**3/16/79**

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| --- | --- | --- | --- |
| ~~memo~~ | ~~From Owen to The PResident (one page) re:Domestic Oil Price~~ OPENED 8/9/03 | ~~3/16/79~~ | ~~A~~ |
| memo | From Brzezinski to The President (one page) re: Irish Prime Minister | 3/15/79 | A |

FILE LOCATION

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CONFIDENTIAL

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

CONFIDENTIAL

March 16, 1979

INFORMATION

C

MEMORANDUM FOR: THE PRESIDENT

FROM: HENRY OWEN HO

SUBJECT: Domestic Oil Price (u)

While I am in Tokyo, you may be presented with a memorandum offering three options on domestic crude oil pricing. My preference is for the middle option: phased decontrol by October 1981. I base this recommendation not only on the Bonn Summit pledge that triggered German stimulus action but, more importantly, on the need to reduce our dependence on the oil cartel, bring energy supply and demand into better balance, and provide the Saudis with a good argument for price restraint in OPEC councils. (C)

A more gradual approach to domestic oil price decontrol would involve slight benefit (well within the margin of error), in terms of the CPI, and yet would require extension of price control legislation beyond September 1981. It would probably be viewed by the foreign exchange markets as an inadequate response to the problem. Hence it would weaken the dollar -- thus increasing US inflation by raising import prices and discouraging higher oil production by the Saudis. (C)

An energy speech that declares a firm and clear oil price decision would have an additional advantage: It would show that we are addressing economic, as well as energy, problems with the tough realism that the times require. There isn't much we can do to change the bleak US inflation prospect immediately ahead; but we can show that we intend to stick with needed remedial policies, however painful this may be. A tough energy speech would help to convey this signal. (C)

After taking power in dark times in 1940, Churchill turned down a Foreign Office proposal for a balanced response to German peace feelers, and substituted a more brutal reply, with these words: "The ideas set forth in the Foreign Office memo appear to me to err in trying to be too clever and to enter into refinements of policy unsuited to the . . . time". In a difficult period, a clear simple policy is most likely to command public support, and to elicit needed sacrifice. (U)



CONFIDENTIAL
Review on March 16, 1985

CONFIDENTIAL

THE WHITE HOUSE

WASHINGTON

March 16, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: FRED KAHN



SUBJECT: Anti-inflation policy

I associate myself fully with the back-up memo "Policy Response to Recent Economic Developments" that Charlie Schultze has prepared for you. It generally reflects the combined opinions of Stu, Mike Blumenthal, Jim McIntyre, and me.

I append this brief supplementary statement of my own views because they diverge slightly in emphasis from the ones in Charlie's memo. The principal difference is my strong feeling that, particularly because of the urgent importance of continued wage restraint, the steps we take must be framed as much as possible in a way to appeal to organized labor and the other traditional Democratic constituencies.

1. The price standards are close to futile in an overheated economy. They are being ignored by many businesses (except the largest companies) and profits are booming. I will defer to Messrs. Blumenthal, Schultze and Miller on the benefits and risks of general monetary restraint, but without some action the price standards are in imminent danger of collapsing.

2. Without price restraint, there is no chance that labor will continue to accept wage increases well below the expected rise in the cost of living. ~~It now appears likely~~ that Real Wage Insurance will not be enacted. We must consider other measures, such as the ones outlined in Charlie's memo and this one.

3. I have been a strong advocate of selective, direct credit controls because:

   a. to the extent they work they reduce the need for higher interest rates;

b. they will appeal also to the widespread recognition that consumers are over-committed and must exercise restraint; and

c. they reserve credit as much as possible for more productive (or favored) uses.

But by the same token I feel we have not been willing yet to explore as intensively as I think we should the possibility of using selective controls to insulate the flow of credit to uses that will appeal to the traditional Democratic constituencies. They are particularly interested in assuring the flow of credit (and holding down interest costs) to modestly-priced housing, cooperative housing, and "sweat equity" rehabilitation housing projects. We will be in a much better position if, while taking strong restraining measures, we can say we are at the same time protecting housing for people of modest means.

4. I see your decision on energy policy as being intimately tied to our anti-inflation proposals, in that both must call for restraint by all of us, facing up to the realities, etc.

By the same token, however, I urge you to insist DOE explore as fully as they can the possibility of using the present import fees or some other sort of energy taxes (whether justified in terms of taking away some of the windfall profits or as encouraging further conservation) to insulate poor people from the worst effects of rapidly rising energy prices.

5. I believe it is going to be necessary for us to have very heavy Presidential involvement in the anti-inflation program in the next few months. Anne Wexler, Stuart and I have a memo coming to you that contains a suggested program.

6. I have had continuous difficulty getting on time reports and recommendations for actions in the major sectors -- food, housing, medical care, energy. This is because I have to rely on staff work largely from other EOP agencies -- i.e., from people who do not work for me. It would be helpful therefore if you would insist on a rigid, tight time schedule for delivering these to you.

7. I fear you are going to have to keep drumming on all agencies, EOP and Cabinet, about the urgent need to avoid all inflationary special-interest, business-as-usual policies, however small. Please remember that

every single action of this kind is always small in relation to the national aggregates; but that taken together they add up to continued intolerable inflation.

8. I must give you my opinion, when I add all these up, that they will not suffice to preserve the 7 percent wage standard. Our threats of deregulation may possibly help to hold the Teamsters' settlement within striking distance, especially considering they can, under the standards, get 8 percent in the first year and can possibly incorporate a provision permitting reopening of the contract if the standards change. But I do not believe these actions will hold the rubber workers, whose negotiations begin next month.

I believe therefore you should instruct your advisors to consider more radical measures that might help hold the line.

C

EYES ONLY

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

March 17, 1979

MEMORANDUM FOR THE PRESIDENT



FROM: Charlie Schultze CLS

Subject: Personal Income in February

On Monday (March 19) at 10:30 a.m., the Commerce Department will release its estimate of personal income in February. Total personal income rose 0.6 percent, or at an annual rate of 7.6 percent, a moderate gain. In January, personal income had risen 0.3 percent.

The January rise in personal income was held down by a drop in farm income (deficiency payments had inflated the December figure) and by an increase in social security payroll taxes. In February, the rise in personal income was moderate because wage rate gains were moderate (after the January rise in the minimum wage).

These special influences can be allowed for by computing the increase in personal income from December to February excluding farm income and personal contributions to social security. This total increases over the two months at a 9.9 percent annual rate -- a healthy, though not spectacular, gain.

In my memo to you yesterday for the Camp David meeting Monday, I expressed concern that the economy may be growing too fast early this year. You may well wonder about this judgment in light of the fact that a number of monthly economic indicators have lately seemed relatively weak.

- Housing starts dropped sharply in both January and February.
- Retail sales, adjusted for inflation, were down somewhat in January and February.
- Growth in industrial production in the first two months of the year was modest.
- The index of leading economic indicators has declined three months in a row.

Other economic statistics, however, are showing great strength.

- o Employment rose sharply in both January and February.
- o Total hours worked in durable goods manufacturing are increasing at a rapid clip.
- o New orders for durable goods, especially capital goods, are exceptionally strong.
- o Backlogs of unfilled orders are moving up briskly.

Early next week, the Commerce Department will circulate within government its very tentative estimate of real GNP growth in the first quarter. It will add to the confusion. Late yesterday, I learned that their estimate will probably be less than 2 percent. Net exports will be down considerably; residential construction will also show a decline; and the rise in real personal consumption expenditures will be small. Adverse weather may have reduced the annual rate of real GNP growth this quarter by as much as 1-1/4 percent. You will remember that real GNP did not increase at all in the first quarter of last year.

As we interpret incoming economic statistics, we have to exercise a substantial amount of judgment as to what each piece of information means and how it fits into the jigsaw puzzle. Let me try to give you a broad assessment of the present confusing state of affairs.

In the durable goods industries, a boom is underway, centered in orders and production of capital goods. However, the boom is also being fueled by strong demands to build inventories, reflecting the strong pace of consumer spending in the fourth quarter, growing fears of shortages, and some elements of speculation because of expected price increases.

In consumer spending and in housing, on the other hand, there has been a weakening trend early this year. The question is whether it will last. Adverse weather has clearly been a large factor in the drop in housing, which could rebound in March and April. Not all of the decline in housing starts is weather related, however. For consumer spending, some retrenchment after the large runup of retail sales late last year was to be expected. There are many examples in the past of temporary declines in consumer buying that were followed by a strong renewed upswing.

Weighing all the evidence -- including qualitative comments we have received from a telephone survey we conducted recently, as well as the statistics -- my judgment is that we still face the danger of excessive strength in important parts of the economy in the period immediately ahead. Unless the economy slows -- especially in the industrial sector -- and price pressures moderate over the next few months, the anti-inflation program is unlikely to survive, and imbalances are likely to develop that will make it difficult to avoid a recession.

IMMEDIATE
PRECEDENCE

UNCLAS
CLASSIFICATION

FROM: BILL SIMON

TO: FRAN VOORDE
CAMP DAVID

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79 MAR 16 P 3: 39

THE WHITE HOUSE
WASHINGTON

3/16

Fran –

Please attach this memo behind the Charlie Schultze memo that was sent earlier.

Thanks,

Bill Simon

THE WHITE HOUSE

WASHINGTON

March 16, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: FRED KAHN Fred

SUBJECT: Anti-inflation policy

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# Weekly Petroleum Situation Report

Energy Information Administration
March 16, 1979

Contents

## Highlights

- Domestic demand for all petroleum products for the four weeks ending March 9, 1979, averaged 20.7 million barrels per day, 1.5 percent higher than the 1978 level of 20.4 million barrels per day. Demand increased 6.0 percent over the 1977 mark. Demands for motor gasoline and distillate fuel oil were up 5.5 and 4.9 percent, respectively, from the comparable 1978 period. Residual fuel oil demand fell 1.2 percent from the 1978 level. All three products posted demand increases relative to 1977.

- Crude oil production was 1.3 percent higher than the 1978 mark, totaling 8.6 million barrels per day. NGL production, estimated at 1.5 million barrels per day, dropped 2.0 percent below the comparable 1978 level.

- Crude oil runs to stills averaged 14.1 million barrels per day. Refineries operated at 84.0 percent of capacity during the week ending March 2, 1979.

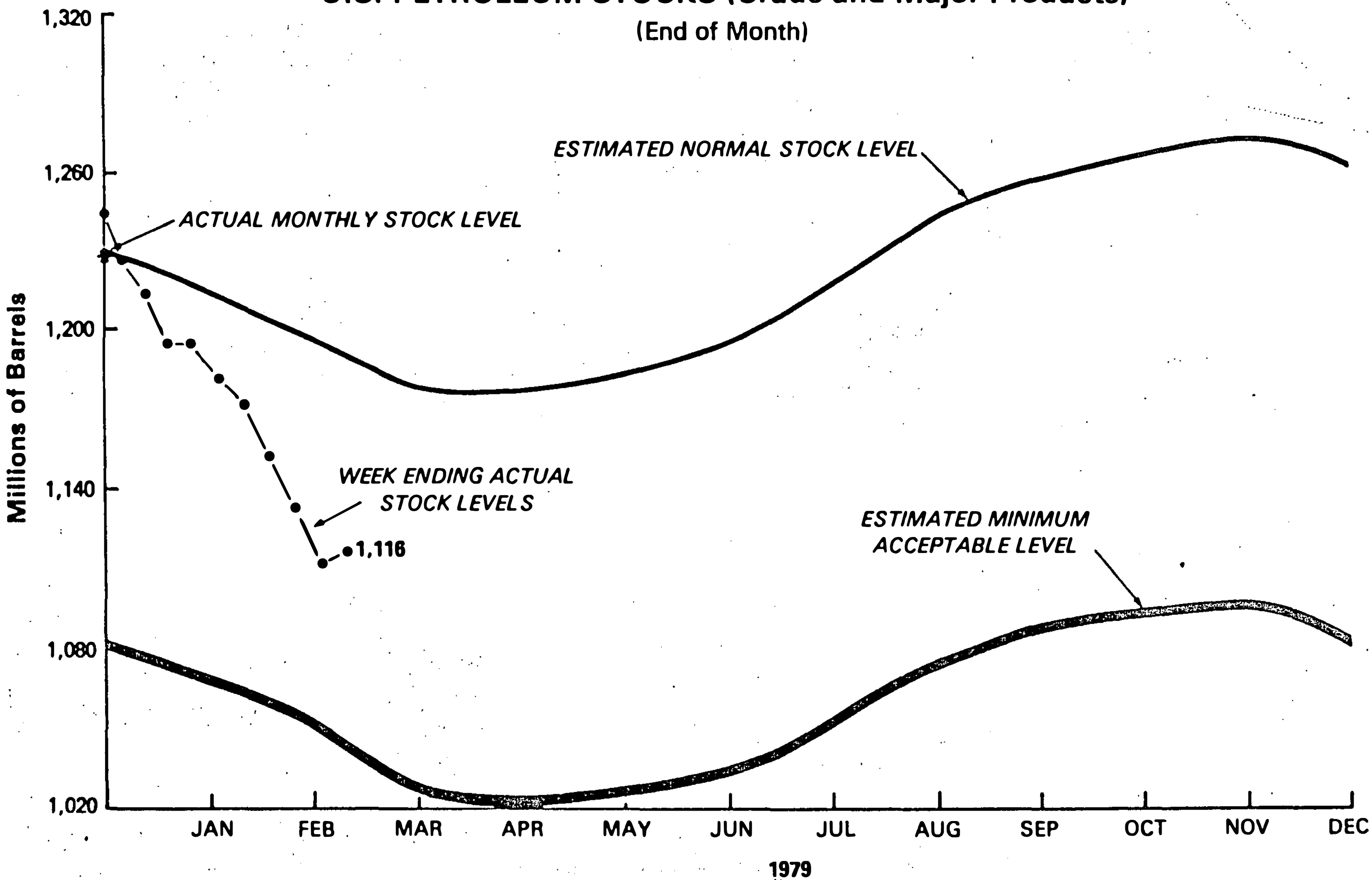
- Petroleum imports to the United States totaled 8.6 million barrels per day, up 6.6 percent over the 1978 level and down 12.2 percent from the 1977 mark. Crude imports for the four weeks ending March 9, 1979, up nearly 800 thousand barrels per day over last year, averaged 6.5 million barrels per day. Crude imports fell 3.1 percent from the four week ending period March 9, 1977. Imports of motor gasoline, distillate fuel oil, residual fuel oil, and jet fuel declined during the four week 1979 period compared with 1978. Motor gasoline imports declined 24.2 and 34.4 percent during 1979 from the 1978 and 1977 levels, respectively. Motor gasoline imports averaged 141 thousand barrels per day. Distillate fuel oil imports, averaging 196 thousand barrels per day during the four week ending period, dropped 2.4 percent below the 1978 level. Imports of residual fuel oil declined 10.7 and 19.2 percent below the 1978 and 1977 marks, respectively. Imports of jet fuel, averaging 76 thousand barrels per day, fell 3.8 percent below the 1978 mark.

- Stocks of crude oil and petroleum products, totaling 1,116 million barrels, fell 4.8 percent duirng the week ending March 9, 1979, from the comparable 1978 mark of 1,173 million barrels. Crude stocks fell 4.7 percent below the 1978 level, totaling 316.9 million barrels. Stocks of motor gasoline, distillate fuel oil, residual fuel oil, and jet fuel all declined. Motor gasoline stocks, totaling 252.3 million barrels, dropped 6.5 percent below the 1978 level. Distillate fuel oil stocks, totaling 123.4 million barrels, fell 23.2 percent below the 1978 mark. Residual fuel oil stocks and stocks of jet fuel declined 5.8 and 2.1 percent from 1978.

as of March 9, 1979

**U.S. PETROLEUM STOCKS (Crude and Major Products)**

(End of Month)




Source: Week ending average data: American Petroleum Institute (API), "Weekly Statistical Bulletin"; estimates through 1979: DOE Emergency Policy Council, Iranian Response Plan. December, 1978: Actual Monthly Data: EIA "Monthly Petroleum Statistics Report."

