The original documents are located in Box 3, folder "Economic And Energy Proposals - Spokesman's Briefing Book, Jan. 29, 1975" of the Richard B. Cheney Files at the Gerald R. Ford Presidential Library.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

January 29, 1975

MEMORANDUM FOR:

ROY ASH
BILL BAROODY
JAMES CANNON
KEN COLE
MIKE DUVAL
ALAN GREENSPAN
ROBERT HARTMANN
JOHN MARSH
RON NESSEN
BRUCE PASTERNACK
BILL SEIDMAN
BILL SIMON
PAUL THEIS

FROM: JERRY WARREN J

Attached is our second cut at portions of the spokesman's briefing book. We are circulating new summaries of the program after several of you suggested that multiple summaries might make the program clearer to people with different levels of understanding of the program.

Attached are those speech inserts and Q&A's on which we have received comments.

Please return the book to Room 164, OEOB, by noon on Thursday, or call your comments to me (456-6623) or Tom DeCair (456-2897). We hope to have a finished product by the end of the week.

bcc: John Carlson
Margaret Earl
Dave Gergen
Jerry Jones ✓ for Cheney
Joe Persico
Glenn Schlaede
Jerry Warren

Draft

January 28, 1975

THE PRESIDENT"S ECONOMIC AND ENERGY PROGRAM AT A GLANCE

I. Major Objectives

- Begin an early recovery from the recession.
- Begin bringing Federal spending and budget deficits under control.
- Reduce sharply the growth in oil imports and dependence on foreign energy sources.
- Offset higher energy costs and restore purchasing power and growth in jobs and production.
- Achieve the capability for energy independence by 1985.
- Maintain energy independence beyond 1985 and develop capacity for energy supply and technology export.

II. Major Presidential Actions and Proposals to the Congress.

A. To begin an early recovery from the recession:

1. A $12 billion rebate in 1974 income taxes for individuals.
2. A $4 billion tax cut for corporations.

B. To begin bringing Federal spending and budget deficits under control:

1. A moratorium on new Federal spending programs.
2. Selected Federal budget reductions.

C. To reduce ~~the sharp~~ sharply the growth in oil imports and U.S. vulnerability to another embargo (1975-1977):

1. Encourage energy conservation, through:
   a. Increased Oil import fees
   b. Excise Tax and Import Fee on Oil
   c. Excise tax on natural gas
   d. Public Education

2. Encourage domestic Energy production
   a. New Natural gas deregulation
   b. Crude oil price decontrol
   c. Elk Hills Naval Petroleum Reserve production.
   d. Conversion to the use of domestic coal.

3. Recapture windfall profits from oil companies

D. To Offset the impact of higher energy costs and restore Purchasing Power and growth in jobs and production:

1. Individual tax cuts of $16.5 billion beginning in 1975.
2. Payments to non-taxpayers of $2 billion.
3. Home energy conservation tax incentive of $.5 billion.
4. Corporate tax cuts of $6 billion.
5. Payments of $2 billion to State and local governments.
6. $3 billion Federal energy cost offset.

E. To achieve the capacity for energy independence by 1985:

1. Increase domestic Energy Production
   a. Naval Petroleum Reserve No. 4 (Alaska) production.
   b. Outer Continental Shelf (OCS) leasing for oil and gas.
   c. Reducing domestic energy price uncertainty.
   d. Clean Air Act Amendments.
   e. Surface mining legislation.
   f. Coal leasing on Federal lands.
   g. Assist electrical utilities.
   h. Expediting nuclear power.
   i. Expediting energy facilities siting.

2. Encourage energy conservation:
   a. Auto gasoline mileage increases
   b. Building thermal standards
   c. Low-income home energy conservation program.
   d. Appliance energy efficiency standards.
   e. Appliance and auto energy efficiency labelling.

3. Emergency preparedness:
   a. Strategic Petroleum Reserves
   b. Energy emergency standby and planning authorities

F. To maintain energy independence beyond 1985 and permit export of energy supplies and technology.
   1. Synthetic Fuels Program.
   2. Energy Research and Development Program.
   3. Energy Research and Development Administration (ERDA).

Draft January 28, 1975

A BRIEF FACTUAL SUMMARY OF THE PRESIDENT'S ECONOMIC AND ENERGY PROGRAMS OUTLINED IN HIS STATE OF THE UNION MESSAGE

On January 15, 1975, in his first State of the Union Message, the President outlined the Nation's economic and energy situation and described the actions he was taking and the proposals that the Congress must act upon to deal with current problems and set the new directions necessary to avoid similar problems in the future.

This paper summarizes briefly the current situation and the developments that have led to it. The paper also outlines the major features of the President's program to solve our economic and energy problems.

The Current Situation

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. Latte in 1974, when a recession set in, unemployment rose sharply to over 7 percent, the highest level in 13 years. The economy is now in a full-fledged recession and unemployment will rise further before corrective actions take hold.

With respect to energy, the U.S. remains vulnerable to the economic and social impact of an oil embargo. Domestic oil production continues to decline and other domestic energy sources are not increasing fast enough. Overall, energy consumption is beginning to rise again. Oil imports are also rising to fill the gap between domestic energy demand and supply. As a result of a four-fold increase in world oil prices, the U.S. paid foreign oil producing nations $24 billion in 1974 (compared to about $3 billion in 1973) -- representing an outflow of both U.S. dollars and jobs. Thus, our energy problems are contributing to our economic problems.

The Causes of Current Problems

A number of policies of the past and the recent developments -- some beyond the control of Government -- have contributed to the current situation. Accelerated inflation resulted from:

- Excessive Federal spending and lending for over a decade and too much money and credit growth.
- Unusually poor harvests which contributed to world-wide food shortages and escalating food prices.
- World petroleum product~~s~~ price increases due to the Arab nations' oil embargo, the quadrupling of the price of crude oil by the OPEC nations, and their sharp reductions in crude oil production to maintain higher prices.
- An economic boom occurring simultaneously in the industrialized nations of the world.
- Two international devaluations of the dollar.

Inflation contributed to the forces of recession:

- The real purchasing power of workers' paychecks was reduced.
- Inflation reduced consumer confidence, and 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.

In energy, the Nation has long followed, without serious thought, the policy of satisfying all energy demands at the lowest possible prices. Generally low prices in the West for all energy sources in the U.S. has contributed to high demand, inefficient uses, and reduced incentives for new production. A prime example is the artificially low natural gas prices that have resulted from Federal price regulation -- the direct cause of declining U.S. natural gas exploration and production and growing shortages.

The President's Energy and Economic Program

I. Major Objectives of the President's Program

The most important objectives of the President's program outlined in the State of the Union Message are to:

- Begin an early recovery from the recession.
- Begin bringing Federal spending and budget deficits under control.
- Reduce sharply the growth in oil imports and our dependence on foreign energy sources through steps to conserve energy and to increase domestic energy production.
- Offset the impact of higher energy costs and restore purchasing power and growth in jobs and production.
- Achieve the capabilities for energy independence by 1985 by increasing domestic energy production, reducing demand, and preparing for any further embargo.
- Maintain energy independence beyond 1985 and make it possible for the U.S. to export energy supply and technology to others of the free world.

II. Major Presidential Actions and Proposals to the Congress

A. To begin an early recovery from the recession, the President has asked the Congress to approve a one-time tax ~~cut~~ rebate of $16 billion consisting of:

1. ~~A~~ $12 billion returned to ~~cut for~~ individuals, accomplished by a 12% rebate on 1974 taxes up to a $1,000 maximum per return. When Congress approves the ~~cut,~~ rebates would be computed by the IRS and payed in two installments; the first in May or June and second in September 1975. (No changes are necessary in the way individuals prepare their 1974 tax returns.) plan quickly

2. ~~A~~ $4 billion returned to ~~cut for~~ corporations, accomplished by a temporary increase in the investment tax credit from 7% to 12% on 1975 investments. For utilities, investment tax credits would be increased from 4% to 12%. (The 12% increase would remain through 1976 and 1977 for electrical utilities other than those fired by oil or natural gas.) 1975

projects

B. To begin bringing Federal spending and budget deficits under control, the President:

1. Announced a moratorium on ~~of no~~ new spending programs other than for energy and said that he would not hesitate to veto new spending programs adopted by the Congress.

