1024

IMPACT OF ENERGY PRICES AND INFLATION ON AMERICAN FAMILIES

HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETY-SIXTH CONGRESS

SECOND SESSION

JULY 8, 1980

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

72-694 O WASHINGTON : 1981

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(Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.)

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IMPACT OF ENERGY PRICES AND INFLATION ON AMERICAN FAMILIES

TUESDAY, JULY 8, 1980

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ENERGY OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:15 a.m., in room 2228, Dirksen Senate Office Building; Hon. Edward M. Kennedy (chairman of the subcommittee) presiding.

Present: Senator Kennedy.

Also present: James M. Cubie, David H. Moulton, and Mayanne Karmin, professional staff members; Charles H. Bradford, minority counsel; and Betty Maddox, administrative assistant.

OPENING STATEMENT OF SENATOR KENNEDY, CHAIRMAN

Senator KENNEDY. We'll come to order. America is now completing the seventh year of a continuing crisis over energy. The consequences of that crisis have been severe, reaching deep into the lives of the American people, contributing profoundly to the failing state of the national economy and raising fundamental doubts among our allies about America's ability to deal with problems that have serious international dimensions.

For millions of Americans, the energy crisis is not a remote discussion in Washington or a foreign policy debate, but a clear and present danger to their pocketbooks. While the Government analyzes and procrastinates, the people pay and sacrifice. To an elderly person, the energy crisis is as immediate as the decision to give up the telephone, the lifeline to the outside world, in order to pay for fuel. To a worker commuting to a job, the crisis is as immediate as the tank of gas that can no longer be paid for with a $20 bill. And to a family in the frost belt, it is as immediate as the room or the entire upstairs floor closed off in the home in a desperate search for less costly winter heat.

For the poor, the burden has been especially heavy. Our two primary heating fuels are oil and natural gas. Over the past 5 years, the price of these two necessities of life has risen three times faster than the overall inflation rate. In the year that ended last January, the price of natural gas rose by 21 percent, and the price of home heating oil by 67 percent. And there is more bad news ahead.

During the 1980–81 heating season, the expenditure by many low-income households for home energy will reach $1,500 or even $2,000 for the year. For the experts who make a comfortable living off of energy in public or private life, these rising prices are a phenomenon of macroeconomics, whose bite can be reduced by the timely application of theories of income redistribution, but for the vast majority of families, the theories don't work and the bite is getting worse.

And so far, the only redistribution that the recent massive energy price increases have produced is one way, and that is, I believe, a wrong-way redistribution: From the pockets of consumers to the treasuries of the oil companies.

The result is that Americans are working harder and earning fewer dollars. Their lot is becoming a lesser standard of life in a lesser land; in fact, inflation, largely caused by energy, has wiped out all the hard won gains in income of American workers in the past 2 decades.

The decline has been precipitous in the past 12 months. Measured in real terms, Americans are earning less in 1980 than they were in 1962.

The primary purpose of this hearing is not to redebate the larger energy decisions or lack of them, in the past 2 years, although the debate can and must go on. Instead, the goal today is to insure we do not forget that the average American is paying an ever-rising energy bill for our ever-present energy failures. This morning, we shall hear firsthand from working men and women: from retirees from different areas of the country, trying hard to cope with soaring energy costs; from fuel oil dealers and utilities serving customers who can no longer pay their bills, and from voluntary groups and community organizations helping to meet basic human needs.

And we shall learn that an important social program for the elderly may well be suffering as much from oil price decontrol as from drastic budget cuts. Finally, we shall hear how the principal inflation-fighting agency of the Federal Government does its job of fighting energy inflation.

In all our efforts, in every aspect of public policy, the challenge is to see the crisis in human terms and to solve it in ways that fairly share the burden. That standard is not a difficult one, and it is not asking to much from Government to meet it. Yet in large measure we have not met that standard in dealing with energy inflation. The victims of that failure are legion. They are the people of America. And the legacy of our failure will haunt us until we change our ways and seek a wiser energy future for the Nation.

We have as our first group this morning Mr. Jesse Fuller from Essex, Mass., a retiree from General Electric, as I understand it; and we have Ms. Voncille Carter from Cleveland, Ohio. We're delighted to have you here with us this morning. Senator Metzenbaum is not a member of the Joint Economic Committee, but is a very active member in all the energy matters. I am sure he would want me to extend his good wishes to you.

Mrs. Evelyn Bennett, Circle Pines, Minn., we welcome you here; Ms. Brenda Watford of Buffalo, N.Y.; and Mrs. Mary Loving of Milwaukee, Wis. I want to express my appreciation to all of you for joining with us here this morning, coming from different parts of the country, but citizens facing the difficult choices—bearing the burden of inflation—and making extremely hard and difficult sacrifices.

