments will be required. That is inevitable if we are to cut back consumption, and is a process which must get underway. However, most businesses will pass most of the increases through to consumers. (The projected 2% increase in prices assumes that all such increases are passed through.)

Much debate has focused on whether price levels will increase. We have estimated that there will be a 2% increase in the CPI. But even that is a statistical mirage, for most consumers will get the money back through tax reduction. The average citizen will have the same wherewithal to buy the same amount of petroleum products as before--if he chooses to--without reducing his other purchases.

The CPI is important, even if it has many inadequacies in conveying the true state of affairs, because people's thinking and actions are often shaped by it. But, it should be emphasized that whatever effect the program has on the CPI or on price levels generally, it will be a one-time effect. Once digested, petroleum price increases will not increase the ongoing, future rates of inflation.

Would a Gasoline Tax be Better?

We have proposed a tax on crude oil because we believe it will do the job most efficiently, create the fewest major dislocations and spread the burden of modest adjustments across everyone, rather than impose major adjustments on a few.

A tax on gasoline alone does just part of the job. Gasoline accounts for less than half of each barrel of crude. We need to conserve the other half equally as much.

The fact is that gasoline is not the most price responsive element in the barrel of oil--particularly in the longer run. There has been a tendency for most of us to think that gasoline is the easiest thing for somebody else to give up or to find a substitute for. But the surest way to identify the things that the public can give up most easily is to look at the response to changes in price. Things which

people find most difficult to give up are the least responsive to price changes, because people continue to buy almost the same amount even when the price rises sharply. Things which people value the least are the most responsive to price changes. When people are willing to do without them or can easily find acceptable substitutes, even a small increase in price can produce a large falloff in demand.

Thus, the price system provides a kind of automatic "polling system" which tells us the public's relative preferences. There are a variety of products that come from a barrel of crude--including gasoline, residual fuel oil, jet fuel, kerosene, ordinary residential heating oil and petrochemical feedstocks. The evidence on hand is that it is no "easier" for people to give up gasoline than other products in the short run, and harder to do so in the longer run. It seems to me hard to argue against the proposition that the public should be permitted to decide for themselves which particular petroleum products they are willing to cut down on.

It would take a gasoline tax of 45¢ to 50¢ per gallon to achieve the same ultimate reduction in consumption as the roughly 10¢ per gallon tax which the President's proposals would put on all petroleum products. If the present proposals raised the CPI by 2% then by the same reckoning, substitution of a 45¢ a gallon increase in the price of gasoline for a 10¢ a gallon increase in the price of crude would cause the CPI to go up by about 3%.

Tax Reductions for Individuals.

The Treasury will collect about $30 billion in taxes under the proposal, which is roughly equal to the aggregate price increase that will result from the proposal. The private sector will bear an estimated $25 billion of that in the form of higher costs of energy related items they buy, and federal, state and local governments will bear the remainder.

For individuals, the proposals include an income tax reduction of $16-1/2 billion:

- By increasing the Low Income Allowance from its present level of $1,300, to $2,600 for a couple and $2,000 for single taxpayers, which will provide benefits of ------- $5 billion

- And by cutting in half, from 14% to 7%, the tax rate for the first taxable income bracket and making substantial, but smaller, reductions in tax rates in the next four brackets, 1/ which will provide additional benefits of ---------- $11-1/2 billion

The effect of these proposed reductions is very progressive, as they are proportionately greater, both in dollars and percentages for lower-income taxpayers. The following table shows the degree to which that is true.

1975 Levels

Adjusted Gross Income Class ($000)	Percentage Reduction in Income Tax	Reduction as a Percent of Present After-tax Income (Percent)
0 - 3	-83.3%	8.9 2/
3 - 5	-66.7	4.6 2/
5 - 7	-49.0	4.2
7 - 10	-38.0	3.9
10 - 15	-21.6	2.6
15 - 20	-11.8	1.7
20 - 50	- 4.8	0.9
50 -100	- 0.8	0.3
100 and over	- 0.2	0.1
Total	-12.6	2.0

The last column is especially significant in assessing the extent to which the tax reductions more than offset any price increases resulting from the energy proposals. We estimate that consumer price levels will increase 2% if all energy costs are fully passed through to consumers. Individuals whose after-tax incomes go up more than 2% while their living costs go up only 2% are obviously ahead of the game.

1/ Illustrates rate changes for married persons filing jointly. Comparable changes are made in other rate schedules.
2/ Includes energy tax equalization payments to low income adults.

The next table tells a similar story in terms of individual families.

ILLUSTRATIONS OF PERMANENT TAX RELIEF AND INCREASED ENERGY COSTS AT VARIOUS LEVELS OF HOUSEHOLD INCOME

Household Income	Total Increased Energy Costs 1/	Permanent Tax Relief Plus $80 Special Payments for Adjusted gross Incomes Equal to Household Incomes Shown	
		Single Person	Family of Four Persons
$ 2,000	$ 85	$ -80	$-160
3,000	110	-120	-160
5,000	150	-250	-178
8,000	188	-297	-337
10,000	228	-254	-349
12,000	253	-190	-316
15,000	296	-190	-221
18,000	318	-190	-210
25,000	393	-190	-192
30,000	420	-148	-151

It is true, of course, that an average statistic does not fit everyone. Some people have greater than average energy costs just as some people have less than average costs. But in an overall, rough way the tax reductions are more than compensations for lower income persons. It is not the purpose to compensate everyone exactly and there will surely be persons for whom the program creates significant additional expense and others to whom it gives windfalls. There is no way to prevent such individual windfall gains and windfall losses under this or any other program of energy reduction with teeth in it.

To those individuals whose incomes are so low that they do not benefit sufficiently from income tax reductions to offset greater additional energy costs, the proposal would distribute an additional $2 billion in the form of an $80 per adult credit as explained in my prior testimony. Finally, to bring the benefits for individuals up to a total of $19 billion, a special tax credit would be allowed for expenditures on thermal-efficiency improvement for homes, such as storm windows and doors, insulation and weather stripping. Three-fourths of the total revenue is thus dedicated to individual and unincorporated business tax reductions.

1/ Assumes that all energy price increases are fully reflected in prices of final products.

State and Local Governments.

Since state and local governments are important consumers of energy, they too would get $2 billion of benefits through the revenue sharing system. While distributions under the existing formulas would no doubt be easiest to implement, there has been some feeling that it would not adequately provide for schools, which are major energy users. We believe flexibility in this respect is desirable and would be happy to work with you in working out satisfactory adjustments to the distribution formula, if you believe that to be appropriate.

Corporate Tax Rate Adjustment.

The balance of the $25 billion to be returned to the private sector would go to corporations in the form of a reduction in the corporate tax rate.

In my prior testimony, I explained in some detail our concern over the deterioration of business profits, which is further exacerbated by the current recession. The increase in energy costs will provide still further burdens to the extent not passed on in prices. Thus, we believe it essential that corporations, as well as individuals, be accorded substantial tax reductions. Tax reductions for corporations are seldom politically popular, but declining business profits mean declining productivity and increasing unemployment, which are even less popular. Fairness and common sense require that businesses share in the distribution of these revenues.

The reasons for recommending reduction in corporate taxes by means of a rate reduction instead of by some other means are as follows.

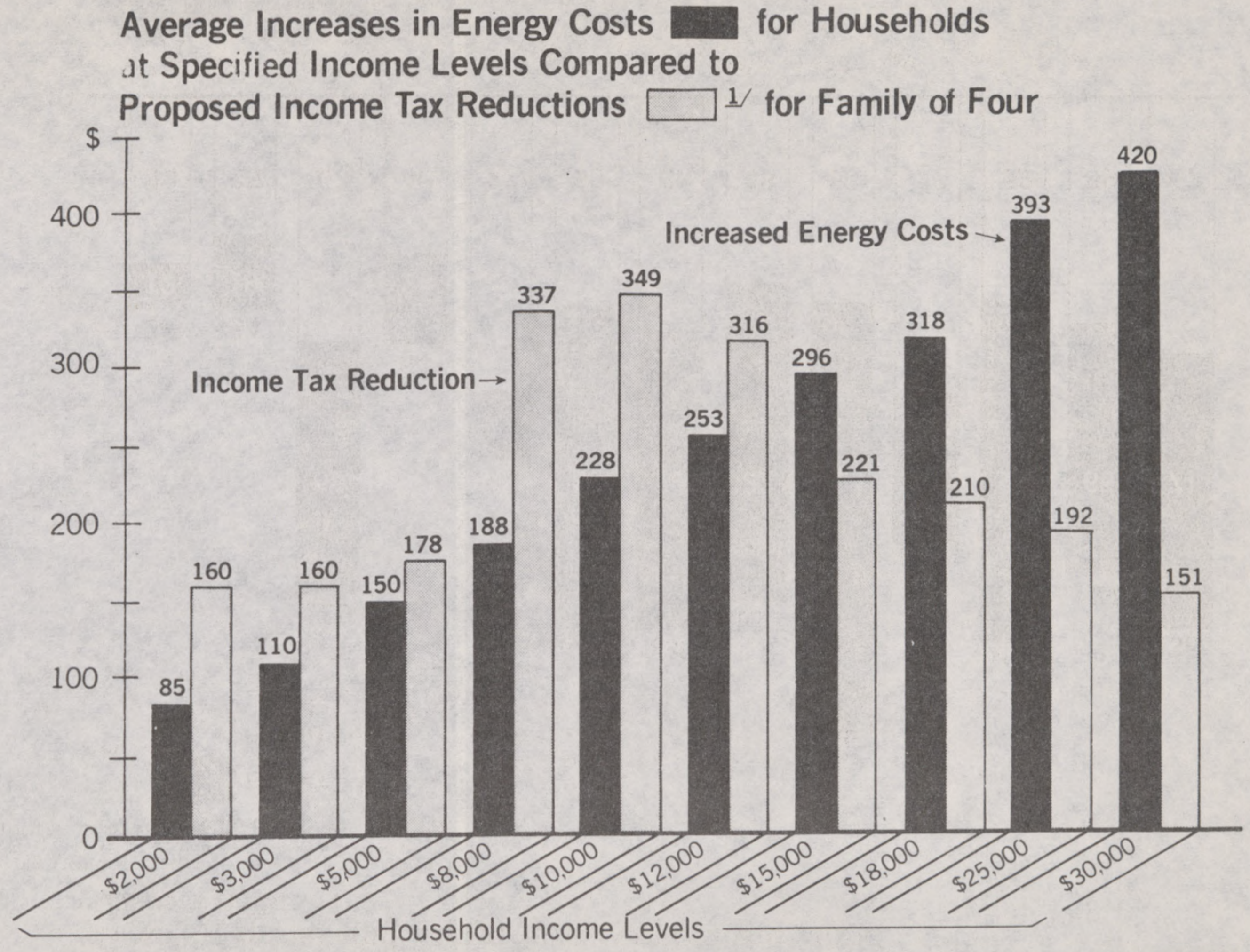
Rate reduction is the most neutral way of reducing corporate taxes. Neutrality means that all corporations now paying at a 48% rate will share in the tax reduction, will have maximum flexibility in making business and investment decisions, and can therefore operate most efficiently without regard to tax consequences.

Reduction of the presently high corporate tax rate will be the most meaningful and symbolic signal to business, to investors, and to the market of a serious intent to assist business.