U.S. Petroleum Stocks (Crude and Major Products)
Summary
(Millions of Barrels)

Estimated Normal Level, and Estimated Minimum Acceptable
Level, by Month and by Quarter for 1979

| | | 12/29/78 | Jan. 79 | Feb. 79 | Mar. 79 | 1 Qtr. 79 | Apr. 79 | May 79 | Jun. 79 | 2 Qtr. 79 | Jul. 79 | Aug. 79 | Sep. 79 | 3 Qtr. 79 | Oct. 79 | Nov. 79 | Dec. 79 | 4 Qtr. 79 | 3/9/79 Actual |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Crude Oil | Normal | 320 | 321 | 321 | 322 | 322 | 323 | 324 | 325 | 325 | 326 | 327 | 327 | 327 | 328 | 329 | 330 | 330 | 317 |
| | Minimum | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 280 | |
| Gasoline | Normal | 250 | 255 | 257 | 254 | 254 | 252 | 247 | 237 | 237 | 235 | 232 | 232 | 232 | 237 | 247 | 252 | 252 | 252 |
| | Minimum | 223 | 231 | 233 | 230 | 230 | 227 | 222 | 211 | 211 | 208 | 204 | 204 | 204 | 209 | 219 | 223 | 223 | |
| Distillate | Normal | 200 | 180 | 162 | 147 | 147 | 145 | 152 | 170 | 170 | 190 | 215 | 228 | 228 | 228 | 223 | 207 | 207 | 123 |
| | Minimum | 174 | 156 | 139 | 119 | 119 | 117 | 123 | 140 | 140 | 160 | 184 | 197 | 197 | 196 | 191 | 174 | 174 | |
| Residual | Normal | 78 | 76 | 74 | 71 | 71 | 71 | 73 | 75 | 75 | 77 | 79 | 80 | 80 | 81 | 80 | 80 | 80 | 65 |
| | Minimum | 67 | 66 | 64 | 60 | 60 | 60 | 62 | 64 | 64 | 66 | 67 | 68 | 68 | 69 | 68 | 67 | 67 | |
| Jet Fuel | Normal | 36 | 33 | 34 | 35 | 35 | 36 | 37 | 38 | 38 | 38 | 37 | 37 | 37 | 37 | 37 | 37 | 37 | 32 |
| | Minimum | 31 | 29 | 29 | 30 | 30 | 31 | 32 | 33 | 33 | 33 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | |
| Unfinished Oils | Normal | 109 | 109 | 109 | 109 | 109 | 110 | 110 | 110 | 110 | 111 | 111 | 111 | 111 | 112 | 112 | 112 | 112 | 103 |
| | Minimum | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 96 | |
| Other Products | Normal | 238 | 241 | 241 | 241 | 241 | 241 | 240 | 240 | 240 | 241 | 242 | 243 | 243 | 244 | 245 | 245 | 245 | 224 |
| | Minimum | 212 | 212 | 213 | 214 | 214 | 213 | 212 | 211 | 211 | 211 | 212 | 212 | 212 | 212 | 212 | 212 | 212 | |
| Total | Normal | 1,231 | 1,215 | 1,198 | 1,179 | 1,179 | 1,178 | 1,183 | 1,195 | 1,195 | 1,218 | 1,243 | 1,258 | 1,258 | 1,267 | 1,273 | 1,263 | 1,263 | 1,116 |
| | Minimum | 1,083 | 1,070 | 1,054 | 1,029 | 1,029 | 1,024 | 1,027 | 1,035 | 1,035 | 1,054 | 1,075 | 1,089 | 1,089 | 1,094 | 1,098 | 1,084 | 1,084 | |

Petroleum Stocks (MB/D)

| | Week Ending | | | | | | | | | | Monthly |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1/5 | 1/12 | 1/19 | 1/26 | 2/2 | 2/9 | 2/16 | 2/23 | 3/2 | 3/9 | Dec. 1978 |
| Crude Oil | 306.2 | 304.5 | 298.0 | 298.5 | 299.6 | 299.3 | 302.7 | 305.3 | 307.8 | 316.9 | 314.5 |
| Gasoline | 244.3 | 245.5 | 252.0 | 260.8 | 258.4 | 264.1 | 265.3 | 259.5 | 255.7 | 252.3 | 237.2 |
| Distillate | 219.1 | 206.2 | 194.8 | 185.8 | 178.6 | 168.0 | 152.9 | 142.2 | 128.4 | 123.4 | 216.2 |
| Residual | 87.0 | 86.8 | 83.0 | 81.7 | 79.8 | 78.2 | 72.3 | 68.0 | 63.2 | 64.6 | 93.1 |
| Jet Fuel | 33.5 | 32.5 | 32.1 | 33.2 | 32.1 | 31.5 | 33.7 | 32.6 | 31.3 | 32.0 | 33.7 |
| Unfinished | 109.9 | 111.2 | 110.8 | 110.4 | 108.0 | 107.4 | 105.0 | 103.5 | 104.5 | 102.7 | 108.5 |
| Kerosene | 14.0 | 12.9 | 11.8 | 12.0 | 12.1 | 10.9 | 10.1 | 9.9 | 9.7 | 10.3 | 14.2 |
| Total 1/ | 1,237.1 | 1,222.7 | 1,205.6 | 1,205.5 | 1,191.7 | 1,182.5 | 1,154.3 | 1,133.3 | 1,114.7 | 1,116.3 | 1,229.0 |

1/ Weekly total includes an EIA estimate for all other oils, including aviation gasoline, natural gas liquids (including ethane), petrochemical feedstocks, special naphthas, lube oil, wax, coke, asphalt, road oil, and miscellaneous oils.

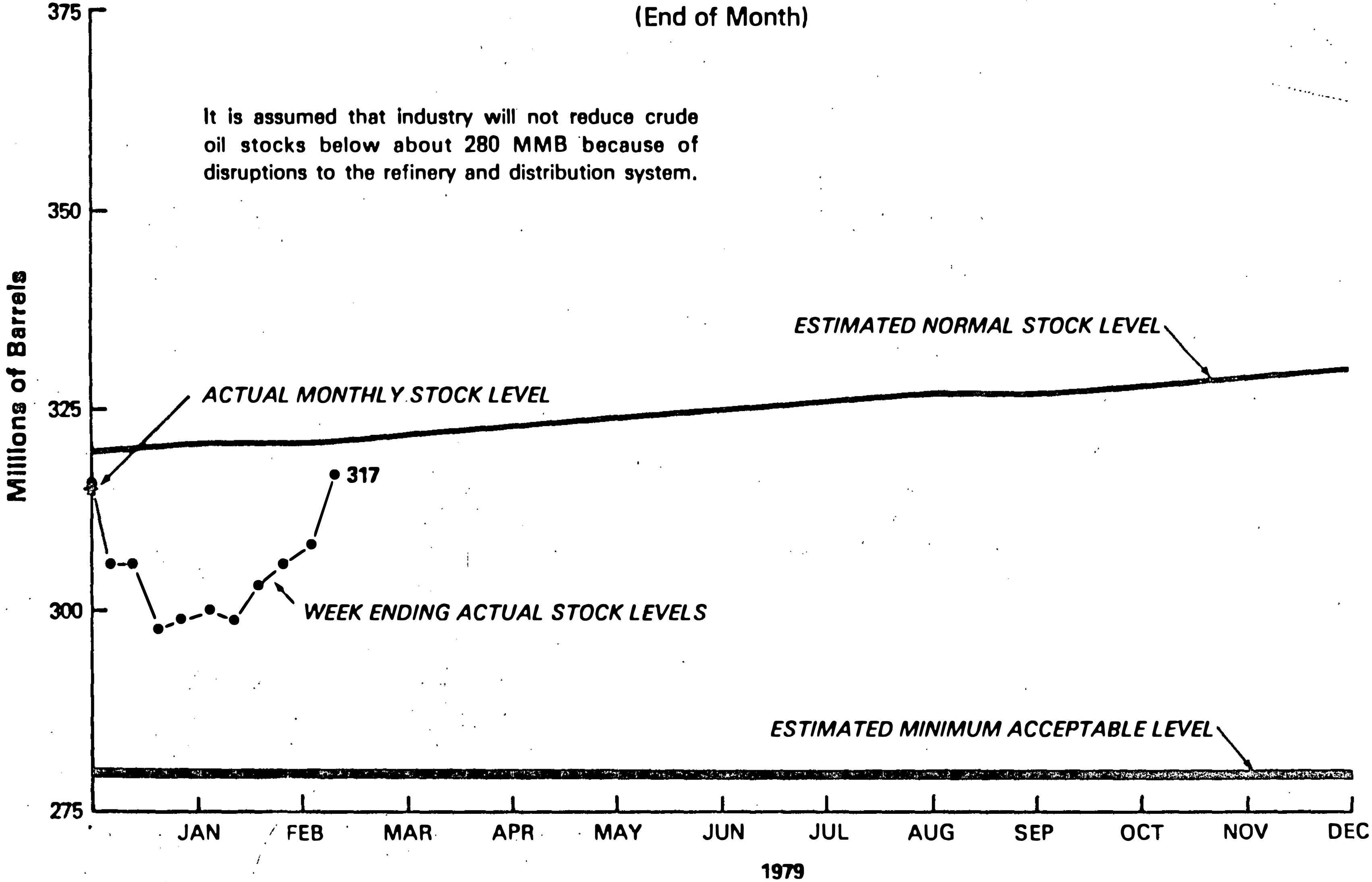
Source: Week Ending Data: American Petroleum Institute (API) "Weekly Statistical Bulletin".

Monthly Data: EIA "Monthly Petroleum Statistics Report".

as of March 9, 1979

## Crude Oil Stocks

(End of Month)

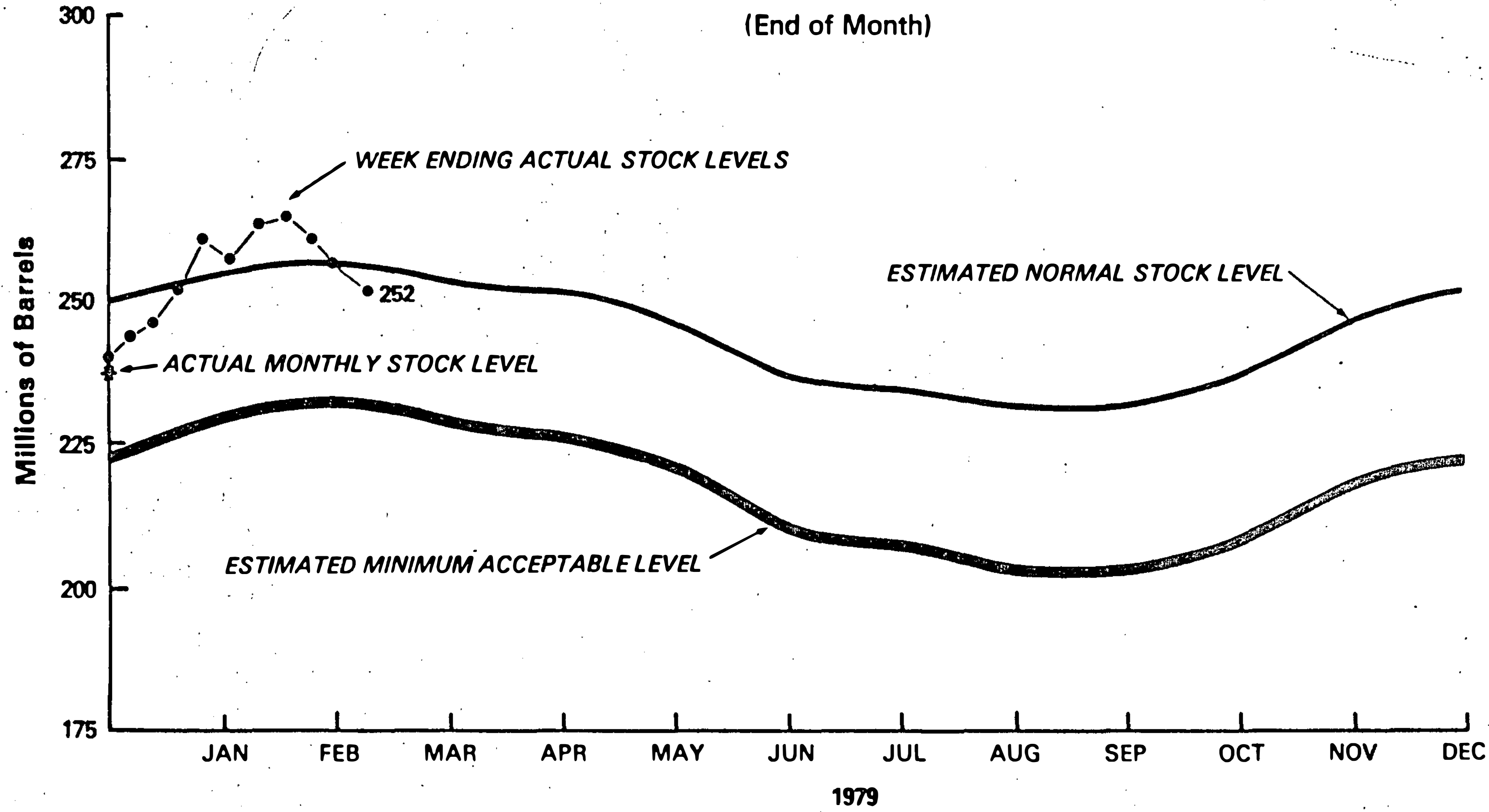



Source: Week ending average data: American Petroleum Institute (API), "Weekly Statistical Bulletin"; estimates through 1979: DOE Emergency Policy Council, Iranian Response Plan. December, 1978: Actual Monthly Data: EIA "Monthly Petroleum Statistics Report."

as of March 9, 1979

**Gasoline Stocks at Primary Level**

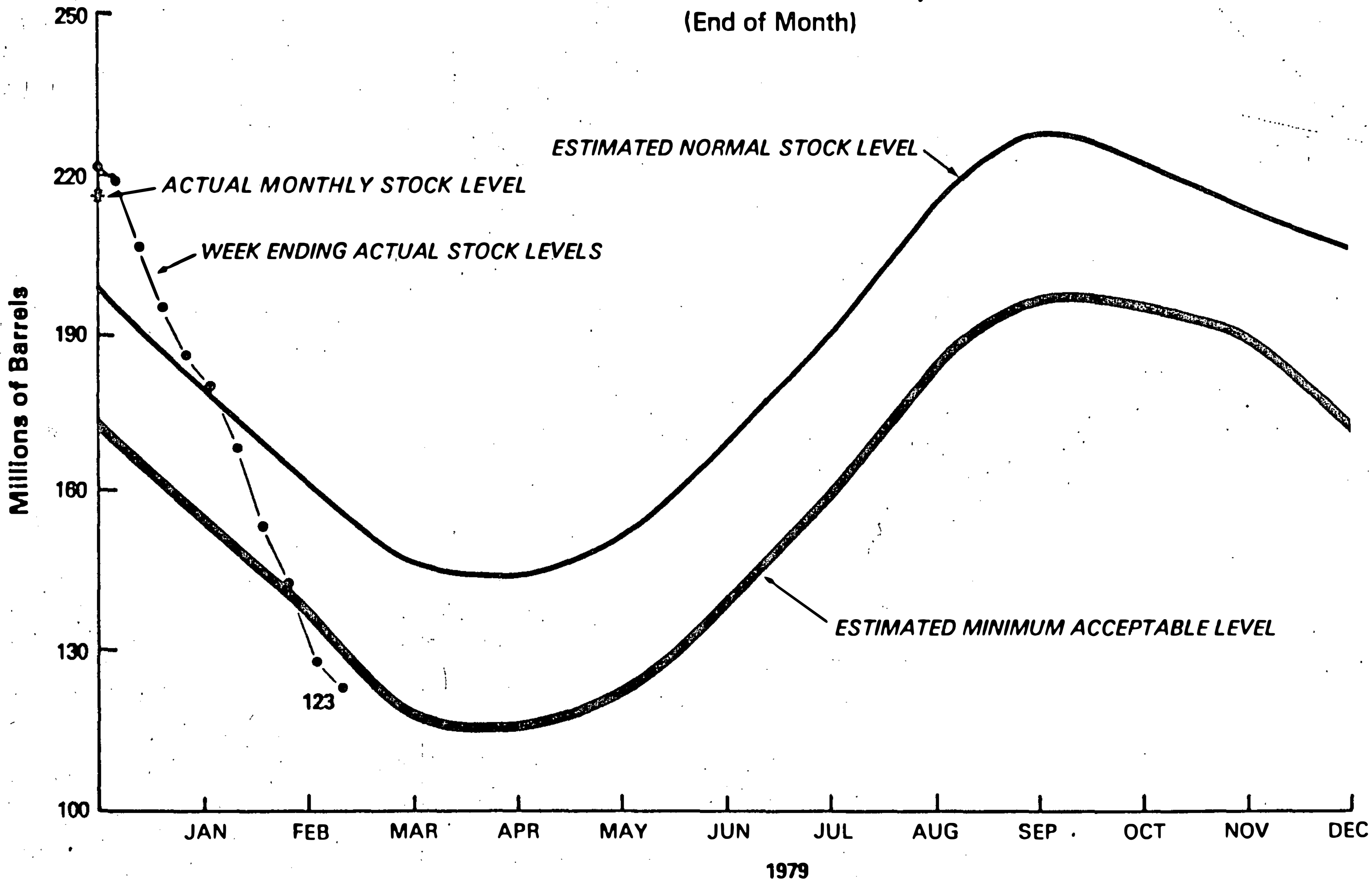
(End of Month)




Source: Week ending average data: American Petroleum Institute (API), "Weekly Statistical Bulletin"; estimates through 1979: DOE Emergency Policy Council, Iranian Response Plan. December, 1978: Actual Monthly Data: EIA "Monthly Petroleum Statistics Report."

