

EXECUTIVE SESSION

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TUESDAY, SEPTEMBER 11, 1979

United States Senate,  
Committee on Finance,  
Washington, D. C.

The Committee met, pursuant to notice, at 10:10 a.m. in room 2221, Dirksen Senate Office Building, Hon. Russell B. Long, Chairman of the Committee, presiding.

Present: Senators Long, Talmadge, Gravel, Bentsen, Matsunaga, Baucus, Boren, Bradley, Dole, Packwood, Roth, Danforth, Chafee, Wallop and Durenberger.

The Chairman: Let me just suggest that we start this meeting since Senator Danforth is here and he made a request for information.

Incidentally, he is not the only one asking for information and Senators are entitled to have it if we can get it.

Would you tell us, Mr. Shapiro, how you are coming along in getting the information that all the members of this subcommittee want?

Mr. Shapiro: The requests are coming in faster than the results are coming out. We have a tremendous number of requests that have come in from the members. As expected,

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1 over the recess there was a lot of analysis. The  
2 members talked to a lot of groups When they came back after  
3 recess, a whole series of alternatives have come to us from  
4 a number of Senators.

5 We hope to have most of these by the end of this week and  
6 the problem is we still keep on getting them. We probably will  
7 continue to be behind. We hope to be as prompt as we can.

8 We are doing everything to have the revenue estimates  
9 in. As you can appreciate, there are a whole series of  
10 alternatives because the members like to see the various  
11 effects of them.

12 We are trying to coordinate the production responses and  
13 the energy savings, the energy savings particularly with the  
14 credits. A number of members have asked us for the revenue  
15 estimates and a whole series of energy tax credits, as well as  
16 dealing with just the windfall profits tax.

17 We are discussing with the DOE and other groups who have  
18 capability and production savings on production responses and  
19 we are trying to have that information prepared for the  
20 committee.

21 The staff does not have the capability and would not be  
22 in a position to give an analysis of our own, but what we are  
23 doing is reviewing the analysis that comes in from the DOE and  
24 the outside groups because I think the committee wants it and  
25 has the right to see the effects of the production responses

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1 to the various alternatives they have.

2 With respect to the energy credits, it is the same  
3 aspect. We will be doing the revenue effects. We do not have  
4 the present capability to know the exact energy savings from  
5 the various alternatives from energy credits.

6 However, we are working with DOE, who has a model, and  
7 with some of the outside groups and some of the Senators are  
8 also working with outside groups and we would be happy to  
9 coordinate that with our analysis and present it to the  
10 Committee.

11 I would just say, in summary, we have a number of  
12 requests and we are doing the best we can. We are on line to  
13 have most of them out by the end of this week and we have been  
14 in contact with those who are doing some of the production  
15 savings..

16 The Chairman: I am a little dismayed.

17 When you told me a few minutes ago that the Joint  
18 Committee staff simply does not have the expertise nor the  
19 money to provide us with all the information that we have  
20 already requested, I signed a letter for the Senators who  
21 already signed before I signed, which seemed to be a fair  
22 request to try to predict what the production response would  
23 be to various tax incentives that could be provided in this  
24 bill on oil and gas.

25 You might elaborate on that a little bit for the members

1 wno signed that letter, in addition to me.

2 Mr. Shapiro: That letter we have presently in operation  
3 to try to have the revenue effects of all the various  
4 alternatives. That particular letter requested approximately  
5 56 revenue effects, as well as production responses.

6 We are onstream to have most, if not all of the revenue,  
7 effects of that particular request hopefully by the end of  
8 this week. That particular group also has been working with  
9 outside individuals to get the production responses.

10 They have been in contact with us. We had a meeting on  
11 Saturday. An individual came and met with our people looking  
12 at the revenue analysis yesterday afternoon for several hours.

13 We are in close coordinastion with the revenue effects  
14 side and the production response side.

15 So although we do not have the independent capability of  
16 getting production responses because we have been doing  
17 revenue effects, that is where we have all our computer  
18 capability and expertise. We do not have the capability to  
19 get the production responses.

20 However, we are working very closely with some outside  
21 people who do have that, DOE, as well as some who are working  
22 closely with the Senators. That information will be made  
23 available to the Committee. You will have some production  
24 responses.

25 We will try to do the best we can to give you an analysis



1 estimates.

2 A second estimate is that the oil price grows at the rate  
3 of inflation with no additional price, which is what the  
4 Treasury has been using.

5 Third, an estimate of a much faster growth in oil prices,  
6 that oil prices grow at the rate of inflation plus 4 percent.  
7 The 4 percent comes from Data Resources who has an energy  
8 forecasting service. 4 percent is the number they use.

9 That is the only one of the numbers. That is the number  
10 of a private forecaster and they are much more pessimistic.

11 Those three, the three tables, one, two, three, the first  
12 one is the 1 percent, the second one is the no growth in  
13 excess of inflation, and the third one is 4 percent.

14 Now, the second problem that we had, the estimates when  
15 we started thinking about it also depend very heavily on what  
16 you assume about how decontrol affects the overall economy,  
17 both the overall level of gross national product and also the  
18 price level. And when we got to discussing this with the  
19 Treasury, we all had different ideas about how that might  
20 happen and we decided to do the estimates for Senator Danforth  
21 on the basis of three different assumptions, each of which --  
22 so it appears to capture some aspect of reality, although no  
23 one of the three is probably correct in itself.

24 In the first set of assumptions that decontrol does not  
25 change the price level but increases the level of real gross

1 national product, that is, the actual goods and services.  
2 This might occur because of decontrol increases in oil prices.  
3 It might occur because decontrol makes the economy more  
4 efficient, eliminating gas lines and more efficient allocation  
5 of the oil you have.

6 To the extent that is the case, then out of this  
7 additional income, the government will collect some income tax  
8 and you will get some income tax from the producers, or from  
9 the people who are generating this higher income.

10 And so assumption number one, in each of the three  
11 tables, assumes that decontrol does not increase the price  
12 level but instead increases real GNP and it is very hard to  
13 estimate how much the increase will be.

14 Here it is just assumed that the increase in real GNP  
15 equals the additional revenue to the oil producers, but any  
16 number of assumptions are possible. We really have trouble in  
17 coming up with any more exact estimate.

18 Assumption number two is, decontrol does not change real  
19 gross national product. Instead, it is only reflected in  
20 higher prices of petroleum products to consumers.

21 This, I suppose, is the classical estimate you see in  
22 many of the studies of the impact of decontrol. It does not  
23 assume it is just going to push up prices and not do anything  
24 else.

25 That, obviously, is unrealistic to some extent.

1           If you do that, what happens if you have increase in  
2 prices is the oil producers will get higher incomes and you  
3 will collect some tax on that, some income tax, but at the  
4 higher price level, you will have to increase government  
5 spending in order to -- because the government will have to  
6 pay a higher price for the goods and services it purchases, so  
7 the full increase in producers' income, the income tax you  
8 collect from the oil producers, from their higher incomes,  
9 will not be fully available either for spending or for  
10 offsetting tax cuts.

11           Some of that money will have to be set aside to pay for  
12 the increased prices the government will have to pay for its  
13 goods and services. So assumption number two shows the  
14 increased income tax paid by oil producers. The offset for  
15 the additional spending you would have, then the Federal  
16 royalties and the windfall profits tax.

17           That leads to an estimate of the amount of revenue  
18 generated to the government which are available either for  
19 spending or for tax cuts.

20           The third set of assumptions that we looked at, what  
21 happens if decontrol does not affect either real GNP or the  
22 price level, and that may sound unrealistic but that is the  
23 assumption that is traditionally made in revenue estimates.

24           I know the staff has been criticized for that, for not  
25 taking into account the feedback effects, and the reason this

1 assumption is used, it assumed in revenue estimates that some  
 2 central budget agency, whether it be the Budget Committee in  
 3 the case of Congress or the the OMB in the case of the  
 4 administration, some central agency sets up economic  
 5 assumptions that all of the other groups, the other committees  
 6 or the other agencies, are forced to live with.

7 If yo did not do that, it would be difficult making up a  
 8 budget because each committee would assume its own economic  
 9 assumptions and the budget would not wind up being a  
 10 consistent document so in the Executive Branch the OMN and the  
 11 Council of Economic Advisors and the Treasury get together and  
 12 think up economic assumptions and kind of impose them on the  
 13 other agencies.

14 In Congress, typically, the Budget Committee sets up the  
 15 economic assumption and then imposes them on the different  
 16 committees. If that is the case, as a part of that process  
 17 each individual committee has to assume that none of its  
 18 programs affect the overall economy.

19 If you have that assumption, then what happens, decontrol  
 20 will raise oil prices, but it will have to lower prices in  
 21 other sectors, so you will get increased income tax from oil  
 22 producers but reduce taxes in the other sectors of the  
 23 economy. That is what is shown in Assumption Three.

24 Still, there are sizable revenues that are made available  
 25 from decontrol, but a smaller amount that are neither in

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1 Assumptions One or Two.

2 That is the analysis we did for Senator Danforth.

3 Looking at the table, the amounts of money involved range  
4 quite a bit. If you assume new growth in oil prices and the  
5 assumption, the macro-assumption, there is no change in either  
6 GNP or the price level. Then decontrol, in the House bill,  
7 will make available \$144 billion over the eleven-year period  
8 1980 through 1990, which will be just about enough to pay for  
9 what the administration's estimates are for its energy  
10 program.

11 If you assume a 4 percent real growth in oil prices and  
12 assume Assumption Number One, that decontrol does lead to a  
13 sizable increase in real GNP, you get \$481 billion.

14 In concluding, on the other extreme, you can generate up  
15 to \$481 billion, not only enough to pay for the  
16 administration's energy program but would leave sizable  
17 amounts left over for other additional spending programs or  
18 for tax cuts.

19 And now, the question is, which of these different  
20 assumptions is actually the right one?

21 That is quite a bit more of a difficult question for us  
22 to answer. I imagine the real world is somewhere between  
23 those extremes.

24 Senator Danforth: Mr. Chairman?

25 The Chairman: Senator Danforth?

1           Senator Danforth: I appreciate the indulgence of the  
2 committee in having this presentation. I do think it is  
3 useful.

4           I think the Joint Committee has done an excellent job,  
5 particularly you, Jim, in putting together these estimates and  
6 I appreciate it.

7           Let me ask you one specific question on Assumption No.  
8 Two on any of these three charts. That is, that there is no  
9 real change in GNP but an increase in prices.

10           By increase in prices, as I understand what you have done  
11 in computing the effect of this is to say, well, there is  
12 going to be no real increase in GNP; therefore, the tax base  
13 is not going to be increased; therefore, the Federal  
14 government is not going to realize more revenue. However, it  
15 is going to be spending more money to provide the same  
16 services that it provides now because inflation is going to  
17 cost more. Is that right?

18           Mr. Wetzler: That is not exactly right. We are assuming  
19 there is an increase in the tax base. Let's us assume that  
20 GNP were \$1,000 and government spending were \$200,000 and  
21 decontrol involved a \$10 increase in revenues to the  
22 producers. That means if you assume decontrol pushes up  
23 prices, then GNP will go up from \$1,000 to \$1,010 and you will  
24 collect tax on the additional \$10 to the producers.

25           That is what is shown in line one of that part of the

1 chart. However, at that higher price level, in order to keep  
2 the price level 1 percent higher, instead of spending \$200,  
3 you would have to spend \$202 to maintain the same real amount  
4 of spending. You would have to set aside \$2 of your  
5 additional revenues to pay for keeping your existing spending  
6 the same, and all you would have is a surplus over 2 to pay  
7 for new programs.

8 You would generate some additional income. It is sort of  
9 related to the whole question of how inflation raises the  
10 real tax burden. Inflation generally raises taxes.  
11 Inflation raises taxes, increases the tax base. Some of that  
12 you have to set aside to pay for your existing programs, but  
13 there usually is some surplus left over that is available  
14 either for new spending or for tax cuts.

15 That is what is shown in the second line, the amount that  
16 you would have to set aside for paying for your existing  
17 spending and you can see that still leaves some surplus left  
18 over for additional programs.

19 Senator Danforth: Let me ask you this. On Assumption  
20 Two, do you include in Assumption Two additional revenues from  
21 taxpayers other than oil producers as a result of inflation?  
22 That is to say, that the well-known effect that when you have  
23 a 1 percent increase in inflation it is a 1.5 times that  
24 increase in revenues because people are put in higher brackets  
25 and because you are taxing inflated inventories and so on.

1 Mr. Wetzler: In this assumption, where all of the  
2 additional income goes to the oil producers, all of that  
3 additional tax is paid by the oil industry.