Rate reduction has a character of permanence. We have proposed to make the permanent tax reduction for individuals in large part by rate reduction. We should do the same for corporations.

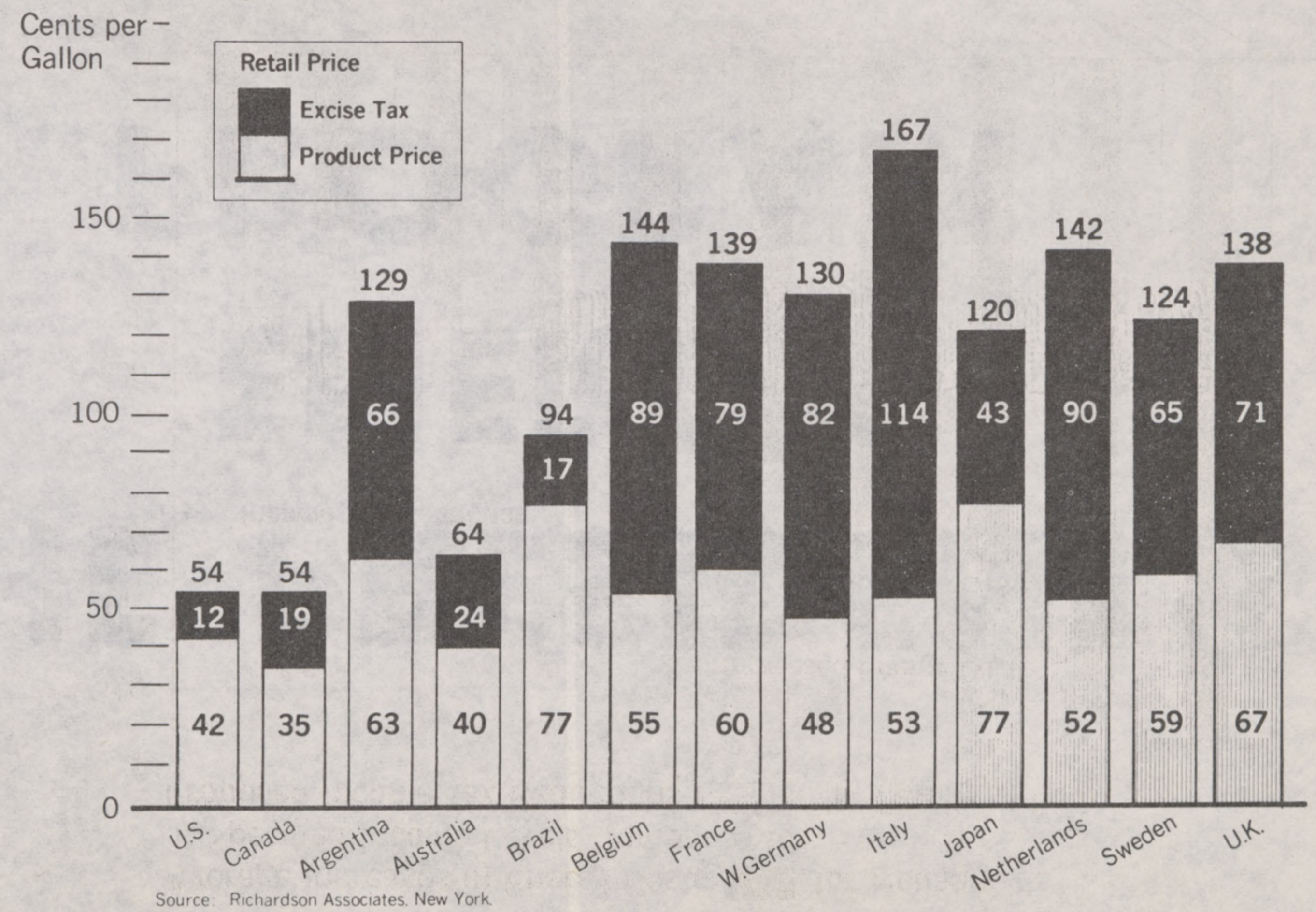
Conclusion.

The program which we have proposed will be effective in reducing energy consumption and oil imports. While there are complexities to be pondered by those who design and those who enact it, it will be simplicity itself in operation. The ordinary citizen will be entirely unaware of anything except the change in relative prices, for which he will have more money to spend. He will continue to have complete freedom of choice. No new bureaucracy will be spawned. And the total tax burden on our least affluent citizens will have been significantly reduced.



1/ Includes energy tax equalization payments to low income adults.

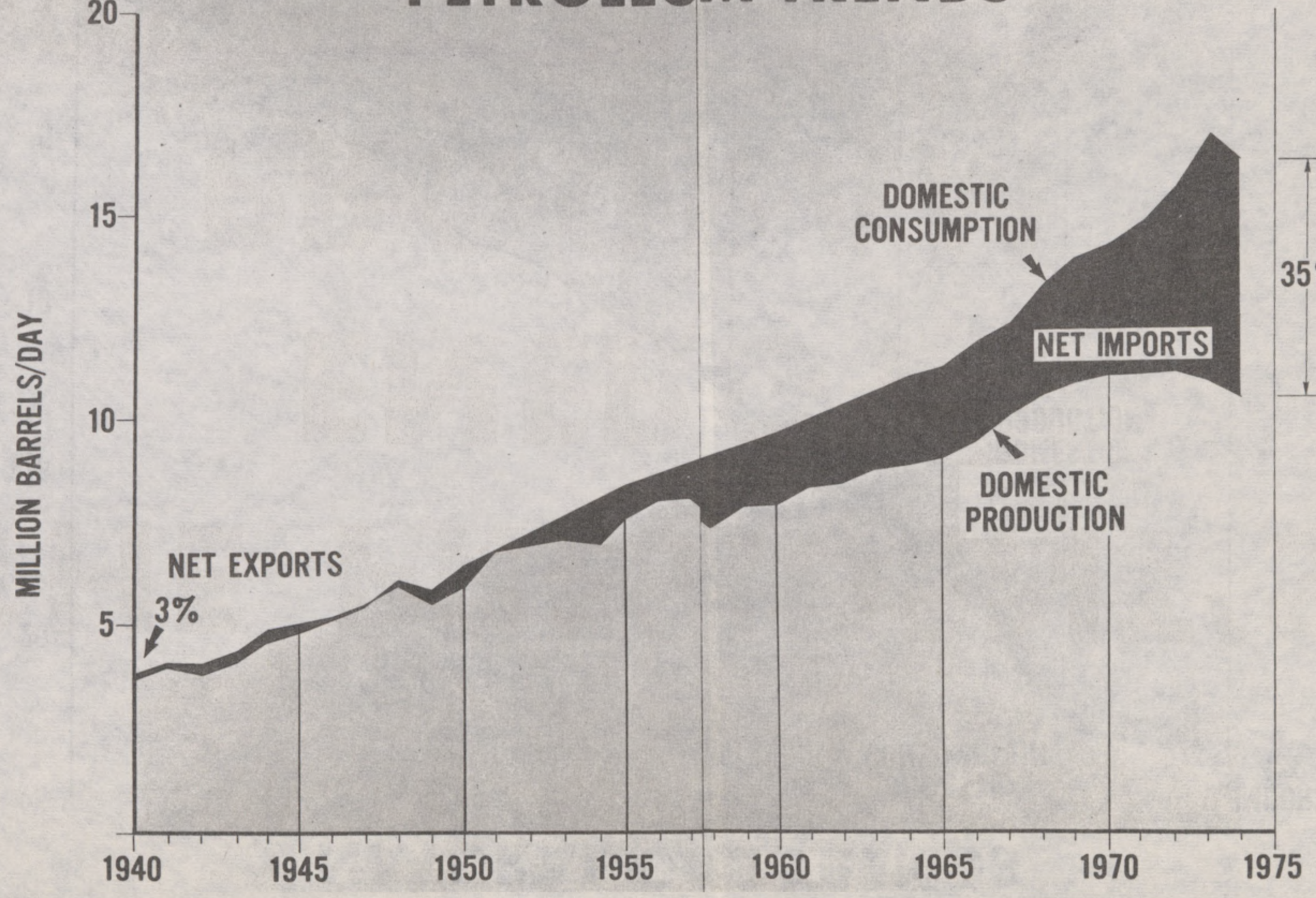
Gasoline Prices and Excise Taxes Around the World
January 1975



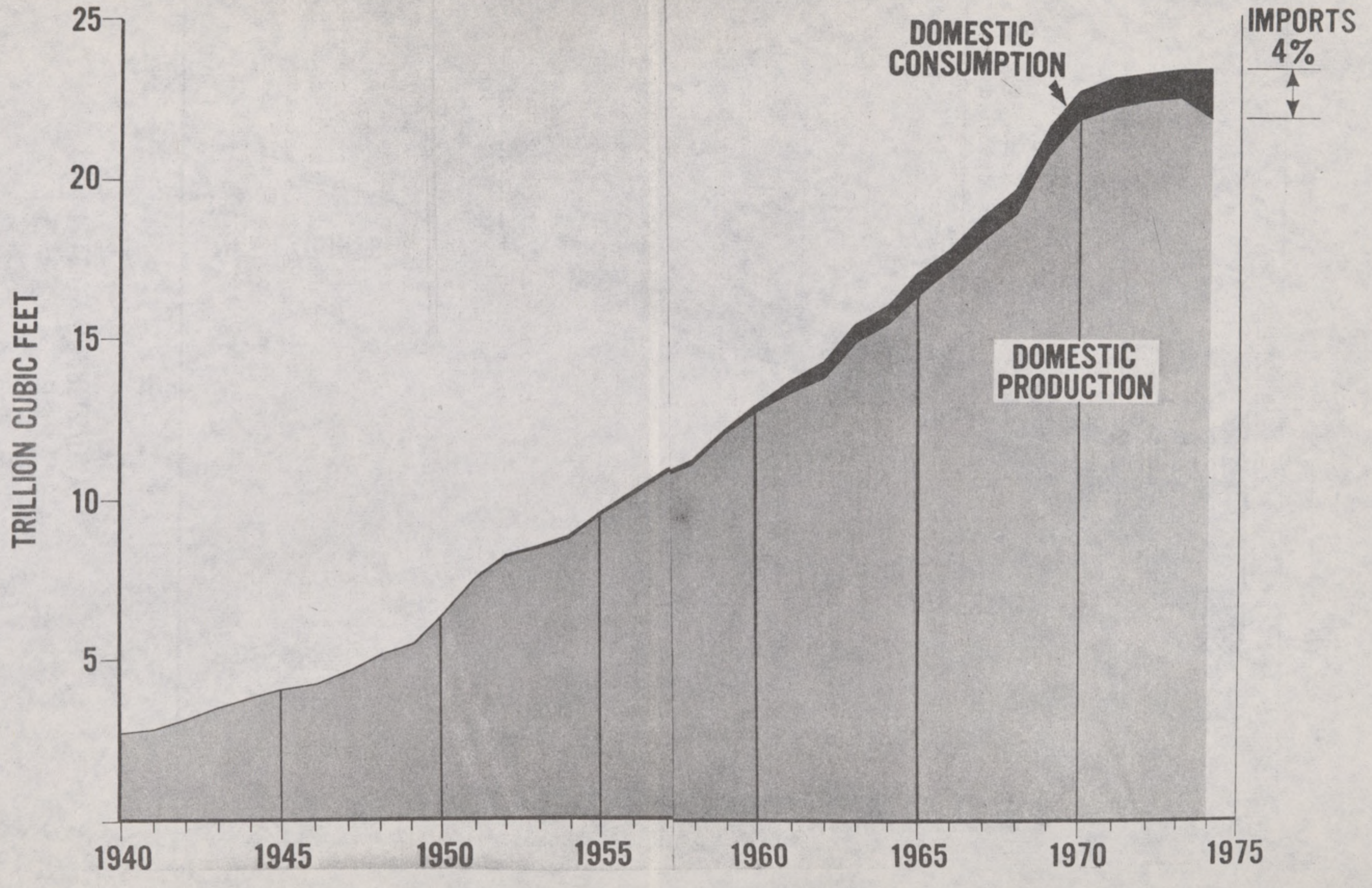
Source: Richardson Associates, New York.