2. Proposed to the Congress selected budget reductions and a five percent ceiling on federal employee pay increases for 1975 as well as on automatic cost of living increases for government and military retirement pay and social security. Total savings from these budget proposals would amount to $17 billion in FY 1976.

C. To reduce the sharp growth in U.S. vulnerability to another foreign oil embargo and halt the growth in outflow of U.S. dollars (and Jobs), the President established goals of reducing oil imports by 1 million barrels per day by the end of 1975 and 2 million barrels of oil by 1977. He announced actions and proposals to:

1. Encourage energy conservation, including:

a. Import Fees. By Presidential order, import fees on crude oil and petroleum products will be increased over current levels by $1 per barrel effective February 1, 1975; an additional $1 effective March 1; and another $1 effective April, for a total increase of $3.00 per barrel. To ease the impact on regions heavily dependent on imported petroleum products, such as New England and the Northeast states, the President's program provides for a rebate on these products, so that the effective increase in import fees on petroleum products will be 60¢ on March 1, 1975, and $1.20 on April 1, with no increase scheduled for February.

b. Excise Tax and Import Fee on Oil. Congress is asked to establish an excise tax of $2 per barrel on domestic crude oil and an import fee on crude oil and petroleum products. (When this becomes effective, it would replace the presidentially new established import fees.)

c. Excise Tax on Natural Gas. Congress is asked to establish an excise tax of 37¢ per thousand cubic feet on natural gas -- which is comparable ~~(on a Btu basis)~~ with the tax on petroleum.

d. Public Education. Information for the public on energy conservation methods and benefits will be increased.

2. Encourage domestic energy production, including:

a. New Natural Gas Deregulation. Congress is asked to remove Federal price regulation from new natural gas supplies to provide the incentive for increased production and more efficient uses.

b. Crude oil price decontrol. Steps will be taken to remove price controls on domestic crude oil by April 1, 1975 (action is subject to Congressional disapproval).

c. Elk Hills Naval Petroleum Reserve. Congress is asked to authorize production of oil from the Elk Hills Naval Petroleum reserve (NPR #1) in California of 160,000 barrels per day early in 1975, increasing to 300,000 barrels per day by 1977.

d. Conversion to the use of domestic coal. Congress is asked to amend the Clean Air Act to permit a vigorous program to convert power plants and other major uses from oil to coal, reducing the need for oil by 100,000 barrels per day in 1975 and 300,000 in 1977.

3. Recapture windfall profits. Congress is again asked to place a windfall profits tax on oil companies.

D. To offset the impact of higher energy costs particularly for low and middle income people and to restore purchasing power and growth in jobs and production. The President asked the Congress to approve permanent tax reductions beginning in 1975. New energy conservation taxes and import fees would raise $30 billion annually in Federal revenues:

. Oil excise taxes	- $ 6.0 billion
. Natural gas excise tax	- $ 8.5 billion
. Import fee increases	- $ 3.5 billion
. Windfall profits tax	- $12.0 billion

This $30 billion will be returned immediately to the economy as follows:

1. Individual tax cuts of $16.5 billion beginning with 1975. Congress is asked to approve a cut in income tax for individuals of $16.5 billion annually, beginning with 1975 tax rates. This is in addition to the $12 billion rebate in 1974 taxes for individuals. Reductions in taxes will occur for all Americans but with primary emphasis on low and middle-income taxpayers. Changes in withholding would go into effect on June 1, 1975 and 1975 adjustments would be made so that a full 12 month reduction would be accomplished in 7 months from June through December. Tax rate reductions for 1975 and future years would be accomplished through an increase in the low income allowance and reduced tax rates at all income levels.

2. Payments of $2 billion to non-taxpayers. Congress is asked to approve a distribution of $2 billion to non-taxpayers in the form of $80 payments each year for each adult (over 18 years of age) starting in the summer of 1975.

3. Tax incentive of $.5 billion for energy conservation. Congress is asked to approve an energy conservation tax incentive of $.5 billion in the form of a 15% tax credit applied to the first $1,000 of expenditures ($150 maximum over 3 years) for certain energy conservation improvements in homes, such as storm windows and insulation.

4. Corporate Tax cut of $6 billion. Congress is asked to approve a $6 billion tax reduction for corporations by cutting 1975 and future year tax rates from 48% to 42%.

5. Payments of $2 billion to State and Local Governments. Congress is asked to approve a $2 billion increase in general revenue sharing payments to State and local governments to offset their higher energy costs.

6. $3 billion Federal cost offset. $3 billion of the energy conservation tax revenue would offset higher costs of energy purchased directly by the Federal Government for its use.

E. To achieve the capability for energy independence by 1985, the President announced the following actions and proposals 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 embargo; specifically to:

1. Increase domestic energy production:

a. Naval Petroleum Reserve No. 4 (Alaska). Congress is asked to authorize exploration, development and production of NPR No. 4 to provide petroleum for the domestic economy, with 15-20% earmarked for military needs and strategic storage.

b. <u>OCS leasing.</u> The President reaffirmed his intention to continue an aggressive policy of leasing Outer Continental Shelf areas where oil and natural gas development can be accomplished that is safe and environmentally acceptable.

c. <u>Reducing domestic energy price uncertainty.</u> Congress is asked to authorize and require the use of tariffs, import or price floors, or other measures to achieve domestic energy price levels necessary to cope with large-scale fluctuations in world oil prices and thus help reach energy independence goals.

d. <u>Clean Air Act Amendments.</u> Congress is asked to amend the Clean Air Act to deal with significant air quality deterioration, extend dates for complying with certain requirements for power plants, and hold auto emission requirements stable for 5 years (1977-1981 model years).

e. <u>Surface mining.</u> Congress is asked to pass legislation which strikes a balance between environmental protection and reclamation requirements and the need to double domestic coal production over the next ten years.

f. <u>Coal leasing on Federal lands.</u> The President directed the Secretary of the Interior to adopt legal production diligence requirements for existing Federal coal leases, meet with Western governors on related problems, and design a new program for accelerated leasing of Federal coal.

g. <u>Electric utilities.</u> Congress is asked to pass legislation to assist electric utilities (many of which have had to delay new additions to capacity) through higher investment tax credits (increased from 4% to 12%, with the higher rate remaining in effect for 1976 and 1977 for all except oil and gas fired plants); mandated reforms in State Utility Commission practices; and other measures.

h. Nuclear power. Congress is asked to pass legislation to expedite siting and licensing of nuclear power plants and to approve a 1976 budget increase for nuclear safety, safeguards and waste management.

i. Energy facilities siting. Congress is asked to pass legislation to encourage expeditious review and approval at the Federal and State levels of ~~energy~~ all types of major energy facilities and sites.

2. Encourage energy conservation:

a. Auto gasoline mileage increases. The President announced an agreement with major domestic automakers to improve gasoline mileage by 40% on the average by 1980, compared to 1974 model year cars, provided that Clean Air Act auto emission requirements are stabilized for 5 years.

b. Building thermal standards. Congress is asked to authorize establishment of mandatory thermal efficiency standards for new homes and commercial buildings.

c. Low-income energy conservation program. Congress is asked to authorize direct subsidies to low-income and elderly homeowners for energy saving actions such as home insulation.

d. Appliance efficiency standards. The Energy Resources Council will develop energy efficiency goals for major appliances and seek agreements with manufacturers to achieve an average of 20% improvement by 1980.

e. Appliance and auto efficiency labelling. Congress is asked to pass legislation requiring labels on automobiles and major appliances to show energy use and efficiency.

3. Emergency preparedness

a. Strategic petroleum reserves. Congress is asked to authorize the development of an expanded strategic storage system of 1 billion barrels of petroleum for domestic uses and 300 million barrels for military use.

b. Standby and planning authorities. Congress is asked to authorize participation in an International Energy Program and provide a set of energy emergency standby authorities including emergency energy conservation, fuel allocation, price controls for allocated products, rationing of fuels among end users, allocation of material needed for energy production, and regulation of petroleum inventories.