4 So let us say you have the case I gave where the GNP  
5 increases from \$1,000 to \$1,010. The people outside of the  
6 oil industry have the same \$1,000 income that they had before  
7 and the oil producers have the additional \$10. So the tax  
8 paid by everybody else stays the same and the entire  
9 inflation-induced tax increase in this case would go to the  
10 oil producers.

11 Senator Danforth: It is my understanding that the  
12 administration and the economists who have looked at this --  
13 as a matter of fact, when Eisenstadt unveiled the President's  
14 program, as I recall, he projected that the effect of  
15 decontrol on the economy as a whole would be an increase in  
16 inflation of something like a half a point, something like  
17 that.

18 Is that not right?

19 Mr. Wetzler: I think so. It probably has gone up since  
20 then because the oil price is higher.

21 Senator Danforth: Whatever.

22 The theory is that when you decontrol, that is a  
23 component in the whole Consumer Price Index and therefore  
24 prices go up for everybody. It has an inflationary effect.  
25 Right?

1 Mr. Wetzler: That is right.

2 Senator Danforth: If it has an inflationary effect, it  
3 has an inflationary effect on the whole economy. Prices go up  
4 in general. Right?

5 Mr. Wetzler: That is right.

6 Senator Danforth: If prices go up in general, Federal  
7 revenues go up at a rate higher than the general rate of  
8 inflation, correct?

9 Mr. Wetzler: Yes. That is what is happening here.

10 Senator Danforth: Is that built into this?

11 Mr. Wetzler: Yes.

12 Senator Danforth: So built into Assumption Number Two is  
13 that, say, a Mom and Pop grocery store is going to be paying  
14 higher taxes.

15 Mr. Wetzler: It is going to be paying higher taxes only  
16 in the sense when its income stays the same and the price  
17 level goes up, its real income goes down but its taxes are  
18 going to stay the same.

19 Senator Danforth: What I am saying to you, it seems to  
20 me what you have done here -- I do not know how you have  
21 computed it. I am must asking.

22 What you have said, the Federal government has to pay  
23 more for goods and services as a result of inflation.  
24 Therefore, that should reduce the net effect of decontrol on  
25 the revenue picture for the administration, for the

1 government.

2 Mr. Wetzler: That is right.

3 Senator Danforth: What I am asking you, have you also  
4 built into this assumption the effect that inflation generally  
5 has on Federal tax revenues, not just from the oil producers,  
6 but on everybody else?

7 Mr. Wetzler: Senator Danforth, inflation raises tax  
8 revenues, which is true, because it increases people's incomes  
9 and those incomes are subject to tax at the high marginal rate  
10 which may be 40, 50, 60 or 70 percent instead of the average  
11 rate, which is much lower in a progressive system.

12 That is the mechanism whereby inflation raises taxes  
13 here. The effect of inflation on tax revenues is taken into  
14 account because it is assumed that the higher income accrues  
15 to the oil producers and is subject to tax at that rate.

16 Senator Danforth: What I am asking you, is this  
17 assumption made for other taxpayers as well?

18 Mr. Wetzler: Well --

19 Senator Danforth: Right now, you have a 14.9 percent  
20 rate of inflation annualized, last figures. Part of that --  
21 what I understand the economists are saying, part of the  
22 reason for that is increased oil prices. But as increased oil  
23 prices have a general inflationary effect on the economy,  
24 everybody then tries to keep up with that.

25 The people who run the corner grocery store try to keep

1 up with it. The people in the clothing business try to keep  
2 up with it. Wage earners try to keep up with it.

3 And the effect of that is there is an increase in the  
4 Consumer Price Index and also an increase in tax revenues  
5 greater than the CPI.

6 Mr. Wetzler: We have not taken into account the  
7 possibility that any increase in oil prices could lead to a  
8 further wage-price spiral that would, in fact, generate still  
9 more revenue to the Federal government. We have not taken  
10 that into account.

11 Senator Danforth: You cannot take everything into  
12 account. You are just working it out.

13 That obviously is a truism is it not?

14 Mr. Wetzler: You are right. But probably the  
15 assumptions, simply that decontrol raises the rate of  
16 inflation by the amount of the additional oil revenues is  
17 probably not correct. If that were correct, there probably  
18 would be this wage-price spiral that you are referring to.

19 Senator Danforth: The only group that I have seen that  
20 has tried to compute that into it is the Chamber of Commerce  
21 who used Wharton figures, as I understand it.

22 They come up with an additional Federal revenue increase  
23 over and above the items involved here of \$169.8 billion over  
24 this 11-year period of time.

25 If you use the Wharton assumptions as to the effect of

1 oil price increases on inflation and that effect, in turn, on  
2 total Federal revenues, not just from oil companies, that  
3 would produce over and above ---say on Table No. 1, the \$220  
4 billion would be an additional \$169.8 billion.

5 Mr. Wetzler: We just received the Chamber of Commerce  
6 analysis this morning and have not had a chance to look at it,  
7 but you are right that there are other effects. It is quite  
8 possible that there would be a still bigger increase in  
9 prices, although I think that the Chamber analysis also  
10 assumes that there will be some increase in real GNP which  
11 would make the world closer to Assumption No. One. That does  
12 take some of that into account.

13 Senator Danforth: Could you tell us your view on which  
14 of these assumptions? We have three tables here and we have  
15 three assumptions on each table.

16 Could you give us your view ---and then I would like to  
17 have the administration's ---as to where in this range the  
18 real world will most likely be?

19 Mr. Wetzler: On oil prices, my personal view is  
20 pessimistic. I think probably the 4 percent is closer to  
21 reality than any of these others.

22 Typically we have not been assuming extraordinarily high  
23 increases in oil prices in doing these estimates. I guess we  
24 do not want to encourage OPEC to think we are able to accept  
25 high oil prices as the normal course of business.

1           If I had to bet, I would bet in 1990 we would be closer  
2 to the 4 percent than the 1 percent.

3           Senator Danforth: Since '73, it has been an average of  
4 4.5 percent?

5           Mr. Wetzler: I think it has probably been higher than  
6 that. I would have to look. I am not sure.

7           On the question of assumptions, my personal view is there  
8 will be an increase in real GNP as a result of decontrol, in  
9 terms of more production, in terms of more efficient  
10 allocation of the oil you have got.

11           It may not occur in the first year or two. I think after  
12 a couple of years, you will see it. I do not have any sense  
13 of how large it would be.

14           I think decontrol will not cause prices to increase as  
15 much as Assumption No. Two assumes. I think eliminating a lot  
16 of these inefficiencies, the price rise to consumers will be  
17 less than the increase in income to producers. I am not sure  
18 how much less.

19           Maybe the Treasury ought to comment. I would say the  
20 assumptions are probably somewhere between Assumption No. One  
21 and Assumption No. Two but I am not sure exactly where.

22           Senator Danforth: You say the assumption would be  
23 somewhere between Assumption No. One and Assumption No. Two?  
24 Your own guess would be that it would be closer to the 4  
25 percent than to the 0 or the 1 percent?

1 Mr. Wetzler: I am not sure that you ought to plan on the  
2 4 percent in terms of spending. I think that it would be a  
3 mistake for the government to spend \$400 billion on the  
4 assumption we are going to collect a lot of revenue and then  
5 find out that it did not materialize.

6 Senator Danforth: Obviously prudent planning is your  
7 best judgment, not taking the highest possible figure you can  
8 imagine, or the lowest possible figure you can imagine. Your  
9 best guess, it would be somewhere between 1 and 2, and also  
10 that in computing this you did not figure the ratcheting  
11 effect of inflation on tax revenues in general?

12 Mr. Wetzler: That is right.

13 Senator Danforth: Does the administration have a view on  
14 that?

15 Mr. Sunley: Senator Danforth, I think that we should all  
16 recognize that neither this committee nor the administration  
17 has traditionally associated a net revenue gain to the  
18 Treasury from a change in prices. When the administration  
19 considers, for example, raising agricultural price supports,  
20 we do not sit down and immediately figure out, "Oh, that is  
21 going to be inflationary" or "That is going to increase fuel  
22 prices in the economy" and shifting income between various  
23 sectors is going to make money for the Treasury.

24 This whole kind of analysis here is fairly new. I think  
25 it poses important questions, but I think it should be

1 recognized that the answer you get -- I think this is what  
2 Jim's analysis shows -- the answer that you get depends  
3 crucially on the set of assumptions that you want to start  
4 with.

5 It is awfully hard when you get done with the analysis to  
6 say which set of assumptions you want, because you may have an  
7 answer you want.

8 I think that we all have our own axes to grind, to some  
9 extent, and they influence how we come out on this. Let me  
10 comment, however, on the two arrays of assumptions. One is  
11 the real price assumption.

12 The administration all along has felt that there is no  
13 easy answer to what will be the future real price of oil and  
14 what the rate of increase and the price of oil will be. In  
15 April, when the President announced his decontrol package we  
16 presented two alternatives: either a 0 percent of real growth  
17 or a 3 percent of real growth. We thought that sort of  
18 bracketed the kind of scenarios that might occur.

19 I think at this moment, internally we have been using  
20 sometimes three and sometimes four different prices,  
21 assumptions ranging from 0 to 4 percent. We have also been  
22 doing some analysis at the 1 percent real price assumption,  
23 which I understand is where the Joint Committee has made most  
24 of their assumptions.

25 I fear, with respect to that real price assumption, that

1 no one is going to know what the right answer is, that we  
2 ought to examine this bill looking primarily at one  
3 assumption, and occasionally at others, just to reduce the  
4 number of variables that we have to deal with. And I am quite  
5 willing to move ahead on the 1 percent real growth assumption  
6 that the Joint Committee has been using.

7 I must say the 4 percent assumption, which Jim indicates  
8 may be the most realistic world, I think there the numbers  
9 that we can present are probably the least realistic. If we  
10 have 4 percent OPEC price increase year-in, year-out, that has  
11 a tremendous inflationary effect on the economy because it  
12 involves transferring real resources from the U.S. domestic  
13 economy to the foreigners and this analysis takes that kind of  
14 effect on what does this real income transfer, increasing  
15 income transfers, have on the level of economic activity in  
16 our economy?

17 I guess I would say for the purpose of the mark-up, 1  
18 percent is probably a good number to look at and others could  
19 be looked at from time to time. With respect to the choice of  
20 the other three assumptions, in terms of what does decontrol  
21 do, we tend to come out with Assumption Number Three as  
22 probably being a better way to look at this problem.

23 But I must say that I am not comfortable saying that is  
24 the right answer. I do not think that there is a right  
25 answer.

1 I wished macroeconomists and forecasters that I have to  
2 read were certain enough of their profession that we could  
3 rely on them. I fear that what we have to do is, at best,  
4 forecasting is sort of a six-quarters ahead exercise, and as  
5 we decontrol and put on new taxes and OPEC announces real  
6 price increases from time to time and we look at the level of  
7 government spending, obviously we are going to have to, time  
8 and time again, examine what is the appropriate level of  
9 aggregate demand in the economy? What changes in the economy  
10 make sense, trying to manage the economy and make judgments.

11 We really, frankly, do not know the full details in terms  
12 of what are the effects of decontrol. I think Assumption No.  
13 Three, though, kind of has a nice, intuitive appeal to it. If  
14 we are spending more money on oil, inevitably we are spending  
15 less money somewhere else in the economy. That means there is  
16 less income generated somewhere else in the economy.

17 Jim assumes that that less income is less wages,  
18 therefore, he uses the marginal tax rate on wages. It may be  
19 less profits. Other industries may lose profits. Maybe it is  
20 just shifting profits within the corporate sector.

21 Lots of assumptions that you can make here.

22 I feel that forecasting has got to be on a much more  
23 short-term basis. I would prefer to analytically approach the  
24 question in terms of Assumption No. Three.

25 Senator Danforth: Forecasting is difficult. On the

1 other hand, the whole exercise is that projections are being  
2 made to the best of our ability. We are just human beings, as  
3 to what kind of energy program we want.

4 The President has asked for an 11-year program and has  
5 tried to project, to the best of his ability, where he thinks  
6 we are going to end up, and therefore we have to do our best.  
7 But I think the one thing that is sure is that whatever we do  
8 by virtue of decontrol and by virtue of tax policy, it is  
9 going to have some effect on the country and on the economy.

10 Mr. Sunley: I think the conclusion that we have from  
11 this analysis is that decontrol does raise the amount of  
12 income taxes collected in the economy, but not by the full  
13 amount of the increased income taxes paid by producers and  
14 royalty owners.

15 Either Assumption No. Two or Three, that gets you very  
16 close to the same answer. That is sort of the range we can  
17 deal with.

18 The reduced taxes, or the increased Federal spending, is  
19 an offset that appropriately ought to be taken into account  
20 trying to take into account what is the net impact on the  
21 budget deficit by decontrol.