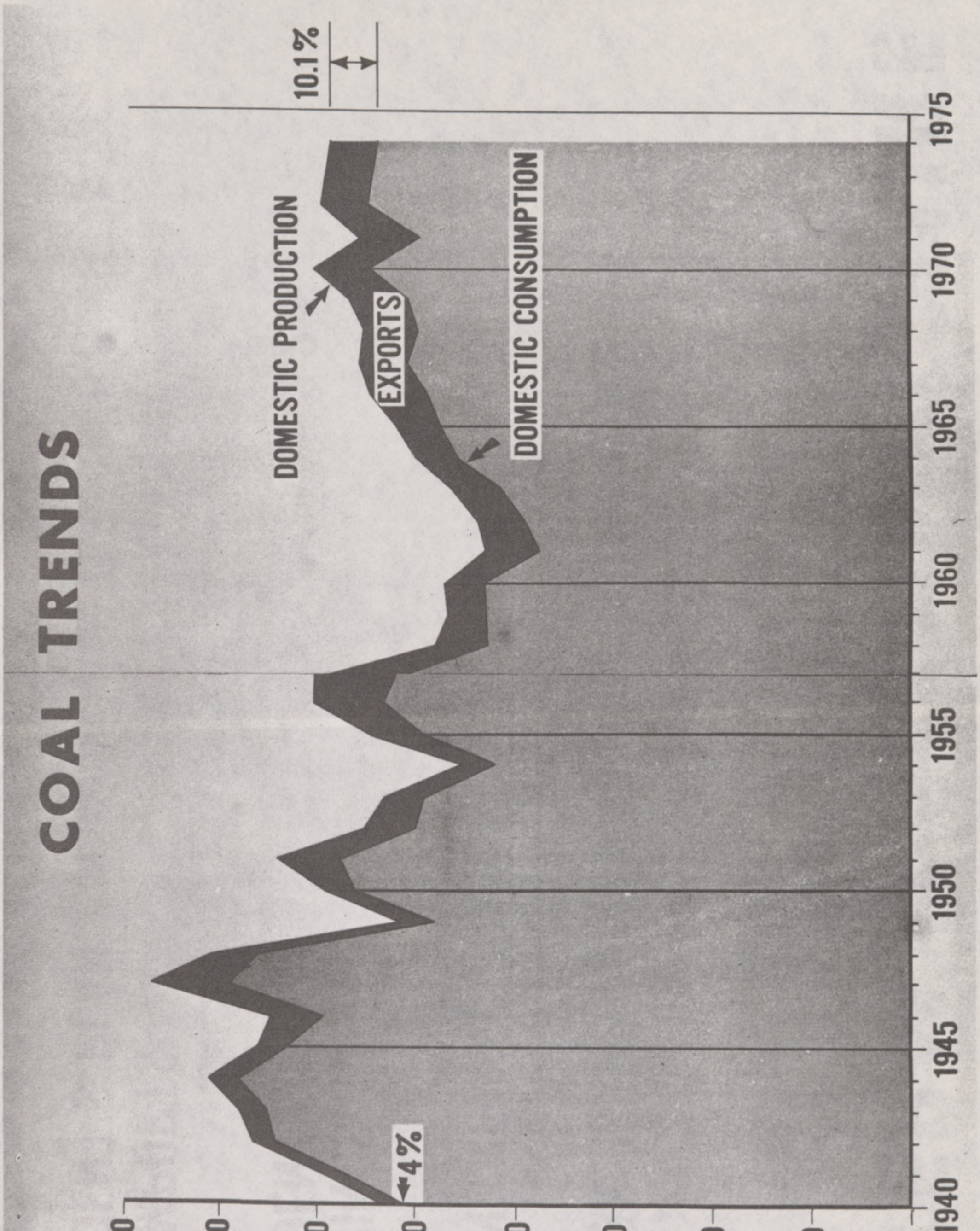
THE PRESIDENT'S ENERGY PROGRAM

PETROLEUM TRENDS



NATURAL GAS TRENDS




COAL TRENDS
DOMESTIC PRODUCTION
EXPORTS
DOMESTIC CONSUMPTION
10.1%
4%
1975
1970
1965
1960
1955
1950
1945
1940
800
700
600
500
400
300
200
100
MILLION SHORT TONS

SHORT-TERM U.S. OIL PICTURE

(MILLION BARRELS/DAY)

	1975	1977
CONSUMPTION IF NO NEW ACTIONS	18.0	18.3
IMPORTS IF NO NEW ACTIONS	6.5	8.0
IMPORT SAVINGS WITH PRESIDENT'S PLAN	-1.2	-2.2
REMAINING IMPORTS WITH PRESIDENT'S PLAN	5.3	5.8

IMPORT SAVINGS PROGRAM FOR 1985

(MILLION BARRELS DAY)

CONSERVATION SAVINGS		INCREASED SUPPLIES	
COAL CONVERSION	0.4	OCS LEASING	1.5
TAX PACKAGE	2.1	NPR-4	2.0
AUTO EFFICIENCY	1.0	SYNTHETIC FUELS	0.3
APPLIANCE EFFICIENCY	0.1		
INSULATION TAX CREDIT	0.3		
THERMAL STANDARDS	0.3		
CONSERVATION TOTAL	4.2	SUPPLY TOTAL	3.8

TOTAL PROGRAM SAVINGS 8.0

MID-TERM U.S. OIL PICTURE

(MILLION BARRELS/DAY)

	1985
DEMAND IF NO NEW ACTIONS	23.9
IMPORTS IF NO NEW ACTIONS	12.7
TOTAL IMPORT SAVINGS WITH PRESIDENT'S PLAN	-8.0
REMAINING IMPORTS	4.7
LESS STRATEGIC RESERVES AND OTHER AUTHORITIES	4.7
NET IMPORT VULNERABILITY WITH PRESIDENT'S PLAN	0

THE PRESIDENT'S PROPOSED BALANCE SHEET

REVENUE RAISERS:	ESTIMATED AMOUNTS ($ BILLIONS)
OIL EXCISE TAX AND IMPORT FEE	+ 9 1/2
NATURAL GAS EXCISE TAX	+ 8 1/2
WINDFALL PROFITS TAX	+12
TOTAL	+30

REVENUE DISBURSING	ESTIMATED AMOUNTS ($ BILLIONS)
ENERGY REBATES:	
INCOME TAX CUTS, INDIVIDUALS	-16 1/2
RESIDENTIAL TAX CREDIT	- 1/2
NONTAXPAYER DISTRIBUTION	- 2
CORPORATE TAX CUT	- 6
STATE AND LOCAL GOVERNMENTS	- 2
FEDERAL GOVERNMENT COSTS	- 3
SUBTOTAL	-30
TEMPORARY ECONOMIC STIMULUS	
INDIVIDUAL TAX REFUNDS	-12
INVESTMENT CREDIT INCREASE	- 4
SUBTOTAL	-16
TOTAL REVENUE DISBURSING MEASURES	– $ 46 BILLION

REQUIRED ENERGY LEGISLATION

- PRODUCTION FROM NAVAL PETROLEUM RESERVES
- ESTABLISH STRATEGIC OIL RESERVES
- DECONTROL NEW NATURAL GAS
- CLEAN AIR ACT AMENDMENTS
- INVESTMENT TAX CREDITS FOR UTILITIES
- EXPEDITE ENERGY FACILITIES SITING
- STANDBY AUTHORITY TO LIMIT IMPORTS
- MANDATORY THERMAL EFFICIENCY STANDARDS
- MANDATORY APPLIANCE EFFICIENCY STANDARDS
- GRANTS FOR WINTERIZING LOW-INCOME HOMES
- ANTI-EMBARGO MEASURES

STATEMENT OF FRANK G. ZARB

ADMINISTRATOR

FEDERAL ENERGY ADMINISTRATION

BEFORE THE

WAYS AND MEANS COMMITTEE

UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 3, 1975

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I APPRECIATE THIS OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DISCUSS THE PRESIDENT'S ENERGY PROGRAM.

I'M SURE THAT WE ALL AGREE THAT THE PRESENT ENERGY SITUATION REQUIRES BROAD, DECISIVE AND PROMPT GOVERNMENT ACTION TO PREVENT CONTINUED EROSION OF OUR ECONOMIC VITALITY AND NATIONAL SECURITY. THE CHALLENGE WE JOINTLY FACE IS TO PROMPTLY IMPLEMENT A COORDINATED NATIONAL ENERGY POLICY WHICH RESTORES OUR ENERGY INDEPENDENCE.

THE SCOPE OF THE TASK SUGGESTS ITS WIDE-RANGING AND LONG-LASTING SIGNIFICANCE. THE LIVES OF THE AMERICAN PEOPLE -- INDEED, THOSE OF THE PEOPLE OF MUCH OF THE WORLD -- WILL BE SERIOUSLY AFFECTED BY WHAT WE DO, OR FAIL TO DO, IN THE DAYS AHEAD. AND THEY WILL NOT BE AFFECTED JUST FOR FIVE OR TEN YEARS, BUT FOR GENERATIONS TO COME.

OUR ECONOMIC SYSTEM IS STRONG AND RESILIENT. HOWEVER, THE IMPACT ON OTHER COUNTRIES MUCH MORE DEPENDENT ON OIL IMPORTS HAS BEEN CORRESPONDINGLY GREATER. THE UNITED STATES CAN BE PROFOUNDLY AFFECTED BY SEVERE ECONOMIC CRISIS ABROAD. WE MUST SHOW OUR LEADERSHIP AMONG THE INDUSTRIALIZED NATIONS AND DEMONSTRATE OUR WILLINGNESS TO TAKE THE HARD AND EXPENSIVE STEPS IN ENERGY CONSERVATION AND DEVELOPMENT OF NEW ENERGY RESOURCES. THE PRESIDENT'S PROGRAM IS AN OUTSTANDING EXAMPLE TO OTHER COUNTRIES OF AMERICA'S DETERMINATION TO REVERSE THE TREND TOWARDS DEPENDENCY. REDUCING OUR VULNERABILITY TO SUPPLY INTERRUPTION AND PRICE MANIPULATION MUST BE GIVEN THE HIGHEST PRIORITY.

THE PRESIDENT HAS PRESCRIBED TOUGH ACTION TO CURE OUR ENERGY ILLS. HE HAS OUTLINED THREE, TIME-PHASED GOALS.

ONE: IN THE SHORT-TERM, A CUT IN OUR OIL IMPORTS OF 1 MILLION BARRELS PER DAY BY THE END OF THIS YEAR AND OF 2 MILLION BARRELS PER DAY BY THE END OF 1977.