Working men and women in this Nation are facing the issue of the cost of energy in a very real way and are looking to prospects of even a more difficult time this next winter. So perhaps we'll start off, Mrs.

Loving, if you would perhaps give us a little overview. I know you're a 65-year-old widow and on social security and on widow's veteran's pension. I was wondering if you could just tell us a little bit, in your own words—you can remain seated.

We're going to keep this meeting as informal as possible, and we want as much exchange as possible. We want to hear in your own words how you're facing up to the energy problems that you're facing, what it's meant to you and your life, your lifestyle, what it means to you today as you look down the road toward the future, what kind of apprehension, what kind of sacrifices you anticipate—we want to hear in your own words how you're facing up to the increased costs of energy and what this has meant to you and members of your family, and those that are close to you. So we'd be delighted to hear from you.

TESTIMONY OF MARY GREENE LOVING, ELDERLY HOMEOWNER, MILWAUKEE, WIS.

Mrs. LOVING. Mr. Chairman, I am Mary Greene Loving of Milwaukee, Wis. I am 66 years old, a retired nurse, and a veteran's widow. I am on this fixed income of $374.60 per month. I have been forced to be penalized for working and earning this money under these guidelines.

I was informed, merely because I earned this type of monthly income, I am not eligible to be placed on assistance for medication or food stamps, despite the fact that I pay $104 a month on my mortgage, and I pay approximately $80 to $90 a month—in the wintertime, $90 or $100, for the severe cold weather. However, through the grace of God, last year it wasn't as bad in Milwaukee. Added to the gas, the light bill is $15 to $20 a month, and my water bill is $23 every quarter, or $28 or $30-some-odd, to be paid—plus the telephone bill, which you must have, because I am suffering with this deteriorating heart disease and hypertension.

And under these crucial conditions, it's a hardship for me to survive. If it hadn't been for the guidelines of Greater Milwaukee during the interim, in April, I wouldn't have survived with heat. They came across with some money to supply our needs during this crucial hour, so it is really frustrating to undergo these type of experiences. You really don't know which way to turn. Your heart starts palpitating, and it causes the blood pressure to go up, and you finally wind up in some intensive care unit.

So I am appealing to the virtues of you great men of wisdom—in your infinite wisdom, to try to change the guidelines for the benefit of us who have worked hard, 30 and 40 years of our life, who have gained homes and are an asset in the neighborhood—to sustain us. I thank you.

Senator KENNEDY. As I understand, because of your heart condition, of course, you have a special diet for about $50, $60 a month; is that correct?

Mrs. LOVING. Yes.

Senator KENNEDY. So that's just on top of the earlier figures that you've given us. That brings us, looking at your mortgage and looking at your gas bills, your light bills, your water bills, and telephone bills, your special diet for your heart condition, brings you to well over $300 a month.

Mrs. LOVING. Medication.

Senator KENNEDY. And the medication.

Mrs. LOVING. That's $59 to $60 a month, which—I don't qualify for title XIX. What has become of the $374?

Senator KENNEDY. We've seen all across this country that we can go into a meeting of seniors and ask them how many of them are paying, say $15 or $20 a month for medication—you get two-thirds of the hands. You ask them how many are paying $50 a month, you get maybe a quarter of the men and women in retirement, over 65, so it's not an uncommon phenomenon. It's something that's happening in many different parts of the country.

I've seen it. And it is something that we really don't take into consideration. As I understand, you use natural gas; is that correct?

Mrs. LOVING. Yes.

Senator KENNEDY. Last year you were forced to fall about $200 behind on your natural gas bills in order to become eligible for any kind of energy assistance; is that right?

Mrs. LOVING. Yes, sir.

Senator KENNEDY. I imagine that brings a lot of concern to you, and a lot of worry to you.

Mrs. LOVING. Yes.

Senator KENNEDY. How you're going to be able to make ends meet.

Mrs. LOVING. Yes, sir.

Senator KENNEDY. Your husband was a veteran, as I understand. You were a nurse.

Mrs. LOVING. Yes, sir, a retired nurse, disabled.

Senator KENNEDY. Disabled.

Mr. LOVING. Due to the heart condition.

Senator KENNEDY. So this is what we have seen happen to the wife of a veteran, and someone who has been a nurse and has been working for a number of years—now living on retirement income, on social security, describing for the Members of Congress and the American people about how they budget their scarce resources.

I imagine looking forward to increases in energy makes you increasingly apprehensive about how you're going to be able to make ends meet.

Mrs. LOVING. Yes, sir.

Senator KENNEDY. And that brings anxiety.