22 Senator Danforth: Mr. Chairman, just one other point.  
23 The Chamber of Commerce figures, the Wharton figures, would  
24 indicate a total Federal increase in revenue given a 3  
25 percent real increase in oil prices over this period of time

1 and working in the effect of inflation on tax revenues in  
2 general.

3 The total amount that they come up with is \$424.7 billion  
4 over the same period of time. That would just be short of  
5 three times the amount that the administration is asking for  
6 its energy program.

7 I appreciate the time the Committee has given me.

8 The Chairman: Well, it seems to me that if we think in  
9 terms of what we can do year by year, you can project these  
10 figures off into the future, but if you think in terms of what  
11 happens in the next two or three years, you can come a lot  
12 nearer making a reasonably accurate guess than you can by  
13 pushing it ten years from now, because it is almost impossible  
14 to project what is going to happen ten years from now in this  
15 area.

16 But that is what you asked for, Senator. You have nine  
17 different figures. You can take your choice which one of them  
18 that you want to go with.

19 Senator Danforth: There is a lot of room for argument,  
20 Mr. Chairman.

21 The Chairman: Now, do you want to go ahead now? You  
22 have another set of figures for us here, which I guess are  
23 helpful, showing what all of these proposals are.

24 Senator Packwood: Which set are you looking at?

25 The Chairman: I am looking at the different sheets you

1 handed us.

2 Mr. Shapiro: I think it is being distributed right now.  
3 This is what we told the Committee last Thursday, that we were  
4 getting updated figures on our revenue effects of the  
5 House-passed windfall profits tax. It was the Committee's  
6 decision that we would not be talking about any of the gross  
7 windfall profits taxes. All of these figures are on a net  
8 basis.

9 We have put this table on the basis of the various  
10 categories of oil in the House bill. We have given you the  
11 total of the House bill and then have compared it with the  
12 original administration proposal and the revised  
13 administration proposal. We have taken it out to 1980, to  
14 1990. We have a total at the end.

15 Also, for the benefit of the Committee, what we have  
16 there at the last column at the right is the present value of  
17 the figures. It is clear that \$1.00 today is not worth the  
18 same in 1990, so we thought it might be helpful for the  
19 Committee to show the present value for purposes of our  
20 estimating basis.

21 We keep it on the regular basis.

22 Generally speaking, as the Committee knows, we just of  
23 revenue effects anywhere between one to five years, usually  
24 with three in the Committee report. There are times when we  
25 could put five in the budget requirement.

1           We are more confident of the estimating on a three-year  
2 basis. When you get out to 1990, when you are that far away,  
3 it is appropriate, we think, to just see the present value  
4 effects. That is why we put that in this table.

5           The Chairman: It seems to me if you start out and take  
6 those figures and go back and take a look at those charts that  
7 Senator Danforth asked for, look at Table 1.

8           If you take the assumption that would give you the least  
9 revenue of all the nine figures, in my judgment, that is very  
10 unrealistic. But if you take the lowest and least assumption  
11 that you can find anywhere, then the effect of the decontrol  
12 alone would start you out with about \$76 million over the  
13 period -- I guess it starts out with 1980. How much money  
14 would that get you, just with respect to decontrol?

15           I see that you reduce it by income and payroll on non-oil  
16 revenue, so if you take that -- I guess that is part of the  
17 administration recommendation, is that right?

18           When you say reduced income and payroll tax on non-oil  
19 sectors, does that happen anyway, or is something in the  
20 administration's recommendation?

21           Mr. Shapiro: You are talking about Assumption Three.

22           The Chairman: Assumption Three, yes, where it says  
23 reduced income and payroll tax on non-oil sector, I see a loss  
24 of \$2,897,000.

25           Mr. Shapiro: That is just to show that based on the

1 additional income tax of an oil producer of \$3.4 billion,  
2 there will also be reduced income to -- reduced income is the  
3 effect of the income and payroll tax on the sector as a  
4 trade-off. The government gets more money from oil producers  
5 and less money from other taxpayers.

6 That is the basis of this assumption. As was pointed  
7 out, this is based essentially on payroll. It could be that  
8 there is a combination of payroll reductions as well as  
9 businesses paying less profits. You have to make some  
10 assumptions. This is essentially on payroll.

11 The Chairman: You get a \$700 million net the first year,  
12 even taking the most pessimistic assumption that can be found  
13 here.

14 Mr. Shapiro: That is correct.

15 The Chairman: You get about -- and you start off with --  
16 if you go on the bottom column, go to the righthand side,  
17 where you have the figure of the Federal royalty of  
18 \$9,736,000,000, add that back in after you subtract the \$107  
19 million from \$174 million, and you come back up with a gain by  
20 \$76 billion.

21 That is the figure the Treasury would like to get which  
22 indicates the lowest amount of revenue that you could  
23 anticipate. I guess there would be a tax cut for that money.  
24 Taking the lowest figure they come up with at a minimum, you  
25 would get that much.

1           It seems to me we could start off thinking that we have  
2 that much revenue to think of, that we could rely upon as a  
3 basis for which this windfall tax would be added.

4           If we pass a windfall tax, we start off with that much,  
5 and then we are talking about these other figures which are  
6 net which you add on top of that.

7           Mr. Shapiro: Yes. That is correct. I do want to make  
8 one observation so it does not cause some confusion.

9           So that the table that was prepared for Senator Danforth  
10 and was done and available for him when he came back from  
11 recess, the table we just distributed, that single sheet, has  
12 the revived revenue effects of the net windfall profit tax.  
13 It is not consistent between the two tables.

14           There are slight differences.

15           Other than that, the analysis you are doing, Senator  
16 Long, is appropriate. What you are looking at, the total  
17 amount of additional revenues that the government would get  
18 over that period between 1980 and 1990 without regard to a  
19 windfall profits tax.

20           The Chairman: All right.

21           It seems to me that we could decide whichever way we want  
22 to go. We could write our own bill if we want to or we could  
23 work from the House bill. We could either start with the  
24 President's original recommendation and work up or start with  
25 the House bill and work in the other direction.

1           It seems to me it is up to the Committee to decide what  
2 approach you want to do. Do you want to vote to add things on  
3 or vote to take things out? You can do it either way.

4           Senator Gravel: Mr. Chairman?

5           The Chairman: Yes.

6           Senator Gravel: Would it not be better from the  
7 committee point of view to establish our goals and then build  
8 a bill around what our goals are rather than get saddled with  
9 what the Administration has done, or get saddled with what the  
10 House has done to the administration proposal?

11          Let us set our goals. What do we want to do, as a  
12 nation, and then let this committee chart a method of  
13 effecting those goal.

14          Senator Packwood: Mr. Chairman?

15          The Chairman: Yes, sir.

16          Senator Packwood: I agree with him. I would rather look  
17 and say, how many barrels do we want to produce by 1990. What  
18 is the rational basis that we can produce, and then say, how  
19 much money does it cost, and then say, all right. If the bill  
20 raises that much money without the windfall profits tax and we  
21 want to skip it, whether we need it or not, or if we need \$10  
22 billion, do we want \$10 billion from a windfall profits tax to  
23 balance it?

24          Let us realistically work backwards from where we want to  
25 be in '85, '95 and 2000 and then figure the tax.

1 The Chairman: Senator Dole?

2 Senator Dole: I think I generally agree. Maybe we could  
3 forge our own handiwork in the committee, much along the lines  
4 that Senator Gravel and Senator Packwood have indicated. I  
5 see Senator Wallop here. I have had a brief visit with him.

6 If I could, before we make that judgment, I think last  
7 Thursday we were asked about the cost of newly-discovered oil.  
8 I would just like to clarify the record.

9 I think there have been some further consultations with  
10 Mr. Lubick. I think the \$54 a barrel figure for each barrel  
11 of production was a little high, even based on the pessimistic  
12 150,000 barrel figure the administration proposes as opposed  
13 to the 380,000 of industry sources. We might clarify that for  
14 the record.

15 Mr. Lubick: When I made the calculation, I used \$2.9  
16 billion for 1985, I believe it was, and I have been informed  
17 that that figure was a gross figure, not the net figure. So  
18 that what I did was divide the 150,000 barrels into 2.9 and if  
19 you are going to figure the net cost, you would divide it into  
20 a considerably lower figure, presumably less than half of  
21 that.

22 Senator Dole: Which would give you about \$22 and some  
23 cents per barrel.

24 Mr. Lubick: I am not sure of that figure.

25 Senator Dole: That is based on pessimistic assumptions

1 of only 150,000 barrels of new production by that time.  
2 Mr. Lubick: Jack has a calculation here that comes to  
3 \$22.61.

4 Senator Dole: I think it is important that the record be  
5 clarified. It may have been reported -- I do not quarrel with  
6 the assumption you are using. I think that the press may have  
7 indicated -- I think that there would be no reason to exempt  
8 new oil because of the cost.

9 I think the record should be clarified. I have a state-  
10 ment: I think I would like to be put into the record at this  
11 point.

12 The Chairman: Without objection.  
13 (The material referred to follows:)  
14 COMMITTEE INSERT  
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1 Senator Bentsen: Mr. Chairman?

2 The Chairman: Senator Bentsen?

3 Senator Bentsen: I think, too, we ought to use the work  
4 of the Energy Committee that has has extensive hearings on  
5 what we should spend on synthetic fuels, what the program  
6 should be. We should not try to duplicate that. We should  
7 take advantage of that and use our tax jurisdiction in trying  
8 to help the poor in seeing that they do get a credit here for  
9 the increased price that they are going to have to pay, but  
10 that we should try to adjust this.

11 What I am doing in effect, with Senator Gravel and  
12 Senator Packwood and Senator Dole, that we should not be  
13 arbitrary in this, but have a specific goal and let us take a  
14 look at what the Energy Committee has done and what amounts of  
15 money that they think should be spent and what can be wisely  
16 spent in a period of time.

17 The Chairman: Senator Matsunaga?

18 Senator Matsunaga: I am inclined to support the Senator  
19 from Texas. There are two of us on this side who are members  
20 of the Energy Committee working on a program. We are trying  
21 to determine which direction we ought to go -- syn fuel or  
22 other alternatives sources, et cetera.

23 I think that the Finance Committee ought to determine the  
24 basic question before us: is there to be a windfall profits  
25 tax or not? Because of decontrol, there is a segment of our

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1 economy which will enjoy windfall profits. Are we going to  
2 tax it or not?

3 Whether we use that money for development of alternative  
4 sources or whether we use the windfall profits tax for the  
5 purpose of retiring our national debt, I think can be  
6 determined later. That is, later after we decide what it will  
7 cost to carry out an overall energy program to develop  
8 alternative sources.

9 But I think that for this committee to try to determine,  
10 as suggested by the Senator from Alaska, what are we going to  
11 do with the money first, I think that it is going beyond the  
12 jurisdiction of the committee.

13 Senator Gravel: If the Senator would yield on that?

14 Senator Matsunaga: If I may finish?

15 So I think that we ought to determine the basic question:  
16 are we going to tax the windfall profits because it would  
17 impose inequitable circumstances on the poor and others who  
18 will not be enjoying similar taxes because of decontrol. That  
19 is the issue before us.

20 Senator Gravel: If the Senator would yield on that. I  
21 never suggested what we would do with the money. What I would  
22 suggest is that we define the goals in terms of energy, what  
23 we want to do as a nation, and then once we have determined  
24 what we want to do as a nation, then find a way to go pay for  
25 it, whether it is a severance tax on oil and gas.

1           And I would be at variance from the statement that you  
2 made that there are windfall profits. I think it is generally  
3 accepted that there are no windfall profits, and if there  
4 are, I would be happy to tax them, start right at the  
5 beginning.

6           Since there are none, what we are talking about is a  
7 severance tax that would transfer great sums of money from one  
8 setor of the private economy to the public sector of the  
9 economy, and we may want to do that. But I think before we  
10 decide as to how we are going to get the money and where we  
11 are going to get the money, we first have to decide what we  
12 want to do.

13           I would suggest in terms of goals, just thinking right  
14 now, if I may make three points, that go in my mind, do we  
15 want to make the most of the amount of U.S. production of oil  
16 and gas? That obviously would be a goal.

17           Second, do we want to massively introduce solar,  
18 geothermal or other existing forms of energy? That, in my  
19 mind, would be a goal.

20           Do we want to launch into a syn fuel program and I think  
21 that we should obviously lean upon, and glean the knowledge  
22 that has been secured by the Energy Committee, which I am sure  
23 the Senator from Hawaii can make an outstanding contribution  
24 in the definition of the amount of moneys we should move in  
25 that goal.