TWO: BY 1985, IMPORTS OF NO MORE THAN 3-5 MILLION BARRELS PER DAY -- AND THE CAPABILITY OF IMMEDIATELY REPLACING THAT AMOUNT FROM STORAGE AND STANDBY MEASURES IN THE EVENT OF A SUPPLY DISRUPTION.

THREE: ACCELERATED DEVELOPMENT OF ENERGY TECHNOLOGY AND RESOURCES SO THAT THE UNITED STATES CAN MEET A SIGNIFICANT SHARE OF THE ENERGY NEEDS OF THE FREE WORLD BY THE END OF THIS CENTURY.

ACTIONS TO MEET THE SHORT-TERM GOAL

IN THE FIRST CRUCIAL YEARS, THERE ARE ONLY A LIMITED NUMBER OF ACTIONS THAT CAN INCREASE DOMESTIC SUPPLY. WE MUST DEVELOP AND INCREASE PRODUCTION FROM THE ELK HILLS, CALIFORNIA, NAVAL PETROLEUM RESERVE. THE PRESIDENT HAS SUBMITTED LEGISLATION FOR THIS PURPOSE.

THE ADMINISTRATION HAS ALSO SUBMITTED A SET OF COMPREHENSIVE AMENDMENTS TO THE ENERGY SUPPLY AND ENVIRONMENTAL COORDINATION ACT OF 1974 TO ULTIMATELY INCREASE THE NUMBER OF OIL BURNING FACILITIES THAT CAN BE CONVERTED TO COAL IN THE COMING YEAR.

THESE ARE THE ONLY SUPPLY ACTIONS THAT CAN HAVE MUCH EFFECT DURING THE NEXT TWO TO THREE YEARS. THEREFORE, WE MUST RELY HEAVILY ON ENERGY CONSERVATION AND IT IS CLEAR FROM OUR EXPERIENCE THAT VOLUNTARY CONSERVATION MEASURES ARE NOT ADEQUATE TO DO THE JOB. WE CANNOT WAIT MONTHS OR YEARS FOR LONG-TERM CONSERVATION MEASURES TO ACHIEVE OUR NATIONAL GOALS. THEREFORE, AS YOU KNOW, THE PRESIDENT HAS RAISED THE COST OF ALL IMPORTED PETROLEUM PRODUCTS BY IMPOSING A $3 PER BARREL IMPORT FEE AS A FIRST STEP TO REDUCING DEMAND. THIS FEE BEGAN FEBRUARY 1, AND WILL BE APPLIED IN THREE CONSECUTIVE MONTHLY $1 INCREMENTS. THE REVENUES RAISED THEREBY WILL BE RETURNED TO THE ECONOMY THROUGH THE PRESIDENT'S RECOMMENDED TAX PROGRAM.

I WANT TO EMPHASIZE THAT THESE INCREASED IMPORT FEES ARE ONLY TEMPORARY AND WILL BE ADJUSTED TO $2 WHEN CONGRESS ENACTS THE PRESIDENT'S COMPREHENSIVE TAX LEGISLATION WHICH INCLUDES AN EXCISE TAX OF $2 PER BARREL ON ALL CRUDE OIL AND PETROLEUM PRODUCTS.

TO EASE THE IMPACT ON REGIONS HEAVILY DEPENDENT ON IMPORTED PETROLEUM PRODUCTS, SUCH AS THE NORTHEAST STATES, THE PRESIDENT'S PROGRAM PROVIDES FOR A MUCH LOWER FEE RATE ON PRODUCTS THAN ON CRUDE OIL.

IN ADDITION, A PROPOSED EXCISE TAX OF 37¢ PER THOUSAND CUBIC FEET ON ALL-NATURAL GAS WOULD BE EQUIVALENT TO THE $2 OIL EXCISE TAX, AND WOULD, WITH DEREGULATION OF NATURAL GAS AS PROPOSED BY THE ADMINISTRATION, SERVE TO REVERSE THE TREND OF DWINDLING NATURAL GAS RESERVES, UNEMPLOYMENT DUE TO

CURTAILMENTS, AND PREVENT INDUSTRIAL SWITCHING FROM OIL TO ALREADY SCARCE NATURAL GAS.

IN ADDITION, THE PRESIDENT WILL TAKE STEPS TO ADMINISTRATIVELY DECONTROL THE PRICE OF OLD DOMESTIC CRUDE OIL ON APRIL 1. ACCORDINGLY, CONGRESSIONAL ENACTMENT OF THE WINDFALL PROFITS TAX BY THAT TIME IS URGENTLY REQUIRED TO PREVENT EXCESS PROFITS ACCRUING TO THE INDUSTRY. HOWEVER, CARE MUST BE TAKEN NOT TO INHIBIT THE NEEDED AMOUNT OF CAPITAL REQUIRED TO FIND AND DEVELOP NEW OIL AND OTHER CONTIGUOUS ENERGY SOURCES.

A PROGRAM OF INCOME TAX REDUCTIONS AND REBATE MEASURES TO RETURN TO THE ECONOMY THE ROUGHLY $30 BILLION ESTIMATED TO BE RAISED THIS YEAR THROUGH THESE PROVISIONS HAS BEEN PROPOSED. MOST OF THIS MONEY IS TO BE RESTORED DIRECTLY TO CONSUMERS, WITH SPECIAL MEASURES TO PROVIDE FUNDS FOR THE POOR.

THE USE OF IMPORT FEES, EXCISE TAXES AND DECONTROL OF OIL PRICES TO FOSTER LARGE-SCALE ENERGY CONSERVATION HAS ATTRACTED MUCH ATTENTION AND CRITICISM.

I WOULD LIKE, THEREFORE, TO SPEND A FEW MONETS DISCUSSING ALTERNATIVES. FIRST, THERE IS THE ALTERNATIVE OF DOING NOTHING. NO ACTION ONLY POSTPONES THE TOUGH DECISIONS WE HAVE TO MAKE. WITHOUT CONSERVATION, OUR TAB FOR IMPORTED OIL, WHICH WAS $3 BILLION IN 1970, AND $24 BILLION LAST YEAR (1974), WOULD REACH $32 BILLION IN 1977. A BRIEF RESPITE OF A YEAR OR SO WILL ONLY INCREASE THE VULNERABILITY OF THE WORLD TO A CRIPPLING EMBARGO BY THE PRODUCERS.

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THE ARAB EMBARGO OF 1973 RESULTED IN A SIGNIFICANT DROP IN OUR GROSS NATIONAL PRODUCT AND THE UNEMPLOYMENT OF PERHAPS ONE-HALF MILLION MEMBERS OF OUR LABOR FORCE. TODAY, EVEN MORE OF OUR IMPORTS ARE COMING FROM AFRICA AND THE MIDDLE EAST THAN DID A YEAR AGO. NOW OVER HALF OF OUR PETROLEUM IMPORTS COME FROM SOURCES OUTSIDE OF THE WESTERN HEMISPHERE. AND, UNLESS WE DO SOMETHING, THIS DEPENDENCE ON AFRICAN AND MIDDLE EASTERN SOURCES WILL CONTINUE TO GROW. BY 1977 IMPORTS WILL REACH 8 MILLION BARRELS PER DAY, AS COMPARED WITH 6 DURING THE LAST EMBARGO. BECAUSE ALL OF THE INCREASE WILL COME FROM INSECURE SOURCES, WE MAY WELL BE JUST AS VULNERABLE AS WE WERE LAST WINTER. THIS IS SIMPLY UNACCEPTABLE.

EVERY MONTH WE HESITATE WILL MAKE IT THAT MUCH HARDER TO ACHIEVE OUR 1985 GOALS. THOSE WHO SAY ACTION IS TOO EXPENSIVE SHOULD REFLECT ON THE FUTURE COST TO THE NATION IF WE DO NOT ACT EXPEDITIOUSLY.

THERE ARE THOSE WHO BELIEVE THAT RAISING PRICES ON ENERGY AT HOME WILL NOT HELP US CUT BACK ON CONSUMPTION. THEY ARE WRONG. WHILE A COMPARISON OF OUR PRESENT CONSUMPTION WITH THAT OF LAST YEAR'S SHOWS THAT WE ARE ACTUALLY USING SLIGHTLY MORE NOW, MORE IMPORTANTLY, WE ARE USING MUCH LESS THAN WE WOULD IF PRICES HAD NOT RISEN 400 PERCENT IN THE LAST YEAR. THIS IS A CLEAR DEMONSTRATION OF PRICE ELASTICITY OF DEMAND, OR CONSUMPTION OF CERTAIN ITEMS DECREASING AS THEIR PRICES RISE RELATIVE TO OTHER PRICES. PRESENT CONSUMPTION WOULD HAVE BEEN AT LEAST 1 MILLION BARRELS A DAY MORE IF PRICES HAD NOT RISEN SO SHARPLY. FURTHERMORE, ALTHOUGH THE

CARTEL HAS CUT BACK ON PRODUCTION BY ABOUT 9 MILLION BARRELS A DAY, THERE IS STILL A SURPLUS OF OIL ON THE WORLD MARKET. THERE IS CONCRETE EVIDENCE ALL AROUND US THAT PRICE IS INDEED EFFECTIVE IN REDUCING DEMAND.

THE OTHER ALTERNATIVE TO INACTION IS THE GREATER USE OF GOVERNMENT CONTROLS -- WHETHER IMPORT QUOTAS, ALLOCATION SYSTEMS OR RATIONING, OR ON ANOTHER LEVEL, SUNDAY CLOSINGS OF GASOLINE STATIONS, NO DRIVING DAYS, ETC. WE LOOKED AT ALL OF THOSE LAST YEAR DURING THE EMBARGO. WE CHOSE SOME AND REJECTED OTHERS. AND OUR REASONING FOR CHOOSING THOSE FEW CONSERVATION MEASURES WAS GOOD FOR A SHORT-TERM CRISIS. WE NOW FACE A LONGER-TERM ONE. EACH OF THESE ALTERNATIVE WOULD INVOLVE SOME FORM OF SELF-IMPOSED SHORTAGES AS WELL AS BUILT-IN INEFFICIENCIES, BURGEONING BUREAUCRACIES AND REGULATORY PROLIFERATION AND DISRUPTIONS IN THE LIVES OF ALL AMERICAN CITIZENS. AND REMEMBER, TO BE EFFECTIVE, CONTROLS MUST BE IN PLACE FOR A LONG-TERM OF UP TO TEN YEARS. I DOUBT THAT THE AMERICAN PEOPLE WOULD BE WILLING TO PUT UP WITH SUCH ALTERNATIVES NOR SHOULD WE SUBJECT THEM TO THIS LONG LASTING PERVASIVE CONTROL OVER ALMOST EVERY ASPECT OF THEIR LIVES. FURTHERMORE, MOST OF THE CONTROLS WOULD INVOLVE HIGHER COSTS TO EVERYONE. GASOLINE TAXES, FOR EXAMPLE, WOULD HAVE TO BE INCREASED ABOUT 40¢ PER GALLON TO SAVE 1 MILLION BARRELS OF OIL PER DAY. INSTEAD, THE CRUDE OIL PRICE INCREASE, DISTRIBUTED ACROSS ALL OF THE PRODUCTS FROM A BARREL OF OIL, WILL RAISE THE PRICE OF GASOLINE ABOUT 10¢ TO 15¢ PER GALLON. THIS SEEMS A MORE EFFECTIVE AND MORE EQUITABLE SOLUTION.