C. To maintain energy independence beyond 1985 and make it possible for the U.S. to export energy supplies and technology to others in the free world:

1. Synthetic fuels program. The President announced a program of Federal incentives to ensure at least one million barrels per day equivalent of synthetic fuels capacity by 1985, using technologies now nearing commercial application, such as those to obtain synthetic crude from oil shale and a wide range of clean solid, liquid, and gaseous fuels from coal. Federal incentives might include price guarantees, purchase agreements, capital subsidies and leasing programs.

2. Energy research and development programs. The President's 1976 budget will continue to emphasize accelerated programs of research and development of technology for energy conservation and on all forms of energy including fossil fuels, nuclear fission and fusion, solar and geothermal.

3. Energy Research and Development Administration. The President announced the activation, effective January 19, 1975, of the newly created Energy Research and Development Administration. ERDA brings together in a single agency all major Federal energy R&D programs. It will work with industry and others as a part of a national R&D effort to develop technology to assure that the U.S. will have an ample and secure supply of energy at reasonable prices.

SUMMARY OF THE PRESIDENT'S PROGRAM-1

NEW DIRECTIONS

When Gerald Ford assumed the Presidency he inherited the leadership of a troubled land:

-- Millions of men and women are out of work, and the economy appears to be sliding into the worst recession since World War II.

-- The country has just completed its worst year of peacetime inflation, and rising prices are still eating away at personal incomes and at hopes for the future.

-- And the nation has become increasingly vulnerable to the pressures of OPEC, an international oil cartel that gathered in $25 billion from American consumers during 1974 and promises to drain even more Western resources in 1975.

The challenges are complex and tough; they require strong leadership both at home and abroad.

President Ford has accepted those challenges. He has given the country the unvarnished truth -- "the State of our Union is not good" -- and he has come up with a program that will finally set the nation in "new directions":

-- a direction that will restore jobs and personal security;

-- a direction that will protect pocketbooks from the ravages of inflation; and,

-- a direction that will eventually free the country from the yoke of the foreign oil producers.

But how did we get into this mess? And how will the President's program get us out?

How We Got Here

While economists vary in their interpretations, there can be no doubt that America began taking the wrong economic road as early as the mid-1960s. We geared up for a great little war on foreign shores and for a Great Society here at home, but our political leaders refused to raise the money to pay for it. It was easier and more popular to create a false prosperity and leave the bills for later -- for today's generation. The result was that we have had almost a decade of economic practices in Washington -- excessive Federal spending and easy money policies -- that have created strong underlying forces of inflation within the economy. The unpaid bill has come due.

As inflationary forces were building up in Washington, we also had a series of largely unforeseen and uncontrollable events in the early 1970s that doubled the pressures on prices quickly sending them through the roof. There were crop shortages here and abroad in 1971, 1972 and 1973, driving up food prices. Most of the major industrialized nations, marching more closely together as their economies have become more interdependent, experienced a simultaneous boom in the early '70s putting further demand pressures on the prices of many commodities. Because the dollar was overvalued, the United States had to devalue it twice, increasing foreign demands for our goods. And the oil cartel quadrupled the price of international oil.

Prices in the United States began shooting upwards past the double digit mark, and -- little noticed at the time -- the inflation then had a secondary effect: it started the economy on a downward spiral into a recession. As prices went up, consumer confidence went down, bringing the biggest drop in consumer purchases since World War II. As inflation helped to drive up interest rates, the housing market also went down, and housing -- nation's largest industry -- fell into a horrible slump. Inflation was thus a major factor in creating the recession and remains a fundamental long-term problem.

When the nation embarked upon excessive fiscal and monetary policies in the mid-1960s, we also allowed our strength as an energy exporter to deteriorate rapidly. Our own demands for energy were rising quickly, but we were unwilling to offer the energy industry here at home sufficient incentive to increase production. In natural gas, for instance, government regulators held prices so low in order to please consumers that industry discovery and production went into a serious decline.

The result is that today America can no longer meet its own energy needs. We are dependent upon foreign nations for 38% of our oil. Other Western nations are even more dependent. It was probably only a matter of time before the oil cartel exercised the option that we virtually surrendered to them.

How the President Plans to Meet the Challenges

President Ford has devised a three-pronged attack on all three of these challenges: recession, inflation, and energy dependence. It is complex in its details, but simple in concept. It is bold, but not reckless. It will require strong government action, but it will preserve the free enterprise system. And it will work.

In essence, here is what the President proposes:

-- To strengthen the recovery from the recession, the President proposes an immediate, across-the-board tax cut of $16 billion. Of that, $12 billion would be in the form of rebates on 1974 taxes for individual taxpayers, returning to them up to 12 percent of their taxes. The rest of the tax cut would be in the form of a one-year increase to 12% in the investment tax credit, thus spurring industrial expansion and creating new jobs. The intent of the tax refund is to give the economy a sharp, one-time stimulus that would lift us out of the depths without creating more inflation.

-- To curb inflation, the President proposes a moratorium on new Federal spending programs outside the energy field and a cap on increases in social security benefits, military retirement pay and the like. Inflation is already showing some signs of abating, but the President believes it is critical to restore long-term discipline to our fiscal and monetary policies in order to eliminate this continuing threat.

-- To free us from dependence on foreign energy sources, the President proposes a stiff conservation program and a strong new program to encourage domestic production. Conservation would be achieved through a series of import fees, taxes, and tariffs that would raise the prices of most petroleum products. Gasoline at the pump, for instance, would cost ~~about~~ from 10 to 15 cents more a gallon. At the same time, however, the President's program would preserve the purchasing power of average families by returning the additional fees to them through general tax reductions. The program is carefully designed to ensure that lower and middle income families are not hurt -- and indeed, some will come out ahead. At the same time, by allowing some increases in the prices of petroleum products, the President would provide incentives to the energy industry to increase production but he would prevent the industry from taking unfair advantage by imposing a windfall profits tax.

Need for Action

The President has thus put forward a tough, comprehensive, and integrated program. It would stimulate the economy through tax cuts to get us out of the recession. It would keep a lid on Federal spending to prevent a new round of inflation. And it would raise petroleum prices in order to encourage conservation and further domestic production, but it would deal fairly and equitably with consumers and producers alike.

As the President has said, "we have diddled and dawdled long enough. The time for action is now." America cannot wait. The crises are upon us, and it will take united action -- joining the President, the Congress, and the people -- to meet them successfully.

SUMMARY OF

THE PRESIDENT'S PROGRAM - 2

Understanding the Economics

This Nation now faces the challenge of regaining control of its economic destiny. The President's program is designed to turn the economy in a new direction away from recession and unemployment and toward vital progress in creating energy independence. His message properly recognizes that inflation pressures must be further reduced to support these economic and energy goals. Three basic points should be emphasized in evaluating his comprehensive package of recommendations:

1. Our economic and energy goals are interdependent. The success of the energy proposals will depend upon the creativity and growth of the U.S. economy. In turn, the economy will initially be affected by the new costs and taxes and necessary adjustments in the use of energy.

2. The individual policies recommended must be considered as a single, integrated package. Controversy about specific suggestions will occur but critics must recognize the role of each recommendation in the total program. If specific recommendations are rejected, suitable replacements must be provided.

3. <u>The President's program will require real sacrifices and widespread cooperation.</u> Easy solutions are not available. Nor will the wanted results occur quickly. But failing to act now will only make the problems worse as the procrastination of the last few years has clearly demonstrated. The important thing is to act decisively to correct existing economic distortions and to prove our real commitment to energy conservation and resource development. The President's program provides the necessary framework for such action.

The Economic Program

By mid-1973 it was clear that the U.S. economy, while still strong and growing, was slowing down. The unexpected oil embargo in late 1973 and widespread materials shortages caused further problems at the same time as inflation moved to unacceptable double-digit levels. In recent months the unexpectedly rapid weakening of demand for housing and new automobiles has hurt the entire economy, causing unemployment to jump upwards. Personal spending and business investment have also dropped.