1           Then, of course, what can this committee do in creating  
2 the maximization of conservation.

3           Those would be goals, if we wanted to define those goals  
4 in the committee and then address ourselves to them. That is  
5 what I am suggesting.

6           The Chairman: I just want to make this clear. We have  
7 many differences of opinion. That happens on a big bill like  
8 this. We get down to the Senate Floor and we will get 100  
9 different opinions from the 100 different Senators. We are  
10 going to have to try to coalesce with what the majority wants  
11 to come down.

12           But I have said that I am going to vote for such a tax.  
13 The precise amount of the tax is a different matter. I am  
14 going to vote for it for a very simple reason: there is no  
15 doubt in my mind if we do not pass the tax, the President is  
16 going to withdraw his decontrol plan, just withdraw the whole  
17 thing, and leave us right back in the same mess that we were  
18 before.

19           Anyone who is upset about the tax better take a look  
20 about what the situation is going to be when the President  
21 withdraws his order. If they look at the alternatives, it is  
22 sort of like this person who is complaining about getting old.  
23 When you think about the alternative, you do not feel so bad  
24 about it.

25           So when you take a look at what your alternatives are, if

1 we do not pass a tax, the industry is going to be a lot worse  
2 off than we will be if they do pass the tax.

3 I was not left in any doubt as to where it s going to be.  
4 I had a chance to discuss the subject with the President  
5 sometime back. He did not say that exactly, as I can  
6 understand what somebody is saying, that is about where I come  
7 down.

8 Can we understand that, Mr.Lubick? Is the administration  
9 thinking in those terms that if we do not pass the tax,  
10 Treasury is going to have to reconsider this decontrol order?

11 Mr. Lubick: We believe you are going to pass the tax and  
12 we will make the contrary decision when the circumstances  
13 arise.

14 Senator Bentsen: Mr. Chairman, let me say I share the  
15 Chairman's viewpoint on that. I think that is a realistic  
16 approach and we ought to get on with it and work out this tax  
17 and try to leave some incentives in the program and accomplish  
18 some of the other goals.

19 Senator Gravel: Mr. Chairman?

20 The Chairman: Yes, sir.

21 Senator Gravel: May I speak to the points that you  
22 raised?

23 The Chairman: Yes, sir.

24 Senator Gravel: I would respectfully disagree, and I  
25 think Mr. Lubick has dodged the question, and if it does

1 become a point at issue, I would hope the President of the  
2 United States would give us a pronouncement on that.

3 We have had no statement by the President of the United  
4 State publicly or privately to my knowledge that he would  
5 withdraw his decontrol. It is my assumption that he can.

6 He would be violating his commitments at the Tokyo  
7 discussions and at the discussions that he had in Europe and  
8 that was commitments to Japan and West Germany and the OECD  
9 countries that this country would begin to pay the proper  
10 price for energy.

11 And so, for the President to hold over us the fact that  
12 he is going to withdraw his decontrol, I just do not buy that  
13 one.

14 Two, the point that you made, that the oil and gas  
15 industry would be better off accepting a tax that would be  
16 taxing non-existent profits for the next decade, and even  
17 maybe more than that, I think they would be better advised to  
18 junk this whole thing and to just wait until next year to the  
19 have decontrol.

20 I think that we are laboring under the apprehension that  
21 there are windfall profits. Again, I would ask anybody to  
22 show this committee or anybody in this country where those  
23 windfall profits are.

24 But if we have the severance tax -- and I think that is  
25 accepted -- if there is a severance tax, then the decisions we

1 are making irregardless of what the degree is, is to move the  
2 money from domestic oil and gas to the government so that the  
3 government can go do something.

4 The Chairman: I think we all understand each other's  
5 positions.

6 Let me ask Mr. Shapiro, does the President have the right  
7 to withdraw that decontrol order?

8 Mr. Shapiro: Yes, he does.

9 The Chairman: He could withdraw the whole thing?

10 Mr. Shapiro: Yes.

11 The Chairman: If that is the case, whatever income the  
12 companies would get out of all of this simply would not  
13 happen, would it?

14 Mr. Shapiro: If he withdraws it, they would lose their  
15 higher prices as a result of his dephased decontrol.

16 The Chairman: My thought all the time, what the  
17 President has done is give us a decontrol that would require a  
18 tax. Then they would not have to ask us anything, just  
19 decontrol at a lower level, just phase it out more gradually  
20 and he would not have to ask for the tax, but he decided to go  
21 this route, so the burden is on us. He could have done it  
22 that way, if he had wanted to.

23 He had that power, too, did he not, to just decontrol and  
24 not ask for a tax, just decontrol and do not let them make  
25 that money. Do it over a gradual period of time so that the

1 companies would make less money.

2 Mr. Shapiro: That is right.

3 The only other thing, in that regard, as of the end of  
4 September, 1981, he has no control over prices. Therefore, it  
5 would be automatically decontrolled unless Congress would take  
6 other action.

7 The Chairman: He could ask Congress to extend the  
8 controls?

9 Mr. Shapiro: That is right.

10 The Chairman: Senator Chafee?

11 Senator Chafee: I think there should be a windfall  
12 profits tax. I think we have plenty of uses for the money. I  
13 suspect we look at the House bill and see what parts we agree  
14 on and what parts we disagree. We may have major  
15 disagreements, but we can keep this up, discussing generally  
16 forever around here.

17 Senator Gravel: Mr. Chairman, may I ask Mr. Shapiro a  
18 similar question?

19 The Chairman: Yes.

20 Senator Gravel: If the President has an agreement with  
21 foreign leaders, do you think in your political judgment that  
22 he would withdraw the windfall profits tax?

23 Mr. Shapiro: I am not sure I am in a position to respond  
24 to that specifically. I honestly do not know the extent of  
25 the political agreements other than how it has been reported

1 and I think the extent of that and how he would use what is  
2 needed to make us self-sufficient and all the ramifications is  
3 much more detailed than a quick analysis.

4 Senator Gravel: Would it not be wiser, just from a  
5 policy point of view, to decontrol, as the President has gone  
6 ahead so that we cushion what will be a final decision next  
7 September, rather than to let it lapse next September and have  
8 the shock of decontrol.

9 Has not the President's initiative been a better approach  
10 to the decontrol problem than would have existed all at once  
11 next year?

12 Mr. Shapiro: Well, there are various responses to that.  
13 What you are saying, if you are going to end controls, is it  
14 better to phase out controls as he has suggested, even without  
15 a windfall profits tax, or just have immediate decontrol as of  
16 October, 1981?

17 There are many who advocate that, given a windfall  
18 profits tax, that the President should have immediate decontrol  
19 at the time that the windfall profits tax goes into effect to  
20 eliminate the problems of phased decontrol that have separate  
21 categories of oil and entitlements and that sort of thing.

22 Senator Gravel: Leaving aside the windfall profits tax,  
23 by law this country will be decontrolled by next October 1st.  
24 Is it not wiser for the President to go ahead and phase  
25

1 decontrol rather than let decontrol take place all at once?  
2 Is that not a better approach?

3 Mr. Shapiro: There are two views on that. There are  
4 many who feel that controls present so many problems because  
5 the entitlements programs -- the confusion because of several  
6 categories of oil, that it would not be that much of a shock  
7 in our country to have immediate decontrol, that the OPEC  
8 price sometimes goes up as large in one jump as immediate  
9 decontrol may be.

10 That is one point of view.

11 The other point of view is just the one that you are  
12 indicating to have a phased decontrol similar to what the  
13 President has proposed, even without a windfall profits tax.

14 There are two points of view, and I have heard them both  
15 argued very strongly, that you can have immediate decontrol  
16 without the shock that some indicate may be the case; and  
17 there are some who think that you should have a phased  
18 decontrol like the President is proposing without a windfall  
19 profits tax.

20 Senator Gravel: Thank you, Mr. Chairman.

21 The Chairman: Senator Bradley?

22 Seantor Bradley: I would like to have us think about the  
23 windfall profits tax and what we do in the context of the  
24 larger and most immediate energy crisis, which is reduction  
25 of imports of foreign oil, and it seems to me that,

1 considering the revenues that can be derived from each  
2 category of oil is important in the consideration of windfall  
3 profits.

4 Equally important, and apparently extremely difficult in  
5 the consideration of displacement of foreign oil is how much  
6 oil will be produced from each category, and it seems to me  
7 that there is a wide range of guesses here, and maybe that is  
8 all they are -- guesses.

9 The administration's thought about 150,000 barrels of  
10 newly-discovered oil to sometimes as high as 680,000, and it  
11 would be helpful to me ---and I do not know if other Senators  
12 feel the same way -- to try to get some kind of independent  
13 review of the range of possible production levels from the  
14 various categories of oil, if there was no windfall profits  
15 tax in the context of decontrol.

16 I wonder, is there any way that we could obtain that? I  
17 recognize the Chairman's view that it is impossible to really  
18 tell how much we are going to get, but I would hope that we  
19 could have some way to try to get at least a ballpark figure  
20 for these, because it is difficult for me, at least, to talk  
21 about exempting categories of oil without having some idea of  
22 what it means.

23 The Chairman: Yes, sir. Mr. Shapiro?

24 Mr. Shapiro: We had a short discussion on this before  
25 you came in, Senator, about the fact that the Joint Committee

1 staff does not have the capability of preparing production  
2 responses. However, the DOE had their computer models for  
3 several years outside groups as well, and we are trying to  
4 coordinate, or have that information, available for you to the  
5 extent that DOE would also work with us to review some of the  
6 outside ones and the outside analysts will review some of  
7 DOE's estimates.

8 I do not know if DOE is ready at this point to make some  
9 preliminary discussion of the estimates you have for the  
10 benefit of Senator Bradley's question, or the Committee, at  
11 this point, or if you want to provide that to the Committee  
12 later.

13 Mr. Smith: I would like to make a general observation  
14 that the Department of Energy computer model focuses more on  
15 newly-discovered oil and, to some lesser extent, even on  
16 incremental tertiary recovery oil. It does not focus for  
17 reasons that I will try to explain in more detail as we get to  
18 each of the separate categories of oil, it does not attempt to  
19 focus on supply response from flowing oil -- oil that is today  
20 in production, or properties today in production.

21 And, actually, I do not think that anybody's model  
22 attempts to discretely distinguish between old oil and the  
23 production response that you would get from a given level of  
24 oil increase.

25 Anything that I say has to be recognized to be based upon

1 principally newly-discovered and incremental tertiary, the  
2 kinds of marginal activities that are going to be induced in  
3 the industry by price increases that we are talking about  
4 here.

5 I can discuss each of the categories of oil in  
6 considerably more detail, but I think it would be preferable  
7 from a procedural standpoint to do that in the context of  
8 individual discussions of those amendments, or those  
9 categories.

10 Senator Bradley: I would find that helpful if it could  
11 be reduced to a memorandum with also other estimates, because  
12 there are some who cast some aspersions on DOE's model and  
13 DOE's projections.

14 I would like to know what other sources there are,  
15 ranging from industry sources to other independent sources.

16 Mr. Shapiro: We will be prepared to coordinate for your  
17 question to the Committee, a series of these supply responses  
18 that are being discussed by DOE and other industries and show  
19 what assumptions they use.

20 That is something that we have in mind to do. We are  
21 going to do it with various alternatives that we have been  
22 requested to do, because they all require an energy supply  
23 response and we are prepared to coordinate with outside  
24 groups to get that.

25 Senator Bradley: When would that be ready?

1 Mr. Shapiro: We are trying to take the rest of this week  
2 to coordinate that with the revenue estimates and supply the  
3 full range. It would not be available until the next week.  
4 Some of the preliminary ones may be available sooner.

5 Senator Boren: Mr. Chairman, in light of that, one of  
6 the points I was trying to make last week, I think one of our  
7 heaviest responsibilities is to try to assure the American  
8 public that we are giving them the most units of energy per  
9 dollar, whether we are talking about production or energy  
10 produced or energy saved.

11 Where can we put our dollars that have been generated by  
12 decontrol, potentially decontrol by the windfall profits tax,  
13 in a way that will give us the most. And there you have to  
14 weigh things like how much will an incremental tertiary  
15 exemption, for example, produce per dollar? How much will a  
16 tax credit for certain kinds of conservation activity produce  
17 in units saved per dollar, that sort of thing.

18 It would seem to me -- and I know that several of us sent  
19 a letter to the committee staff requesting just exactly this  
20 kind of information on the production side of things, and  
21 since this will not be available until the end of the week at  
22 best, or maybe early next week, it would seem to me premature  
23 to start going down the list.

24 I do not see how we could make judgments on some of these  
25 exemptions. I personally would find it helpful, since that is

1 not available, that we might start at least getting an  
2 introducton to some of the conservation approaches.