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I THINK IT'S UNNECESSARY FOR ME TO DWELL ON THIS AT ANY GREATER LENGTH. SUFFICE IT TO SAY, WE SHOULD ALLOW THE FREE MARKET TO WORK TO THE MAXIMUM EXTENT POSSIBLE. THIS IS WHAT THE ENERGY CONSERVATION TAXES AND FEES WOULD DO. AND THE REBATES WOULD ASSURE NO SIGNIFICANT LOSS OF CONSUMER PURCHASING.

MID-RANGE (1975-1985)

THE SECOND OF THE GOALS ADDRESSED IN OUR ENERGY PROGRAM IS THE ELIMINATION, BY 1985, OF OUR NATION'S VULNERABILITY TO ECONOMIC DISRUPTION BY FOREIGN SUPPLIERS. IN OTHER WORDS, BY THEN OUR PETROLEUM IMPORTS SHOULD AMOUNT TO ONLY 3-5 MILLION BARRELS PER DAY OF OUR CONSUMPTION, AND WE SHOULD BE ABLE TO IMPLEMENT STANDBY EMERGENCY MEASURES AND DRAW FROM STORAGE ENOUGH TO OFFSET A COMPLETE CUTOFF OF THESE REMAINING IMPORTS.

TO ATTAIN SUCH A GOAL, WE MUST START IMMEDIATELY TO REMOVE CONSTRAINTS AND PROVIDE NEW INCENTIVES FOR DOMESTIC PRODUCTION AND CONSERVATION BECAUSE MOST OF THE MEASURES WILL TAKE 5-10 YEARS TO REACH FRUITION AFTER THE NECESSARY LAWS ARE ENACTED. AND ALL OF THESE THINGS MUST BE ACCOMPLISHED THROUGH A SINGLE PROGRAM THAT HAS THE BALANCE TO BRING ABOUT THE REQUIRED REDUCTION IN OUR ENERGY USE, THE NECESSARY INCREASE IN OUR DOMESTIC PRODUCTION, AND -- EQUALLY IMPORTANT AMONG OUR NATIONAL GOALS -- THE CONTINUED ECONOMIC WELL-BEING, ENVIRONMENTAL QUALITY, NATIONAL SECURITY, AND SOCIAL WELFARE THAT THE AMERICAN PEOPLE DEMAND AND DESERVE. THERE IS NO PIECEMEAL PROGRAM WHICH CAN PROVIDE THE BALANCE THAT IS REQUIRED. HARD DECISIONS MUST BE MADE FROM THE VERY

OUTSET WITHIN THE FRAMEWORK OF OUR OVERALL STRUCTURE.

THE PRESIDENT HAS REAFFIRMED THE INTENT OF THIS ADMINISTRATION TO MOVE AHEAD WITH EXPLORATION, LEASING AND PRODUCTION IN THOSE FRONTIER AREAS OF THE OUTER CONTINENTAL SHELF WHERE THE ENVIRONMENTAL RISKS ARE JUDGED TO BE ACCEPTABLE. HE HAS ALSO ASKED THE CONGRESS TO AUTHORIZE OIL PRODUCTION FROM THE LARGEST OF THE NATION'S NAVAL PETROLEUM RESERVES, NPR-4 IN ALASKA, TO PROVIDE PETROLEUM FOR THE DOMESTIC ECONOMY, WITH 20% EARMARKED FOR MILITARY NEEDS AND STRATEGIC STORAGE. ACCORDING TO OUR ESTIMATES NPR-4 COULD PRODUCE 2-3 MILLION BARRELS OF OIL PER DAY AND COMMENSURATELY LARGE QUANTITIES OF GAS BY 1985.

BUT, IN ADDITION TO FINDING MORE OIL AND GAS, WE MUST TAKE ADVANTAGE OF OUR MOST ABUNDANT ENERGY RESOURCE, COAL. THE PRESIDENT VETOED THE SURFACE MINING LEGISLATION PASSED BY THE LAST CONGRESS, BUT IT REMAINS A VALUABLE PIECE OF WORK. THE PRESIDENT HAS SUBMITTED A BILL WHICH BUILDS UPON S. 425 IN SUCH A WAY AS TO MAKE IT ACCEPTABLE TO THE ADMINISTRATION. I AND OTHERS IN THE ADMINISTRATION ARE PREPARED TO WORK WITH THE CONGRESS TO ARRIVE AT A SOUND SURFACE MINING LAW.

THE CONGRESS MUST ALSO ACT ON THE ADMINISTRATION'S AMENDMENTS TO GRANT THE ENVIRONMENTAL PROTECTION AGENCY AUTHORITY TO SUSPEND EMISSION LIMITATIONS FOR POWER PLANTS UNTIL LOW SULFUR COAL CAN BE OBTAINED OR STACK GAS SCRUBBERS CAN BE INSTALLED. THE NATION WOULD THUS BE PERMITTED TO REAP

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THE ENORMOUS BENEFIT OF INCREASED USE OF DOMESTIC COAL UNDER APPROPRIATE ENVIRONMENTAL SAFEGUARDS.

THE CONGRESS SHOULD ALSO AMEND THE CLEAN AIR ACT TO DEAL WITH THE ISSUE OF "SIGNIFICANT DETERIORATION" OF THE AIR QUALITY. IN THIS CASE WANT CONGRESS, RATHER THAN THE COURTS, TO MAKE THE ESSENTIAL LEGISLATIVE DECISIONS THAT ARE REQUIRED.

TO ASSURE RAPID COAL PRODUCTION FROM EXISTING LEASES AND TO MAKE NEW, LOW SULFUR SUPPLIES AVAILABLE, THE PRESIDENT HAS DIRECTED THE INTERIOR DEPARTMENT TO ADOPT LEGAL DILIGENCE REQUIREMENTS FOR EXISTING FEDERAL COAL LEASES AND TO DESIGN A NEW PROGRAM FOR ACCELERATED LEASING OF FEDERAL COAL LANDS.

OF COURSE THE MARKET FOR COAL, AS WELL AS THE AVAILABILITY OF ALL ELECTRIC POWER, DEPENDS UPON THE HEALTH OF THE ELECTRIC UTILITIES INDUSTRY, AND WE MUST ADDRESS ITS PROBLEMS. IN RECENT MONTHS, UTILITIES HAVE CANCELLED OR POSTPONED MORE THAN 60 PERCENT OF PLANNED NUCLEAR EXPANSION AND 30 PERCENT OF PLANNED ADDITIONS TO NONNUCLEAR CAPACITY. THE DELAYS AND DIFFICULTIES THIS INDUSTRY IS CURRENTLY EXPERIENCING COULD WELL LEAD TO HIGHER OIL IMPORT NEEDS AND INADEQUATE SUPPLIES OF ELECTRICITY 5 TO 10 YEARS FROM NOW.

THE PRESIDENT HAS, THEREFORE, PROPOSED LEGISLATION TO ASSIST THE ELECTRIC UTILITIES THROUGH HIGHER INVESTMENT TAX CREDITS; MANDATED REFORMS IN STATE UTILITY COMMISSION PRACTICES; AND OTHER MEASURES. AND TO REJUVENATE OUR DRIVE TOWARD MORE

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EFFECTIVE USE OF THE POTENTIALS OF NUCLEAR POWER WE HAVE MARK EDLY INCREASED OU R BUDGET REQUEST FOR NUCLEAR WASTE DISPOSAL AND FOR CONTINUED IMPROVEMENTS IN SAFEGUARDS.

AS WE TAKE THESE ACTIONS TO INCREASE OUR ENERGY SUPPLIES, WE MUST BE AWARE OF SOME POTENTIAL PROBLEMS. BEFORE WE ACHIEVE OUR GOALS OF ENERGY SUFFICIENCY, ACTIONS OF OIL PRODUCING NATIONS, OR ECONOMIC CONDITIONS COULD RESULT IN LOWER -- BUT UNSTABLE -- PRICE LEVELS THAT COULD WEAKEN OUR CONTINUED COMMITMENT TO GREATER SELF-SUFFICIENCY. THE FEDERAL GOVERNMENT MUST TAKE ACTIONS TO ENCOURAGE AND PROTECT DOMESTIC ENERGY INVESTMENT IN THE FACE OF SIGNIFICANT WORLD PRICE UNCERTAINTY. TO FOSTER SUCH INVESTMENT, THE PRESIDENT HAS REQUESTED LEGISLATION TO AUTHORIZE AND REQUIRE THE USE OF TARIFFS, IMPORT QUOTAS OR OTHER MEASURES TO MAINTAIN ENERGY PRICES AT LEVELS THAT WILL ACHIEVE FULL NATIONAL CAPABILITY FOR SELF-SUFFICIENCY AND PROTECT OUR ENERGY INDUSTRY AND JOBS.

ALL OF THE ACTIONS I HAVE MENTIONED WOULD HAVE THE EFFECT OF INCREASING OUR AVAILABLE DOMESTIC SUPPLIES OF ENERGY. OIL PRODUCTION COULD REACH 13 OR 14 MILLION BARRELS PER DAY VERSUS APPROXIMATELY 9 MILLION TODAY, COAL PRODUCTION COULD DOUBLE AND NUCLEAR GENERATION COULD INCREASE FROM A 4 TO 30% SHARE OF OUR ELECTRIC GENERATION CAPACITY BY 1985.

BUT, AS IN THE SHORT-TERM, SUPPLY ACTIONS ARE NOT ENOUGH. WE MUST DRAMATICALLY CUT OUR HISTORICAL DEMAND GROWTH. WE HAVE SIGNED AGREEMENTS FROM MAJOR DOMESTIC AUTOMAKERS TO IMPROVE

GASOLINE MILEAGE BY 40% ON AVERAGE BY 1980, AS COMPARED TO 1974 MODEL CARS, PROVIDED THAT THE CLEAN AIR ACT AUTOMOBILE EMISSION REQUIREMENTS ARE MODIFIED FOR FIVE YEARS.

THE ENERGY RESOURCES COUNCIL IS DEVELOPING ENERGY EFFICIENCY STANDARDS FOR MAJOR APPLIANCES AND WILL SEEK AGREEMENTS FROM MANUFACTURERS TO ACHIEVE AN AVERAGE 20% IMPROVEMENT IN EFFICIENCY BY 1980. AT THE SAME TIME, DRAFT LEGISLATION HAS BEEN SUBMITTED THAT WOULD REQUIRE LABELS ON AUTOMOBILES AND MAJOR APPLIANCES DISCLOSING ENERGY USE AND EFFICIENCY. TO MOVE QUICKLY WHERE THE PROBLEM HURTS MOST, THE FEDERAL GOVERNMENT WILL PROVIDE MONEY TO THE STATES FOR THE PURCHASE OF INSULATION AND OTHER ENERGY CONSERVING DEVICES IN HOMES OWNED OR OCCUPIED BY LOW-INCOME CITIZENS, WHO MIGHT OTHERWISE NOT BE ABLE TO HAVE SUCH IMPROVEMENTS MADE IN THEIR HOMES. THE PRESIDENT'S PROGRAM ALSO SETS FORTH PROPOSALS TO MANDATE THERMAL EFFICIENCY STANDARDS FOR ALL NEW BUILDINGS IN THE UNITED STATES. SINCE ENERGY SAVINGS ARE EVEN GREATER FOR EXISTING HOMES IT ALSO INCLUDES A PROPOSAL TO INSTITUTE A 15% TAX CREDIT FOR INSULATION INVESTMENTS UP TO $1,000.