Most analysts now expect inflation to continue to moderate and a gradual economic recovery to occur later in 1975 but the current pains of recession cannot be ignored, particularly the sharp increases in unemployment. The difficult challenge is to expand economic activity, and thus employment, without triggering a new round of inflationary pressures. The basic economic responsibility of the Federal government is to follow policies that will enable our economic system to grow and provide jobs with reasonable stability of the price level. These Federal responsibilities are exercised through the government's spending and taxation policies and through the monetary policies by which the Federal Reserve System controls the supply of money.

Perhaps the best indication of what actions the Administration plans in fighting recession and unemployment is contained in the new budget for Fiscal Year 1976. Total outlays are expected to rise to $349 billion, a jump of almost $80 billion from the level of $268 billion in Fiscal Year 1974. Government programs for unemployment assistance, health, housing, defense, education, public works, and thousands of other activities which influence the economy are part of the budget the President has submitted to Congress. The sharp increases in spending suggest that the President has been responsive to the economic slowdown. Similarly, Federal Reserve officials have repeatedly emphasized the point that they will not permit the economy to falter through a shortage of needed money and credit.

Nevertheless, the President has decided that we cannot wait until later in the year for the private sector to recover or for the increased levels of government spending to trickle down through the economy to help ease the serious unemployment problem. To meet our immediate needs, he has proposed three important Federal tax actions: (1) a temporary tax ~~reduction~~ rebate of $16 billion; (2) a tax rebate and restructuring system to return to the private sector the $30 billion to be collected by the energy conservation excise taxes and fees; and (3) general tax reform later in 1975.

The temporary tax ~~reduction~~ rebate of $16 billion is a stimulus intended to create more jobs by increasing personal spending and business investment. The $12 billion returned to individuals will be an important boost to consumer purchasing power which will also be improved in coming months by rising personal incomes and continued moderation in the rate of price increases.

~~Table A~~ Once the rate

of inflation drops below the growth pace of personal incomes, the consumer will once again have real purchasing power gains plus the temporary tax refunds. The $4 billion returned to businesses and farmers in the form of an investment tax credit of 12 percent will provide immediate stimulus to spending in 1975 which will create additional jobs.

* * * * *

TABLE A
(Rebate) Temporary Tax ~~Reduction~~ Based on 1974 Tax Obligations ~~For~~
For a Family Of Four

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%

The second step involves a return of the $30 billion that will be raised by new energy conservation excise taxes and import fees and the windfall profits tax. The imposition of these taxes is a crucial part of the energy program designed to encourage conservation, but the new funds collected must be returned to the people in order to prevent a worsening of the recession. Therefore, the revenues collected will be used to adjust the basic tax structure. This restructuring is necessary to correct distortions caused by inflation, which has artificially increased tax burdens by pushing individuals into higher tax brackets and forcing businesses to pay taxes on inflated profits which do not properly reflect current costs or the replacement value of existing plant and equipment.

The President has proposed that \$16 1/2 billion be used to increase the low income allowance and to adjust the withholding rates so as to reduce personal income taxes, particularly for low-and middle-income families; \$2 billion will be committed to people who do not pay income taxes because of low incomes; \$500 million will be set aside to cover tax credits to homeowners who add insulation or storm windows to conserve energy; \$6 billion will be returned to businesses by reducing the corporate income tax rate from 48 to 42 percent; \$2 billion will be returned to State and local governments through General Revenue Sharing payments; and the Federal government will keep \$3 billion which represents its share of higher energy taxes.

This rebate system will accomplish some needed tax reform and should neutralize most of the ~~restrictive~~ effects of increasing taxes and import fees by $30 billion. Most families will receive a larger rebate than the estimated energy taxes paid. Low and middle income families in particular will benefit (Table B).

TABLE B
Structural Tax Reductions Combining Increase In The Low Income Allowance And Reduced Tax Rates For Family Of Four

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.

Further tax reforms will occur later after the temporary stimulus package and the energy tax rebate issues are resolved.

The President has also reaffirmed his great concern about fiscal responsibility in restraining the upward momentum of government spending. He has called for a one-year moratorium on new spending initiatives -- other than the new energy proposals. He has also emphasized the need to have a tough position against increased spending by submitting budget recisions and deferrals to Congress last fall and in the proposed Fiscal Year 1976 budget. He has also called for the Federal government to set a national example by placing a limit of five percent on increases in Federal salaries and on cost-of-living adjustments for government and military retirement pay and social security benefits.

Despite these efforts the Federal deficit in Fiscal Year 1975 will be about $30 billion and the Fiscal Year 1976 shortfall is now projected to be $46 billion. These massive deficit projections should not prevent moving ahead on the temporary $16 billion stimulus package or the structural tax adjustments proposed, but they do emphasize the extreme importance of holding down Federal spending to reduce the deficits and to provide greater fiscal flexibility in responding to changing economic conditions.

Summary

The President's economic proposals build on the vast array of programs included in the cumulative Federal budget system. They include many of his specific recommendations for improving the efficiency of the economy which he presented to Congress last October 8th. The new initiatives highlight the three-step tax program, beginning with the temporary income tax stimulus, and a strong Presidential appeal to hold down Federal spending to moderate the record-level deficits expected. These programs properly focus on improving the employment outlook in the private sector where most of the jobs are located. But there is continued emphasis on fiscal and monetary responsibility in avoiding some of the excesses of the past which unfortunately contributed to the boom-to-bust sequence of economic activity.

The country needs a strong and balanced economic program from the Federal government to create the necessary environment for private sector response. The President's economic proposals are carefully integrated with his energy initiatives. They are designed to stimulate economic recovery without generating excessive inflationary expansion pressures.

A 5-Page Layman's Summary

SUMMARY OF THE PRESIDENT'S PROGRAM-3

In his first State of the Union Address to the Congress and the Nation on Wednesday, January 15, 1975, President Ford said the State of the Union "is not good." In response to the problems of inflation, recession and dependence on foreign oil sources, the President announced ~~Presidential~~ administrative actions and legislative proposals in a comprehensive program designed to provide short-term relief and long-term solutions "to move America in a new direction."

The President's economic and energy program will provide: tax cuts for businesses and individuals to put more money into the hands of people and to provide more jobs; a commitment to no new Government spending programs this year outside the energy field; a five-percent cap on automatic increases in Federal spending; and an energy program including higher energy costs to assure conservation and to spur development of other sources of energy so that energy independence can be achieved by 1985.

The President spoke to a Nation in which millions are unemployed -- and the rate is rising; recession and inflation are eroding the purchasing power of others; unreliable foreign energy supplies cost more than ever before. Because of the widespread dislocations in the economy, the President announced to the Congress and the Nation a program to turn America in a new direction. The program, while maintaining and strengthening the free market economy, would put the unemployed back to work; increase real income and production; restrain growth of Government spending and achieve energy independence.

First, the President proposed 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, and he called on Congress to act by April 1. He made it clear that cutting taxes now is essential if we are to turn the economy around and that a tax cut offers the best hope of creating more jobs. "Unfortunately," said Mr. Ford, "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."

To keep Government spending in check, the President announced his intent to propose legislation to restrain the growth of a number of existing programs; his conclusion that no new spending programs can be initiated this year, except for energy, and, a recommendation for a five percent limit on Federal pay increases this year. This kind of limitation is necessary, in the President's view, because only a reduction in spending growth can keep Federal borrowing down and reduce the damage to the private sector from high interest rates.

The President placed special emphasis on restoring our country's surplus capacity in total energy so that we will be able to assure ourselves reliable and adequate energy and help foster a new world energy stability for other ~~major~~ consuming nations. Accordingly, he recommended a plan for national energy goals to make us invulnerable to cut-offs in foreign oil. "It will require sacrifices," he said, "but it will work."