3 I have talked to Senator Packwood, and I know from  
4 hearing him talk to the Committee, he has some proposals and  
5 some others, to decide what blocks people have put  
6 together, later to build on.

7 The Chairman: Senator Baucus?

8 Senator Baucus: I think all of this is good. I think  
9 Senator Bradley is absolutely correct in asking for the kind  
10 of information that I think is important, as well as Senator  
11 Boren's looking at conservation alternatives and other credits  
12 and so forth.

13 However, the key word here is what Mr. Shapiro mentioned,  
14 and that is the assumptions. I do not know very much about  
15 computer models. I hear the phrase "computer models" which  
16 conjures up infinite complexities, and so forth.

17 But the main point here, I think, is to know as  
18 reasonably as possible what the assumptions are behind all of  
19 these projections and all of these estimates. Because every  
20 projection is based on some kind of assumption. We all know  
21 that we can get any answer we want based on how we phrased the  
22 question and what the assumptions are that go into deriving  
23 that result.

24 And so I think that it is crucial if we are going to make  
25 any rational decisions around here to, as reasonably as

1 possible, recognizing that we cannot get too complex, as  
2 reasonably as possible, and as precisely and reasonable as  
3 possible, articulating those assumptions. Then we, as  
4 individual members are in a position to make up our own minds  
5 whether the assumptions are accurate as we perceive the world,  
6 at least if we know the assumptions behind these projections,  
7 we will be a lot better off in making rational decisions.

8 Mr. Shapiro: Each group that we talked to that does some  
9 of their independent modelling, we indicated that for that  
10 presentation to the Committee, the assumptions would have to  
11 be set forth so that the Committee would have the opportunity  
12 to review the assumptions on which they base their  
13 conclusions.

14 The Chairman: Senator Dole?

15 Senator Dole: I think, very briefly, that everybody is  
16 one the right track. We need to know the facts before we make  
17 a judgment.

18 There will be a tax. I know Senator Gravel does not  
19 share that view, but where it is a severance tax or excise  
20 tax, there is no doubt in my mind that there will be a tax. I  
21 guess our obligation is to structure the tax so that it is  
22 productive and not punitive, and hopefully we can do that.

23 I think the pending amendment, or the pending question on  
24 whether we examine newly-discovered oil -- I do not intend to  
25 pursue that now. It seems to me that the best way to start is

1 to go back to the original administration bill. After all, it  
 2 is the President's proposal. There was the original  
 3 presentation by the President, and I would suggest, Mr.  
 4 Chairman, that we start on that basis and if, in the interim,  
 5 we have the information available, we may have a substitute  
 6 that we may want to submit, a committee substitute.

7 At least we could start the work. If we go back to the  
 8 original proposal of the administration and would have less  
 9 difficulty.

10 The Chairman: Let me refer you to this sheet you have  
 11 before you, gentlemen. This was prepared by the staff.

12 Did you take these figures from Treasury, or are these  
 13 Joint Committee figures?

14 Mr. Shapiro: These are Joint Committee figures.

15 The Chairman: These are net figures. You have these  
 16 estimates down here as to what the net is that the tax would  
 17 raise and you have three different columns. One, the total  
 18 House bill, \$56,975,000,000. Right?

19 Mr. Shapiro: That is in the present value. That was for  
 20 your benefit. You might want to look at the column next to  
 21 that, the \$104 billion, the 1980-1990 total.

22 The Chairman: Oh, I see. One is based on dollars and  
 23 the other is based on present value. Is that it?

24 Mr. Shapiro: That is correct.

25 The Chairman: All right.

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1           The total House bill would be \$104,265,000,000. The  
2 original administration recommendation would be  
3 \$110,685,000,000 and the revised administration proposal,  
4 \$118,750,000,000; and Senator Dole is suggesting we work from  
5 the middle figure which would be the original recommendation  
6 of \$110,685,000,000.

7           You can either add to it or take from it, but we would  
8 work from that point of reference.

9           Is there any objection? Without objection.

10          Senator Gravel: Mr. Chairman, first I wonder if I might  
11 speak to the statement that Senator Dole made in reference to  
12 the fact that there will be a tax. There is no question that  
13 death and taxes are certain, so I would never quarrel with  
14 that statement on the surface.

15          There may be a tax. It may be in the judgment of this  
16 Congress that we are going to pass a tax, but I hope that he  
17 would not emphasize -- and certainly I would not join him --  
18 in saying that a tax is never punitive. A tax is always  
19 punitive and for him to gloss over the fact that we are going  
20 to pass a tax here, that is a given.

21          Senator Dole: Less punitive?

22          Senator Gravel: That we kid the people that it is not  
23 going to be punitive. It is going to be punitive to somebody.  
24 Let's be very clear about that.

25          My only problem is that if we do decide to tax the oil

1 and gas industry in the severance form, in order to take  
2 wealth from that industry to move it to government to do other  
3 things, then that is fine and my colleague from the Minority  
4 side can vote for that and be on record for that.

5 I just want to make my position very clear that one, I do  
6 not think we need any punitive taxes on any part of the energy  
7 industry, one, and two, that there is no way that we will be  
8 able to kid the people, because they are going to feel it one  
9 way or the other.

10 The Chairman: Senator, your position is crystal clear.

11 Let's see if we can understand. Those who think we  
12 should pass one kind of a tax, raise your hands.

13 (A show of hands)

14 The Chairman: Those who do not think we should pass any  
15 tax, raise their hand.

16 Senator Gravel: Mr. Chairman? Wait a minute, Mr.  
17 Chairman.

18 What kind of vote is that? Some kind of tax that this  
19 committee does not want to go on record as passing?

20 The Chairman: A tax in this direction.

21 Senator Gravel: Could we focus on the goals, though, Mr.  
22 Chairman, and structure a system around the goals?

23 The Chairman: Senator, you have made your position  
24 clear, that you think there ought not to be any.

25 Senator Gravel: I am not making that judgment at this

1 point. I am prepared to settle it. Let's find out where our  
2 goals are and then let's pay for our goals.

3 Is that an unreasonable approach to this problem?

4 The Chairman: From your point of view, it is as  
5 reasonable as any suggestion that has been made here.

6 Senator Packwood: Mr. Chairman, are you suggesting we  
7 take that \$110 billion figure which is the original  
8 administration figure, and work from that and say we exempt  
9 tertiary oil and newly discovered oil and add something else  
10 and add something else and we would come up with the figure  
11 \$90 billion. Now we come up with a program that costs \$90  
12 billion over ten years?

13 The Chairman: No.

14 I am just saying that we say, all right. From a point of  
15 reference, let's look at what the President recommended.

16 Senator Packwood: I understand what you are saying.

17 The Chairman: That is how the House did. They started  
18 off with the President's recommendation. We can look at their  
19 suggestions, everybody else's position, and go ahead and vote  
20 from there.

21 Senator Packwood: Are you suggesting we take the taxes  
22 first and tinker here or there a bit from the \$110 billion  
23 figure and add a bit and trim a bit and come up with a figure  
24 and say that is how much revenue we are going to raise?

25 The Chairman: Senator, I am pretty much convinced that,

1 as it stands right now, the administration cannot show you how  
2 they are going to spend that much money. Frankly, I would not  
3 be surprised if people on this committee could show you how to  
4 spend that much money. Either spend it, or cut taxes by that  
5 much.

6 I see Senator Roth over there nodding. There are people  
7 around here who could find something to do with that money,  
8- either cut taxes or whatever, but they can find something to  
9 do with the money.

10 I am just saying that it seems to me as though the tax is  
11 implicit. If we do not have the tax, we might as well forget  
12 about the whole thing, and I think that we are going to have a  
13 very substantial tax here.

14 I think it will all go for nought if we do not -- by the  
15 time we are through, by the time we come out of conference  
16 with the House, we are going to have a substantial tax.  
17 Thinking in terms of that, let's just start with the  
18 administration recommendation.

19 Senator Packwood: We may have a substantial tax and no  
20 more energy, if that is what this Committee wants, \$110  
21 billion give or take it a windfall profits tax and that  
22 somehow exorcises our soul, that is fine. It's not fine with  
23 me.

24 I sure nope that we get something for the \$110 billion.

25 Senator Gravel: By that, we first should define what we

1 want to get. It may be 90, 150, at least define what our  
2 goals are rather than define the money that we have to tax  
3 because the President wants it. That is not a good enough  
4 reason for me, or because the House passed it. That is still  
5 not a good enough reason.

6 We may not need to have a tax. If we do not need to have  
7 a tax -- we should define our goals first. They may cost 50,  
8 they might cost 150.

9 The Chairman: Now, Senators, you have an opportunity.  
10 What do you want to do? You can do whatever you want to  
11 suggest you do. I am not here to tell you what to do. Each  
12 Senator can suggest what he wants to do about this matter.

13 Senator Packwood: I would like to do what Senator Boren  
14 suggests. I would like some reasonable estimate if we exempt  
15 new oil, what we might get.

16 And if we have the conservation credits that a number of  
17 us are going to offer for conservation and solar, and line  
18 them up realizing the estimates may vary 100 percent, to the  
19 high and the low.

20 The Chairman: We have asked for estimates. We do not  
21 have that information. We hope to document it better, but at  
22 this moment we do not have those estimates on just what you  
23 would get if you did something about tertiary or if you did  
24 something about new oil.

25 As far as I am concerned, the Floor is open. You can

1 offer any suggestion you want to offer and we can vote on it.

2 Senator Gravel: Mr. Chairman, if we do not have the  
3 information, the estimates, there is really nothing to vote on  
4 in that area, until we know what we are doing.

5 Senator Boren: That is the reason, Mr. Chairman, that I  
6 suggested we might start with some discussion of some of the  
7 conservation ideas while working on the figures.

8 This week on the tertiary and newly-discovered and supply  
9 responses and the various models and what they are all working  
10 together with, so they might have that chart ready for us next  
11 week that we start some preliminary discussion.

12 Maybe Senator Packwood -- I know many others have  
13 proposals.

14 Senator Packwood: I can tell you where I am right now.  
15 I talked to Professor Strobough yesterday. He is still  
16 convinced of his estimates at 50 percent solar and  
17 conservation credit of roughly a savings of 15 million barrels  
18 equivalent conservation and 150 million barrels equivalent in  
19 solar.

20 He very freely admits that that is a middle ground that  
21 he has taken between conservative Department of Energy  
22 projections and quite liberal Solar Society projections and  
23 others.

24 I am talking with Professor Williams at Princeton and  
25 Roger Sand, who used to be at the Department of Energy. They

1 are working up estimates. I do not have them today.

2 If I just pick one and you take that apart, that is what  
3 they would estimate at 50 percent conservation and 50 percent  
4 solar credit, the equivalent saved to produce 25 million  
5 barrels of oil by the year 2000.

6 They are very skittish about their figures. They do not  
7 want to -- I am trying to get some others. That is to start.

8 Senator Bentsen: Senator Packwood, I am very interested  
9 in your conservation proposals and Senator Bradley's. I want  
10 to support a number of them. Of course, we want to know how  
11 many barrels are saved. We also want to know how much it  
12 costs to the Treasury.

13 Do you have those numbers also?

14 Senator Packwood: I do not. I talked to Bob about  
15 those. Again, he is going to try to have something. Bob is  
16 working with the Department of Energy on savings and he will  
17 try to come up with the revenue estimates. He does not have  
18 them at the moment.

19 Senator Wallop: Mr. Chairman, I might say I am working  
20 on some similar kinds of things, again based on the Energy  
21 Futures and the Kaiser Plan. I do not have those figures yet.  
22 We are trying to get them and put them together. It is just a  
23 little premature in order for us to make, you know, any kind  
24 of sales pitch on the ideas that we have based on the energy  
25 produced or saved or the cost of it.

1 I think it should be ready shortly.

2 I am more than willing -- I do not mean to delay it. I  
3 agree with Senator Gravel, it is pretty hard, you know, to  
4 tailor a program for the amount of mone you raise. It would  
5 be better to decide what you need and see if you can afford  
6 it.

7 Senator Bentsen: Mr. Chairman, you have a pretty  
8 frustrating job. Why do we not go ahead and start on some of  
9 these conservation measures, even though we do not have firm  
10 numbers?

11 The Chairman: It seems to me that by the time we are  
12 through, just based on the discussion this morning, the  
13 estimates are gong to vary anywhere. They vary right now from  
14 a potential of \$180 billion to a potential of \$480 billion.  
15 That is how they vary right now.

16 Senator Bentsen: You always say that anything we pass  
17 here during these discussions we can realy ealuate when we get  
18 better numbers in. Rather than just wasting our time --

19 Senator Gravel: I think the time we are wasting is the  
20 time of staff that is going to be doing the homework for us so  
21 that we can then do the work. I would rather see us if we  
22 just hold off for a week and everybody go like blue blazes to  
23 get the work done so that we can come back with the data to  
24 make intelligent decisions.