Mrs. LOVING. Yes, sir.

Senator KENNEDY. And anxiousness to you, I imagine?

Mrs. LOVING. Yes, sir.

Senator KENNEDY. You're a proud individual who worked hard for this country, and you've told us your story in your own words. Ms. Watford, could you tell us a little bit?

TESTIMONY OF BRENDA WATFORD, LEGAL SECRETARY AND MOTHER, BUFFALO, N.Y.

Ms. WATFORD. Senator Kennedy, my name is Brenda Watford. I'm a 29-year-old divorced single parent living with my mother and her son and my son. I'm the sole supporter of my family. I receive an income of $630 a month, including my mother's SSI income, which—I really don't know what she receives.

Senator KENNEDY. You're working as a receptionist, as I understand.

Ms. WATFORD. No, as a legal secretary.

Senator KENNEDY. Legal secretary.

Ms. WATFORD. Yes. And the part of paying the gas bill in my home, it is very, very heartbreaking. It has been high since I moved into my home, and that has been 2 years ago. I have had the public service commission come in and check my meter to see if there is any default in the line and had a new meter placed in to see if that was proper. And it turned out to be there wasn't any fault. The bills are constantly rising—at least $200 a month. I tried to get the house weatherized, with different community organizations. They turned me down and said, "I'm going to place you on the list, because we have no funds. We have no money."

Senator KENNEDY. They haven't the funding for weatherization programs is what they say?

Ms. WATFORD. Yes.

Senator KENNEDY. The Department of Energy has not been able to get the money out. There have been some resources there; not nearly enough, obviously, to insulate the homes of the Nation. But they haven't been effective in getting those resources out, but as I understand, you've been up to—your natural gas heating bill has been as high as $300 a month in the winter?

Ms. WATFORD. Yes. Very much so.

Senator KENNEDY. And you take public transportation to and from work; right?

Ms. WATFORD. That's right; exactly.

Senator KENNEDY. What have you noticed, just in terms of your budget? You noticed probably as a legal secretary—it's a responsible job, working—providing for a young son. You also are helping and assisting with the other members of your family as well. Do you find that the increase in energy cost is the No. 1 bill that you're finding is going out of control?

Ms. WATFORD. Yes, it has.

Senator KENNEDY. And it is draining down on your own resources?

Ms. WATFORD. Yes, inevitably.

Senator KENNEDY. And you've been trying to insulate your home, get help and assistance in that way, so that you'd be able—you haven't been able to get the resources for it. There is a tax credit program but I imagine you don't have the front-end funding to go on out and take a tax credit? Some individuals do. But here's a working person that doesn't have those kinds of resources, who is interested in insulating her home to save both the amount of energy they use—and that would obviously, hopefully, keep the price down to some extent.

It doesn't always work that way. You find some people using less energy and still paying more. But as I understand, you say that the energy bills, they're the big ones?

Ms. WATFORD. Yes; very much so. I can't even meet my other bills because of the energy bills. I applied for ECAP, which did nothing for me.

Senator KENNEDY. Thank you. Mrs. Bennett, would you tell us a little bit about yourself?

TESTIMONY OF EVELYN BENNETT, WIDOWED PENSIONER, LEXINGTON, MINN.

Mrs. BENNETT. I am from the village of Lexington, which is about 1-mile square, so we're a small community. And I feel kind of, listening to her fuel bills, as if I am kind of complaining on what mine is. She must have a larger home, maybe, than I do. I live in the suburbs in a trailer house. Trailers are much harder to heat than a home is. It's a 14 by 70. And I have some gas and light bills with me. And I have one here from March, which was $65.41.

Senator KENNEDY. You lived in that community. Was it Circle Pines, Minn?

Mrs. BENNETT. Lexington. Circle Pines is seven-tenths of a mile from my home.

Senator KENNEDY. I see.

Mrs. BENNETT. I have a veteran's pension and it's increased to $249.08. I am nervous and I can't quite remember.

Senator KENNEDY. Don't be nervous, now.

Mrs. BENNETT. I'm going to have to live on that, and with these expenses that I have——

Senator KENNEDY. Your $249 a month, now, is what you're living on; is that correct?

Mrs. BENNETT. Yes. This is for myself. Now, I have two grandchildren whom I adopted 4 years ago.

Senator KENNEDY. You adopted two children?

Mrs. BENNETT. Yes.

Senator KENNEDY. So you're looking out for them, too?

Mrs. BENNETT. Right at this time, they're in place for getting some special help that I cannot give them, so this makes me just one income for one person. My main concern is, on the energy of what I have to pay for my gas and light, that I am not going to keep my home, so I can get my kids back when they're through. And I'll just have to sell out.