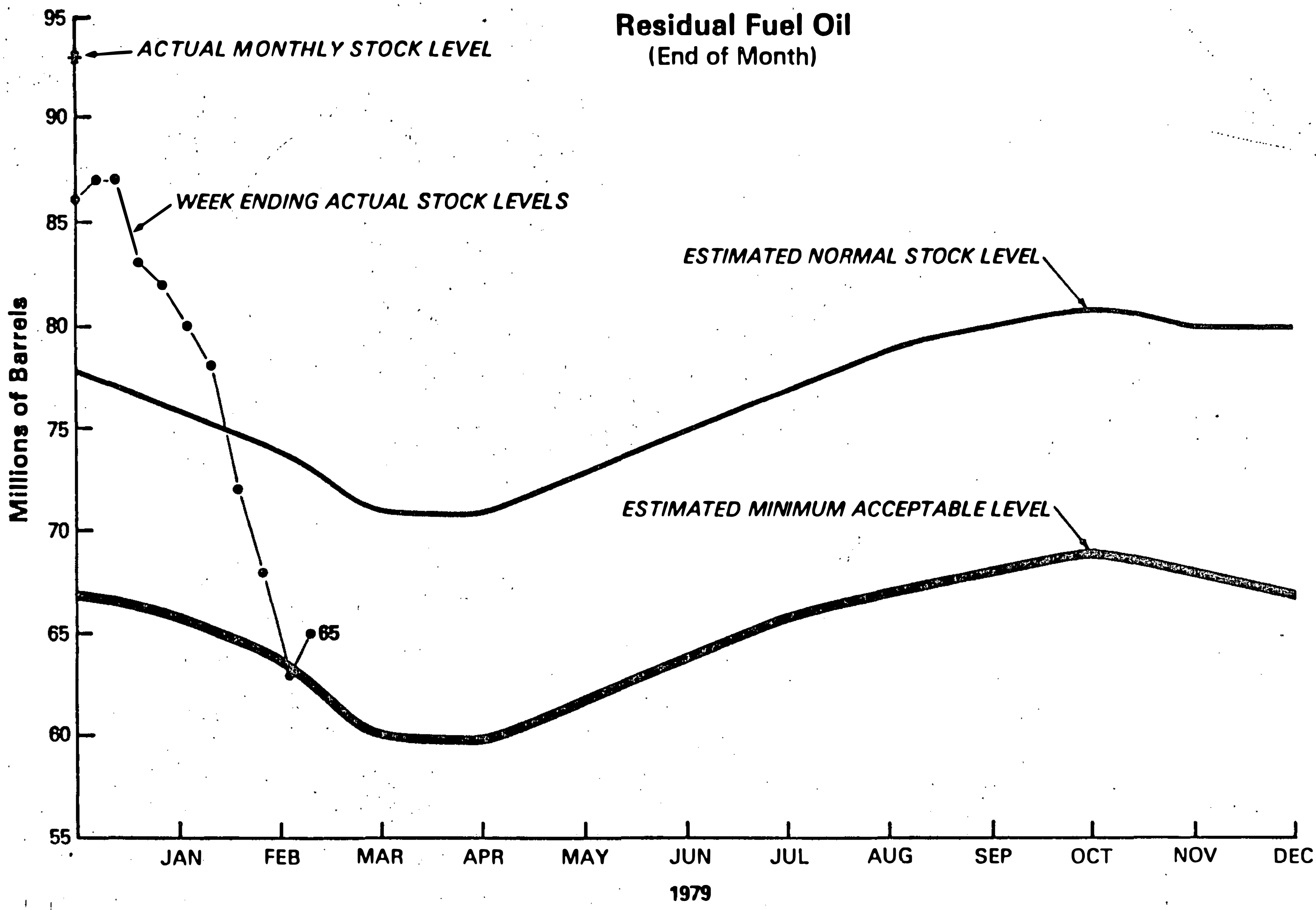
as of March 9, 1979

## Distillate Stocks at Primary Level
(End of Month)




Source: Week-ending average data: American Petroleum Institute (API), "Weekly Statistical Bulletin"; estimates through 1979: DOE Emergency Policy Council, Iranian Response Plan. December, 1978: Actual Monthly Data: EIA "Monthly Petroleum Statistics Report."

as of March 9, 1979




Source: Week ending average data: American Petroleum Institute (API), "Weekly Statistical Bulletin"; estimates through 1979: DOE Emergency Policy Council, Iranian Response Plan. December, 1978: Actual Monthly Data: EIA "Monthly Petroleum Statistics Report."

## Summary Statistics - United States
Four Week Average for Period Ending
March 9
(Thousands of Barrels Per Day)

| | 1974-1978 | 1977 | 1978 | 1979 |
|---|---|---|---|---|
| Demand | 18,271 | 19,556 | 20,429 | 20,727 |
| Production | | | | |
| Crude | 8,507 | 8,120 | 8,528 | 8,635 |
| NGL | 1,643 | 1,628 | 1,572 | 1,540 |
| Imports 1/ | 7,160 | 9,756 | 8,036 | 8,563 |
| Exports | 225 | 223 | 230 | 347 |
| Adjustments - Stock Changes Refinery Gain | 1,186 | 275 | 2,523 | 2,336 |

## Imports
Four Week Average for Period Ending
March 9
(Thousands of Barrels Per Day)

| | 1974-1978 | 1977 | 1978 | 1979 1/ |
|---|---|---|---|---|
| Crude Oil | 4,603 | 6,675 | 5,704 2/ | 6,467 2/ |
| Products | 2,557 | 3,081 | 2,332 | 2,096 |
| Motor Gasoline | 171 | 215 | 186 | 141 |
| Distillate Fuel Oil | 324 | 618 | 201 | 196 |
| Residual Fuel Oil | 1,674 | 1,781 | 1,613 | 1,439 |
| Jet Fuel | 103 | 84 | 79 | 76 |
| Unfinished Oils | 57 | 28 | 26 | 27 |
| Other Oils | 209 | 312 | 203 | 196 |
| Kerosene | 19 | 43 | 24 | 21 |
| Total: | 7,160 | 9,756 | 8,036 | 8,563 |

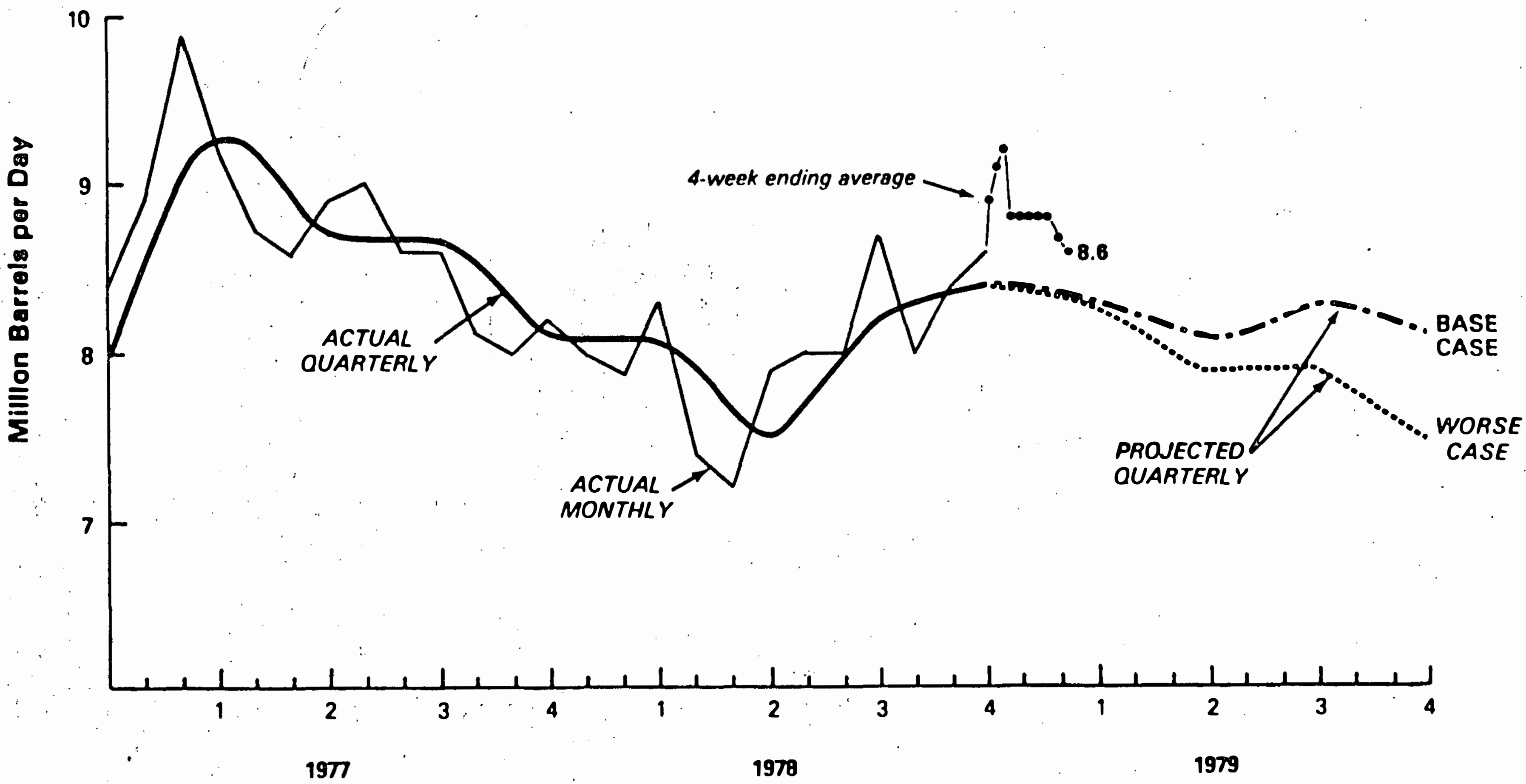
1/ API data published in API Weekly Statistical Bulletin.

2/ SPRO imports of 111MB/d not included for 1978, 235 MB/d estimated not included for 1979.

as of March 9, 1979

## U.S. PETROLEUM IMPORTS (Crude and Products)

1977 through 1979, End of Quarter




Source: 1977: Energy Information Administration (EIA) Energy Data Reports, "Petroleum Statement, Annual"; January 1978 through September 1978: EIA Energy Data Reports, "Petroleum Statement, Monthly"; October 1978 through December 1978: EIA "Monthly Petroleum Statistics Report"; 4-week ending average data: EIA, "DOE Petroleum Demand Watch"; estimates through fourth quarter 1979: DOE Emergency Policy Council, Iranian Response Plan.

## U.S. Petroleum Imports
(Millions of Barrels Per Day)

| | 1977 | | 1978 | | 1979 | |
|---|---|---|---|---|---|---|
| | Monthly Data | Quarterly Data | Monthly Data | Quarterly Data | Base Case | More Severe Case |
| January | 8.9 | | 8.0 | | | |
| February | 9.9 | | 7.9 | | | |
| March | 9.2 | | 8.3 | | | |
| First Quarter | | 9.3 | | 8.1 | 8.3 | 8.3 |
| April | 8.7 | | 7.4 | | | |
| May | 8.6 | | 7.2 | | | |
| June | 8.9 | | 7.9 | | | |
| Second Quarter | | 8.7 | | 7.5 | 8.1 | 7.9 |
| July | 9.0 | | 8.0 | | | |
| August | 8.6 | | 8.0 | | | |
| September | 8.6 | | 8.7 | | | |
| Third Quarter | | 8.7 | | 8.2 | 8.3 | 7.9 |
| October | 8.1 | | 8.0 | | | |
| November | 8.0 | | 8.4 | | | |
| December | 8.2 | | 8.6 | | | |
| Fourth Quarter | | 8.1 | | 8.4 | 8.1 | 7.5 |

4 Week Average Ending:

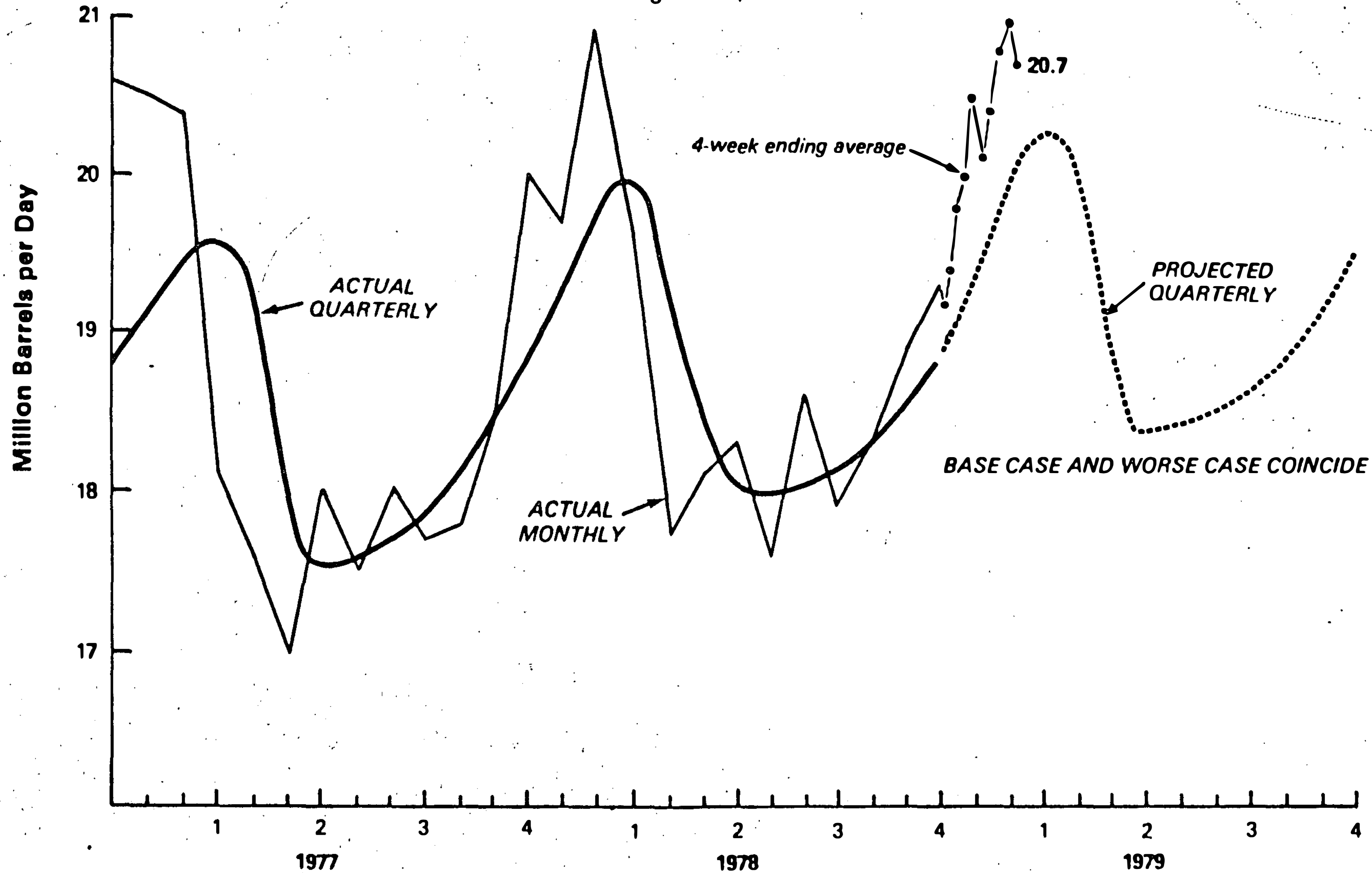
| | |
|---|---|
| March 9, 1979: | 8.6 |
| March 2, 1979: | 8.7 |
| March 10, 1978: | 8.0 |
| March 11, 1977: | 9.8 |

SOURCE: 1977: Energy Information Administration (EIA) Energy Data Reports, "Petroleum Statement, Annual; "January 1978 through September 1978: EIA Energy Data Reports, "Petroleum Statement, Monthly"; October 1978 through December 1978: EIA "Monthly Petroleum Statistics Report"; 4-week ending average data: EIA, "DOE Petroleum Demand Watch"; estimates through fourth quarter 1979: DOE Emergency Policy Council, Iranian Response Plan.

as of March 9, 1979

## U.S. PETROLEUM DEMAND

1977 through 1979, End of Quarter




Source: 1977: Energy Information Administration (EIA) Energy Data Reports, "Petroleum Statement, Annual"; January 1978 through September 1978: EIA Energy Data Reports, "Petroleum Statement, Monthly"; October 1978 through December 1978: EIA "Monthly Petroleum Statistics Report"; 4-week ending average data: EIA, "DOE Petroleum Demand Watch"; estimates through fourth quarter 1979: DOE Emergency Policy Council, Iranian Response Plan.