25 You know, horseback stuff with this, it does not make any

1 sense. If we are going to approach it in an intelligent  
2 fashion, we have to have the data.

3 Senator Packwood: I can give you a specific example of  
4 one person I ran across in the recess on data. He purchased a  
5 windmill that generates alternating current. He purchased it  
6 from a company in Vermont. It cost him \$4,800. He got a \$900  
7 tax credit under the present solar tax credit law.

8 He puts it up. It generates alternating current  
9 electricity. He plugs it into his household current. The  
10 resistance is less than his utility current, so when it  
11 generates electricity, it uses it first.

12 The nice thing about it, when it generates more  
13 electricity than it uses, it runs the utility meter backwards.

14 I asked him what his local utility thought. He said they  
15 had not objected, but they will not agree to buy the  
16 electricity back if I run it back passed zero.

17 He says that \$3,900, based on present utility costs, that  
18 windmill will pay for itself in five years at present utility  
19 costs.

20 Now, he has quickly grasped what his costs are. He is a  
21 businessman in every sense of the word. Professor Strobough,  
22 like most of the people I talk to, if you get the average  
23 homeowner to do that, they have got to see a pay-out on it in  
24 about three to five years. Beyond that, they are going to  
25 have a hard time selling it to them.

2 2 2 1 0 0 0 0 0 0 0 0

1 It is there and it is doable and it will save energy.

2 There is one specific example of one farmer who says, I  
3 know what it costs. I will put it up. I know what I will  
4 save. I know how long it will take that would pay for itself.

5 Senator Gravel: And something that would sell in a rural  
6 area like hotcakes if we could get American industry to go out  
7 and manufacture them.

8 Senator Packwood: You look all over the landscape -- any  
9 of us who have had any farm background -- 30 years ago you  
10 saw a windmill on every farm pumping water. There is nothing  
11 new about it.

12 The nice thing about this, it generated alternating  
13 current so you did not have any storage problem and it was  
14 perfectly exchangable.

15 I might say that Portland General Electric, which is one  
16 of the principal utilities in Oregon, on their new rate  
17 schedule filed with our public utilites commission has agreed  
18 to buy electricity back from just this kind of situation.

19 It is small, but there is an old woolen mill in our  
20 capital of Salem that has a water wheel. It has had a water  
21 wheel for years. It is not a museum. The water wheels are  
22 producing more electricity than they use, and the utility is  
23 buying it.

24 I think, as you look around, these are the kinds of  
25 example you need to multiply by ten million.

1 If we sit around thinking about 25 square miles of  
2 collector plates and getting enough electricity for New York  
3 City and all these big projects, we are going to be sitting  
4 here until the year 2000 but if we look at this one at a time,  
5 times a thousand, times a thousand times a hundred, we are  
6 going to see we generate a lot of equipment and a lot of oil.  
7 Senator Gravel: That is one of the goals that we want to  
8 arrive at.

9 Mr. Chairman, is there any chance that we could get an  
10 estimate of what time it will take for one, the work that  
11 would be done by Mr. Shapiro and his group and an estimate  
12 from Senator Packwood as to when he thinks he might have his  
13 numbers precisely, and then Senator Wallop made mention of it.

14 I think Mr. Shapiro is doing the work for Senators Boren  
15 and Bradley. When could we have all of that and sit down and  
16 really deliberate in an intelligent fashion, because once we  
17 knew that time, we would be better off letting the staff have  
18 that time rather than listening to us go on and on.

19 Mr. Shapiro: We are programming ourselves to have all of  
20 it ---almost all of it, if not all -- by your meeting on  
21 Tuesday. We can have piecemeal estimates coming out this  
22 week.

23 However, as I said, we have been getting more estimates  
24 in the last week and this week faster than we are able to  
25 crank out some of them.

1           If you wanted to have all of them to have before you for  
2 a basis of comparison, we would not have that until probably  
3 next Tuesday. Probably we would be in a position to have  
4 certain estimates coming out in a piecemeal basis as they come  
5 out of the computer later on this week.

6           Senator Gravel: Senator Wallop, do you have any idea how  
7 long it would take you?

8           Senator Wallop: Mr. Shapiro is working on revenue  
9 estimates for us now. I would assume that is a part of what  
10 you are talking about.

11           Admittedly I would have been amazed if we had had  
12 anything by now. I know they have a lot of computers probably  
13 running 24 hours a day. I assume we will be ready by Tuesday.

14           Senator Gravel: Mr. Chairman, may I make a request of  
15 Mr. Shapiro of information? That would be to find out how  
16 much it would cost to index all of the programs that we have  
17 going.

18           There is a lot of talk about just doing something for the  
19 poor, and it just struck me why should we initiate a new  
20 program when we have programs that deal with the poor, and the  
21 problem is that these programs have been so eroded by  
22 inflation so that if we index all of the various programs that  
23 we have going to the poor, SSI, Medicaid and the like, then we  
24 would know what that cost was to really deal with the poor in  
25 the way that we have been dealing with the poor, without

1 initiating anything new. I wonder if we could get those  
2 estimates also? .

3 Mr. Shapiro: Just indexing the present programs you have  
4 is much easier to have for you. Any time you have a new  
5 program, you have new estimates. That is more difficult.

6 As you know, the administration has not sent up a program  
7 for what they are going to have for the poor as yet. They are  
8 making alternatives between tax provisions and other new  
9 programs and they have actually not sent up here their program  
10 which is expected within a short period of time.

11 But just indexing the existing program for the poor is  
12 something we could have very easily for you.

13 Senator Gravel: Would you please do that? We may not  
14 want to wait until they send something up to decide what kind  
15 of program we want.

16 Mr. Stern: I might mention the two Federal programs,  
17 Social Security benefits and SSI benefits, are already  
18 indexed. They go up automatically once a year as the cost of  
19 living goes up.

20 Senator Gravel: Medicaid is?

21 Mr. Stern: Medicare and Medicaid are payments to vendors  
22 for services so, in effect they are go up. If the services  
23 cost more the next year, the program pays more. The service  
24 rendered stays the same.

25 Senator Gravel: Welfare payments?

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1 Mr. Stern: The state grant welfare payments are  
2 Federally matched on a flat percentage basis and it depends on  
3 what the states do. If the states increase the benefits by  
4 the cost of living, then the Federal share goes up  
5 automatically by being a percentage of the total.

6 Senator Gravel: Could we spot those areas that are not  
7 covered and should be indexed so that we could know what we  
8 are doing?

9 Mrs. Stern: Perhaps we could prepare a memo that says  
10 what the present law is.

11 Senator Gravel: And what is not covered.

12 Mr. Stern: Yes, sir.

13 The Chairman: Senator Talmadge?

14 Senator Talmadge: Mr. Chairman, in the last Congress,  
15 this committee, in dealing with the tax aspects of the  
16 President's energy program provided for tax credits that in  
17 the wisdom of this committee that would produce alternative  
18 energy sources.

19 We put that bill through the Senate. We got to  
20 conference with the House and we met violent reaction and  
21 opposition on the part of the House conferees.

22 I am delighted to say that the House conferees have  
23 changed their mind. They have sent us a bill with only 25  
24 dissenting votes.

25 The difference between their bill and ours was this.

1 Ours provided for a tax credit that would not be any Federal  
2 subsidy unless they provided the energy. Now, the House bill  
3 spreads the money around in the hopes to provide the energy.  
4 Ours was a subsidy after the fact; theirs was a subsidy before  
5 the fact.

6 In any event, I think this Congress is going to have to  
7 do what it can to make this country energy independent as soon  
8 as we can. Not only our military security but our economy  
9 depends on doing so.

10 We have to have a national will to do so. Thus far, the  
11 national will has been lacking.

12 I see a national will in my judgment on the part of not  
13 only the people, but Congress, for the first time.

14 Now, most of these alternative sources of energy are long  
15 range. We are talking about five, ten, fifteen years in the  
16 future.

17 I think the most cost-efficient source of energy is the  
18 shale amendment which this committee agreed to virtually  
19 unanimously last year. We had a floor fight on the floor of  
20 the Senate. Now those who fought it are now supporting it,  
21 and the President has now endorsed it.

22 I plan to offer the shale amendment again, maybe  
23 tomorrow. I am happy that the administration is supporting it  
24 now.

25 There is another aspect, and the only thing that I know

1 that can produce energy short-range, in a couple of months. I  
2 refer to alcohol.

3 The Governor of Mississippi drove an automobile from  
4 Mississippi to Washington on 100 percent alcohol just this  
5 week.

6 What we are selling now is gasohol which is a solution  
7 of 10 percent alcohol and 90 percent gasoline.

8 When Henry Ford first designed his Model T, his idea was  
9 to first run it on alcohol and he found that gasoline was  
10 cheaper than alcohol and he redesigned his engine. For a  
11 conversion cost of about \$300, 100 percent alcohol can be  
12 burned in automobiles.

13 When I was a boy down in Georgia, they used to make  
14 moonshine. I have seen the old Model T's give out of gas and  
15 some fellow would ask if there was moonshine around and pour  
16 it in the tank and crank up the Model-T and drive it to the  
17 nearest filling station and fill it up with gasoline.

18 I have offered an amendment that I will propose in due  
19 course relating to bio-mass -- that is, anything that can be  
20 fermented including wood.

21 I envision a time in this country when we will have  
22 thousands of small plants located near the source of supply  
23 where we can be converting that biomass to alcohol. Georgia  
24 Tech is doing an outstanding job of research and we had an  
25 energy conference down there that the President himself called

1 about two weeks ago and they presented a report, or paper, on  
2 biomass.

3 The Secretary of Energy was enormously impressed and so  
4 was the President. They say that wood alone can provide 12  
5 percent of the energy needs of this country. Wood also can be  
6 fermented -- I am talking about waste wood, wood that has  
7 no value whatsoever except for squirrels or birds to sing in  
8 or someone to look at.

9 There is an amendment along that line. The Senator from  
10 Hawaii knows what they are doing out in Hawaii right now.  
11 They have a tremendous amount of sugar cane down in Brazil and  
12 their government is going headstrong and fast to convert their  
13 automobiles to alcohol and use that product.

14 I hope that members of this Committee will look at this  
15 amendment that I will propose, not only on shale, but also  
16 biomass, because those two alternatives offer shortrange  
17 solutions that can be in being in a matter of months.

18 The Agriculture Committee, when we wrote the Farm Act in  
19 1977 provided for guaranteed loans -- Senator Dole, as I  
20 recall, was a co-sponsor -- up to \$60 million to provide for  
21 pilot plants to make alcohol and agricultural wood products.  
22 Those plants are now in being. They are working effectively  
23 all over the country. We are getting applications now for  
24 people who want to produce alcohol.

25 The Senate some five weeks ago agreed to an amendment

1 raising that guaranteed loan in the amount of spending to a  
2 half a million dollars. I think that a tax credit is probably  
3 a better solution than anything else because the tax credit is  
4 cost-efficient.

5 That means that if you do not produce, you do not get the  
6 subsidy. If you do produce, you get the subsidy.

7 So that I hope, Mr. Shapiro, that you and your staff will  
8 give up all the information that you can on the biomass bill  
9 that I have offered, also the shale amendment that I have  
10 offered, and have it ready, and if we can we will proceed on  
11 it tomorrow.

12 I think that this committee will probably endorse it  
13 almost unanimously, or probably unanimously. If it does not  
14 work, it will not cost the government anything. If it does  
15 work, we have made a giant step forward towards making this  
16 country energy independent.

17 Senator Matsunaga: If the Senator would yield?

18 Senator Talmadge: I yield.

19 Senator Matsunaga: 100 percent alcohol that this driver  
20 used from Mississippi to Washington, you say, was that on the  
21 regular engine?

22 Senator Talmadge: Regular engine. All you have to do is  
23 spend about \$300 to convert an engine where it will run on 100  
24 percent alcohol and not this 90-10 solution that is now being  
25 used in many areas of our country that is called gasohol.

1 Senator Matsunaga: The only problem with pure alcohol,  
2 they might attempt to pour it into the driver instead of the  
3 tank.

4 Senator Talmadge: There is always that problem, but we  
5 have already acted in that regard. I will say to the Senator,  
6 we have taken off the tax on alcohol that goes into this area  
7 of 90-10 solution. They could drink that.

8 We have hundreds and hundreds of applications, now, from  
9 farmers and others. The Farmers Home Administration has  
10 recently guaranteed a loan to make an alcohol plant in  
11 Georgia.

12 Let me tell you something else I did not mention. This  
13 should be particularly appealing to Senators from states who  
14 do that.