Senator KENNEDY. That's what you're most concerned about?

Mrs. BENNETT. Yes, sir, I am.

Senator KENNEDY. As a widow and someone who lives in a small community, and you live on the widow's veteran's pension?

Mrs. BENNETT. Yes.

Senator KENNEDY. And two children get some assistance, but you can only yourself live on the $249, and what you're concerned about now is the energy prices going up any higher at all. And I suppose what you're talking about is even $2, $3, or $4, $5, when you're talking about $249. Just those few dollars make the difference.

And you're concerned about whether you're going to be able to continue to own your home?

Mrs. BENNETT. Yes, sir.

Senator KENNEDY. You're worried about that, aren't you, Mrs. Bennett?

Mrs. BENNETT. Yes; and how I can get medical assistance.

Senator KENNEDY. There are lots of people who just think in dollars and cents, and you have to think in dollars and cents. But part of the dream in this country is also relieving people from some of the fear and anxiety that they can be able to live their senior years in some degree of peace, security, and dignity.

Mrs. BENNETT. I'm 58 years old.

Senator KENNEDY. Fifty-eight years old, and this is what you're faced with—losing your home because of energy bills.

Mrs. BENNETT. Medical assistance—I'm not on medical assistance at this time, and I'm not even on food stamps until I can be applied, and I canceled my appointment to be able to come here to express my needs, so that other people with needs can be helped also.

Senator KENNEDY. Mrs. Bennett, tell me, is your story really unique, or do you know people like yourself in your community? The other witnesses of this group are facing this kind of a problem. I think it's important that people understand that it isn't just, you know, five individuals in different communities of this country that we've selected.

Tell me, do you know, just from some of your friends and some of your neighbors, are they faced with similar kinds of problems?

Mrs. BENNETT. Yes, sir. I've been doing voluntary work on the energy crisis, the food stamp program, and quite a few of your Government programs on a voluntary basis for the last—since the middle of January. And I have come up with some very sad cases, and I have been more than thankful to be able to reach out to these people, to find them and reach out to them, and to give them, you know, which organization and community action program and all the other programs that are available to them.

Senator KENNEDY. Even looking out after your two adopted children, you find some time to try and help other people, even though you're having a difficult time to make ends meet yourself.

Mrs. BENNETT. I should have a dishwasher. The dishes pile up too high. [Laughter.]

Senator KENNEDY. But you're trying to help other people make ends meet, even though you're hard pressed.

Mrs. BENNETT. I know what it's like. I know what I'm going through, and I know that there are others out there whose needs—some are greater even than mine, because there are more children in that family that are dependent, smaller children with needs. And there are a lot of them out there, sir.

Senator KENNEDY. What do people do under those circumstances? Do you just turn the thermostat down even more?

Mrs. BENNETT. If the kids say, "I'm cold," I'll say, "Wrap up in a blanket or move around and keep the circulation going." We can't turn up the heat; we can't watch the TV at night because our electric bills can't go up. We select what we can do. I economize in about—I don't know—everything there is to economize in—in washing my plastic bags for reuse again and my aluminum foil for reuse again.

Senator KENNEDY. In order to save those few dollars.

Mrs. BENNETT. Yes, sir.

Senator KENNEDY. There are other people like yourself who are doing the same kind of things?

Mrs. BENNETT. Yes. And I have found so many, many needs out there with the people I have dealt with, the programs that I have been so thankful that there are to be able to put on, and I plead with you people here in Washington, keep them going. They are desperately needed.

Senator KENNEDY. Ms. Carter, tell us a little bit about yourself.

TESTIMONY OF VONCILLE CARTER, CETA FIELD WORKER AND MOTHER, CLEVELAND, OHIO

Ms. CARTER. Senator Kennedy, my name is Voncille Carter. I'm currently a CETA field worker with the Greater Cleveland Church Council. In my work, we service people with emergency food when they are out, and doing my work, I see people, and when you ask them why they're there, they say, well, they pay their bills—their gas bills, utility bills, and they don't have any money left for food.

Also, I am a young mother myself, who is trying to meet monthly needs alone. During the past winter, I was on the aid to dependent children program. I was receiving a public assistance allotment of $216 per month. I was paying a rent cost of $130 per month, and as it got colder, my gas bills got to $90 per month approximately, and it's impossible to pay $130 a month rent and $90 a month gas out of $216.

Also this $216 is for me to buy my day-to-day needs such as soaps, detergents, and diapers, et cetera. Had it not been for the LEAP program and the ECAP program, I wouldn't have made it. I tried economizing, turning the heat down. In doing so, my daughter caught pneumonia and I had to turn the heat back up.

Senator KENNEDY. Your daughter caught pneumonia because you turned the heat down?