## U.S. Petroleum Demand
### (Millions of Barrels Per Day)

| | 1977 | | 1978 | | 1979 | |
|---|---|---|---|---|---|---|
| | Monthly Data | Quarterly Data | Monthly Data | Quarterly Data | Base Case | More Severe Case |
| January | 20.5 | | 19.7 | | | |
| February | 20.4 | | 20.9 | | | |
| March | 18.1 | | 19.6 | | | |
| First Quarter | | 19.6 | | 20.0 | 20.2 | 20.2 |
| April | 17.6 | | 17.7 | | | |
| May | 17.0 | | 18.1 | | | |
| June | 18.0 | | 18.3 | | | |
| Second Quarter | | 17.5 | | 18.0 | 18.4 | 18.4 |
| July | 17.5 | | 17.6 | | | |
| August | 18.0 | | 18.6 | | | |
| September | 17.7 | | 17.9 | | | |
| Third Quarter | | 17.8 | | 18.1 | 18.6 | 18.6 |
| October | 17.8 | | 18.3 | | | |
| November | 18.4 | | 18.9 | | | |
| December | 20.0 | | 19.3 | | | |
| Fourth Quarter | | 18.8 | | 18.8 | 19.5 | 19.5 |

4 Week Average Ending:

March 9, 1979: 20.7
March 2, 1979: 21.0
March 10, 1978: 20.4
March 11, 1977: 19.6

SOURCE: 1977: Energy Information Administration (EIA) Energy Data Reports, "Petroleum Statement Annual"; January 1978 through September 1978: EIA Energy Data Reports, "Petroleum Statement, Monthly"; October 1978 through December 1978: EIA "Monthly Petroleum Statistics Report"; 4-week ending average data: EIA, "DOE Petroleum Demand Watch"; estimates through fourth quarter 1979: DOE Emergency Policy Council, Iranian Response Plan.

NOTE: DOE defines domestic demand as disappearance from primary supply. This is output from refineries and natural gas processing plants plus imports minus exports plus or minus changes in primary stocks.

## Petroleum Demand and Imports

### 4 Week Ending Averages (MMB/D)
Period Ending

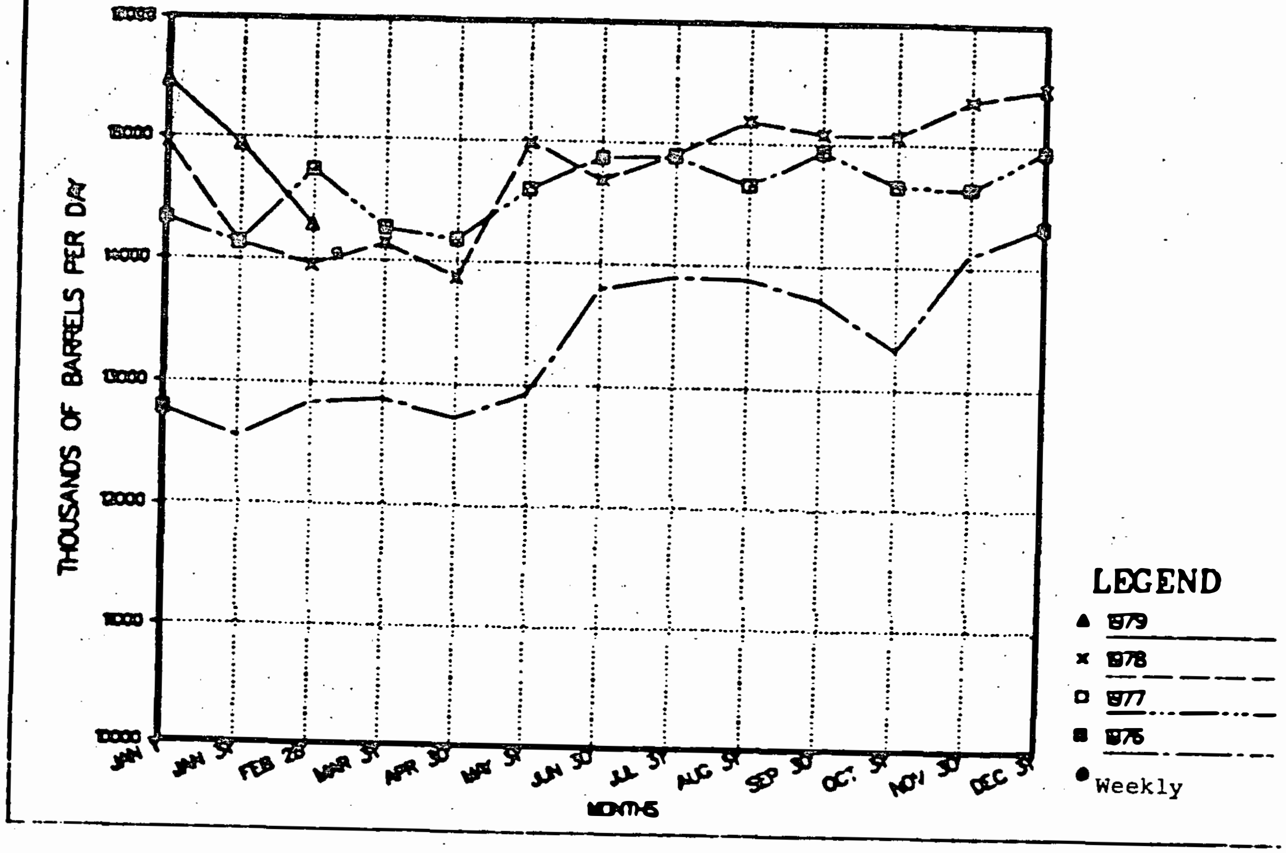
| | 12/29 | 1/5 | 1/12 | 1/19 | 1/26 | 2/2 | 2/9 | 2/16 | 2/23 | 3/2 | 3/9 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Demand | 18.8 | 19.2 | 19.4 | 19.8 | 20.0 | 20.5 | 20.1 | 20.4 | 20.8 | 21.0 | 19.3 |
| Imports | 8.4 | 8.9 | 9.1 | 9.2 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.7 | 8.6 |

### Monthly (MMB/D)

| | Dec. 1978 |
|---|---|
| Demand | 19.3 |
| Imports | 8.6 |

Week Ending Data: DOE Petroleum Demand Watch
Monthly Data: EIA "Monthly Petroleum Statistics Report"

# CRUDE OIL RUNS




CRUDE OIL RUNS

| | 1975 | 1976 | 1977 | 1978 | | 1979 |
|---|---|---|---|---|---|---|
| JANUARY | 12,297 | 12,560 | 14,140 | 14,139 | | 14,935* |
| FEBRUARY | 12,135 | 12,834 | 14,740 | 13,959 | | 14,287* |
| MARCH | 11,905 | 12,877 | 14,270 | 14,141 | | |
| APRIL | 11,803 | 12,727 | 14,185 | 13,872 | | |
| MAY | 11,983 | 12,920 | 14,605 | 14,982 | | |
| JUNE | 12,417 | 13,799 | 14,867 | 14,685 | | |
| JULY | 12,915 | 13,901 | 14,884 | 14,904 | | |
| AUGUST | 13,046 | 13,888 | 14,645 | 15,176 | | |
| SEPTEMBER | 12,945 | 13,716 | 14,930 | 15,076 | | |
| OCTOBER | 12,365 | 13,319 | 14,658 | 15,069 | P | |
| NOVEMBER | 12,689 | 14,101 | 14,636 | 15,356 | P | |
| DECEMBER | 12,779 | 14,333 | 14,709 | 15,468 | P | |

| WEEK ENDING: | |
|---|---|
| MAR 2, 1979 | 14,263*R |
| MAR 9, 1979 | 14,124* |

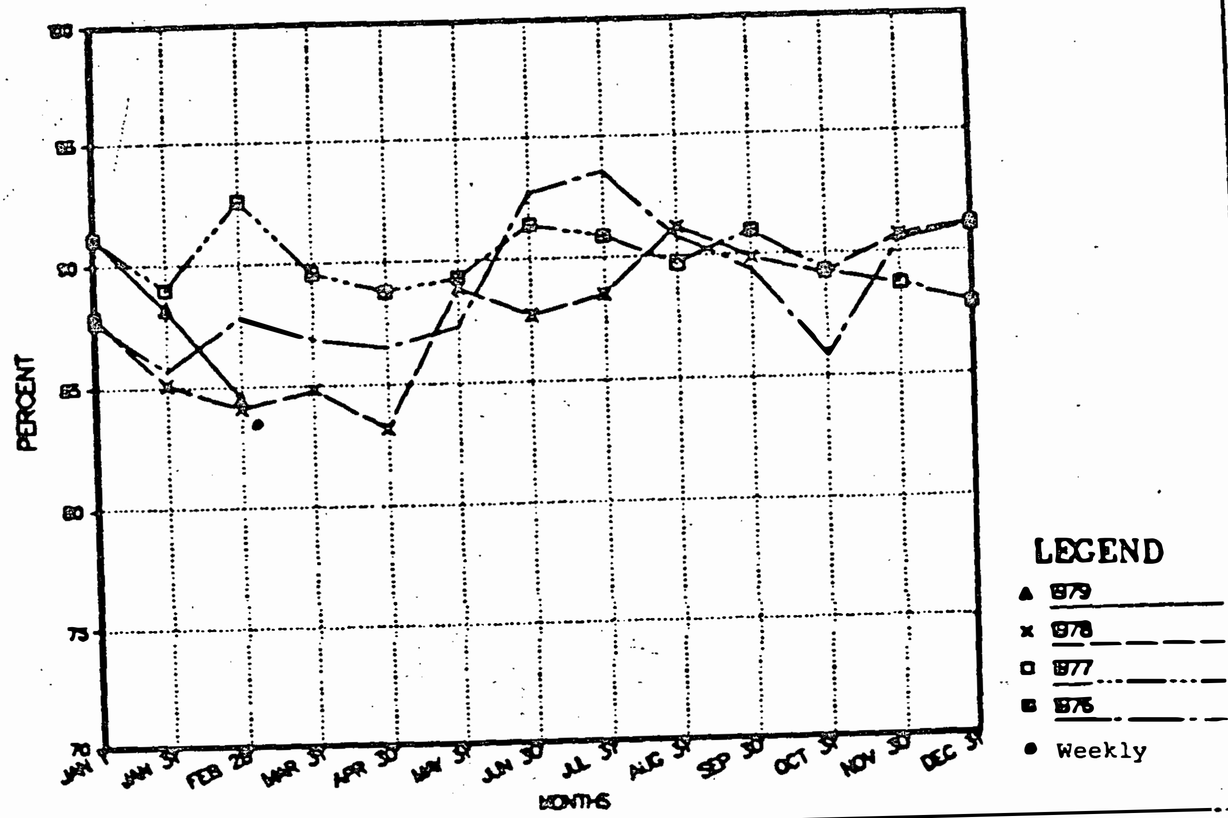
SOURCE DATA: BOM/DOE PETROLEUM STATEMENT, MONTHLY, EXCEPT AS FOLLOWS:

P- PRELIMINARY DOE STATISTICS

*- BASED ON API STATISTICS, TO BE REPLACED WITH DOE DATA AS AVAILABLE

R- REVISED

# REFINERY CAPACITY UTILIZATION




REFINERY CAPACITY UTILIZATION

| | 1975 | 1976 | 1977 | 1978 | | |
|---|---|---|---|---|---|---|
| JANUARY | 85.3 | 85.7 | 89.0 | 85.1 | | 88.2* |
| FEBRUARY | 84.6 | 87.8 | 92.6 | 84.1 | | 84.5* |
| MARCH | 82.9 | 86.9 | 89.6 | 84.8 | | |
| APRIL | 81.9 | 86.5 | 88.8 | 83.2 | | |
| MAY | 82.8 | 87.3 | 89.3 | 88.9 | | |
| JUNE | 85.6 | 92.7 | 91.4 | 87.7 | | |
| JULY | 89.1 | 93.5 | 90.9 | 88.5 | | |
| AUGUST | 89.2 | 89.7 | 89.7 | 91.2 | | |
| SEPTEMBER | 88.7 | 89.4 | 91.0 | 89.9 | | |
| OCTOBER | 84.7 | 85.8 | 89.3 | 89.2 | P | |
| NOVEMBER | 86.9 | 90.5 | 88.7 | 90.7 | P | |
| DECEMBER | 87.7 | 91.1 | 87.9 | 91.2 | P | |

WEEK ENDING:

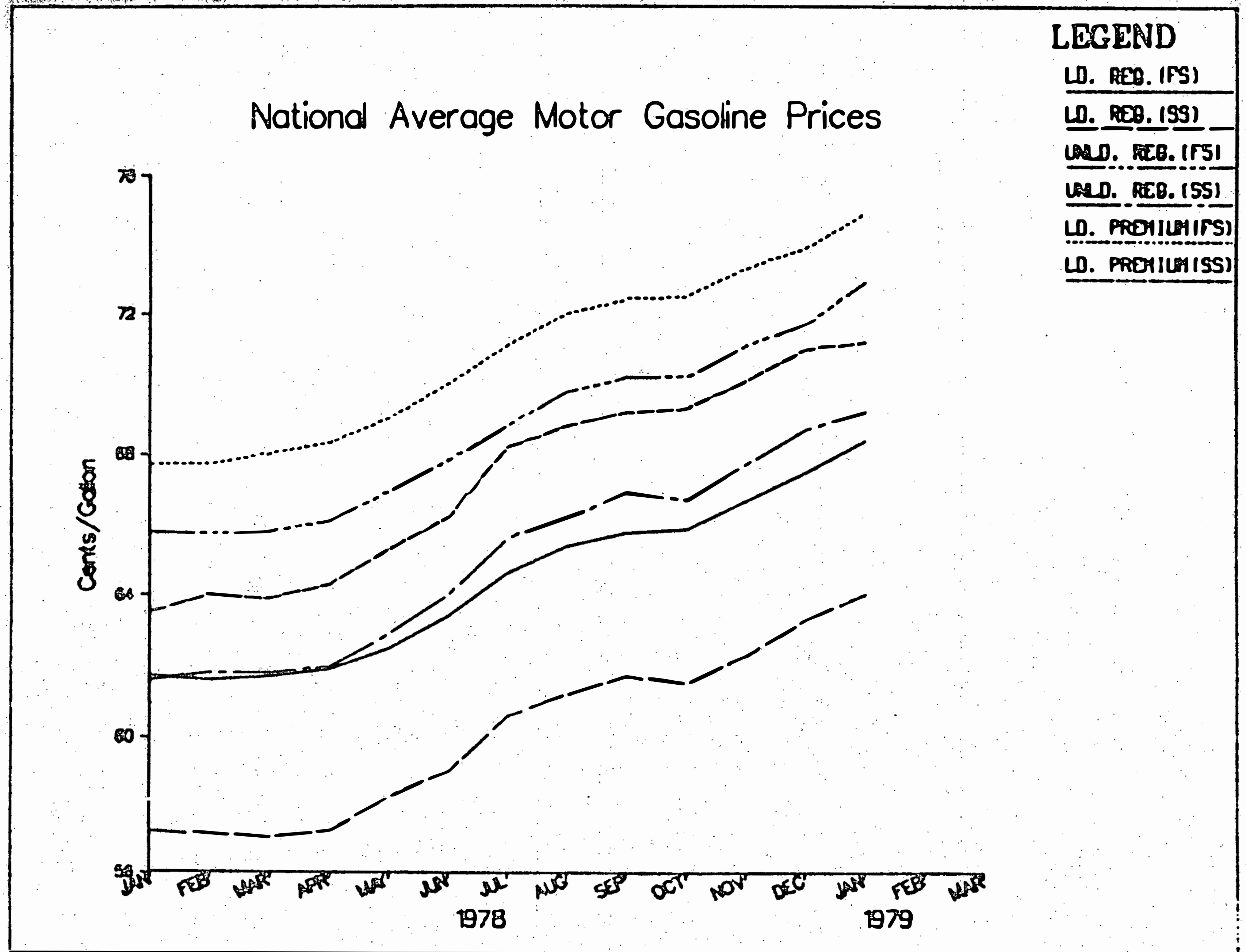
| | |
|---|---|
| MAR 2, 1979 | 84.7* |
| MAR 9, 1979 | 84.0* |

SOURCE DATA: BOM/DOE PETROLEUM STATEMENT, MONTHLY, EXCEPT AS FOLLOWS:

P- PRELIMINARY DOE STATISTICS

*- BASED ON API STATISTICS, TO BE REPLACED WITH DOE DATA AS AVAILABLE

R- REVISED


National Average Motor Gasoline Prices
LEGEND
LD. REG. (FS)
LD. REG. (SS)
UNLD. REG. (FS)
UNLD. REG. (SS)
LD. PREMIUM (FS)
LD. PREMIUM (SS)
Cents/Gallon
72
68
64
60
JAN
FEB
MAR
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
JAN
FEB
MAR
1978
1979

Average Retail Dealer Selling Price of Motor Gasoline and Average Selling Price of Residential Heating Oil (Cents Per Gallon)

Motor Gasoline

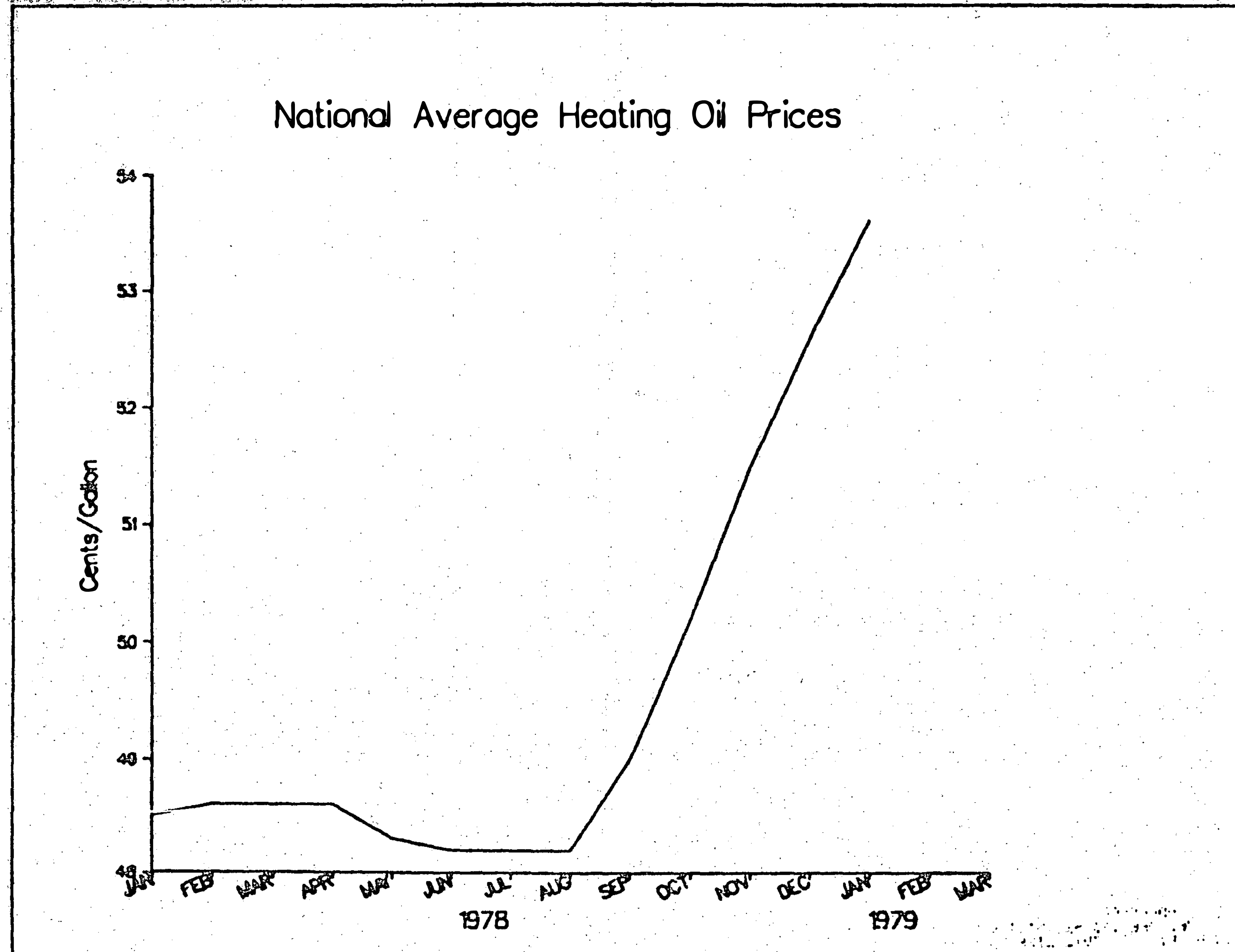
| 1978 | Leaded Regular Full Serve | Leaded Regular Self Serve | Unleaded Regular Full Serve | Unleaded Regular Self Serve | Leaded Premium Full Serve | Leaded Premium Self Serve |
|---|---|---|---|---|---|---|
| January | 61.7 | 57.2 | 65.8 | 61.6 | 67.7 | 63.5 |
| February | 61.6 | 57.1 | 65.7 | 61.8 | 67.7 | 64.0 |
| March | 61.7 | 57.0 | 65.8 | 61.8 | 68.0 | 63.9 |
| April | 61.9 | 57.2 | 66.1 | 62.0 | 68.3 | 64.3 |
| May | 62.5 | 58.2 | 66.9 | 62.9 | 69.0 | 65.3 |
| June | 63.4 | 59.0 | 67.8 | 64.0 | 70.0 | 66.2 |
| July | 64.6 | 60.6 | 68.8 | 65.6 | 71.1 | 68.2 |
| August | 65.4 | 61.2 | 69.8 | 66.2 | 72.0 | 68.8 |
| September | 65.8 | 61.7 | 70.2 | 66.9 | 72.4 | 69.2 |
| October | 65.9 | 61.5 | 70.2 | 66.7 | 72.5 | 69.3 |
| November | 66.7 | 62.3 | 71.1 | 67.7 | 73.3 | 70.1 |
| December | 67.5 | 63.3 | 71.7 | 68.7 | 73.9 | 71.0 |
| 1979 January | 68.4 | 64.0 | 72.9 | 69.2 | 74.9 | 71.2 |



Residential Heating Oil

| 1978 | |
|---|---|
| January | 48.5 |
| February | 48.6 |
| March | 48.6 |
| April | 48.6 |
| May | 48.3 |
| June | 48.2 |
| July | 48.2 |
| August | 48.2 |
| September | 49.0 |
| October | 50.2 |
| November | 51.5 |
| December | 52.6 |
| 1979 January | 53.6 |

SOURCE: Motor Gasoline: EIA-8, "Retail Motor Fuels Service Station Survey" for January 1978 through June 1978, EIA-79, "Monthly Motor Gasoline Service Station Survey" for July 1978 forward. Residential Heating Oil: FEA Form P112-M-1/EIA-9 "No. 2 Heating Oil Supply/Price Monitoring Report".


National Average Heating Oil Prices
Cents/Gallon
54
53
52
51
50
49
48
JAN
FEB
MAR
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
JAN
FEB
MAR
1978
1979

DOE PETROLEUM DEMAND WATCH

Domestic demand for all petroleum products for the 4 weeks ending March 9, 1979, averaged 20.7 million barrels per day, 1.5 percent higher than the level for the same period in 1978. Demand was 6.0 percent above the 1977 level and 12.1 percent above the level in 1973.

Motor gasoline demand was 5.5 percent above last year's demand, 7.2 percent above the 1977 level, and 14.6 percent above the 1973 level.

Demand for distillate fuel oil was 4.9 percent above the 1978 level, up 13.7 percent from the 1977 level, and 20.0 percent above the 1973 level. Residual fuel oil demand was down 1.2 percent from the 1978 level, 7.3 percent above the 1977 level, and 14.5 percent above the 1973 level.

Imports for the 4-week period averaged 8.6 million barrels per day, 6.6 percent above the 1978 level, 12.2 percent below the 1977 level, and 30.9 percent above the 1973 level. Crude oil imports were 118.0 percent higher than in 1973, while product imports were down 41.4 percent from the 1973 level.

DOMESTIC DEMAND FOR PETROLEUM PRODUCTS AND IMPORTS
OF CRUDE OIL AND PETROLEUM PRODUCTS

(Thousands of barrels per day)

| Domestic Demand | 4 Weeks Ending 3/9/79 | 3/10/78 | 3/11/77 | 3/9/73 | Percent Change 79/78 | 79/77 | 79/73 |
|---|---|---|---|---|---|---|---|
| Total.................... | 20,727 | 20,429 | 19,556 | 18,490 | +1.5 | +6.0 | +12.1 |
| Motor gasoline............ | 7,403 | 7,017 | 6,903 | 6,461 | +5.5 | +7.2 | +14.6 |
| Distillate fuel oil....... | 4,789 | 4,566 | 4,211 | 3,992 | +4.9 | +13.7 | +20.0 |
| Residual fuel oil......... | 3,764 | 3,811 | 3,509 | 3,286 | -1.2 | +7.3 | +14.5 |
| Other products............ | 4,771 | 5,035 | 4,933 | 4,751 | -5.2 | -3.3 | +0.4 |
| Imports | | | | | | | |
| Total imports............ | 8,563 | 8,036 | 9,756 | 6,541 | +6.6 | -12.2 | +30.9 |
| Crude oil [1].............. | 6,467 | 5,704 | 6,675 | 2,966 | +13.4 | -3.1 | +118.0 |
| Petroleum products........ | 2,096 | 2,332 | 3,081 | 3,575 | -10.1 | -32.0 | -41.4 |

[1] Excludes Strategic Petroleum Reserve imports.

Note: DOE defines domestic demand as disappearance from primary supply. This is output from refineries and natural gas processing plants plus imports minus exports plus or minus changes in primary stocks. Primary stocks are those stored at petroleum refineries, at natural gas processing plants, by pipelines and at bulk terminals. Bulk terminals included must have total storage capacity of 50,000 barrels or more, or receive petroleum products by tanker, barge, or pipeline. All data shown are 4 week moving averages. DOE calculations for 1979 are based on weekly data from API. Data for the previous year are based on monthly data from the Monthly Petroleum Statement. Data for all other previous years are based on monthly data from the Annual Petroleum Statement.

DOE/EIA-0035/2 (79)
**February 1979**

# Monthly Energy Review

3/26 OPEC prices ↑
3/29? Speech
4/1? Oil co. profits grossly hi
Need to prepare public
Windfall ≃ chance of tax



Executive Summary

**U.S. Department of Energy**
Energy Information Administration

telephone call-senator russell
long
(camp david-3/16/79)

7:45 a.m. 3-16-79

R. Long - No tax on oil
prefer gradual deregulation
Make #1 = #2 → > production
Let composite price ↗
Votes for tax not there
Will coop if chance to succeed
Industry will not support
Liberal Dems will oppose

THE WHITE HOUSE

WASHINGTON

March 16, 1979

C

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT Stu
KITTY SCHIRMER

SUBJECT: ENERGY ISSUES

## SUMMARY

This memorandum provides a status report on the schedule for an energy speech dealing with our response to the Iranian situation, and discussion of the major issues you will be asked to decide. We will send you under separate cover the results of our Congressional consultations on these key questions. Zbig is providing an update on the world oil outlook in a separate memo.

The major issues covered in this memorandum are:

- domestic crude oil pricing
- Alaskan oil swaps
- SPRO policies
- U.S. Government conservation issues
- Environmental waivers
- Conservation plans and other short term responses to the Iranian shortfall

## THE SCHEDULE

The process of developing the basic crude oil pricing options and the macroeconomic analysis of these approaches has proved more difficult than originally expected. This and other issues now appear to be well enough in hand that we can establish the following timetable. It has been discussed with your scheduling group and coordinated with signing ceremonies for the Middle East Peace Treaty.

| | |
|---|---|
| 3/19 | Draft Decision memo for agency review |
| 3/20-21 | Principals meeting and Senior Staff review |
| 3/23 | Decision memorandum to you |
| 3/26 | Decisions from you |
| 3/27-28 | Pre-briefing for Congress, groups, etc. |
| 3/28-29 | Announcement |

You should know that Henry Owen and Mike Blumenthal would like the speech to be delivered before the March 26 OPEC meeting so that it can have a potential impact on their actions. I prefer the above schedule since it would not cloud the Middle East accomplishment and because of the physical preparation needed for your speech and the underlying decisions.

THE ISSUES

1. Domestic crude oil pricing

This is by far the most significant of the decisions for you to make. While not directly related to our short-term response to the Iranian shortfall, it is the main unresolved element of our basic energy policy and that which most significantly affects the shape and direction of Administration policies both substantively and politically.

Four basic approaches will be presented:

- Full decontrol in June 1, 1979, the first date upon which you have authority to alter the heretofore Congressionally Mandated price schedule.

- Phase out controls by September 30, 1981 -- the date on which existing price control authority expires under the Energy Policy and Conservation Act of 1975. (EPCA).

- Make regulatory changes now to encourage new production (actions would include relief for marginal wells, including deep strippers, and enhanced recovery) -- phase out controls by 1984 through gradual price increases. (Requires extension of control authority for some oil.) (Note: a variant on this approach would grant these regulatory changes now, express a hope that controls could be lifted by 1981, but condition further implementation of a decontrol schedule on improvement in general inflation and economic conditions.)

- Make no changes to increase prices until inflation abates. Implies extension of controls to 1985.

Either of the two middle options can be accomplished using a variety of regulatory adjustments or schedules. Agencies disagree on the mechanisms to be used to accomplish these basic schedules. These can probably be resolved before the final paper is presented to you, and in any event I would urge you to use the Monday meeting to focus on the broader economic, international, energy, and political impacts of these four basic scenarios.