President Ford requested the Congress to act within 90 days on a more comprehensive energy tax program, including excise taxes in import fees on crude oil, deregulation of new natural gas and enactment of a natural gas excise tax and a windfall profits tax on oil by April 1 to insure that oil producers do not profit unduly. At the same time, he stated that he plans to take Presidential initiatives to decontrol the price of domestic crude oil on April 1.

The President also called for a massive program to increase energy supply, cut demand and provide new standby emergency programs to achieve the independence we want by 1985. He stated the intention of his Administration to move ahead with oil exploration, leasing and production on those frontier areas of the Outer Continental Shelf where the environmental risks are acceptable. Zeroing in on our most abundant natural resource -- coal -- the

President called for a reasonable compromise on environmental concerns and says he plans to submit Clean Air Act amendments which will allow greater coal use without sacrificing our clean air goals. Recognizing the growing importance of nuclear power, he will also submit legislation to expedite nuclear licensing and the rapid selection of sites.

The growing need to cut long-term energy consumption in this country received special emphasis in the President's address. He proposed legislation to make thermal efficiency standards mandatory for all new buildings in the U.S., new tax credit of up to $150 for home owners who install insulation equipment, the establishment of an energy conservation program to help low income families purchase insulation supplies, and legislation to modify and defer automotive pollution standards for 5 years to encourage improvement of new automobile gas mileage 40 percent by 1980.

The President emphasized that these proposals and actions can reduce our dependence on foreign oil supplies to 3-5 million barrels per day by 1985. He also proposed standby emergency legislation and a strategic storage program of 1 billion barrels of oil for domestic needs and 300 million barrels for defense purposes.

Voicing ~~Evincing~~ a strong belief in America's capabilities, the President called for ~~envisioned within the next 10 years~~ hundreds of new energy producing plants, coal mines and oil refineries, and millions of newly insulated homes and ~~millions of new~~ fuel-efficient vehicles within the next 10 years

On the international side, the President emphasized the need for world-wide cooperation and vigorous leadership. He made a special point of stating that a resurgent American economy would do more to restore the confidence of the world in its own future than anything else we do. Affirmative action on this program by the Congress will show the world beyond a shadow of a doubt that we have started to put our own house in order. "At stake," said the President, "is the future of the industrialized democracies."

ENERGY

THE NEED FOR ACTION NOW

The President has proposed to Congress and the American public the first comprehensive, unified approach to our economic and energy problems ever assembled in this country.

The program has been thoroughly planned and analyzed, and it is the consensus of a broad spectrum of the most respected economic and energy experts in the Government, in private industry, and in citizens groups, all of whose views have been considered at length in reaching the details of the complete program.

The program is a highly complex one, since it is designed to deal with and solve a wide range of energy and economic problems confronting this nation.

The President has explained the program as fully as possible to the Members of Congress and to the nation's citizens, in a broadcast address to the nation on January 13, in his State of the Union message on January 15, and in public statements since then.

No reasonable comprehensive proposals have been forthcoming from Congress or from other sources. The President's plan is the only one which deals with all aspects of the problems involved, and action on his proposals is vital now.

Each day that passes without strong action on the many proposals made by the President leaves this country more dependent on foreign oil for its energy needs. Each day the economy becomes more and more vulnerable to disruption which could result from actions by foreign suppliers.

It is the clear responsibility of the Members of Congress to act quickly in the public interest. The President has requested specific actions from Congress, specific actions designed to work in combinations with each other to have the overall effect of solving our economic and energy problems. If Congress chooses not to enact any one facet of the total program, it must then provide a program of its own which achieves the same result.

Action now on the President's program is imperative if the United States is to maintain its international credibility. This country has traditionally been known for its ability to get things done, particularly in times of crisis. Failure on the part of Congress to act swiftly to approve the President's proposed legislation could well be interpreted as indecision and weakness, and as an unwillingness to take the unpleasant but absolutely necessary steps to cure our energy and economic problems.

The central goal of the President's energy proposals is to minimize the insecurity the country faces today with the possibility of another oil embargo, and eventually to eliminate once and for all the nation's vulnerability to actions by foreign governments or cartels.

The President's program includes decisive actions designed to reach both these goals. He has requested actions to restrict demand for petroleum and to encourage energy conservation now, and he has requested far-reaching actions to provide the future energy needs of the country from secure domestic sources.

The crucial point of President Ford's energy plan is that it moves the nation in the right direction, and that we must begin moving in that direction now. The President has expressed both a willingness and a desire to work with Congress on revisiing and restructuring various details of the complete program, once the basic thrust has been made in the direction of the energy independence desired by all Americans.

The President's program is a place to start, and a place to start without further delay.

Congress has not come up with a program of its own. There is no indication that it will have one which its members can agree to in a month, two months or this year. It is suggesting parts of a possible program here and there, but there is no assurance that these parts will become either a single viable program or that there will be congressional agreement on them as separate entities that could eventually be tied together into some kind of package.

Bold and imaginative solutions are required to meet the extensive problems which face the nation. The President has taken the initiative in assessing the problems and proposing wide-ranging solutions. It is now up to Congress and the people to press for immediate actions to support the President's proposals.

Americans all across the nation can help the country achieve energy independence by learning all they can about the President's proposals, and then letting their representatives in Congress know that they want action now, without another day, week, month, or year of debate.

GASOLINE RATIONING

What is gasoline rationing?

Some members of Congress and other public spokesmen have proposed that the Government institute mandatory rationing to deliberately reduce the amount of gasoline available to consumers, to force Americans to drive less and use less gasoline.

Government officials would then determine how much gasoline each individual or business could use.

Individuals would have to make do with nearly 30 percent less gasoline than is now used. In other words, most of us would receive nine gallons a week, or an average of one and two-tenths gallons per day.

Businesses would receive 10 percent less gasoline than they now use.

Each licensed driver would have to pick up coupon books four times a year at local post offices. Drivers who did not need, or chose not to use, all their coupons would be permitted to sell them in a "white market." Those who needed extra coupons, and could afford to purchase them from other individuals could buy extra gasoline at an estimated average cost per gallon of $1.75 -- a projected free-market price of $1.20 for the coupon itself, plus 55 cents for the gallon of gasoline.

Will gasoline rationing work?

A gasoline rationing program can indeed be designed to meet goals of limiting gasoline consumption. Such a system might be desirable, if our only national energy problem were excessive consumption of gasoline refined from expensive imported crude oil.

Unfortunately, the country's energy problem has many facets, and gasoline rationing treats only one symptom of a broad, interrelated problem.

The nation is becoming increasingly dependent on foreign sources for petroleum energy, and a repeat of last year's disruption of this foreign energy supply would seriously damage our economy.

The nation is paying foreign oil suppliers more than $25 billion a year for needed energy. This means we are rapidly losing our national wealth, and with it the ability of our economy to provide more jobs for our citizens.

The President's comprehensive energy proposals are aimed both at limiting consumption of all forms of energy now -- to enable us to reduce oil imports by one million barrels a day this year and by two million barrels daily by 1977, and at providing the economic incentives and government support necessary to encourage greatly expanded exploration for and production of new energy from secure domestic sources -- to provide for our future energy needs.

Rationing does nothing to solve our basic energy problems. While it would provide a short-term reduction in comsumption of gasoline, it would discourage domestic energy exploration and production, since no new incentives would be provided for energy producers.

Why is gasoline rationing undesirable?

No conceivable rationing system can possibly take into account the many special requirements of the millions of American gasoline consumers, so a rationing program is inherently unfair to some individuals and some groups.

Individuals who must use their cars and who cannot afford to pay $1.75 for those "extra" gallons, would often be unable to make necessary trips, such as to work or to school.

Rural areas of the country, where automobiles are often used twice as much as in urban areas, would be unfairly penalized. This disparity would impact most severly on the West and Midwest states. In many rural areas, there is no public transportation alternative to the automobile.

Under rationing, the Government would be making most of the key decisions for both individuals and businesses over the next five or ten years. Gasoline rationing would likely lead to rationing of other petroleum products, such as home heating fuels and petrochemicals, and thus rationing officials would be controlling virtually all decisions involving energy, rather than allowing the public to make those decisions in the free market.