Ms. CARTER. Because the bills got so high. You can't afford to pay the bills, so you had to turn the heat down. So she caught pneumonia, I put the heat back up.

I did use one of the programs which they had, which was the low income energy assistance program, which paid $250 for our bill, OK? But this $250 didn't cover all the bills I had. I had electric and gas; they were behind. The electric bill was taken out of emergency funding through the county welfare office, which is $216 per year for a dependent child and a mother. The funding that they used to pay my electric bill was funding which they were going to let me use to buy a bed for my daughter, which she still doesn't have.

Senator KENNEDY. Use the money to buy her a bed?

Ms. CARTER. Through county welfare, you get what you receive a month. You get that $216 a year in case of emergencies such as utility cutoffs and bedding. They had a lot of that money for a bed, but the money was used for payment of the electric bill.

Senator KENNEDY. You know, it's interesting, you mentioned using the two assistance programs. Next year, per capita, that money is going to be less than it was for this year. When we realize that the increase in the costs of energy, home heating oil, and natural gas prices—the problems that you describe here—fear of losing a home and your daughter getting pneumonia as a result of trying to reduce the thermostat, you realize, I think, how hard people are being pressed.

To you, is this energy bill something which you dread as much as any of the expenditures that you have to make? Do you cut back on the types of food you eat, on the kinds of food that you buy for your children?

Ms. CARTER. I buy the store brand now, the generic brand, whatever it is—the off brand; that's the one that I buy. But during that time, I didn't have to do that, because, as I said, I was receiving funds from Aid to Dependent Children, and I did have food stamps, so I didn't have to get that kind of food. But now that I'm working, if those bills are that high, I probably will have to cut back on a lot of things that I need. But we have to have the heat, too.

Senator KENNEDY. Thank you. Mr. Fuller.

TESTIMONY OF JESSE FULLER, RETIRED GENERAL ELECTRIC EMPLOYEE, ESSEX, MASS.

Mr. FULLER. Yes. I'm Jesse Fuller from Essex, Mass., and I live with my wife in a cottage.

Senator KENNEDY. You're 78 years old?

Mr. FULLER. 79.

Senator KENNEDY. A pensioner?

Mr. FULLER. Yes.

Senator KENNEDY. You worked for General Electric almost 20 years; isn't that correct?

Mr. FULLER. Yes. I get an $87 a month pension from them. Last year, on my fuel, I saw that up at the town dump there were quite a lot of old buildings being torn down. I guess I lugged home pretty near a cord of wood, put the buzzsaw to it, so I kept my oil bill so that I burned about 1,100 gallons. I don't know how much more it would have been besides that. For cooking, I used propane gas in the kitchen

Senator KENNEDY. 1,100 gallons at about pretty close to a dollar a gallon up our way, isn't it?

Mr. FULLER. Yes.

Senator KENNEDY. I remember in the State of New Hampshire, it was about $1.02, or $1.03 a gallon. Some places in Massachusetts were 98, 99 cents. But certainly, about a dollar anyway, isn't it—$1.01, $1.02 a gallon, and going up again this year? So you're talking 1,100 gallons. You're talking a good deal of money.

Mr. FULLER. Well, I'd like to say that previous to 1976, I'd been blessed with good health, and I was getting along—nothing to complain about. But since then, everything has been going up, up, up, and in October of 1976, I popped a disk in my back. When one hub of the wheel goes, the whole darn wheel goes. I had to slow down, and I couldn't pick up the extra money to keep me going.

So, as I say, between gasoline—a few years back I'd go to the filling station and put in $5; now, you have it pretty well filled up and it's about $18 or $19 a trip that you have to pay.

Now, my wife, she had to have a hip transplant, and she developed a heart condition after that, and medical bills, they have climbed to beat the band. The doctors, they like to have you pay cash.

Senator KENNEDY. They like you to pay cash?

Mr. FULLER. That's right. They like you to pay—they almost insist on it. And then to get it back, you have to wait, and now I just paid her Blue Cross-Blue Shield. It was $73.59.

Senator KENNEDY. Now, as I understand, Mr. Fuller, last year you supplemented your heating bill by salvaging some wood.

Mr. FULLER. Yes.

Senator KENNEDY. You explained that a little earlier. That was from the town dump; is that right?

Mr. FULLER. One section where they put all the wood from torn-down sheds and things like that. I picked up quite a lot of nice wood up there.

Senator KENNEDY. And you used some of that for the makeshift wood stove that you have; is that correct?

Mr. FULLER. Yes; I set up a wood stove.

Senator KENNEDY. With your bad back, are you going to be able to do that?

Mr. FULLER. Well, I have to watch it. My back has improved an awful lot.