The attached charts, prepared by DOE and CEA, give estimates of the major economic, producer revenue, and energy supply effects of these four basic options. (Note -- the last option is the same as the base case.) CEA, DOE, and Treasury still disagree about the accuracy of these estimates and you should treat them as preliminary. Charlie Schultze and DOE are trying to resolve their differences before the Monday meeting.

The charts present impacts analyzed under two assumptions about future OPEC prices:

(1) That OPEC will raise prices by $1.50 in 1979 above the increase announced last December.

(2) That OPEC will raise prices by $3.00 above the December 1978 announced price.

Either of these cases would, without any change in U.S. policy, increase the rate of inflation by, respectively, .25 and .5% in 1979. These charts attempt to show only these macro-economic effects which are attributable to changes in U.S. pricing policy.

The key issues involved in deciding domestic crude oil policy are:

- the additions to the rate of inflation which we are willing to tolerate to move toward world energy prices;

- the incremental amount of new supply which would result from additional price incentives or from decontrol;

- the impacts of these oil prices approaches on:

    - the dollar and international exchange markets, and our relationships with our major Summit allies,
    - U.S. economy and GNP
    - labor unions and others whom we are asking to work within our inflation guidelines
    - the low income and the poor
    - OPEC behavior

- the reaction of the Congress to these options and the likelihood of a major Congressional confrontation over crude oil pricing. (Full decontrol now, or no action, would probably provoke serious Congressional attempts to overrule your decision).

- the benefits of avoiding further regulation of the oil industry vs. the need to maintain some control over costs.

In addition to these basic pricing paths, the question of a windfall or excise tax must be addressed. (It is widely remored that oil company profits to be announced in the next month or so, will be extremely high, even under controls.)

The first two approaches contemplate seeking Congressional enactment of a so-called OPEC tax which would tax away any price increases U.S. producers might receive from increases in the OPEC price beyond those announced last December. Operationally, this tax would mean that producers eligible for the world price could receive its full value so long as the market did not increase in real terms above $14.54 (the announced OPEC price for December 1979). If the world market rose above this level, 75% of this increase would be taxed back to the government.

This approach is very different from that described in our January 3 memorandum to you, in which an excise tax would be applied to increases in producer revenues quite apart from whether OPEC acts to increase the world price. This "OPEC" or "arbitrage" tax approach is considerably more generous to producers than the previously discussed excise tax. It does not tax any of the windfall from raising old and new oil to the world price (as announced in December, 1978). It only taxes U.S. producer revenues above the current posted world level. While it is generally agreed that an excise tax would be extremely difficult to enact (though no certainty can be claimed about the OPEC tax), an excise tax scheme which addresses windfalls below the current world level could be devised for any of the first three options. Because the last two options involve little or no "windfall", neither tax is needed for them. I believe everyone would counsel you, for reasons of equity, to seek a "windfall profits" tax if you agree to decontrol either immediately or by September 1981.

Another issue is whether decontrol should be made contingent upon its enactment, or whether decontrol should be allowed to proceed regardless of Congressional action on a tax. Virtually everyone agrees that if you decontrol, it should not be made contingent upon a tax.

The final tax-related issue is how its revenues should be used. The main options are:

- defer social security tax increases
- provide rebates or other assistance to the poor
- provide relief for New England, and possibly increased funding for solar and renewable technologies.

2. Alaskan Oil Swaps

At issue is whether to try to gain Congressional approval to permit exports of Alaskan oil above the current level of production (1.2 million barrels per day) to Japan, provided that these exports are expressly tied on a barrel for barrel basis to imports of Mexican oil. This approach is seen as a means to expand production of Alaska north slope oil, and as a subject of some interest to Mexico. It would have a beneficial impact on the balance of trade (a billion or less in the short run, increasing up to $2-$3 billion by 1985).

Your authority to permit such exports is limited by the Trans-Alaska Pipeline System Act and by even more stringent amendments to the Export Administration Act. Congress is guaranteed an opportunity to try to overturn such a decision.

You will be asked to decide:

(1) whether or not to approve such a swap approach and,

(2) if so, whether to announce it now.

Congressional approval of the Mexico/Japan swap is very difficult. The AFL-CIO will fight it tooth and nail, and many believe that the fight will be made even more difficult by the intrinsic problems associated with explaining why we are proposing to export oil in a time of domestic shortage. There is strong opposition in Congress to a swap. Even those on the Hill who support it have strongly advised against including it in this speech. I agree.

A separate question dealing with use of Alaskan oil to meet our commitments to Israel, if our agreement is actually triggered, is also relevant. Israel's needs are not likely to exceed 100,000 barrels per day, which would still leave open the possibility of other exports. We will be recommending that you seek authority from Congress to export Alaskan oil to Israel on a completely unrestricted basis. This authority should be available whatever the outcome of your decision on Japanese/Mexican swaps.

3. SPRO policies

Outstanding issues are:

- whether, when or at what price purchases for SPRO should be resumed. While we now have an effective moratorium on new SPR purchases (since no bidders have appeared at previously issued price offers), no longer run policy has been established. If we are going to ask other nations to defer their own strategic purchases, we should also have an express policy to do so.

- when the 86 million barrels of SPR oil now in storage should be used. The basic question is whether to use this oil to mitigate pressures on the spot market or to lessen minor adverse economic impacts, or whether SPRO should be used only to meet very severe oil shortfalls which impact our strategic capabilities.

4. <u>USG conservation efforts</u>

All agencies agree that federal energy consumption should be cut by 5%, including a 10% reduction in vehicle miles travelled. DOD operational readiness activities are now exempt from these general guidelines. At issue is whether DOD should be asked to cut back its operations since it consumes 82% of all oil used by the federal government. Resolution of this issue will require a balance of DOD's assertion that any cutback will adversely affect general military readiness against a belief by other agencies (and some members of the public who see acticty such as routine national guard practice) that a 3% reduction could be implemented without severe impacts.

5. <u>Environmental waivers</u>

Environmental waivers could increase the availability of oil supplies if applied to three areas:

- postponement of the currently scheduled phasedown of the amount of lead allowed in gasoline

- waiving state air quality requirements (and possible primary ambient air quality standards) to permit large utility and industrial users to burn less costly, more available higher sulfur oil

- waiving the requirements listed above to permit oil burning facilities capable of burning coal to do so, even if environmental standards are not met. Some agencies may recommend legislation to extend the waiver period from 4 to 16 months on grounds only a longer period offers a real incentive to switch. This requires an amendment to the Clean Air Act.

The basic issue with respect to the environmental waivers is whether they should be implemented before rigorous mandatory conservation steps in order to avoid economic hardship or whether, as the environmental community argues, the waivers should be used only in conjunction with mandatory conservation efforts.

6. Use of the mandatory conservation plans

Late in February, three mandatory conservation plans plus a gasoline rationing plan were sent to Congress for review and approval. Congress has sixty legislative days in which to act (action is expected by mid-May).

Issues involve:

- should we announce an intent, even before Congressional action, to implement one or more of the plans? The mandatory thermostat setting requirement is the most palatable of three, both politically and economically.
- should we request expedited Congressional action on one or more of the plans?
- where on our overall list of priorities should weekend gasoline stations closings fall -- closer to a last resort, or as a more readily taken step?

There is general agreement that we should seek quick Congressional action on the building thermostat plan, and announce our intent to put it into effect. There is some disagreement on the last issue due to the economic impacts of gasoline station closings, particularly upon tourism-dependent states.

7. Additional thoughts about the speech

In addition to the above issues, you may want to discuss other longer term energy strategies in the speech. I believe that it is very important for you to emphasize the significant improvements which the U.S. has already made in energy conservation, and to point to solar and renewable resources as a strong hope for the future. Providing some appreciation for past accomplishments, and a sense that U.S. ingenuity and technology can help pull us out of the longer run problem, will help cushion the political effects of whatever oil pricing decision you make. We should stress the need to accelerate use and development of renewable resources.

We are also working on possible approaches for dealing with the hardships worked on the poor by rising oil prices. We do not yet have specific recommendations. We are also exploring the feasibility of additional proposals which would reinforce a "stay tough with the oil companies" posture. Options include seeking authority to limit the prices which oil companies can pay for spot markets oil, at least during this emergency.

Jim Schlesinger will also want you to include a statement on the need to rely on light water nuclear reactors, and to express your confidence in this technology.

Table 1

MACRO ECONOMIC EFFECTS *
$1.50 CASE
(Measured Relative to the Base Case)

| | RATE OF CHANGE IN THE CPI (4TH QUARTER TO 4TH QUARTER) | | | | PERCENTAGE CHANGE IN THE GROWTH RATE OF REAL GNP (4TH QUARTER TO 4TH QUARTER) | | | |
|---|---|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | 1979 | 1980 | 1981 | 1982 |
| Option 1 -- Total Decontrol on June 1, 1979 | +.6 | +.2 | +.05 | 0 | -.35 | -.3 | -.05 | 0 |
| Option 2 -- Phased Decontrol by 1981 w/OPEC tax | +.1 | +.2 | +.3 | +.1 | -.05 | -.1 | -.1 | 0 |
| Option 3 -- Regulatory changes -- Decontrol by June 1, 1985 -- No tax | +.1 | +.1 | +.1 | +.1 | 0 | -.05 | -.05 | 0 |

* Estimates reflect only impacts of changes in U.S. pricing policy. They do not show added inflation (0.25% in 1979) and GNP reduction (0.25% in 1979) from an increase in the OPEC price of $1.50.

Table 2

MACRO ECONOMIC EFFECTS *
$3.00 CASE
(Measured Relative to the Base Case)

| | RATE OF CHANGE IN THE CPI (4th QUARTER TO 4TH QUARTER) | | | | PERCENTAGE CHANGE IN THE GROWTH RATE OF REAL GNP (4TH QUARTER TO 4TH QUARTER) | | | |
|---|---|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | 1979 | 1980 | 1981 | 1982 |
| Option 1 -- Total Decontrol on June 1, 1979 | +.65 | +.3 | +.1 | 0 | -.45 | -.4 | -.05 | 0 |
| Option 2 -- Phased Decontrol by 1981 w/OPEC tax | +.1 | +.2 | +.4 | +.15 | -.05 | -.1 | -.1 | -.05 |
| Option 3 -- Regulatory changes -- Decontrol by June 1, 1985 -- No tax | +.1 | +.1 | +.15 | +.15 | 0 | -.05 | -.05 | -.05 |

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* Estimates reflect only impacts of changes in U.S. pricing policy. They do not show added inflation (0.5% in 1979) and GNP reduction (0.5% in 1978) from an increase in the OPEC price of $3.00.

U.S. OIL IMPORTS
(MILLIONS OF BARRELS PER DAY)
$1.50

| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | Total 1979-1985 |
|---|---|---|---|---|---|---|---|---|
| Option 1 -- Total Decontrol on June 1, 1979 | -.26 | -.44 | -.50 | -.52 | -.64 | -.74 | -.86 | -3.96 |
| Option 2 -- Phased Decontrol by 1981 w/OPEC tax | -.16 | -.38 | -.65* | -.82* | -.92* | -1.02* | -1.16* | -5.11 |
| Option 3 -- Regulatory changes -- decontrol by June 1, 1985 -- No tax | -.11 | -.20 | -.33 | -.44 | -.59 | -.72 | -.86 | -3.25 |

* Assumes substantial increased production from tertiary recovery which DOE staff believes is speculative at best.

U.S. OIL IMPORTS
(MILLIONS OF BARRELS PER DAY)
$3.00

| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | Total 1979-1985 |
|---|---|---|---|---|---|---|---|---|
| BASE CASE | 8.53 | 2.08 | 9.74 | 10.02 | 10.48 | 10.73 | 10.83 | |
| Option 1 -- Total Decontrol on June 1, 1979 | -.30 | -.54 | -.63 | -.64 | -.82 | -.95 | -1.10 | 4.98 |
| Option 2 -- Phased Decontrol by 1981 w/OPEC tax | -.16 | -.41 | -.73* | -.93* | -1.10* | 1.23* | -1.41* | 5.97 |
| Option 3 -- Regulatory changes -- decontrol by June 1, 1985 -- No tax | -.11 | -.23 | -.41 | -.54 | -.76 | -.93 | -1.10 | 4.08 |

* Assumes substantial increased production from tertiary recovery which DOE staff believes is highly speculative.

Rick -
Include notes
J

THE WHITE HOUSE

WASHINGTON

March 16, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: HUGH CARTER

SUBJECT: Weekly Mail Report (Per Your Request)

Below are statistics on Presidential and First Family:

| INCOMING | WEEK ENDING 3/9 | WEEK ENDING 3/16 |
|---|---|---|
| Presidential | 28,700 | 24,690 |
| First Lady | 1,375 | 1,325 |
| Amy | 300 | 300 |
| Other First Family | 55 | 55 |
| TOTAL | 30,430 | 26,370 |
| **BACKLOG** | | |
| Presidential | 6,630 | 4,530 |
| First Lady | 160 | 150 |
| Amy | 0 | 0 |
| Other | 0 | 0 |
| TOTAL | 6,790 | 4,680 |
| **DISTRIBUTION OF PRESIDENTIAL MAIL ANALYZED** | | |
| Agency Referrals | 9% | 10% |
| WH Correspondence | 54% | 53% |
| Unanswerable Mail | 14% | 13% |
| White House Staff | 4% | 4% |
| Greetings Requests | 19% | 19% |
| Other | 0 | 1% |
| TOTAL | 100% | 100% |
| **NOT INCLUDED ABOVE** | | |
| Form Letters | 887 | 0 |
| Form Post Cards | 4,930 | 7,185 |
| Mail Addressed to White House Staff | 16,153 | 16,297 |

cc: Senior Staff

MAJOR ISSUES IN
CURRENT PRESIDENTIAL ADULT MAIL
Week Ending 3/16/79

| ISSUES | PRO | CON | COMMENT ONLY | NUMBER LETTERS |
|---|---|---|---|---|
| Comments re: Energy Situation | 0 | 0 | 100% | 559 |
| Support for Budget Cutbacks for FY 1980 | 0 | 95% | 5% | 399 |
| Support for National Health Plan | 93% | 7% | 0 | 383 |
| Support for President's Middle East Peace Initiative (1) | 91% | 9% | 0 | 349 |
| Support for Israel | 88% | 10% | 2% | 321 |
| Support for Deregulation of Trucking Industry | 1% | 99% | 0 | 283 |
| Support for Extension of Steel Import Restraint Program (2) | 100% | 0 | 0 | 233 |
| Endorsements for Federal Judgeships (3) | 0 | 0 | 100% | 200 |
| Support for Proposed IRS Guidelines for Determining Tax-exempt Status of Private Schools | 0 | 100% | 0 | 158 |
| Support for Pelly Amendment to Fishermen's Protective Act of 1967 | 100% | 0 | 0 | 146 |
| Support for FAA Proposals to Expand Air Traffic Control System | 0 | 100% | 0 | 130 |
| | | | Total | 3,161 |

(~~See Notes Attached~~)

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

C

EYES ONLY

March 16, 1979

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze CLS

Subject: Policy Response to Recent Economic Developments

Jules Katz

## SUMMARY


Since our economic policy for 1979 and 1980 was formulated late last year, incoming economic indicators have been signalling a stronger economy early this year than we had anticipated, and a larger rise throughout the year in business capital spending.

At the same time, price increases have accelerated sharply in the past several months, while wage increases have been moderate. Markets are so strong that there is little resistance to price increases.

These developments pose two distinct threats. First, the anti-inflation program is likely to collapse if some price deceleration is not achieved soon. Second, concerns about possible shortages and delivery delays, together with the acceleration of price increases, may lead businesses to begin scrambling to build inventories. There is some evidence that this is already happening. If this continues, it could lead to distortions and imbalances that would raise significantly the chances of a recession beginning late this year or in 1980.

Policy actions to deal with these problems are urgently needed. This memorandum sets forth the problems we face and outlines the various policies available to deal with them.


If econ. fight infl
can always stimulate
'79 budget not biting
'80 " bites
should we slow US econ.? at time of low growth
Effects in 6 mos.
Effect on unions?