THESE NUMEROUS PROPOSALS AND ACTIONS TAKEN TOGETHER, CAN REDUCE OUR DEPENDENCE ON FOREIGN ENERGY SUPPLIES TO 3 TO 5 MILLION BARRELS OF OIL PER DAY. WHILE THIS DOES NOT SEEM MUCH LESS THAN CURRENT CONSUMPTION, IT IS DOWN SUBSTANTIALLY FROM THE 12-13 MILLION WHICH WE WOULD HAVE TO IMPORT IF WE DID NOT ACT. TO ENSURE THAT WE COULD MEET ANY SUPPLY DISRUPTION OF THE REMAINING IMPORTS WE MUST ESTABLISH LEGAL AUTHORITY FOR

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EMERGENCY MEASURES THAT CAN BE READILY IMPLEMENTED TO GUARANTEE THE EQUAL SHARING OF SHORTAGES AND THE EQUITABLE ALLOCATION OF SUPPLIES AT HOME. AND TO MEET OUR OBLIGATIONS UNDER THE INTERNATIONAL ENERGY AGREEMENT ABROAD. WE MUST ALSO BEGIN AS SOON AS POSSIBLE TO DEVELOP A STRATEGIC STORAGE CAPACITY OF 1 BILLION BARRELS OF OIL FOR DOMESTIC USE AND 300 MILLION BARRELS FOR MILITARY USE. ONLY BY TAKING SUCH PRECAUTIONS CAN WE ACT RESPONSIBLY BOTH AT HOME AND IN THE INTERNATIONAL COMMUNITY IN A TIME OF FUTURE SUPPLY INTERRUPTIONS.

ACTION TO MEET THE LONG-TERM (POST 1985) GOAL

FOR THE LONGER TERM, OUR GOAL IS TO SUSTAIN A POSITION OF ENERGY INDEPENDENCE, AND TO ENHANCE IT SO THAT THE UNITED STATES WILL AGAIN BE CAPABLE OF SUPPLYING A SIGNIFICANT SHARE OF THE FREE WORLD'S ENERGY NEEDS.

THIS MEANS THAT, AS A NATION, WE MUST REAFFIRM OUR COMMITMENT TO A STRONG ENERGY RESEARCH AND DEVELOPMENT PROGRAM, AIMED NOT ONLY AT DEVELOPING THE CAPABILITY TO TAP ALL OUR MAJOR DOMESTIC ENERGY RESOURCES BUT ALSO AT IMPROVING THE EFFICIENCY OF ENERGY UTILIZATION IN ALL SECTORS OF OUR ECONOMY.

LAST YEAR, THE UNITED STATES COMMITTED ITSELF TO A FIVE-YEAR, $10 BILLION ENERGY-R&D EFFORT. OUR 1975 ENERGY R&D BUDGET WAS TWICE THAT OF 1974 AND THREE TIMES THAT OF 1973. IN 1976, THIS ACCELERATED EFFORT MUST CONTINUE, AND THE PRESIDENT HAS PLEDGED TO SEEK WHATEVER FUNDS ARE NEEDED FOR FUTURE R&D ACTIVITIES.

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NOW THAT WE HAVE A ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION, A FEDERAL ENERGY ADMINISTRATION AND AN ENERGY RESOURCES COUNCIL, WE HAVE, FOR THE FIRST TIME, BOTH THE UNIFIED FEDERAL ORGANIZATION AND THE FINANCIAL COMMITMENT TO GET THE JOB DONE.

BUT ENERGY R&D FUNDS AND ORGANIZATION ARE NOT ENOUGH; WE ALSO NEED NEW INCENTIVES TO ASSURE THAT EMERGING TECHNOLOGIES ARE NOT ONLY DEVELOPED IN THE LABORATORY, BUT BROUGHT INTO USE IN THE MARKETPLACE. THEREFORE, THE PRESIDENT HAS ANNOUNCED A NATIONAL SYNTHETIC FUELS PROGRAM WHICH WILL ASSURE THE EQUIVALENT OF AT LEAST ONE MILLION BARRELS PER DAY IN SYNTHETIC FUELS CAPACITY BY 1985. IT WILL ENTAIL A PROGRAM OF FEDERAL INCENTIVES DESIGNED TO REDUCE PRICE UNCRETAINTY, RAISE CAPITAL AND OVERCOME UNNECESSARY DELAYS IN BRINGING EXISTING OR NEARLY DEVELOPED TECHNOLOGIES INTO COMMERCIAL USE. THE PROGRAM WILL RESULT IN THE COMMERCIAL APPLICATION OF TECHNOLOGIES OF SEVERAL TYPES AND THE CONSTRUCTION OF MAJOR NEW PLANTS, USING BOTH OIL SHALE AND COAL RESOURCES.

THE PROGRAM THE PRESIDENT PUT FORWARD IS A COMPREHENSIVE ONE. IT WILL REACH THE GOALS THE PRESIDENT SET FORTH AND WHICH I THINK THE AMERICAN PEOPLE WANT. I HAVE HEARD MUCH TALK AND CRITICISM IN RECENT WEEKS ON ELEMENTS OF IT, BUT I STILL HAVE SEEN NO CONSTRUCTIVE ALTERNATIVE. WE ALL WANT AN EASIER WAY TO REACH OUR GOALS. THIS PROGRAM DOES REQUIRE SACRIFICE BY ALL, BUT IT IS ALSO EQUITABLE. FINALLY, ITS IMPACTS ARE FAR OUTWEIGHED BY THE IMPORTANT BENEFITS IT WILL

ACHIEVE. I AGAIN PLEDGE THE FULL FORCE AND COOPERATION OF THE AGENCY I REPRESENT IN WORKING WITH MEMBERS OF THIS COMMITTEE AND WITH THE CONGRESS AS A WHOLE TO IMPLEMENT A COMPREHENSIVE AND TIMELY NATIONAL ENERGY PROGRAM..

THANK YOU.

STATEMENT OF ROGERS C. B. MORTON
SECRETARY OF THE INTERIOR
BEFORE THE
HOUSE WAYS AND MEANS COMMITTEE
MONDAY, MARCH 3, 1975

It is clear that when confronted with the problems we see at home and abroad, this nation cannot continue on the course it has followed for the past 25 years. We cannot continue to have our economic and military security threatened by a few foreign oil producing nations. We must pursue a course which will return us to a position of energy independence in a relatively few years.

In 1950, this country was self-sufficient in energy production, but since that time, the situation has deteriorated markedly. Energy consumption has increased since then at an average annual rate of between 4 to 5 percent, while production has leveled off, and in some cases, has actually declined. Domestic production of petroleum has been declining since 1970. Coal production is actually less than in the 1920's; domestic consumption of natural gas now exceeds domestic production by 4 percent, and the gap is growing; nuclear power and other alternative energy sources have not yet begun to attain their potential.

Natural gas shortages are forcing curtailment of supplies at a growing rate, (14% expected this winter versus 7% last year) resulting in reduction or denial of service to customers, widespread unemployment, reductions in manufacturing production, and increased demand for alternative fuels--primarily imported oil.

We now rely on coal for only 17% of our energy and on oil and gas for most of the rest. Yet, we have at least 400 years of coal reserves left and only enough oil and gas to last a generation at the current levels of use.

Petroleum imports have provided an ever-increasing share of America's domestic consumption, rising from about 20 percent in 1970 to the present 37 percent; and by 1985 we estimate that imports would amount to a half, or as much as 60%, of our domestic oil consumption at historic rates of usage.

Petroleum is readily available from foreign sources--but at arbitrarily high prices, causing massive outflow of dollars, and these sources are highly susceptible to political and military crises, which puts our nation in a dangerously vulnerable position. It is the vulnerability factor which makes it most imperative that we pursue with immediate vigor a course of action that will return us to our former state of energy independence. Even in times such as now when the urgency does not appear as great, and when supplies are not short, we must keep in mind that a major disruption could occur at any time, and disruption is not limited to military of political crisis, but could include price manipulation as well, whereby the oil producing nation might seek to undermine our efforts at independence by manipulation of the market.

The oil embargo which began in October of 1973 dramatically highlighted this vulnerability and intensified our energy and economic problems. 2.4 million barrels of oil per day were withheld from the nation. Our seasonally adjusted GNP for the first quarter of 1974 fell by 7%. It has been estimated that as much as 30% of the rise in the Consumer Price Index since that time can be attributed to increased energy prices. We paid $3 billion for oil in 1970. In 1974 we paid $24 billion. If we do nothing to reverse this trend, our bill will reach an estimated $32 billion in 1977. The continuing outflow of our petrodollars will reduce the nation's savings pool, which is the mainspring of our economic system, causing further erosion of our Gross National Product and the inevitable loss of jobs.

Yet today our imports have become even more concentrated in those nations of Africa and the Middle East, and, unless we do something, this reliance will continue to grow. Moreover, there is no basis to expect that those nations that have combine to quadruple petroleum prices will lower them.

Our own problems are multiplied overseas, where major industrialized nations-including many traditional friends and allies--with limited or nonexistent domestic energy sources are accumulating staggering deficits because of high oil prices. We hear grim warnings of bankruptcy, imminent economic collapse, and monetary chaos, while oil producing nations accumulate surplus cash at an estimated annual rate

of about $60 billion. Undeveloped and impoverished nations of the world, which must struggle for survival even in the best of times, now have been bent to the breaking point under the weight of the increasing high cost of energy.

The Administration Program

Given the magnitude of the problems with which we are now faced, the President has propounded the most extensive and comprehensive program of energy planning and development that has ever been undertaken by any Administration.

The energy program was developed only after thorough consideration and consultation with Federal Government agencies and all sectors of the economy. All alternatives were thoroughly weighed.

The goals of the program are basically threefold. On the short term, we aim to cut energy consumption and increase domestic supply, and thereby to reduce imports by 1 million barrels per day by the end of 1977. Secondly, by 1985, we propose to reduce the percentage of petroleum imported to no more than 15% of consumption, and we propose to establish standby reserves of petroleum to enable the country to be completely self-sufficient in the event of a crisis which cuts off foreign supplies.

Beyond 1985, it is our goal to make this nation a net exporter of energy, principally through technological development of new fuels.

It is the fundamental policy of the Administration's Energy Program to rely as heavily as the situation permits on market mechanisms to achieve our goals of energy conservation and increased domestic energy development. It is our policy to reduce energy use per capita and to reduce the annual demand growth rate to less than 3%. It is our policy to develop both new domestic supplies of conventional fuels as well as new sources for energy supply through technology. It is also our policy to involve all levels of government, Federal, State and local, to achieve our goals, and to make our program a balanced, nationwide effort. Finally, as President Ford stated in his State of the Union Message, it is our policy to achieve energy independence in a fair manner which will assure, in his words, "that the burdens will not fall more harshly on those less able to bear them."

Among the possible devices considered to achieve our goals, rationing was rejected as being too cumbersome, too costly, and too inefficient. Rationing would cost about $2 billion a year to administer and would require a complete new bureaucracy of about 20,000 people. The system is complex to administer, is rife with inequities, and would take years to become fully effective.