Senator KENNEDY. We're talking about someone like yourself who's worked a lifetime with one of the fine companies I know in my own State and I'm familiar with. You've worked a lifetime and married now, living on a pension, trying to make ends meet. You're going down yourself at your age—down to the town dump and cutting wood down there, just to try and be able to make ends meet. Your wife has increasing health problems, which puts pressure on your budget and on your pension. How do you feel about this?

Mr. FULLER. Well, I wonder where it's going to stop. I'd like to see it stop so we can kind of balance things off again.

Senator KENNEDY. Make ends meet. You're really concerned about whether you're going to be able to continue to make ends meet?

Mr. FULLER. Yes, sir. Bills coming in, a lot of unexpected ones. I've lived in the cottage for over 40 years. My wife was cleaning the tank in the bathroom, and she broke part of the metal system on it, so we had to have the plumber come over. He tried to get new parts for it, but years ago they had bigger tanks and today they have a smaller tank in order to conserve on water, and so he came over with a new tank to put it on the bowl, and the holes in the porcelain bowl are a different dimension, so he had to get a new bowl. So last month there was $83 that come right out of the clear sky.

And that's the way. It seems as if there's an awful lot of bills come piling around you right and left.

Senator KENNEDY. Let me just ask this finally of the group about your own concerns for the future. Do you live with greater anxiety about the future than you did maybe 2 or 3 years ago—anxiety about making ends meet?

Mr. FULLER. Yes; I'm worried about that, because if you ever took me out of my house and my little backyard garden, that would be the end of life for me. I wouldn't want to change it.

Senator KENNEDY. Forty years you've lived there; is that right?

Mr. FULLER. Yes. My roots are pretty well established.

Senator KENNEDY. And you're most concerned about the energy costs and these other bills; is that right?

Mr. FULLER. That's right.

Senator KENNEDY. You're really concerned about whether you can make ends meet.

Mrs. Bennett, I also understand you have some arthritis; is that correct?

Mrs. BENNETT. Yes, sir, I do have. I do have medical problems. The fact is, my doctor's looking for me, I imagine, about now as to why I'm not in that hospital for major surgery which I was scheduled for, and I didn't say anthing; I just said "whoopee" when I had a chance to come to Washington.

But one thing I wanted to say, Senator Kennedy, is that last January the Government put through that energy crisis program which gave me $252 to pay on my gas, my heating bill. With that $252 was paid my house insurance and my home taxes, which I would not have had. And I want to thank you very, very much for it.

Senator KENNEDY. Mrs. Loving.

Mrs. LOVING. Senator Kennedy, I would like to beg your indulgence for a few minutes, please, to acquaint you with the statement of Dr. Sanderful, who is my cardiologist:

> To Whom It May Concern: I performed a cardiac catheterization on Mrs. Mary Greene Loving on January 27, 1977. She is currently under my care for the following: hypertension, arteriosclerosis, heart disease, angina—

which is heart pain, and despite this fact, I am denied a title XIX card to get medication.

And from my pharmacist, which is brief, Mr. Shelton, the letter states:

> Mrs. Mary Greene Loving is a deserving woman whose eligibility for SSI benefits is constantly tied up in red tape. Consequently, it is an extreme hardship for her to obtain her medication that is necessary for her health, and too, we have many customers under the same dire circumstances. Sincerely, Shelton Pharmacies, Mr. Shelton.

I'm suffering, and despite this, I am told that I am not eligible to get the food stamps nor the medical forms to defray the cost of my medication. This causes me much frustration and hardship.

Senator KENNEDY. We'll see if we can try to help on that. I am also the chairman of the Health Subcommittee. We'll see if we can be of some help.

I'd just like to make a final observation. We've seen Mrs. Loving, who is a 66-year-old retired nurse, living with a heart condition which you've outlined for this subcommittee; a 29-year-old legal secretary working hard, trying to make ends meet, to meet the responsibilities to her family and constantly facing the challenges of increased energy costs; a 58-year-old widow with arthritis who lives in a trailer, supports two children she adopted some 4 years ago and lives in the fear of losing that home that she's made for those grandchildren; a young mother, Ms. Carter, who's got a 2-year-old and from the increased costs of energy has turned down the thermostat; and so her 2-year-old gets pneumonia because of the efforts to try to save energy; a 79-year-old retired worker, who's spent a lifetime at work in this country, lives with his wife in their home of 40 years, and now has a good pension, I would expect, by American industrial standards for someone who has worked over a lifetime and now finds it extremely difficult to make ends meet. He lives in fear and anxiety about whether he's going to be able to continue to live in that home of 40 years and what this means to himself and to his wife.