## THE STATE OF THE ECONOMY

### Recent Economic Developments

Economic growth in the fourth quarter was much stronger than almost anyone had expected. Real GNP grew at a 6-1/2 percent annual rate, led by a very strong rise in personal consumption expenditures. As a result, inventory-sales ratios were reduced below their desired levels.

As a broad generalization, housing and consumer purchases (except autos) may be softening. But this is being offset by two other factors: a strong surge of production to rebuild inventories and a rapid increase in orders and production of capital goods.

Businesses are now seeking to build stocks, and they are encountering delivery delays and rising order backlogs as they do so. Since prices are rising rapidly, there is a real danger that speculation in inventories will develop. The problem is largely in the durable goods industries, where a boom is underway.

- Aggregate hours worked in the durable goods industries have risen at a 12 percent annual rate in the past six months.

- New orders for durable goods have increased at a 40 percent annual rate over the same period. !

- Unfilled orders for durable goods began to climb rapidly in the fourth quarter. For steel and aluminum, order books for the second quarter already have largely been filled. The machine-tool industry has a two-year order backlog.

There are indications of underlying long-term strength in parts of the economy as well. Nondefense capital goods orders rose sharply further in January, and in the past six months have increased at a 50 percent annual rate. New capital appropriations of manufacturers increased significantly in the fourth quarter. These developments suggest substantial future growth in business fixed investment. The principal limit on the rise of business capital investment this year may be capacity limits in the capital goods industries and their ability to obtain needed supplies -- particularly metals and machine tools.

Consumer spending will almost certainly increase less this year than last, and perhaps less than we were forecasting in January, largely because real wages are being reduced by rapidly rising prices of food and fuel and widening corporate profit margins. Some slowing of consumer buying may already be underway -- retail sales, adjusted for inflation, declined moderately in January and February. New auto sales, however, are holding up very well.

Housing starts are also expected to fall because of increased restraint on mortgage credit availability. The recent action of the regulatory authorities to limit the ability of banks, and especially thrift institutions, to bid for 6-month money-market certificates will help to reduce moderately the supply of mortgage money. Housing starts have declined from last year's average of 2 million units to 1.67 million units (annual rate) in January and 1.4 million in February. These declines, however, were partly due to adverse weather. Some rebound could therefore occur in March and April.

The trade deficit is not shrinking nearly as quickly as we had hoped. The merchandise trade deficit for January rose to $3.44 billion, up over $1.3 billion from the December level. While changes in statistical procedures may be partially responsible, the January numbers indicate an acceleration of import growth. Given the tight domestic supply situation in some industries, and the rising order backlog, increased demand will increasingly spill over into accelerated import growth.

GNP Forecast

We believe real GNP growth in the first quarter will slow to about a 4 percent annual rate. If it slows further in the second quarter, some resistance to price increases may develop. But that might not happen if business inventory demands remain strong, residential and state and local construction rebound, and consumers continue to use debt heavily to buy autos and other durable goods. In that case, strains on productive capacity and strong pressures on prices would continue.

The interagency forecast group has just completed its forecast update for 1979. The real growth rate in the current forecast is about the same as in January --

that is, about 2 to 2-1/4 percent. Greater strength in business investment in fixed capital and inventories is offset by slower growth in housing and in consumer spending (because of the squeeze on real wages). Prices are forecast to rise by 8-1/2 percent, instead of the 7-1/2 percent forecast in January. This price forecast assumes that compliance on the wage side continues and that widespread compliance with the price standard is achieved promptly. There is, of course, an unusually large degree of uncertainty regarding the outlook for both real activity and prices over the remainder of the year.

## PRICE AND WAGE DEVELOPMENTS

Developments on the price front are very discouraging.

### Food

The prospects for food price inflation in 1979 have worsened. At the farm level, livestock prices in the three months ending in Feburary rose by 16 percent. Vegetable prices also have risen strongly. We do expect a moderation of the rate of food price increase, but the rise during all of 1979 will be larger than we had forecast at the end of last year -- perhaps 9 percent instead of 7 to 8 percent.

### Energy

OPEC oil prices are likely to rise this year by at least $1.50 a barrel more than indicated in the January price schedule announcement by the OPEC countries. The extent of the rise of domestic energy prices will depend in part on our policy actions with respect to decontrol. As a minimum, however, it is likely that domestic oil prices late this year will be 10 percent above those assumed in our January forecast. This will add about 0.4 percent to the CPI in 1979 and 0.2 percent more in 1980, compared to our earlier forecast.

### Other Prices

In the four months ended in February, producer prices of finished goods other than food rose at an 11 percent annual rate. Consumer prices excluding food and fuel have been rising less rapidly. It is likely that some of the increase in prices at wholesale will be passed through to the consumer in coming months.

The rapid increase in wholesale prices excluding food since October may partly reflect "front-loading" of price increases allowed under the price-deceleration standard. In addition, large numbers of smaller and mid-sized firms are apparently not complying with the standards. The surge of economic activity in the last four to five months undoubtedly contributed to the acceleration of price increases.

Wages

Wage rates are showing some signs of deceleration. In the past four months, average hourly earnings have risen at a 7.2 percent annual rate -- one-half percentage point less than in the same period a year ago. Moreover, surveys by CWPS among collective bargaining units covering 1,000 workers or more suggest that most of the settlements concluded during the first three months of the program were in compliance with the pay standard. We understand that the Teamsters are asking for wage and benefit increases of 13 to 14 percent the first year and 30 to 35 percent over three years. The first union demand is always high, and so this may be a misleading indicator of what the Teamsters will accept. However, Fitzsimmons has expressed considerable annoyance at our unwillingness to bend the pay standard to suit the Teamsters' purposes. Continued compliance on the wage side will be difficult to achieve if inflation continues at its recent pace for many more months.

It is clear that a substantial step up in the price monitoring effort is needed. We must bring as much pressure as we can to bear on the business community, whose pricing behavior is threatening to wreck the entire anti-inflation program. CWPS has already begun to intensify its efforts to pinpoint violations of the price standards. It will be early April, however, before any public announcements can be made of companies found to be out of compliance.

## POLICY RECOMMENDATIONS

Your economic advisers are reviewing policy actions to deal with the problems outlined above. The actions under active consideration fall into four general areas:

1) increased monetary restraint -- raising short-term interest rates by, perhaps, one-half percentage point, accompanied by other measures;

2) selective controls over consumer credit;

3) a series of measures to help reduce the rise in food prices; and

4) steps to intensify the monitoring effort on prices.

Earlier, consideration was also given to actions in two other areas. Increased budgetary restraint would be strongly desirable if it could be accomplished readily and quickly. Reluctantly, we have concluded that efforts to alter the course of budget outlays in fiscal 1979 would encounter enormous political and practical difficulties and might well prove impossible. Any benefits we might achieve would be too small, and would come too late, to be worth the costs of obtaining them.

Special devices to dampen housing were also reviewed carefully. One step in this direction has already been taken by the regulatory authorities in the limits placed on the ability of banks and thrifts to bid for 6-month money-market certificates. Further steps to curtail homebuilding would seem inadvisable until we can appraise the effect of what has already been done. And if general monetary policy is tightened, there will be a dampening effect on housing from that source. Any additional measures might lead to overkill.

General Monetary Restraint

Since fiscal policy cannot readily be tightened quickly, the only general weapon to cool aggregate demand is monetary restraint. Interest rates have remained relatively unchanged for about four months, while inflation has accelerated. Real interest rates are lower now than they were after the November 1 steps to shore up the dollar. Commercial banks are in a position to secure all the funds they need for lending. Corporations are awash with funds because of soaring profits, and their credit demands recently have abated. Outside of the mortgage market, monetary policy presently is exerting very modest restraint on spending decisions.

Past experience indicates that increased monetary restraint would have its principal effect on housing. But the MMC's, even after the recent policy changes, should reduce the size of that effect. In the business sector, a rise in short-term interest rates may also help to dampen business purchases for inventory that are being stimulated, in part, by expectations of price increases and/or shortages. A higher cost of inventory financing would contribute directly to this result; expectations that monetary restraint would cool off the economy would make an indirect contribution to this end.

There would be some dampening effect of increased monetary restraint on business fixed investment as well, but this effect is likely to be small for two reasons. First, the volume of business fixed investment this year is likely to be limited principally by restraints on capacity. Second, a rise in short-term interest rates would be likely to increase the cost of long-term credit relatively little, since participants in financial markets are still generally expecting a downturn in interest rates later this year.

The strength of the dollar in foreign exchange markets would be increased by a rise in domestic interest rates, and this would contribute to dampening inflation. So far, the dollar has remained firm in the face of large trade deficit statistics and high inflation. But another serious dollar crisis is likely in the coming months if the economy is not slowed and if strong action on energy conservation and production is not taken.

CEA and Treasury strongly believe that additional monetary restraint is needed, and promptly, to reduce the prospects of speculation in inventories and to indicate the Administration's firm determination to make the anti-inflation program work. There are risks in taking such an action. But the risks of not doing so are greater:

- The economy has been relatively free of recession-inducing distortions to date. Such distortions -- speculative buying, excessive ordering for inventories, growing shortages -- are now developing. Unless checked, the dangers of a deep recession will grow.

- If we err on the side of too much monetary restraint, we can reverse course later. But if we err the other way, so that speculative excesses feed inflation over the next four to six months, we will have built in an even higher underlying rate of inflation which no feasible policy can get rid of. It is easier to reduce unemployment, if it rises too much, than to unwind a new inflation increment once it gets built in.

Stu Eizenstat disagrees with this view. He believes it would do little to help reduce inflation now, but would depress the economy later on, just when we don't need it:

- Most outside forecasters still expect a recession in late 1979. The interagency forecasting group is still forecasting a slowdown.
- If the economy is overheated now, the overheating will shortly disappear.
- Since monetary policy works with a lag, it will not restrain the economy now -- when we need it -- but will depress the economy later on, just when it is slowing anyway. We would run a very grave risk of either turning a slowdown into a recession or a mild recession into a deeper one.

Selective Controls Over Consumer Credit

You have the authority under the Credit Control Act of 1969 to request the Federal Reserve Board to impose controls on consumer credit. The specific authority given to the President under this act is presently being reviewed by the Justice Department. They have indicated to us informally that they believe you have the authority to limit the areas in which selective controls are applied by the Board, but you cannot require the Board to do anything.

Our ability to assess the impact of consumer credit controls on consumer spending is extremely limited. Such controls have not been used since the Korean War and their effects even then were problematic. Over the past 25 years, moreover, the consumer credit market has changed in major ways. Our knowledge of the technical aspects of consumer lending is also limited.

Outside of autos, consumer spending in the last several months has not been rising. Nevertheless, it might be a plausible stategy to impose controls that limit the most liberal terms on consumer credit, as a means of preventing consumers from overextending themselves. A good case can be made for doing so, because competitive pressures are pushing lenders to liberalize the nonprice terms on consumer credit. We think actions can be designed that would tighten the terms on consumer credit moderately while having only a small, but helpful, effect in slowing consumer spending. Should economic weakness develop later on, the slower rise in consumer debt during the intervening months would put consumers in a better position to maintain their purchases.

## Auto Loans

For auto loans, the best available method would appear to be to limit maximum maturities on new car loans to 42 months, which is roughly the average maturity of contracts currently being written. (Some lenders offer terms of 48 months; a few contracts are apparently written with a 60-month maturity.) We see no strong reason for limiting the maturities of loans on used cars.

The monitoring effort associated with such a step does not appear to be overly burdensome. The impact on auto purchases is highly uncertain. But we believe it would be relatively small. To the extent that it did affect auto purchases, it would be likely to hit larger cars more than smaller ones.

The initial reaction of the UAW and the auto industry will probably be very adverse. If auto sales are not much affected, as we believe, the animosity may die down before contract negotiations begin this fall. But there is a risk that the chances of keeping the wage contract within the guidelines would be significantly diminished.

## Revolving Credit (Charge Cards)

A large part of consumer borrowing now takes the form of borrowing on charge cards. The simplest way in which to limit credit use in this area would be to require lenders to increase their required minimum monthly repayment. The required minimum monthly payment generally ranges from 4 to 10 percent of the outstanding balance. Our best (but very rough) estimate of the average required repayment is about 6-1/2 percent. Most borrowers do not make use of the most liberal terms. The average actual percentage payment is around 10 to 12 percent of the outstanding balance.

We cannot legally apply a higher minimum monthly repayment to loans already outstanding except through devices that would require hopelessly complicated bookkeeping for lenders. The alternative is to apply a higher minimum monthly repayment on all new borrowings. If we required a minimum of 10 percent on all new loans (close to the average actual repayment experience) all lenders would face equal constraints, and only those borrowers using the most liberal terms would be affected.

The initial siphoning off of consumer purchasing power into additional debt repayment would be very small, but it would build up over time. As time went on, however, borrowers would find ways of sustaining purchases (for example, by reducing their holdings of financial assets) despite the tighter terms on revolving credit. We would not, therefore, expect any substantial effect on consumer spending to stem from this step. But there would be a small effect in reducing the rise of consumer spending, and more importantly, many individuals would be prevented from getting themselves overextended with debt.

There are two adverse aspects of imposing consumer credit controls:

- Those who are affected the most are lower-middle income groups and individuals who are financially unsophisticated.
- Invoking the authority of the Credit Control Act of 1969 in one area may lead to expectations of its use in others, and hence to a scramble for credit.

## FOOD PRICES AND EXPANSION OF PRICE MONITORING

There are a series of steps under consideration to damp the rise of food prices and to expand the monitoring of prices of nonfood commodities. Memos outlining the steps contemplated in each of these areas are attached. Secretary Bergland has been informed of our thinking with regard to the potential food price actions, and he is to send comment back to us on them by the end of this week.

Attachments

# Potential Food Price Actions

## 1. Actions to Moderate Beef Price Increases

- Change consumer buying habits. This could be done by encouraging substitution away from products whose prices have risen rapidly. Alternatively, a somewhat more extensive report on prices aimed at consumers could be put out at regular intervals to encourage good buying habits. A significant reduction in the inflationary pressures on products in limited supply, such as beef, can be realized by reducing demand.

- Encourage rational government purchases. Any attempt to change consumer buying habits should be accompanied by a change in government buying habits. Available information suggests that the procurement practices of USDA and the Defense Department are not sufficiently responsive to price changes. Improvements could reduce demand pressures on products in short supply. We have had some positive response to an existing effort through OMB that provides lists of products in short supply to Federal procurement officers.

- Expand beef imports. The quota on beef imports this year is relatively unrestrictive. The quota was set at 1,570 million lbs., as compared to an estimated 1,640 million lbs. that would be available in the absence of a quota. Further relaxation would not have a significant impact on prices, but might serve to symbolize that government is doing all in its power to reduce prices. A similar action last year had a substantial impact on beef prices.

## 2. Actions to Reduce Dairy Prices

- Keep the April 1 increase in dairy support prices to the minimum required by law -- about 77-78 percent of parity.

- Allow the support level to fall to 75 percent of parity on October 1. This could be done unless new legislation maintains the current 80 percent minimum.

Depending on market conditions, the difference between 75 and 80 percent of parity can mean a reduction in retail dairy prices of about 2.5 percent and 0.25 in the food CPI.

- o Reduce CCC resale prices. CCC resale prices are currently at 110 percent of the support levels. They could quickly be reduced to 105 percent or lower. This would result in a slight reduction in prices especially later in the year. The main dairy items in CCC stocks are nonfat dry milk and butter. This action would impact primarily upon processed dairy products where retail prices are rising at an annual rate of 17 percent in the last 3 months and 16 percent in the last 6 months.

- o Reduce class I differentials in marketing orders. This would be more time consuming. The quickest course of action (which would still probably take several months) would involve lowering the differential in the one or two key orders in the upper midwest. The other orders would have to follow to meet the competitive pressures.

- o Investigage "undue price enhancement" by cooperatives. USDA has never enforced this provision of the Capper-Volstead Act. However, if USDA could be persuaded to publicly announce that it would investigage any cooperative charging a premium of over $X during the next six months, this might have a beneficial effect.