One of every five American families moves each year. Under rationing, such moves would be difficult, and in many cases impossible.

Decisions on job changes, new purchases, starting new businesses, expanding existing businesses, and other decisions traditionally and better left in the hands of the public would have to depend on the actions of rationing boards.

The basic costs of a gasoline rationing system are huge and would constitute an unnecessary drain on our economy. Administrative costs alone -- printing coupons, establishing local rationing boards, and recruiting enforcement officials -- would mean a $2 billion bill each year for taxpayers.

Rationing would result in a $13 billion drop in our Gross National Product, and a resulting loss of 200,000 to 300,000 jobs.

Rationing gasoline alone would provide no incentive for non-drivers to conserve energy in other equally important areas of energy consumption.

And, finally, gasoline prices would rise even under rationing proposals, since a distortion of current oil refining procedures would lessen efficiency of operation, raising costs of all fuels.

What the nation needs is a total program to approach all the many sides of the energy problem, and it is this comprehensive plan which the President has proposed to the Congress and to the public.

<u>EQUALIZING THE BURDEN: NO DIRECT GASOLINE TAX</u>

The President opposes direct taxes on gasoline for many of the same reasons that he is against gas rationing. Taxes would be inequitable and they would be of no significant help in reaching the President's ultimate objective -- energy independence.

Not many weeks ago, the idea of direct taxes on gasoline was being hailed by many many as the immediate and major answer to our energy problems. Even among those most opposed to President Ford's energy program, the direct tax idea has now faded from popularity. The number one opposition priority seems to be rationing with mandatory allocation of oil in second place.

The reason why the direct tax plan is being abandoned by many of those who were supporting it a month or more ago is that they have studied its real implications. It is, inherently a short-term and short-sighted solution filled with inequities and offers no ultimate solutions to our energy problems. It is also inflationary -- very much so in some proposals.

There is no agreement on the amount of direct taxes that would have to be levied. Proposals range from 20 cents to 50 cents in taxes on each gallon. The larger the taxes, it is contended, the greater the pressure on the public to consume less gasoline. Thus, we could expect immediate and drastic reduction in gasoline use -- greater than that which would occur under the President's program.

But, such a program would have other immediate drastic effects:

Recreation, tourism, travel -- all would be hard hit. So would hotels, restaurants, and similar businesses. The auto industry has been severely hurt already, with several hundred thousand of its employees laid off or on indefinite leaves, and it would be further damaged if gasoline taxes are increased sharply. There undoubtedly will be changes in the auto industry -- smaller, lighter cars better efficiency, and other innovations -- but we cannot do this overnight without serious dislocations to workers and the national economy.

The long list of those affected in an inequitable manner under rationing would be repeated for the most part under direct gasoline taxation:

Rural Americans, even those in suburbs, who need to drive longer distances would be hard hit. The cost of farm operations rise significantly. Low income persons who needed to drive long distances to work could not afford to pay 30... 40... 50 cents more for each gallon of gasoline without extreme sacrifice at home. Innumerable examples of such hardship would be found.

And in the end, the nation would not have advanced toward national goals. The President alone has proposed a total national energy and economic program -- including assistance to low income families facing higher energy costs.

The President's program provides incentives for conservation of all forms of energy, not just gasoline. If energy problems were limited to gasoline supply and price, direct taxation or even rationing might be useful answers.

But our energy problems are much more widespread, and those who attempt to solve the entire problem by limiting gasoline consumption alone do nothing to provide incentives for non-drivers to save energy, or to encourage the expansion of domestic energy production which will be essential if we are to meet the challenge of regaining our national energy self-reliance.

The President's proposals are balanced to meet the needs of the short-term, the mid-term, and the long-term to limit energy use now and build the foundation for future domestic energy supplies to meet our own needs.

ENERGY TAXES AND INCOME TAX REFUNDS TO CONSUMERS -- WHY BOTH ARE NECESSARY

There are clear and important economic and energy-related reasons why imposing new energy taxes and then refunding that money to consumers in the form of income tax rebates and permanent tax reform is not simply a "shuffling" of money from one pocket to another.

One of the principal objectives of the President's energy and economic program is to reduce consumption of energy, to allow the country to begin to reduce imports of oil and the massive outflow of dollars to apy for that oil.

The quickest, most effective, and fairest way to encourage energy conservation is to raise the price consumers must pay for energy in all forms. There is no completely painless way to reduce energy demand, but raising prices and letting the marketplace determine demand is far preferable to the principal alternatives of rationing or allocation of scarce energy supplies.

Increasing energy taxes is the most feasible way to increase energy prices, and in turn dampen demand. But, to avoid undue economic burdens on consumers as a result of the increased energy taxes, the President has proposed a plan for a one-time tax rebate and a longer-term income tax reform which will equitably redistribute the funds collected from energy taxes to consumers.

Higher costs for energy will affect low-income citizens most severely, and the income tax rebate and reform provisions proposed would benefit lower-income families and individuals most.

The net result of both the higher energy taxes and the income tax proposals would be to give the lowest-income levels an actual increase in spendable income, while middle-income taxpayers would come out about even, and those at the highest income levels would pay more, but still not an unbearably large additional tax burden.

All income levels will have increased incentives to conserve energy, and the additional real income from revised income tax schedules, especially to lower and middle- income taxpayers, will restore at least part of the erosion in purchasing power resulting from inflation.

The national need is to conserve energy and halt the growth of oil imports, while minimizing the adverse impacts on the general public. The President's program accomplishes both these aims.

EFFECT OF THE PRESIDENT'S ENERGY PROGRAM ON THE NORTHEAST

The President's program to bring about effective energy conservation now and over the next several years through a system of oil import fees will result in an increase in energy costs for consumers throughout the country. However, the effective increase for New England residents will be about the same as that for the rest of the country, or even slightly less than the effect felt by other regions.

The overall program anticipated regional imbalances in costs, largely because some areas -- particularly New England and the Northeast states, import a great deal of refined petroleum products to meet their energy needs, while other areas are dependent on imported crude refined in domestic facilities.

The President's import fee plan provides for much lower import fee impact on petroleum products, to balance the costs of areas importing products with those sections of the country using imported crude oil.

The import fee on all crude oil and petroleum products would rise by $1 per barrel on February 1, by an additional $1 per barrel on March 1, and by another $1 per barrel on April 1, for a total increase of $3 per barrel.

However, a system of rebates would lessen the effective fee on imports of petroleum products. The end result will be an effective fee on product imports of 60¢ per barrel on March 1, and $1.20 per barrel on April 1, with no increase in fees for products in February.

This would give a temporary price break to New England consumers, and the full effect of the product import fees would not begin to take hold until near the end of the winter season, during which the Northeast states use much of their imported heating oil.

And as long as the import fee program lasts, the Federal Energy Administration will continue to spread price increases on crude oil among all refiners, to minimize regional cost differences resulting from different rations of dependence on imported crude oil.

A program now in effect allows all refiners equal access to available supplies of both "old" oil at lower prices, and "new" oil at substantially higher prices. The effect is to make all refiners' crude costs as nearly equal as possible, maintaining competition and minimizing regional price variations.

If the President's proposal for removal of price controls on domestic crude oil production is accompanied by Congressional action to establish a uniform $2 per barrel fee on all imported crude oil and products, the added costs of energy would be equalized throughout the country.

Many areas of the country use substantially more motor gasoline than the New England states, so the impact of increased import fees on crude oil refined into gasoline in this country would not be as great in those states as elsewhere in the country.

More permanent solutions to the energy problems of the Northeast have been proposed by the President. Of primary importance is the leasing of Federally-controlled areas on the Outer Continental Shelf off the East Coast, to allow oil and gas producers to conduct the necessary exploration work to find out if significant oil and gas reserves do in fact exist under the Atlantic Ocean.

If they do, production can begin within the mid-term time frame of the President's program -- 1975-1985 -- and supplies discovered off the East Coast will be far closer to Eastern markets and far less costly to transport to consumers than the imports and production from traditional Southwestern fields upon which the Northeast must now depend.