Short Term

To achieve our short term goals, the principal device we have chosen is a tax and price decontrol package. As we are all aware, the President has imposed an administrative fee on imported crude oil which is to be gradually increased to $3 per barrel by April. Congress has been asked to supplant this with a legislative import fee of $2

per barrel and a $2 per barrel excise tax on domestic crude oil, and a matching excise tax on natural gas. To stimulate petroleum production and further reduce demand, we are also seeking Congressional approval to remove price controls on domestic crude by April 1. We have balanced this measure with a proposed windfall profit tax of up to 88% to recapture profits resulting from price decontrol.

Additional short term measures include stimulation of the conversion of power facilities to the use of coal, and proposed legislation which would permit production at the Elk Hills, California, Naval Petroleum Reserve.

The total benefit projected by 1977 through implementation of this program would amount to 2.2 million barrels per day. The bulk of this, some 1.6 million barrels per day, would be achieved through the tax package.

Intermediate Term

Mid-term objectives sought by the Administration are to be achieved through a variety of methods. I will mention a few of the more significant proposals that will contribute to energy independence by 1985.

There is included in the tax and deregulation package a measure to deregulate new natural gas. The Administration considers it to be of vital importance to both reduce the demand for scarce domestic gas supplies and at the same time to stimulate discovery and development of new sources of gas. The price impact of this measure would be gradual and spread over a period of years, inasmuch as deregulation

would not effect "old" gas, from which we derive our current supply and will continue to derive substantial, through decreasing portions of our future supply.

The Administration has undertaken a positive Outer Continental Shelf leasing policy, to be implemented through the Department of the Interior. Since about 70% of our petroleum resources are likely to be found in either Alaska or the Outer Continental Shelf, it is prime importance to pursue this program in order to increase domestic production.

The Administration has also assumed a very positive stance with respect to coal. Coal is our most abundant energy resource. A generation ago, coal was eclipsed as a leading source of energy by oil and gas. Now the market place forces of supply and demand, international development, more limited supplies of other fuels, and technology, mean that coal must supply an increasing share of national energy requirements. Our ten billion dollar research and development program devotes a major share of its resources to increasing the uses of coal. Office of Coal Research Funding escalated from $123 million in FY 1974 to a $283 million request in FY 1975. It is against this background that we must consider measures of more immediate practical significance.

The Department of Interior is responsible for administering the Federal program of coal leasing. Measures are now underway to assure increased diligence in production from existing leases and to design a program of new coal leasing in order to make new supplies of this abundant fuel available.

As an important part of this vital coal development program, the Administration has proposed to Congress a surface mining bill which we feel strikes a necessary balance between the needs of reclamation and environmental protection, and the need to develop new coal supplies.

Closely allied with the effort to develop coal resources are the amendments proposed by the Administration to modify the Clean Air Act. These measures would provide additional clarity and flexibility to the Act, and would help assure that the necessary efforts to develop new coal-based power facilities, and to reconvert old facilities to coal, would not be unduly hampered.

Another measure included in the Administration program which would contribute substantially to the increase in domestic petroleum supplies is a legislative proposal which would allow exploration and development of the Naval Petroleum Reserve #4 in Alaska. This source could produce an additional 2 million barrels per day by 1985.

In addition to those measures aimed at increasing domestic supply, the President has proposed a variety of measures, over and above his tax and pricing package, which are designed to promote conservation of fuel over the next 10 years, and beyond. These would produce increased efficiency in automobiles and in the use of industrial energy. They would also promote substantial savings in the energy used for lighting, heating, and air conditioning homes and commercial buildings. Among the latter are, for instance, provisions to improve home insulation, including a tax credit program and a special subsidy for low income families.

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Overall, the sum total of benefits to be gained through the combined conservation and supply efforts of the Ford program are estimated at the equivalent of 8 million barrels per day, by 1985. The goal is to import less than 5 million barrels per day by that time.

To reduce our vulnerability to disruptions in foreign fuel supplies and to aid in carrying out the recently established International Energy Program, the proposed legislation includes important emergency provisions. A 1.3 billion barrel petroleum reserve for both civilian and military use in a crisis would be established and the President would be provided certain Standby Authorities to allow him to take swift action to meet any emergency. These powers in the President include allocation of energy production, price controls, allocation of energy use, rationing, and other actions to be taken at his discretion.

Long Term

In order to provide for longer term needs beyond 1985 the United States has committed $10 billion to the development of exotic fuels, such as coal gasification, solar energy, oil shale, and to the further development and promotion of nuclear energy.

Economic Effect

I have provided you with the main objectives and elements of the President's energy program. I know you are interested in the cost balance sheet. There has been much talk about the program. Some have asserted that its cost is too high, particularly in the face of a recession. I continue to believe that such assertions are either based on misunderstanding of the program or on highly

unreasonable assumptions. If the program is viewed in its entirety, a fair analysis will show that inflationary pressures have been kept to a minimum, that the program will not deepen the recession and that the overall effect is substantially positive. It is estimated that the total cost of the energy package will be about $30 billion per year, which consists entirely of monies collected through the excise and import taxes and the windfall profits tax. All of this would be returned to the economy in the form of a variety of tax breaks. Moreover, the economy will receive a one-time $16 billion shot-in-the arm through direct income tax refunds.

The rebate to low income persons paying no income taxes would be $80, those taxpayers earning $5600 per year would pay no taxes at all and the majority of taxpayers would receive a 12% rebate on their taxes. Total individual tax benefits would amount to $16.5 billion. In addition, $6 billion in corporate tax reductions can spur needed business and industrial activity thereby creating new jobs. States will receive $2 billion in additional revenue sharing for their programs. As a result, the increased costs from these demand reducing taxes will be plowed back into the economy. Beyond this the President's proposals to stimulate the development of domestic energy resources will undoubtedly create many new jobs.

The effect on the average American is that he will use less energy. Depending on how much energy he saves, he could come out ahead. Through the tax rebate and the reduced consumption, a citizen conceivably could spend less for energy than he has in

the past. These factors in the President's program have not, in my judgment, received adequate attention.

The entire energy package will produce a mild inflationary effect. We have estimated that there will be a one-time increase in the Consumer Price Index of about 2%. We believe that this is a sound figure.

In conclusion, it is obvious that many of the measures we have proposed will require legislative action. Those measures are included in the Energy Independence Act of 1975 and our proposed mine legislation. We are ready to work with the Congress and the States to develop the necessary legislation at all levels, and indeed we have already begun to do so. We feel that the program we have proposed is the best and least painful way to proceed. We need your help, and I urge upon you the need for action now. The economic standing of the country is at stake.

STATEMENT BY THOMAS O. ENDERS
ASSISTANT SECRETARY OF STATE FOR
ECONOMIC AND BUSINESS AFFAIRS
MARCH 3, 1975

MR. CHAIRMAN:

YOU ASKED ME TO DISCUSS THE INTERNATIONAL ASPECTS OF THE PRESIDENT'S ENERGY PROGRAM.

IT IS NOW MORE THAN SIXTEEN MONTHS SINCE THE OCTOBER EMBARGO DEMONSTRATED THAT OUR EXCESSIVE DEPENDENCE ON IMPORTED OIL CARRIED WITH IT UNACCEPTABLE VULNERABILITY TO MANIPULATION OF OUR OIL SUPPLY AND OIL PRICES.

OUR INTERNATIONAL ENERGY EFFORT SINCE THE WASHINGTON CONFERENCE OF LAST FEBRUARY HAS CONCENTRATED ON THE CREATION OF A FRAMEWORK OF CLOSE CONSUMER COUNTRY COOPERATION. THROUGH THIS EFFORT, WE SEEK TO REDUCE, AND EVENTUALLY ELIMINATE, OUR VULNERABILITY AND TO ESTABLISH A BASIS FROM WHICH WE CAN PROCEED TO A PRODUCTIVE DIALOGUE WITH THE OIL PRODUCING COUNTRIES.

OUR FIRST OBJECTIVE WAS TO OBTAIN AN IMMEDIATE REDUCTION IN OUR VULNERABILITY TO SUPPLY INTERRUPTIONS. WE HAVE DONE THIS THROUGH NEGOTIATION OF THE INTERNATIONAL ENERGY PROGRAM, WHICH COMMITS THE 18 COUNTRIES IN THE NEW INTERNATIONAL ENERGY AGENCY TO BUILD UP EMERGENCY STOCKS AND TO TAKE COORDINATED DEMAND RESTRAINT

AND OIL SHARING MEASURES IN THE EVENT OF A NEW EMBARGO. THIS AGREEMENT PROVIDES FOR PARTICIPANTS TO ASSIST COUNTRIES SINGLED OUT FOR A SELECTIVE EMBARGO, AS WE WERE IN 1973; IT PROVIDES SPECIAL PROTECTION FOR OUR EAST COAST, WHICH IS PARTICULARLY DEPENDENT ON IMPORTS AND THUS VULNERABLE TO AN EMBARGO.

WE HAVE ALSO AGREED IN PRINCIPLE WITH THE MAIN INDUSTRIAL COUNTRIES ON A FINANCIAL SAFETY NET TO PROTECT US AGAINST THE EVENTUAL EXERCISE OF THE NEW POWER THE OPEC IS ACQUIRING OVER US -- THE POWER TO MAKE MASSIVE, DESTABILIZING WITHDRAWALS OF PETRODOLLARS. THIS SAFETY NET -- THE $25 BILLION SOLIDARITY FUND IN WHICH THE ADMINISTRATION WILL SHORTLY SEEK CONGRESSIONAL AUTHORIZATION TO PARTICIPATE -- IS NOT AN AID FUND, BUT A LENDER OF LAST RESORT.

THESE EFFORTS ARE, HOWEVER, ESSENTIALLY SHORT-TERM INSURANCE POLICIES. THE ONLY LONG-TERM SOLUTION TO OUR PROBLEM OF VULNERABILITY IS TO REDUCE, BOTH INDIVIDUALLY AND IN COOPERATION WITH THE OTHER MAJOR INDUSTRIALIZED COUNTRIES, OUR DEPENDENCE ON IMPORTED OIL. IN THIS SECOND PHASE OF OUR EFFORT, WE SEEK TO REDUCE OUR CONSUMPTION OF IMPORTED OIL AND TO ACCELERATE THE DEVELOPMENT OF ALTERNATIVE SOURCES, SHIFTING THE WORLD SUPPLY/DEMAND BALANCE FOR OIL IN OUR FAVOR AND THEREBY BRINGING THE PRICE OF OIL DOWN.

In February, the Governing Board of the International Energy Agency reached agreement on an IEA target of a reduction in oil imports for the group as a whole of 2 million barrels a day by the end of this year. On the basis of the President's energy program, the US committed to save a million barrels a day. This corresponds to our share in group oil consumption which is almost exactly one-half. We have also agreed to fix similar conservation objectives for 1976-77, 1980, and 1985.

There has been a greal deal of question in this country, Mr. Chairman, as to whether we shouldn't give priority to getting our economies going, and look to conservation only later.

It is true that a badly conceived program of conservation could hurt employment. For example, last year's embargo fell almost entirely on the auto industry and its suppliers, and this concentration combined with the lack of offsetting expenditures in other fields, caused up to half a million people to lose their jobs.