3. <u>Allow soybeans to be planted on land set-aside under other crop programs</u>. Soybean prices are expected to be a problem this year. The crop outlook for Brazil is not favorable and stocks are currently quite low.

4. <u>Actions to Moderate Fruit and Vegetable Price Increases</u>. The following actions could be taken immediately:

- o Reduce size restrictions on Florida tomatoes. Tomato prices have been soaring. The Florida marketing order sets minimum size standards on Florida tomatoes, the bulk of domestic winter production. A relaxation of these requirements could have some impact on supply.

- o Reduce citrus quantity restrictions. California-Arizona marketing orders limit supplies of oranges and lemons going to the fresh market. A relaxation of these restrictions could have a significant impact.

# EXPANSION OF PRICE MONITORING

## 1. Current Situation

The January and February aggregate price data, along with data on corporate profits, provide strong evidence that a large number of companies (we suspect primarily small and medium-sized companies) are not complying with the price standard (or the back-up profit-margin limitation). The need for an intensified monitoring effort has become apparent.

It has become possible only recently to begin an effective monitoring effort. Until release of the January price indexes in February, there were no significant violations of the cumulative six month limitation on price increase. Moreover, the filing of data by large corporations on February 15th provided a means of linking reported market price increases to specific companies. Information was also obtained on the total allowable price increases for each company.

Currently, monitoring is proceeding on several fronts.

- o Approximately 90 percent of the requested filings from corporations with sales in excess of $500 million have been received.
    - -- Some of the filings, however, indicate that the companies have incorrectly measured allowable price increases and they are being contacted for modifications.
    - -- The filings have been a major means of ensuring that the companies understand the program.
- o CWPS has contacted about 75 companies about price actions.
- o The Council issued its first Notice of Probable Noncompliance to a company last week. Several additional notices will be issued during the coming week.

-- As part of the due process proceedings, CWPS gives the company 2 weeks to respond before making a final determination.

-- A public statement would be made within a week of final determination. Thus, no firm can be publically identified as out of compliance before early April.

o While we have been able to identify product markets with excess price increases, the identification of specific companies continues to be a slow process.

-- Larger firms have taken their allowable price increases early, while

-- Smaller companies profess ignorance of the program.

2. Options for Expansion of Price Monitoring

Several actions could be taken to intensify the price monitoring; but we are concerned that actions not be taken that intensify the problem by heightening expectations of future controls.

o Request all companies with more than $500 million dollars in revenues to report their 6-month price increase and certify compliance.

o Request that price increases in the second 6-month period be phased in three-month increments.

-- This might prevent a surge of price increases in April.

-- The recently announced price increases for aluminum demonstrate that decisions to move prices up to ceiling levels early in the period are a potential problem.

(This action was announced by Fred Kahn on March 15).

- Request firms in problem sectors with $ X million dollars or more in revenues to report their cumulative price increases to date.
  - -- Such reporting would help to identify the smaller, single-product companies that are suspected of ignoring the standard.
  - -- On the other hand, it would be difficult to construct even a crude check list to find nonreporting firms in this category.
  - -- It would involve some public dispute about an expanded reporting burden rather than maintaining a focus on prices.
- A stronger version of the previous proposal would be to require firms in problem sectors to report monthly on their price actions. CWPS has the legal authority to request such reports. Such data requests would be likely to encourage compliance with the price standard, and would provide a more solid basis for taking action against noncomplying firms.
- Employ groups of persons from each of several departments (DOC, Treasury, and DOL) to make the initial phone calls that help to identify noncompliers. This appears to be the principal bottleneck in the current CWPS monitoring process.
  - -- CWPS has a list of problem industries.
  - -- Commerce can assist in developing lists of firms producing in those industries.
  - -- We could train people to understand the price standards in about 2 days.
  - -- They could remain physically in their own agencies with a liaison link to CWPS.
  - -- We could operate this program for a pilot group of industries on very short notice.

IMMEDIATE
PRECEDENCE

UNCLAS
CLASSIFICATION

FOR COMMCENTER USE ONLY

FROM: RICK HUTCHESON

TO: FRAN VOORDE

INFO:

RELEASED BY: DG

DEX

DAC 22

GPS

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PAGES 3

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TOR: 161726Z MAR 79

SPECIAL INSTRUCTIONS:

EYES ONLY

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WHITE HOUSE
SITUATION ROOM

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WHCA FORM 8, 22 FEB 74

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

EYES ONLY

March 15, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze CLS

Subject: Housing Starts in February

The Census Bureau will release the figures on housing starts at 2:30 p.m., tomorrow (Friday, March 16). New housing starts declined 15 percent further from the January level to an annual rate of 1.4 million. Residential building permits, however, increased 2.7 percent from the January level. Between December and February, starts fell 32 percent, while permits declined 18 percent. The 1.4 million annual rate of starts in February was the lowest since July 1976.

The decline in housing starts in February was mainly in single-family units. Starts were down in three of the four major regions (the West was an exception), but the drop was largest in the Northeast, where the weather was beastly. We believe that part of the February drop was weather-induced, as was the case in January. Some of the decline since December, however, probably does reflect reductions in mortgage credit availability.

Building permits are less volatile than starts on a month-to-month basis and are, consequently, a better guide to the state of homebuilding. The permits figures for February indicate that the depressed January level of activity in housing continued, but do not suggest any further deterioration.

We are still in a quandry as to how much of the recent decline in housing activity is weather-related, and how much is due to more fundamental factors. We will not know until the March figures are available a month from now.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

March 15, 1979

EYES ONLY

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze CLS

Subject: Industrial Production in February

Tomorrow (Friday, March 16) at 9:30 a. m. the Federal Reserve Board will release its estimate of industrial production in February, and revised estimates for earlier months. The February index shows a rise of 0.3 percent. The gain in output from October through January was revised up somewhat, but the January level of production now shows no change from December.

According to the Fed's estimates, industrial production was relatively weak in the first two months of this year. Steel production dropped sharply (by 8-1/2 percent) in January and only recovered a little in February. Auto assemblies declined in both months, and coal mining fell 1-1/2 percent last month. Business equipment production increased by 0.5 percent last month, a relatively solid gain.

These figures on industrial production do not jibe with other statistics on employment, hours worked, and orders for durable goods -- all of which show a boom underway in the durable goods industries. The reason is mainly that the Federal Reserve uses different seasonal adjustment factors than the rest of the government in constructing its index. For example, had the Federal Reserve used the same seasonal adjustment factors as the Bureau of Labor Statistics, the rise of output in February would have been close to 1 percent. Year-over-year gains in output indicate that seasonal adjustment is the source of the problem. Thus, the February level of industrial production was up 8.6 percent from a year earlier and durable goods production was up 11.6 percent. These are very solid increases.

The recent marked slowdown in industrial production as measured by the Federal Reserve staff does not, therefore, alter our view that the economy still has a great deal of momentum. Our principal concern is still that the economy is growing too fast.

C

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

EYES ONLY

March 15, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze CLS

Subject: Housing Starts in February

The Census Bureau will release the figures on housing starts at 2:30 p.m., tomorrow (Friday, March 16). New housing starts declined 15 percent further from the January level to an annual rate of 1.4 million. Residential building permits, however, increased 2.7 percent from the January level. Between December and February, starts fell 32 percent, while permits declined 18 percent. The 1.4 million annual rate of starts in February was the lowest since July 1976.

The decline in housing starts in February was mainly in single-family units. Starts were down in three of the four major regions (the West was an exception), but the drop was largest in the Northeast, where the weather was beastly. We believe that part of the February drop was weather-induced, as was the case in January. Some of the decline since December, however, probably does reflect reductions in mortgage credit availability.

Building permits are less volatile than starts on a month-to-month basis and are, consequently, a better guide to the state of homebuilding. The permits figures for February indicate that the depressed January level of activity in housing continued, but do not suggest any further deterioration.

We are still in a quandry as to how much of the recent decline in housing activity is weather-related, and how much is due to more fundamental factors. We will not know until the March figures are available a month from now.

EYES ONLY

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

C

March 15, 1979

EYES ONLY

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze CLS

Subject: Industrial Production in February

Tomorrow (Friday, March 16) at 9:30 a. m. the Federal Reserve Board will release its estimate of industrial production in February, and revised estimates for earlier months. The February index shows a rise of 0.3 percent. The gain in output from October through January was revised up somewhat, but the January level of production now shows no change from December.

According to the Fed's estimates, industrial production was relatively weak in the first two months of this year. Steel production dropped sharply (by 8-1/2 percent) in January and only recovered a little in February. Auto assemblies declined in both months, and coal mining fell 1-1/2 percent last month. Business equipment production increased by 0.5 percent last month, a relatively solid gain.

These figures on industrial production do not jibe with other statistics on employment, hours worked, and orders for durable goods -- all of which show a boom underway in the durable goods industries. The reason is mainly that the Federal Reserve uses different seasonal adjustment factors than the rest of the government in constructing its index. For example, had the Federal Reserve used the same seasonal adjustment factors as the Bureau of Labor Statistics, the rise of output in February would have been close to 1 percent. Year-over-year gains in output indicate that seasonal adjustment is the source of the problem. Thus, the February level of industrial production was up 8.6 percent from a year earlier and durable goods production was up 11.6 percent. These are very solid increases.



EYES ONLY

The recent marked slowdown in industrial production as measured by the Federal Reserve staff does not, therefore, alter our view that the economy still has a great deal of momentum. Our principal concern is still that the economy is growing too fast.

conference call with
brzezinski/warren christopher
(camp david, 3/16/79)

8:40 am 3/16/79

Zbig & Warren

To SA. Iran

We want their friendship

Serious consequences if X SA

Advantages to Palestinians

→ Eg ✓ Syria ? Rome ✓ Europe ✓

World leaders response

Help Morocco

Pak/India

March 16, 1979

Department of the Treasury

Office of the Secretary

to: Mr. Rick Hutcheson

Rick -

Attached is a memo to the President (for the Monday meeting) which Stu Eizenstat suggested we send over as soon as possible. I have sent a copy to Stu as well. You may wish to check with him on disposition.

Curt

Curt Hessler
Executive Assistant
to the Secretary
566-5901

Pres has orig

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

March 16, 1979

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MEMORANDUM FOR THE PRESIDENT

FROM: W. Michael Blumenthal Mike

Subject: Decontrolling domestic oil prices

In our inter-agency energy deliberations, I have supported the option of fully and unconditionally decontrolling domestic oil prices on June 1, 1979 (or as soon as possible thereafter) and of announcing that you will work with Congress on tax measures to deal with problems of hardship, excess profits, and equity raised by increased oil prices.

Immediate decontrol may strike you as an extreme approach, but I think it deserves your serious consideration. It has a number of advantages, both political and economic, over a slow "phase-out" of the controls system:

1. Taking charge at home

The decontrol decision offers you an opportunity to take complete charge of a major problem, which has been locked in political stalemate for 8 years, and to resolve it in the national interest with a single, bold stroke. Immediate decontrol would conclusively end the stalemate, and it could be explained with force and simplicity: the nation's security now clearly calls for maximum action to boost energy production and stem oil consumption. Your challenge to Congress to enact tax measures would rebut any charge that you had forsaken considerations of equity or hardship and would align you with liberal and moderate Democrats in the legislative debate. At the same time, that debate would not delay implementation of a sound policy on oil pricing, which would be popular with conservative and producer interests.

By contrast, all "phased" decontrol plans involve complex half-measures on pricing that would invite complaints from all sides and could lead to frequent, confusing revisions by the bureaucracy or the Congress. This would drain away the impression of firm Presidential leadership.

Oil pricing is an issue which the Congress, and former Presidents, have repeatedly refused to resolve, for narrow political reasons. By disposing of this issue decisively, you would be seen as standing above conventional politics and answering only to the nation's most vital intersts.

2. Taking charge abroad

Immediate decontrol would deal a major blow to those now pushing up world oil prices, would increase your leverage on Middle East politics, would secure the dollar against further crisis, would shrink our trade deficit, and would put you in a position of commanding leadership among our industrial allies, not only in energy matters, but also in international economic and security matters generally. This one decision would put you fully in charge of the Tokyo Summit and of allied economic affairs over the remainder of your term.

Without full decontrol, we may not be able to attain the 5 percent oil consumption cut-back agreed by the IEA, and we may well find ourselves constantly on the defensive, with respect to both OPEC nations and our industrial allies.

3. Improving the inflation outlook

It is often argued that fast decontrol is unduly inflationary. I believe the opposite argument can be sustained: immediate decontrol is superior on inflation grounds to both slow or no decontrol.

It is very important to understand that the inflation estimates for all the decontrol options are extremely uncertain, and that the differences in inflation impact among the options are smaller than the margin of error in the estimates. The controls and entitlements system has grown so complex and rickety that no one can sensibly estimate the effects of tinkering with it further. It would be very imprudent to base this fundamental policy decision on estimates involving several tenths of a percent on the CPI -- those estimates are simply not reliable enough.

The argument that fast decontrol is unduly inflationary focuses artificially on just one effect among many: the obvious fact that decontrol involves a one-time rise in domestic oil prices to the world level. Immediate decontrol compresses that effect in the short term, while phasing

c. Restraining world oil prices

The sharp impact of fast decontrol on U.S. oil consumption and production provides a good prospect for preventing or rolling back world oil price increases in 1979. We have no other weapon in our arsenal to do this. Again, the result is extremely important for inflation: each $1 per barrel rise in world oil prices adds about .2 - .3 percent to the U.S. inflation rate.

d. Getting over the hump

Concentrating the direct inflation impact in 1979 means that the CPI effects will diminish sharply in 1980 and beyond, while the "phasing" options would still be boosting U.S. oil prices -- and the CPI -- in the out years. Also, concentrating the direct inflation impact in 1979 makes less likely a full feedback and amplification of the effects through the wage-price spiral.

e. Improving the GNP growth outlook

Decontrol would temporarily slow real GNP growth if it reduced domestic aggregate demand. But this temporary effect would be small (again, less than the margin of error in our forecasts), and will be offset to the degree decontrol serves to check OPEC price increases. Decontrol would boost real GNP in the longer term by improving the supply side of the economy -- e.g. by increasing domestic energy production, by eliminating the inefficiencies of controls, and by reducing the drain of U.S. real wealth to OPEC. The temporary aggregate demand effect, if any, is in any event more appropriately concentrated in 1979, when we wish to slow the economy for anti-inflation reasons, than in later years, when we may wish to have higher demand levels.

dribbles the effect out piecemeal over several years. What is ignored in the computer forecasts, however, is that compressing the oil price increase in the short term would have several important anti-inflationary consequences, which would very soon offset most, if not all, of the CPI impact of the domestic oil price increase:

a. Boosting energy conservation and production

Fast decontrol would have a maximum impact on U.S. energy consumption and production -- not only from increased oil prices, but also from the dramatic effect of eliminating with finality all the uncertainties, inefficiencies, and perverse subsidies of the controls and entitlements system. Compared to a situation of no decontrol, immediate decontrol would within 12 months boost U.S. oil production by at least 300 thousand barrels per day (rising to 1 million barrels per day in several years), and would reduce U.S. oil consumption by as least 300 thousand barrels per day (rising to 500 thousand barrels per day in several years). A decisive decontrol of oil prices would ensure the success of our other conservation measures and would spur a serious switching into other available fuels (e.g. natural gas). Perhaps most importantly, it would move American industry decisively toward the large, long-term investments we need in coal gassification and liquefaction, oil shale, solar technology, and other new energy sources.

b. Shrinking the trade deficit and strengthening the dollar

Immediate decontrol would reduce the trade deficit by at least $2 1/2 billion within a year, and ultimately by about $8 billion (at today's prices). By reducing oil imports, decontrol would help stem the drain of real U.S. income and wealth to the oil exporting nations. It would strengthen the dollar and -- very importantly -- would insure against a dollar crisis in mid-late 1979. This would provide substantial help on inflation (each 10 percent fall in the trade-weighted value of the dollar adds about 1.5 percent to the U.S. inflation rate over a 24-36 month period) and would allow us to avoid emergency measures for dollar-defense, which could worsen inflation, or cause a major economic slowdown, in late 1979 or 1980.