15 You can grow in my state four sorghum crops annually; in  
16 Hawaii, you can probably grow six or more. You cut the  
17 sorghum, harvest it, plow it up, replant it, cut some more.

18 Those four sorghum crops will produce 1600 gallons of  
19 alcohol per acre per year. I am talking about something that  
20 is an alternative. It is short range. It is 1990.

21 You can have them in being in January or February, 1980.

22 Senator Packwood: I had some of the same experience.  
23 During the July recess I travelled around in a pure alcohol  
24 driven car. A young mechanic in Portland is converting his  
25 customers' cars for \$250 because the alcohol eats out part of

1 the plastic parts in the present carburetor. He is converting  
2 it for \$250 and buying methanol, wood-based alcohol, from  
3 Georgia Pacific for 57 cents a gallon and selling it, to his  
4 customers at 65 cents a gallon.

5 They only get about two-thirds of the mileage of  
6 gasoline, but it is about two-thirds of the price, so in terms  
7 of equivalency, it is about the same.

8 Senator Talmadge: About 95 cents for the alcohol? Gas  
9 is selling for a dollar.

10 Senator Packwood: He has one worry. This is made out of  
11 wood chips, of a continued supply of methanol, because  
12 Georgia Pacific initially has been producing this for a  
13 process in plywood and not in the business of producing it to  
14 run cars. Their primary customers are plywood plants.

15 He says the conversion is relatively simple and methanol  
16 works perfectly and there is no great problem. You notice,  
17 probably Brazil has said they are going to convert their fleet  
18 to alcohol by 1985, run on alcohol, out of sugar cane grown in  
19 Brazil.

20 The Chairman: Mr. Shapiro, can you give us what the  
21 estimate is right now with regard to Senator Talmadge's  
22 amendment on oil shale?

23 Mr. Shapiro: We have that at the office. We do not have  
24 this right now We will have all of this tomorrow.

25 The Chairman: As far as I am concerned, I voted for it

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1 before and I am ready to vote for it again. I think most of  
2 the other people on the Committee would feel the same way. If  
3 you did not have the information, I guess it would be better  
4 for us to have it here when we vote.

5 Does Treasury have an estimate of that?

6 Mr. Sunley: We have an estimate of what the  
7 administration's proposal was. I am not certain how Senator  
8 Talmadge's may differ from the administrations.

9 Senator Talmadge: Mine may be slightly different. If I  
10 recall, it phased it out slightly above the present world  
11 price of petroleum.

12 Mr. Shapiro: We have an estimate of Senator Talmadge's  
13 revised proposal. It is different from the Administrations.  
14 That is what we have back at the office.

15 Senator Talmadge: We had commitments last year if the  
16 shale tax credit had become law, \$1.3 million worth of plants  
17 needed to start making petroleum from shale, new plants.

18 The Chairman: What is the difference between the  
19 Talmadge approach and the administration approach? His is a  
20 tax credit. What is yours? Is yours an appropriation?

21 Mr. Lubick: A tax credit.

22 The Chairman: Also a tax credit.

23 Senator Talmadge: Really, in essence, what the Senate  
24 Committee did last year --

25 The Chairman: What is the difference?

1 Mr. Wetzler: The administration's proposal phases out  
2 the credit as the price of oil rises from \$22 to \$22.50.  
3 Senator Talmadge's proposal would phase out the credit if the  
4 price of oil rises from \$25 to \$30.

5 Senator Talmadge's proposal would be somewhat more  
6 expensive than the administration's, because it phases out at  
7 a higher figure.

8 The Chairman: What do you estimate the administration  
9 proposal would cost?

10 Mr. Sunley: If the real price of oil does not rise over  
11 the ten-year period, 1980 to 1990, about \$600 million and if  
12 it rises at 1 percent a year in real terms, about \$400  
13 million.

14 Obviously, the nature of this proposal varies by how fast  
15 the oil prices rise.

16 The Chairman: My thought is we might vote on the part  
17 that you have the estimate on and we could vote on your  
18 suggestion tomorrow.

19 Senator Talmadge: There is really little difference, as  
20 I understand it. I would go ahead, at the present time, Mr.  
21 Chairman, then -- how long does the Administration's tax  
22 credit last?

23 Mr. Sunley: It is a permanent tax credit.

24 Senator Talmadge: It phases out when?

25 Mr. Lubick: January 1, 2000.

1 Mr. Sunley: January 1, 2000. That is permanent, in my  
2 view.

3 Senator Talmadge: When does it phase it out? .

4 Mr. Lubick: The phase-out starts at \$22 a barrel and it  
5 is completely phased out as the adjusted price exceeds \$27.50.

6 Senator Talmadge: How fast do you make the reduction  
7 between \$22 a barrel and \$27? The world price right now is  
8 \$22.50, so you would be phasing it out before it became law?

9 Mr. Lubick: The price Senator Talmadge has adjusted, the  
10 phase out price is adjusted, for inflation. It is not  
11 necessarily \$22 to \$27. The whole phase-out rises with  
12 inflation.

13 Senator Talmadge: Suppose it was law today. What would  
14 it be? A \$3 tax credit?

15 Mr. Lubick: A \$3 a barrel tax credit.

16 Senator Talmadge: I believe at present it costs \$22.50  
17 per barrel of imported energy, right?

18 Mr. Lubick: Yes, sir.

19 Senator Talmadge: \$22.50. And it would phase it out at  
20 100 percent at what level?

21 Mr. Lubick: \$27.56.

22 Senator Talmadge: Mine would phase out 100 percent at  
23 what level?

24 Mr. Lubick: \$30.00.

25 Senator Talmadge: Very little difference. Why do we not

1 split the difference?

2 Senator Gravel: Could you re-explain it. I was catching  
3 bits and pieces of it, how it works. This is on the shale,  
4 now?

5 Senator Talmadge: Yes. I have not reviewed it now in  
6 about a year.

7 Senator Gravel: Could somebody explain it so we could  
8 understand what we are doing now?

9 Mr. Lubick: A credit of \$3 a barrel for oil shale, a \$3 a  
10 barrel credit, and what is being discussed between Senator  
11 Talmadge and the Administration is when that is phased out,  
12 for example, you do not get a \$3 for everything indefinitely.

13 At a certain period, when the price of oil gets to a  
14 certain level, oil shale will be competitive, and until it  
15 gets to that, you want to provide a \$3 credit to make it  
16 competitive.

17 The administration has a phase-out at a low level, between  
18 \$22 a barrel and \$27.50.

19 Senator Gravel: That would mean that a group of  
20 companies could go out and take their oil shale, set up a  
21 plant, process it, produce 100,000 barrels of oil a day, if  
22 they could, and they could receive a \$3 credit on each one of  
23 those barrels that they produced, which means that they could  
24 sell them for \$3 less than anything in the marketplace.

25 Mr. Shapiro: They could not sell it for more than

1 someone would pay, because they could buy oil for \$22.50.  
2 That puts another limit on how much they could sell.

3 Oil shale, if it costs more to produce it, or if they  
4 need more to make it profitable, that is what that \$3 credit  
5 is available, to make it more competitive.

6 Senator Gravel: Round figures, \$25 a barrel.  
7 If oil is selling for \$20 a barrel and you produce oil  
8 shale for \$23 a barrel, then this would make oil shale  
9 competitive dollar for dollar, right?

10 Mr. Shapiro: Let me make an observation. It is the  
11 equivalent of a \$5.50 increase in price, because this is not  
12 taxable. You are talking about a credit. You are not talking  
13 about additional income that is subject to tax. We are  
14 talking about a \$3 credit which has the equivalent in the  
15 neighborhood of a \$5.50 increase in price.

16 Senator Gravel: Then they could compete with \$25 oil  
17 rather than \$23 oil.

18 Mr. Shapiro: That is correct.

19 The Chairman: You are talking about money they do get  
20 rather than talking about money they do not get.

21 Mr. Shapiro: That is right.

22 The Chairman: If that is what it is --

23 Senator Talmadge: What it amounts to is a subsidy in  
24 effect. You produce and we will subsidize you.

25 It has been estimated in the United States that we have

1 enough petroleum in our shale, it is estimated from 700  
2 billion barrels to 2,700,000,000,000.

3 In other words, we have more petroleum in our shale in  
4 the United States than all the OPEC nations of the world  
5 combined. But it has not been competitive. What we are  
6 trying to do is make it competitive so that we will produce  
7 petroleum out of shale, keep the jobs in our country, keep the  
8 dollars in our country and not send them to Saudi Arabia.

9 The Chairman: Mr. Lubick?

10 Mr. Lubick: Senator Talmadge, there are a couple of  
11 minor differences that your bill does not take into account  
12 simply because we made our recommendations with respect to the  
13 Energy Security Corporation after your bill and we have said  
14 to avoid duplication of subsidies that any facility which is  
15 supported by the Energy Security Corporation would not be a  
16 facility eligible for the tax credit.

17 Senator Talmadge: I would agree with that. It should  
18 not be subsidized twice.

19 Mr. Lubick: There are some minor points like that that I  
20 think you would agree to.

21 The Chairman: Why do we not agree to the amendment and  
22 let Treasury bring back perfecting amendments tomorrow?

23 Senator Chafee: Mr. Chairman, it seems to me, if I have  
24 understood what has been happening today, we spent an hour and  
25 a half, as I got it, trying to get estimates, to get them to

1 come forward with the material to determine how much it is  
2 going to cost for each alternate source of energy and  
3 everybody is waiting for this material to come forward and now  
4 all of a sudden, we are going to vote on one proposition  
5 without any of this material before us.

6 Senator Talmadge: If there is any way, they will not  
7 cost a dime unless they produce it.

8 Senator Chafee: It is going to cost the Treasury some  
9 money if it is produced, and is this the best way to proceed?

10 Is each person going to come forward with his pet project  
11 now and throw it out on the table? If that is what the rules  
12 are, I just want to get it squared away.

13 The Chairman: Senator, you are the man we made the  
14 suggestion that we get going, start voting, and that is what I  
15 am trying to do, trying to accommodate you.

16 It would be all right for me to vote on the  
17 administration proposal as Senator Talmadge amends it. I  
18 would like to settle that one issue.

19 Senator Danforth?

20 Senator Danforth: Let me ask you this. Cannot any kind  
21 of synthetic fuel or alternative source of fuel, or even  
22 conservation effort, be translated into the equivalent of a  
23 barrel of oil?

24 Mr. Shapiro: I am sorry. I did not hear the first part  
25 of your question.

1 Senator Danforth: Cannot anything that is done to  
2 preserve, or to produce, alternative sources of energy be  
3 translated, just for analytical purposes, into a barrel of  
4 oil, or BTUs or some common basis of comparison?

5 Mr. Shapiro: Right. We would normally do that for you.

6 Senator Danforth: Following up on Senator Chafee, it  
7 seems to me -- I do not know anything about these various  
8 methods of doing things -- but it seems to me that everybody  
9 would have some project that he would be interested in.  
10 Somebody would say, "I am interested in shale," and somebody  
11 else would say, "I am interested in windmills."

12 I just passed a note over to Senator Packwood, how about  
13 the pedal-powered sewing machines? We could provide credits  
14 for all kinds of things that arguably would produce energy.

15 I wonder, though, if getting a laundry list of various  
16 possibilities is a sound way to proceed. Why can you not  
17 provide -- can you not fashion a tax credit per BTU produced  
18 or saved, or can you not fashion some sort of tax mechanism  
19 which provides rewards or reduces costs based on BTU-produced  
20 or saved, or equivalents of barrels of oil produced or saved,  
21 which would let the market mechanism determine which approach  
22 makes the most sense, so that people who were trying to make  
23 an economic decision would know that there would be, through  
24 the tax laws, a reward for proceeding on any kind of oil  
25 substitute?

1 Mr. Shapiro: Senator, if you are talking about some type  
2 of credit based on production, that is much easier to evaluate  
3 and deal with and to make suggestions. If you are talking  
4 about savings, it is very difficult. This was explored, I  
5 think, in the Ways and Means Committee and the Finance  
6 Committee to some extent, in the last energy bill and in the  
7 last Congress.

8 The problems you have are taken into account in certain  
9 situations. If you are comparing from one year to the next,  
10 you may have a colder or warmer winter, you may have a warmer  
11 or colder summer, you may have a situation where a family has  
12 taken up and gone to Florida for a couple of months.

13 It is very difficult to make comparisons with all the  
14 variations that may come into account to talk about the real  
15 savings, although there was some time and effort put into it,  
16 I think, a longer time on the House side when it was an infant  
17 proposal than it was on the Senate side.