Anybody who listens to that testimony could not help but be moved.

These stories that I've heard this morning, and as I think Mrs. Bennett and the rest of you could tell us, are not unique. They're special to you, but they are stories that I am sure are happening in your community and your neighborhoods. You could tell us about it. Just seeing the nodding of the heads now indicates that this is the kind of thing that's happening all over this nation. I've seen it in 8 months' traveling around this country. It's very real. Human problems, American individuals, proud Americans, hard-working Americans, men and women who want to provide for their families, men who have worked a lifetime to provide for his family and now living in very real fear about whether they're going to be able to make ends meet, whether they're going to be able to hold their home. Part of the American dream is owning their own home.

And make no mistake about it, these prices, the costs that you're paying here, are not something that's snatched out of the sky, snatched out of the blue. That's the result of decisions which are made here in Washington, D.C., also made in other parts of the world, but also made here in Washington, D.C., made by legislators, made by Members of Congress, made by administrations.

Make no mistake about it, that it doesn't have to be this way. I think there are better ways, fairer, more equitable, more humane ways to conserve energy, scarce energy resources that we're facing both in this county and around the world, than listening to the kind of stories that we've listened to this morning. Other countries are doing it, and it's inexcusable for the United States not to be able to do that.

And your telling this story to us ought to be a forceful reminder to all Americans about the fact that we have really failed to meet the human needs of elderly people, or working retirees, of working men and women, the working poor, middle income people. At the same time we're seeing the record profits of oil companies, gas companies, and others in this society. I think America means equity, America means fairness. We can't eliminate all the inequities and all the unfairness in our society, but we fail, as public officials, unless we continue to devote all of our efforts and energies trying.

And I want to thank all of you for appearing here this morning and sharing your personal experiences with us. I'd just indicate to you that I have every intention of trying to address these needs in ways which I think are sound and responsible and fair and equitable. And I hope that—we'll try and assist you as individuals. We're grateful for your appearance here before this subcommittee. And what is most important, as well, is that we'll try and insist that this country, over the period of the 1980's, is going to adopt energy policies that will see that we don't have to listen to these kinds of stories from working people and from retirees over the period of the 1980's. I think that's what the 1980's is all about.

And I want to thank you for your appearance here today. Thank you very much.

We'll ask you if you'd remain here for the rest of the hearing. We'd be glad to have you remain with us.

And I'd ask our second group to come forward.

We're going to have a second group now.

Norman Dietrich, who is the general manager of Austin Utilities, Austin, Minn.; Anthony Maggiore, chairman of the Energy Assistance Programs Subcommittee of the Fuel Oil Marketing Advisory Committee, U.S. Department of Energy; Steve Morris, vice president, Universal Utilities of New York City; and Peggy Sheeler, legislative chairman, National Association of Meal Programs.

We're glad to have you here.

Mr. Maggiore, would you start, please?

We'll include all your statements in the record.

STATEMENT OF ANTHONY J. MAGGIORE, ASSOCIATE DIRECTOR, COMMUNITY RELATIONS-SOCIAL DEVELOPMENT COMMISSION IN MILWAUKEE COUNTY, MILWAUKEE, WIS., AND CHAIRMAN, SUBCOMMITTEE ON ENERGY ASSISTANCE PROGRAMS, FUEL OIL MARKETING ADVISORY COMMITTEE, U.S. DEPARTMENT OF ENERGY

Mr. MAGGIORE. I'm Anthony Maggiore, associate director of the office of programs of the Community Relations-Social Development Commission of Milwaukee County, Milwaukee, Wis. In addition, I'm also chairman of the Subcommittee on Energy Assistance Programs to the Fuel Oil Marketing Advisory Committee of the U.S. Department of Energy.

Thank you for inviting me to testify before your committee today on a most serious and urgent problem confronting low-income households and the elderly.

The Community Relations-Social Development Commission has been involved in designing and implementing energy programs since 1973 in Milwaukee County. Our agency is an intergovernmental, public, social planning agency established by State statute, as well as a local community action agency funded by the Community Services Administration.

Today, I will share with this subcommittee some of our findings and our experience in operating the Federal energy crisis assistance program this past winter, as well as a summary report of "Energy Assistance: Profile of the Need and Policy Options," to be published shortly by the Department of Energy.

During the past winter heating season, our agency served over 15,000 low-income households, or over 30,000 people. Our statistical findings are that one-half of such households—in other words, we had computerized data systems in our initial report. It indicates that over 49.1 percent of the households served earn less than $399 per month; second, that 85 percent of the households served paid $199 for rent or housing payments or approximately one-half of their monthly income. The primary fuel used is natural gas, with approximately 20 percent of the total households utilizing oil.