But a well designed conservation program, spreading the burden over the range of our oil and gas consumption, and rebating the taxes raised, need not have such employment effects. Indeed, some of the conservation

MEASURES THAT WE CAN TAKE -- SUCH AS HOUSE RETROFITS TO IMPROVE HEATING EFFICIENCY AND OIL TO COAL CONVERSION OF UTILITY PLANTS -- WILL HAVE A STIMULATIVE EFFECT.

BUT THE IMPORTANT THING TO REALIZE IS THAT WE REALLY HAVE NO CHOICE: WE MUST GET THE ECONOMY GOING AND LAUNCH CONSERVATION AT THE SAME TIME. CONSIDER WHAT HAPPENS IF WE DON'T. WE ARE NOW IMPORTING 6 1/2 MILLION BARRELS A DAY OF PETROLEUM AND PRODUCTS, NOT REALLY DOWN FROM BEFORE THE EMBARGO, IN SPITE OF HIGH PRICES, THE RECESSION, AND TWO WARM WINTERS IN A ROW. WITH OUR STAGNANT OIL PRODUCTION AND FALLING NATURAL GAS PRODUCTION, THE DEMAND FOR IMPORTS WILL INCREASE AS THE ECONOMY GETS MOVING AGAIN, AND WITH A MORE NORMAL OR EVEN A HARD WINTER, THAT INCREASE WILL ACCELERATE. WE COULD BE IMPORTING AS MUCH AS 9 MILLION BARRELS A DAY BY THE END OF 1977. A NEW EMBARGO THEN COULD COST US 2 MILLION JOBS, AND SOME $40 - $80 BILLION IN GNP.

IT PROBABLY WILL TAKE US UNTIL LATE 1977 TO GET UNEMPLOYMENT DOWN FROM THE CURRENT 8 MILLION TO 6 MILLION. WITH OUR INCREASING DEPENDENCY ON IMPORTED OIL, ARAB OIL PRODUCERS WILL HAVE THE POWER TO MOVE UP BACK TO 8 AGAIN IN A FEW WEEKS TIME.

I DO NOT BELIEVE THAT CONGRESS OR THE AMERICAN PEOPLE WILL WISH TO SEE SUCH POWER REMAIN IN THE HANDS OF THE OIL PRODUCERS.

THE SECOND MAIN TASK IN THE IEA IS THE DEVELOPMENT OF A COORDINATED SYSTEM OF COOPERATION IN THE ACCELERATED DEVELOPMENT OF ALTERNATIVE ENERGY SUPPLIES.

WHY IS IT IMPORTANT TO BRING ON ALTERNATIVE SOURCES, AND WHY MUST WE COORDINATE WITH OTHER CONSUMING COUNTRIES?

IN THE CASE OF THE UNITED STATES, IT WILL BE IMPOSSIBLE TO ACHIEVE OUR GOAL OF SUBSTANTIAL SELF-SUFFICIENCY WITHOUT A MAJOR DEVELOPMENT OF ALTERNATIVE SUPPLIES. IN THE FIRST INSTANCE, THIS MEANS THAT WE MUST REMOVE THE CONSTRAINTS WHICH NOW MAKE THEIR DEVELOPMENT UNECONOMIC OR IMPOSSIBLE. THAT MEANS THAT WE MUST START LEASING THE OUTER CONTINENTAL SHELF, CHANGE THE STATUS OF NAVAL PETROLEUM RESERVE NO. 4 IN ALASKA, IMPROVE THE RATE STRUCTURE OF UTILITIES SO THAT NEW NUCLEAR PLANTS AGAIN BECOME ECONOMIC, PROVIDE GREATER INCENTIVES FOR GAS AND OIL PRODUCTION, DEREGULATE OIL AND GAS PRICES.

BUT WE MUST ALSO BE CONCERNED ABOUT FUTURE PRICE RISKS. ALL OF THE SOURCES TO BE DEVELOPED IN THE UNITED STATES WILL COME IN AT COSTS FAR ABOVE THE 25 CENTS A BARREL AT WHICH OIL CAN BE PRODUCED IN THE PERSIAN GULF. INVESTORS CAN THUS BE EXPOSED TO THE RISK OF PREDATORY PRICING BY OPEC. IF, FOR EXAMPLE, THE PRICE WERE TO FALL TO $4 A BARREL,

DOMESTIC US PRODUCTION IS ESTIMATED TO FALL SHARPLY FROM ITS 11 MILLION BARRELS A DAY. CONSUMPTION WOULD BE STRONGLY STIMULATED AND IN 1985 THE IMPORT REQUIREMENT AT SUCH A PRICE LEVEL IS ESTIMATED TO EXCEED 20 MILLION BARRELS A DAY. AT THAT LEVEL OF DEPENDENCE A NEW EMBARGO WOULD COST US OVER 10 MILLION JOBS.

WE HAVE THE SAME INTEREST IN SEEING OTHER CONSUMERS DEVELOP THEIR ALTERNATIVE SOURCES RAPIDLY AS WE DO IN DEVELOPING OUR OWN: BOTH SHIFT THE BALANCE OF DEMAND AND SUPPLY IN THE MARKET, AND HELP TO BRING CURRENT EXORBITANT PRICES OF OIL DOWN. WE ALSO WANT TO BE SURE THAT OTHER COUNTRIES DO NOT NULLIFY OUR OWN EFFORTS TO BRING ON ALTERNATIVE SOURCES AND CAUSE THE INTERNATIONAL PRICE TO DROP, BY RESTIMULATING THEIR CONSUMPTION WHEN PRICES BEGIN TO FALL. FINALLY, NO COUNTRY HAS AN INTEREST IN INVESTING HEAVILY IN HIGH COST ENERGY IF OTHERS ARE WHOLLY FREE TO CONSUME LOW COST ENERGY WHEN THE PRICE BREAKS, THUS ACQUIRING A MAJOR ADVANTAGE IN INTERNATIONAL TRADE.

FOR THESE REASONS, WE BELIEVE THAT THE UNITED STATES AND ALL THE CONSUMING COUNTRIES HAVE AN INTEREST IN A COMMON POLICY TO PROTECT AND STIMULATE ALTERNATIVE SUPPLIES.

THE SPECIFIC ELEMENTS OF THIS POLICY ARE STILL SUBJECT TO NEGOTIATION, BUT THE MAIN ELEMENTS ARE:

-- A GENERAL COMMITMENT TO ENSURE THAT INVESTMENT IN CONVENTIONAL NUCLEAR AND FOSSIL FUEL SOURCES IN OUR COUNTRIES IS PROTECTED AGAINST POSSIBLE FUTURE COMPETITION FROM CHEAP IMPORTED OIL. WE WOULD AGREE, IN EFFECT, NOT TO ALLOW IMPORTED OIL TO BE SOLD DOMESTICALLY AT LESS THAN A COMMON, MINIMUM PRICE. THIS COULD BE IMPLEMENTED THROUGH A COMMON PRICE FLOOR OR A COMMON EXTERNAL TARIFF. IN THE CASE OF THE UNITED STATES, THIS COMMITMENT WOULD BE IMPLEMENTED BY AUTHORITIES WHICH THE PRESIDENT IS SEEKING UNDER TITLE 9 OF THE ENERGY INDEPENDENCE ACT OF 1975.

-- CREATION OF AN INTERNATIONAL ENERGY CONSORTIUM UNDER WHICH IEA COUNTRIES WILLING TO CONTRIBUTE CAPITAL AND TECHNOLOGY COULD PARTICIPATE IN EACH OTHER'S EFFORTS TO STIMULATE PRODUCTION OF ENERGY, ESPECIALLY SYNTHETICS AND OTHER HIGH COST FUELS.

-- A COMPREHENSIVE ENERGY RESEARCH AND DEVELOPMENT PROGRAM UNDER WHICH TWO OR MORE IEA COUNTRIES WOULD POOL NATIONAL EFFORTS ON A PROJECT-BY-PROJECT BASIS.

-- SYSTEMATIC AND REGULAR REVIEW OF NATIONAL ENERGY

PROGRAMS AGAINST A SET OF COMMON CRITERIA WHICH WOULD PERMIT AN EXCHANGE OF INFORMATION AND PROVIDE INCENTIVES FOR VIGOROUS EFFORTS BY ALL PARTICIPATING COUNTRIES TO MEET OUR COMMON OBJECTIVES.

MR. CHAIRMAN, THERE HAVE BEEN LOTS OF OPPORTUNITIES FOR FALSE COMFORT SINCE THE OIL CRISIS BEGAN. LAST SUMMER A SURPLUS OF OIL EMERGED IN THE INTERNATIONAL MARKET BECAUSE OF SEASONAL FACTORS AND PRICE RESISTANCE. WE GOT SOME UNDERCOVER PRICE CUTTING, A LOT OF PEOPLE TOLD US THAT IT WAS ONLY A MATTER OF WEEKS BEFORE OPEC WAS FINISHED. WHEN THE MARKET FIRMED IN THE WINTER AND OPEC RAISED THE PRICES AGAIN, WE FOUND OUT THAT WASN'T THE CASE. WITH THE RECESSION, AN EASY WINTER, DIS-INVENTORYING, AND MORE PRICE RESISTANCE, THE MARKET IS AGAIN SOFT AND WILL BE THROUGH MUCH OF THE SUMMER. THE HEAT WILL BE ON OPEC TO DISTRIBUTE THE PRODUCTION CUTS, AND WE CAN HOPE FOR SOME MORE OR LESS DISGUISED PRICE CUTTING. BUT WITH THE CHANCES OF A HARD WINTER AFTER TWO WARM ONES, WITH OUR DETERMINATION TO GET THE ECONOMY MOVING AGAIN, WITH THE DECAY IN OUR NATURAL GAS POSITION, OUR OIL IMPORT REQUIREMENTS WILL MOVE UP VERY SHARPLY IN THE FUTURE. NOW AND AGAIN, SOME ANALYSTS SAY THAT OPEC ACCUMULATIONS OF SURPLUS FUNDS ARE NOT GOING TO BE AS BIG AS WE HAD

ORIGINALLY FEARED. WHATEVER THE QUALITY OF THESE ESTIMATES, AND IT IS UNEVEN, IT IS NO REAL COMFORT TO KNOW THAT OPEC IS GETTING LESS INVESTMENT ASSETS BECAUSE WE ARE SHIPPING MORE GOODS TO THEM THEREBY AGGRAVATING OUR INFLATION. NOR IS IT A COMFORT TO KNOW THAT BY 1980 OPEC MIGHT HAVE ACCUMULATED ONLY $300 BILLION RATHER THAN $500 BILLION IN INVESTMENTS, SINCE THE POSSIBILITIES OF DISRUPTIVE MOVEMENTS OF THESE FUNDS ARE ESSENTIALLY AS GREAT AT THE LOWER AS AT THE HIGHER LEVEL.

THE OIL CRISIS WILL NOT SIMPLY GO AWAY, MR. CHAIRMAN. WE MUST ACT TO MAKE IT GO AWAY, BY BRINGING OUR CONSUMPTION OF OIL UNDER CONTROL AT LAST, BY DEVELOPING OUR OWN ENERGY, AND BY WORKING WITH OTHER CONSUMING COUNTRIES SO THAT THEY MAY DO THE SAME. ONLY THIS WAY CAN WE ACHIEVE OUR TWO ESSENTIAL OBJECTIVES: A SUBSTANTIAL DECREASE IN THE INTERNATIONAL PRICE OF OIL, AND SUBSTANTIAL US SELF-SUFFICIENCY IN ENERGY.

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