The President has proposed a comprehensive energy and economic plan to cope with our energy supply problems in the short run and solve them in the long run, while maintaining the health of our economy. The time for action on these proposals is clearly now, and delay only aggravates the problems confronting the country.

However, eight Northeastern states (nine if Delaware joins the suit) have undertaken court action to block the President's proposals for import fees on crude oil and petroleum products.

The fact remains that no rational, effective, alternative program has been proposed to deal with our energy problems. The President's overall program is the result of detailed analysis of the country's energy problems and prospects, and it represents the only total energy policy program ever put forth for this country.

The program is a carefully balanced combination of actions to encourage energy conservation now -- the only way to limit our oil imports over the next few years, and to encourage the maximum possible developement of domestic energy resources to meet our future energy needs from secure sources within our own control.

Now is the time for action, not delay, and in the absence of any alternative program to approach all our energy and economic problems, the President's proposals remain the only ones made so far.

The President has requested urgent action from Congress on his energy and economic package. He has stated clearly that the quickest possible approval of the entire overall objectives is imperative to the economic viability of the country. He has further indicated that whatever "fine-tuning" is necessary to meet the requirements and special problems of various regions or groups of citizens can be done later, once the basic actions are started, and as the nation progresses toward energy solutions.

TAX REDUCTIONS VERSUS HIGHER FEDERAL SPENDING

The President has proposed tax reduction combined with restraints on new Federal spending programs, rather than no tax action and higher Federal spending, for several reasons.

The basic aim of the President's program is to restore a healthy economy for the country, and the proposals for tax rebates and income tax reductions are designed to do this in the most effective way.

Tax reductions are intended to provide consumers with greater disposable income, and corporations with investment incentives, to provide the quickest possible recovery from the economy's recession.

But, unless Federal spending programs are brought under control, balance in the Federal budget cannot be restored as the economy recovers. Continued large Federal deficits after the economy recovers from the recession would fuel inflation then.

Temporary tax reduction now will provide prompt assistance in fighting the recession, giving more purchasing power to individuals, creating more jobs through corporate investment tax credits, and stimulating production and increased supply to guard against future inflation.

The open marketplace has traditionally been the most effective way of channeling additional spending power into the economy, rather that having the Government make greater spending decisions.

The large Federal deficits currently being experienced and projected for the short-range future are caused partly by reduced tax revenues resulting from the recession, partly by temporary higher outlays for unemployment compensation, again resulting from the recession, and -- in the coming several years -- partly by Federal projects to expand job opportunities and for energy development.

The deficits caused by all these factors, with the exception of Federal expenditures for energy projects, will be minimized with the recovery of the economy stimulated by temporary tax reductions, and a healthier economy will enable private industry to fund a greater share of energy projects without Federal assistance.

New Federal spending projects now would require higher taxes later to restore balance in the budget. To encourage higher output and employment, and a greater supply of goods and services, it is imperative to avoid taxes any higher than those already caused by inflation.

Lower taxes are necessary now to spur economic recovery, and the President has proposed a responsible program of restricted Government expenditures to allow recovery from the recession without jeopardizing future economic health.

TAX REFORM

Q. Why didn't the President come up with a meaningful tax-reform program?

A. We submitted a major tax reform package to Congress in April of 1973--nearly two years ago. It dealt comprehensively with such things as tax shelters, the minimum tax, simplification and the taxation of foreign income.

Congress has not yet acted on it. The Ways and Means Committee almost got the legislation ready for presentation to the last Congress, but didn't quite make it.

At this time, we need a prompt and effective stimulus to deal with the economic situation, and that should not be impeded by tying it to tax reform, which is lengthy and time consuming.

Congress intends to return to tax reform later this year, and to consider the earlier proposals. We shall probably also have additional proposals at that time.

TAX REBATE

Q. Won't the $16 billion tax rebate proposed by the President cause an increase in the inflation rate?

A. 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 increased output with only a slight impact on prices.

Whatever the impact of this tax cut during 1975, the most important thing to remember is that it is temporary. After the economy gets well into recovery, stimulus will have been removed and there will be no lasting effect on the inflation rate.

FINANCIAL SUPPORT FOR BUSINESS

Q. Why has Administration not proposed a program to provide financial support for major firms or industries similar to the Reconstruction Finance Corporation?

A. The programs that the President has proposed in his State of the Union message are designed to come to grips with the energy problem and to support recovery from the recession. A healthy recovery in the economy will reduce the potential need for special programs providing emergency financial support for business and industry.

We do not at present believe that a program for emergency financial support of business enterprises is necessary. However, if circumstances develop that suggest such a program is necessary, the Administration will be prepared to act.

EFFECT ON INFLATION

Q. The Administration has indicated that higher world oil prices set by the cartel have contributed strongly to the current inflation. Won't the energy program have the same effect?

A. The effect of the energy price increases on inflation is expected to be different now than when oil prices were raised at the time of the embargo in 1973. Demand was strong and shortages were widespread at that time, while demand is now weak and there are no shortages. In addition, the increased cost will be returned through restructuring the tax system and will not be shipped abroad aa a permanent levy on the American economy.

ECONOMIC ACTIVITY

Q. Won't the President's energy proposals tend to depress economic activity at a time of recession and low business and public confidence?

A. Since the $30 billion in taxes and fees is returned to the economy in the form of a permanent tax reduction and non-tax payments, the aggregate effect on economic activity should be neutral. Adjustment to higher energy costs will impose some strains. These strains will be offset, however, by the improvement in business confidence that should result from prompt action which showed the people that the country has begun to move on our long-term energy problem.

Delay in moving forward with a comprehensive energy conservation program, or choice of a system of allocation or rationing to conserve energy, would only postpone the problem, reduce business confidence and delay a healthy and constructive recovery from the current recession.

The energy problem has contributed strongly to the current recession and decline in confidence; the energy issue must be faced squarely and acted upon promptly to restore and sustain improved confidence.

WINDFALL PROFITS TAX

Q. If the Windfall Profits Tax phases out over time, will it discourage current production or encourage the holdback of production until the tax declines?

A. No. The rate at which the tax declines is slow enough that producers would be better off to produce and sell the oil, pay the tax and reinvest the proceeds than to leave the oil in the ground.

WINDFALL PROFITS TAX

Q. How will the Windfall Profits Tax work?

A. The Windfall Profits Tax on crude oil imposes a graduated excise tax (15% to 90%) on the excess of the sales price per barrel of oil over an amount called the adjusted base price, which is set at a level intended to permit a normal, but not a windfall profit. For each month the tax is effective, the adjusted base price increases, thereby reducing the amount subject to tax.

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 and 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

Windfall Profits Tax - (con't)

supplies will be coming on line three to five years from now.

To be certain that high cost oil producers never have to pay more in taxes than they have in profits, the tax will never be imposed on more than 75% of the taxable income from the property that would exist if there were no Windfall Profits Tax.

PRICES

Q. Is there any hope for prices to come down?

A. The rate of wholesale price increases has been improving for several months, particularly for industrial raw materials. Shortages are no longer a problem and we currently have the capability to produce goods. The sluggish rate of business activity has also put downward pressures on retail prices, and mortgage interest rates are slowly declining as the supply of savings in thrift institutions improves. Most of the price distortions caused by controls and the quadrupling of oil prices last year have worked through the system. The rate of inflation should continue to gradually improve in coming months but the fight against inflation must be continued.

NORTHEAST

Q. How do you think the President's program takes care of the special hardships it creastes within various areas of the country?

A. New England is the area that is bound to feel the greatest impact from increased prices on imported petroleum. That is because, this section of the country depends mostly on foreign oil for energy. As a result, these States have felt the greatest effect of the recent oil price increases and are particularly concerned with any additional increases. We are making a special effort to insure that the oil fee proclamation does not impact more heavily upon the Northeast than upon any other part of the country. That is the reason why the President has directed a lower tariff for the special kind of oil which is imported and used by Northeastern utilities.