18 It is very difficult to provide any incentives for  
19 homeowners based on the variations of weather alone.

20 Senator Danforth: Let's just take a look at production  
21 alternatives for oil.

22 Could you not just provide sort of an umbrella-type tax  
23 credit which would, in effect, lower the cost of production or  
24 increase the price for whatever you produce and then let the  
25 market system work?

1 In any of the administration's proposals, they try to  
2 project what is going to happen to the price of world oil even  
3 in the synthetic fuel program to determine how much the  
4 Federal government is going to be spending, because if the  
5 world price of oil goes up at a very rapid rate, the amount  
6 that we would be spending for a synthetic fuel program would  
7 be zero.

8 So relating it to whatever the world price of oil is is  
9 the determination of what we have to do over and above that.

10 What I am saying is, as opposed to saying well, we like  
11 synthetic fuels or, oh, no, we like biomass, or hey, how about  
12 windmills, I do not see that that is particularly something  
13 that we are very accomplished in doing.

14 But why can we not just say we are going to provide a tax  
15 credit of X amount for anything anybody comes up with. You  
16 produce the equivalent of a barrel of oil and your taxes are  
17 lowered, or you are subsidized, or whatever.

18 Senator Bradley: If I may respond to the Senator, I  
19 think that is difficult in some areas. Just take, for  
20 example, just one possible alternate area, the area of  
21 conservation. There are a lot of barriers.

22 Senator Danforth: How about production?

23 Senator Bradley: Production is saved energy, is  
24 conservation. It is the same thing.

25 My point is, if you simply have the financial barrier,

1 you are going to provide a tax incentive that you think will  
2 back up a barrel of oil equivalent. It is very difficult to  
3 determine what that tax incentive would be, and assuming that  
4 you arrived at it, the major problem that we have experienced  
5 in the conservation, particularly home energy conservation  
6 area, is the delivery mechanism.

7 Assuming you get the tax credit, how are you going to be  
8 sure you get quality service? If you do not get quality  
9 service, you do not back out the barrel of oil unless you  
10 address all of the components and in each energy source there  
11 are a series of questions that you have to answer, just as in  
12 conservation you have to answer the financial hassle that a  
13 tax credit would be directed towards, than a delivery  
14 mechanism problem.

15 I am saying that I think the goal is an admirable one, to  
16 try to get a common denominator for all forms of energy, but  
17 my own view is that it is exceedingly difficult.

18 Senator Danforth: It seems to me it is more difficult to  
19 try to make a top of the head judgment as to whether we like  
20 shale or whether we like gasohol or whether we like one thing  
21 or the other. My view is what difference does it make, as far  
22 as you can utilize the market system or some reasonable  
23 approximately of the market system to achieve your results.

24 The Chairman: All we are talking about is something that  
25 we voted on before. We took it to the House, we took it to

1 Conference. All I want to do is vote on it, perfect it.

2 Senator Gravel: It would be fair to ask how much this  
3 would produce.

4 Senator Talmadge: We do not know, but we do know  
5 whatever they produce will not cost but \$3 a barrel, period.

6 Senator Gravel: Then I would ask the obvious question,  
7 if we gave \$3 a barrel to natural gas, the equivalent as a  
8 subsidy, how much will that produce?

9 The Chairman: If this particular thing works, if it  
10 works, it will solve the whole problem. You will have so much  
11 energy you will have it running out of your ears. You will  
12 not know what to do with it. If it does not work, it will not  
13 cost anything.

14 Senator Gravel: That is not so. What will happen if it  
15 would -- we could have American industry paying \$3 more per  
16 unit of energy than anybody else in the world.

17 I do not know that that is a goal I want to see realized.

18 You provide something. It does cost something. It costs  
19 the talented people who maybe are going to work in this area.  
20 It is going to cost steel. It is going to cost a lot of other  
21 things in capital that may be better focused into something  
22 that could be more productive.

23 The Chairman: Let me announce that I have a speech I am  
24 committed to make. I have to excuse myself.

25 I would hope that the members of the Committee could meet

1 here at 9:30 tomorrow morning and we will continue to consider  
2 suggestions and amendments to be offered. I will leave this  
3 for Senator Talmadge.

4 Senator Talmadge: If I may respond to Senator Gravel, we  
5 are importing now \$60 billion worth of petroleum, a good  
6 percentage of it from the OPEC countries at a landed price of  
7 \$22.50 a barrel. I think the President, and I think this  
8 committee, and I think this Congress, and I think the American  
9 people want to do whatever we can to escape the OPEC cartel.

10 This is one small step. It is not the ultimate answer.  
11 I think what we are going to have to do is subsidize  
12 everything we can.

13 It is not presently competitive to make this country as  
14 energy self-sufficient as we can.

15 We do know that for every \$3 that the Treasury loses for  
16 this amendment in making petroleum in the United States of  
17 America, we will save importing one barrel of petroleum from  
18 foreign shores at the cost of \$22.50 per barrel. So every  
19 time that we spend \$3 subsidizing petroleum from shale, we  
20 will save \$19.50 that will not go overseas, and that is how  
21 cost-efficient it is.

22 Senator Roth?

23 Senator Roth: The one question that I have, Mr. Chairman  
24 -- and I supported your amendment last time -- is whether or  
25 not that is the primary barrier to producing oil from shale or

1 whether it is the initial cost of the environmental problems?

2 Senator Talmadge: It is a combination of all of them.  
3 You have environmental problems in the areas where the richest  
4 deposits are, and that is the reason that the Senator from  
5 Colorado, Senator Hart, fought the amendment so vigorously on  
6 the Senate floor last time, but he has now changed his mind.

7 He has offered an amendment of a \$3 tax credit to develop  
8 shale. They do have environmental problems. They think they  
9 can lick them. But the big factor is just plain economics.

10 They have not been able to do it competitively at the  
11 world price at the present time.

12 Senator Roth: Could I ask the Senator, does this require  
13 a heavy initial investment?

14 Senator Talmadge: It depends on the system, as I  
15 understand it. There are two methods of making petroleum from  
16 shale. One is the so-called in situ process that Occidental  
17 Petroleum is engaged in now in a very minor way. I understand  
18 there is another system where you mine the rock as though it  
19 were granite and then you bring it up and you put it in a  
20 plant where you heat it at a certain temperature, at which  
21 point the oil cergen comes out of the rock.

22 I am informed a plant of that type costs \$1 billion to  
23 build, so the problem with doing it, nearly every oil company  
24 in the United States has some leases primarily in the Rocky  
25 Mountains because that is where your shale is richest. In

1 fact, I believe you get -- what is it? Fifty barrels of  
2 petroleum from every ton of shale in the richest areas,  
3 something like that. They are ready to go as soon as they can  
4 do it on an economic basis.

5 Union Oil Company, Atlantic Richfield testified before  
6 this committee when we were holding the hearings before. They  
7 and their associates were, at that time, prepared to spend  
8 \$1.2 billion. Union Oil Company was prepared to spend \$100  
9 million. Occidental Petroleum has already spent \$100 million  
10 of their own money without any subsidy, but they are not  
11 in production in any substantial way.

12 What I think this will stimulate every effort in that  
13 regard and put people in business and when we put them in  
14 business, every dollar that we spend in the subsidy will save  
15 us \$19.50 that we will ship overseas.

16 Senator Gravel: Mr. Chairman, would it be fair to ask  
17 Treasury or Mr. Shapiro what does it cost us to buy a barrel  
18 overseas? We are not just talking about OPEC countries.  
19 Suppose we were going to buy some oil from Mexico, or we buy  
20 it from Brazil and they buy our manufactured product as a  
21 result of that?

22 You know, if we are going to establish a rate of a \$3  
23 differential, is it worth it to our economy to have that  
24 domestic difference? Maybe that domestic difference is only  
25 worth \$1, maybe it is worth \$5. I do not know what it is.

1 But I think that would be a germane issue, if we established a  
2 policy as to what we are going to say the differential should  
3 be, then we should shoot for that \$3 for every form of energy  
4 to bring it on.

5 I do not disagree with you Senator; I agree. If it is  
6 costing our economy \$3 on a marginal value of Saudi oil as  
7 opposed to U.S. oil, then maybe we ought to pay an extra \$3  
8 for whatever would come along in that energy and not cause us  
9 to buy it abroad.

10 What is that marginal difference of a unit of energy  
11 purchased outside of the American Flag, as opposed to a unit  
12 of energy purchased under the American Flag?

13 Mr. Smith: Senator, the Energy Department has been  
14 looking at that issue for two or three years -- two years, to  
15 my knowledge, and one can get estimates in terms of the value  
16 to the economy of a reduction in imports of one barrel of oil,  
17 for example, that range anywhere from 10 cents to \$1.50 per  
18 barrel, or more.

19 And we have not, to my knowledge, formulated a figure  
20 that I would feel that this Department of Energy could stand  
21 behind in terms of what the precise estimate would be.

22 Certainly there is a value to the economy in reducing the  
23 imports which is of a fairly substantial nature.

24 Senator Gravel: Could we establish what that is, to peg  
25 it at that, so we can get the maximum benefit?

1 Senator Danforth: Let me ask you how you would feel  
2 about this. Suppose it is \$3, for the sake of discussion.  
3 What would you say about a \$3 tax credit per barrel of oil, or  
4 its equivalent, from shale or any other source?

5 Senator Gravel: Or from oil, too.

6 Senator Danforth: I do not know.

7 Senator Gravel: Wait a second.

8 To be fair, if you are going to say we should go to  
9 shale, why should a barrel of oil equivalent form shale be  
10- any different than a barrel of oil?

11 Senator Danforth: I do not know. I would be willing --  
12 we can discuss that later.

13 I am just proceeding one step at a time. If you are  
14 trying to produce alternative sources of energy, what would be  
15 wrong, just for the sake of discussion, scrubbing the whole  
16 synthetic fuel program? Just say we are not going to have any  
17 synthetic fuel program in and of itself because we do not know  
18 whether or not that is the best way to proceed, but what we  
19 would be willing to do is to provide a \$3 -- whatever makes  
20 sense -- tax credit per barrel of oil or the equivalent of a  
21 barrel of oil, produced from shale or any other source.

22 Senator Talmadge: I think that is a good suggestion. I  
23 think we are going to have to provide subsidies in many  
24 fields. But I think it is going to have to vary from area to  
25 area. I think it is going to cost more than that, for

1 instance, to gassify and liquefy coal.

2 I see Mr. Lubick raising his hand.

3 Mr. Lubick: I would like to elaborate a little bit. You  
4 have made an excellent point, Senator Talmadge. That is the  
5 purpose of the Energy Security Corporation. There are a few  
6 of these processes that we think can be handled through the  
7 tax system, the oil shale and the unconventional gas, and we  
8 pretty much have a target on where the price phase-out ought  
9 to be and we have a target on what subsidy will be necessary  
10 to bring this technology onstream.

11 We think that we want to do what Senator Danforth wants  
12 to suggest, to explore a number of alternative technologies,  
13 but to ask the IRS to handle this great unknown area.  
14 That does not give us the flexibility that we need to explore  
15 all of these other alternatives. We have a couple of concrete  
16 proposals. One is the shale oil credit and there are a  
17 relatively small number of producers. We have met with them  
18 and have gotten their figures and know what it takes to get  
19 them going, so we think we can move in that direction.

20 The purpose of the Energy Security Corporation is to work  
21 out a flexible program of subsidy to bring the other areas  
22 onstream, so it would seem to us appropriate to go with the  
23 credits that we propose, or the tax system, and to go with the  
24 Energy Security Corporation and to finance in various ways  
25 subsidies, loans, guarantees, et cetera.

1 The other types of development --  
2 Senator Gravel: Mr. Chairman, I think the difficulty  
3 with that and the alternate problem that I have with your  
4 figures -- not your suggestion. I think your suggestion is  
5 excellent, Senator Danforth. That is exactly what we should  
6 do. I we are going to have a subsidy, it should be  
7 across-the-board, to anything that will produce energy, even  
8 if it is that mud puddle bicycle you are talking about.

9 What he is suggesting is very dangerous and unless we  
10 know the exact amount we wanted, it is very dangerous, what  
11 you are suggesting, too. You do not want the industry in the  
12 state of Missouri that is going to be disadvantaged  
13 competitively by having to pay the locking costs of additional  
14 energy that another company in Germany does not have to pay,  
15 that could be on cheap oil.

16 That would mean that you would constantly be in a  
17 nonproductive and noncompetitive position.

18 If you turn around and give these as loan guarantees, you  
19 lock it in worse than you do with a credit.

20 The benefit of the credit -- that is the best argument  
21 you have, Mr. Chairman. You do not have to pay it, if they do  
22 not produce it. But under your plan you will pay

23 for it . before you get one single drop of oil and that  
24 is a great tragedy to our economy.

25 The only safe way to do it is with a credit, but that