AIRLINE INDUSTRY

Q. Several airline executives have said that the President's energy proposals will require a 20 to 30 percent increase in airline fares. They also indicate that several airlines may not be able to survive financially because of the increased cost of oil due to the taxes and tariffs. Does the President plan to give the airlines special dispensation?

A. We recognize that the airlines do have a legitimate problem. Their costs will go up very substantially. Many of the airlines are currently in financial difficulty, and thus, they will not fully benefit from the President's proposed tax level decrease.

We are taking a hard look at several alternatives to help the airlines cope with increased costs, and the President has not ruled out any options. We may end up proposing specific rebate mechanisms for the airlines. Another alternative we are looking at is a method to reduce the number of empty seats on airline flights. Increasing the number of passengers per plane will save energy, will help the airlines financial position and, importantly, it can result in lower fares.

Airline Industry - (con't)

Top economists and other advisors point out that even if all these costs had to be taken up in increased fares, it would be nowhere near as large as the number you have used. It would be closer to 10 to 15 percent.

Remember that the airlines consume over a billion gallons of fuel every year. It is essential that they do their part to reach our energy conservation goals. They must conserve along with the rest of us.

FINANCIAL MARKETS

Q. Can the large Federal budget deficits in the next 18 months be financed through borrowing by the Treasury without straining financial markets and raising interest rates?

A. There is some difference of opinion on this question. Most economists believe that the deficits can be financed without strain because private credit demands typically decline sharply during a recession and remain low until recovery is well under way.

Most financial market observers believe that the projected deficits will cause some moderate strains on the market and that larger deficits, resulting from either larger tax reductions than proposed or failure to control Federal spending, could quickly clog up the private capital markets and create havoc in the financial system.

Presently private demands on financial markets are heavier than normal, with the financing of oil consumption here and abroad and the extraordinarily large external financing needs of business. Moreover, new equity financing is not a feasible source of funds with a depressed stock market, so there is an unusually high demand for new long-term debt financing.

Financial Markets - (con't)

There are real risks that the size of the combined private and Government financing demands may result either in cutting off some marginal borrowers from sources of funds or in pressures on the Federal Reserve System to monetize the Federal debt and thereby create future inflationary problems of even greater magnitude than we presently have.

GOVERNMENT SPENDING

Q. Why has the President decided that there should not be any new spending programs in FY 1976?

A. We must stop the runaway increase in government spending and the large deficits. Federal spending will actually jump $80 billion from July 1974 through FY 1976. Much of this increase is caused by programs to aid the unemployed and to expand benefit payments of many social programs. But we need to carefully consider our future priorities. When we close the books on FY 1975 we will have reported a Federal deficit in fourteen out of the last fifteen years. Over this period we will have accumulated $159 billion of budget deficits and another $180 billion will have been borrowed for Federal programs not included in the budget. When the Federal Government requires so much financing it makes it hard for home buyers, consumers and businesses to get the money they need to keep our economy growing. The President is determined to regain control of Federal programs and the first step is to stop taking on new burdens, which we cannot pay for, until we can determine our future priorities.

CREDIT ALLOCATION

Q. Why was credit allocation not proposed to channel funds away from speculative and inflationary uses, such as conglomerate takeover and gambling in foreign currencies and gold, toward vital areas such as housing and small businesses?

A. Several reasons can be given:

It would mean imposing government judgment on what has traditionally been "marketplace judgment"; in practice it is extremely difficult to separate "vital" uses from those that are less essential.

Credit allocation is inequitable; some borrowers could not obtain funds at any price and serious hardship would be created for them while others may obtain larger loans than needed.

Borrowed funds can be switched to different uses or substituted for internal funds; "end uses" of credit often cannot be controlled even under a rigid allocation system.

The amount of credit that is used for corporate mergers, speculation and similar activity is an extremely small fraction of total credit in the economy; cutting off credit completely in those areas would release only miniscule funds for other uses.

While mandatory allocation of credit is highly undesirable and inequitable, special programs that give preference have been used, for example in housing, and banks have also been encouraged to examine credit uses and needs carefully.

AUTOMOBILE FUEL EFFICIENCY

Q. Following your announced agreement with the automobile manufacturers to improve fuel efficiency by modifying pollution controls, the DOT, FEA and EPA stated jointly that they believe the Clean Air Act standards of 1977 could be met, and still achieve a 40% fuel economy increase by 1980. Why is there this discrepancy within the Executive Branch, and who are we to believe?

A. There really is no discrepancy. There are a number of reports prepared in the Executive Branch which indicate that the agencies concerned (EPA, DOT and FEA) believe that, under the most optimistic circumstances, the current Clean Air Act standards for 1977 could be met and still achieve a 40% fuel economy increase by 1980. However, attempting to meet those standards would involve high dollar and energy costs. Our most optimistic assessments of the technology involved show that:

- the initial cost of the cars would be between 5% and 10% higher-that is $200 and $400.

- there would be a large fuel economy loss between now and 1980 (when improved technology might be available). For example, the fuel economy loss in 1977 would be at least 10%.

- allowing the current Clean Air Act standards for 1977 to go into effect would produce very little improvement in air quality because 1975 nationwide standards are already very low compared to previous years.

This optimistic example illustrates the important point that achieving any particular auto emission standards involves costs -- in terms of initial automobile price and in fuel economy. Less optimistic assessments of the technology that will be available by 1980 indicate that the Clean Air Act standards for 1977 would involve even higher initial costs and fuel penalties.

The task at hand for the Nation is to decide on the best balance between improved air quality in the cities that have an auto-related pollution problem and the price that will be paid nationwide to meet auto emission standards.

TAX REBATE

Q. Speaker Albert has indicated that the proposed 12 precent rebate on 1974 taxes is unfair because 43 percent of the rebate would go to the wealthiest 17 percent of the population. If this is true, doesn't this give an unfair share of the tax reduction to high income taxpayers?

A. The numbers Speaker Albert was using do not correspond to our estimates, but the point he made is an important one and deserves clarification.

Under the proposal, every taxpayer would get back 12 percent of the taxes that he paid, except that high-bracket taxpayers would get less than 12 percent because of the $1,000 maximum.

Under our very progressive tax system, most of our income taxes are paid by a relatively few individuals. Any tax refund that is even roughly proportional to what people have paid will give a substantial amount to those who have, in fact, paid the most.

Returns with more than $20,000 of adjusted gross income account for only 12 percent of the total returns and only 35 percent of total incomes, but they pay 52 percent of all of the individual income taxes collected. Under the proposals, they would receive only 43 percent of the income.

Roughly 80 percent of the total rebate would go to taxpayers with adjusted gross incomes less than $30,000; and roughly 90 percent to taxpayers with adjusted gross incomes less than $40,000.

The share of the total tax burden paid by a relatively small proportion of higher income taxpayers will, in addition, increase further under the other component of the President's program of tax reduction. The permanent tax reductions that he has proposed will benefit mainly low- and middle-income taxpayers through an increase in the minimum standard deduction and reductions in tax rates in the low- and middle-income range of the tax schedule.

FEDERAL BUDGET DEFICITS

Q. Is the Administration seriously concerned about the huge budget deficits for fiscal years 1975 and 1976?

A. The Administration is particularly concerned about the prospective large deficits to the extent that they are a result of excessive growth in long-term Federal spending programs. That is why the President has proposed actions to limit the growth in existing spending programs and asked for a moratorium on major new programs. Bringing the Federal budget into balance when the economy recovers will require close control over the trend of Federal spending. Continuation of budget deficits into a period of high employment would cause renewed inflation.

A major component of the large deficits in the immediate future, however, is a result of cyclical increases in unemployment insurance payments and reduced tax revenues. Increases in the deficit from these cyclical sources help to support recovery from the recession and their influence will phase out as the economy recovers. Thus, a temporarily larger Federal budget deficit contributes to stability in the economy under current conditions, but bringing the budget into balance when the economy becomes more prosperous is essential and can only be achieved by restraining long-term Federal spending programs or raising taxes.