Of the households using home heating oil and served by our program, most were completely out of oil or had insufficient quantities of oil when they applied for assistance. The majority of natural gas users served by the program had received disconnect notices by the utility companies at the time of application. Over 75 percent of all households served were in arrears to utility and home heating oil companies at the time of application.

Housing plus home energy costs together comprise 68 percent of the monthly income of all eligible households, and 70 percent of the monthly income of elderly households at the time of application. In other words, when households applied for assistance, their housing plus home heating costs together equaled, on an average, 68 percent of their total income for the month in which they applied.

We also served several thousand households where the heating costs for the month, especially those households on home heating oil, exceeded the total monthly household income. In other words, they

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came in with bills of $225, and their income that month was $185 or $195. The home heating bill was a minimum of $225.

To briefly summarize the executive summary of the Fuel Oil Marketing Advisory Committee report, the data I just provided you was local data. The report is a national study that we have just completed.

This study—remember, Senator, you testified at the hearing last year in Washington when we had a draft document relative to this matter. Since then, a final document, in 1979, was published in July of last year, and an update is being published shortly by the Department of Energy for 1980.

Our findings, to briefly summarize, are that, in comparison to last year, where we found low-income households were spending 17.8 percent of their income on household energy—let me point out that's a national average; it is balanced off by southern data and western data—so, in 1978, our study indicated that, on an average, throughout the Nation, low-income people were spending 17.8 percent of their income on home energy costs. Our projections for 1979 and 1980, specifically 1980, indicate that on an average that has gone to 21 percent of their income, directly on household energy.

In certain parts of the country, the northern and eastern areas, those figures rise to 30 and 35 percent as a percentage of the income that low-income households receive. We also found that low-income people expend at least 35 percent of their income directly on total energy costs. That includes transportation.

Our study indicates that low-income people will continue to be paying four times more the percentage of their income on household energy than the average American household. Low-income people suffered a loss in average total income in real terms since 1972, making the acquisition of adequate energy for this group even more difficult than it was 3 years ago. Low-income households will lose over $6 billion in purchasing power in 1980 due to the increases in energy costs. This figure—when one combines it with 1978 and 1979, we arrive at a figure of $14 billion for that 3-year period.

In certain parts of the country, low-income people have experienced particularly harsh and disproportionate burdens in paying for energy. They also have less ability to pay for such costs.

Senator KENNEDY. Of the $6 billion—we'll come back to this—the people like those who are testifying today will lose $6 billion more, as I understand it. You're defining low-income as under 125 percent of poverty level?

Mr. MAGGIORE. Exactly.

Senator KENNEDY. So, it's elderly people, it's working poor people, and working people. I mean, we're talking about a pretty broad section of this country, and they're going to lose $6 billion over the period of this next year; is that correct?

Mr. MAGGIORE. Exactly.

Senator KENNEDY. Why don't you continue your figures, since I want to go through some of these points—why don't you continue.

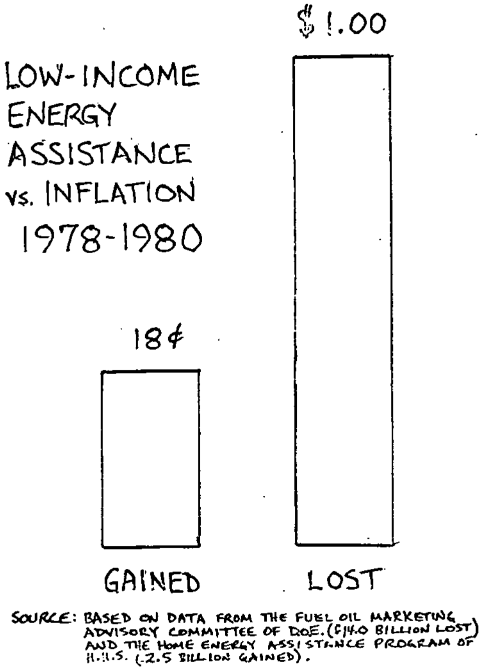
Mr. MAGGIORE. Senator, I'd like to point out that the data we use in this report are very conservative and trackable from a documentary perspective. The data are very, very conservative.

Senator KENNEDY. Now, this chart [indicating] as I understand it, would show, for every dollar that is lost—of the $6 billion that you mentioned—would be lost to elderly people and working people, working poor. They get returned 18 cents in some kind of Federal help and assistance in the areas of energy. Is that a fair statement and a fair comment?

Mr. MAGGIORE. Yes, it is; exactly. It's consistent with our data reports.

Senator KENNEDY. It should be, because it's come from your data and the other data that's been assembled in the Congress. [Laughter.]

[The chart referred to follows:]



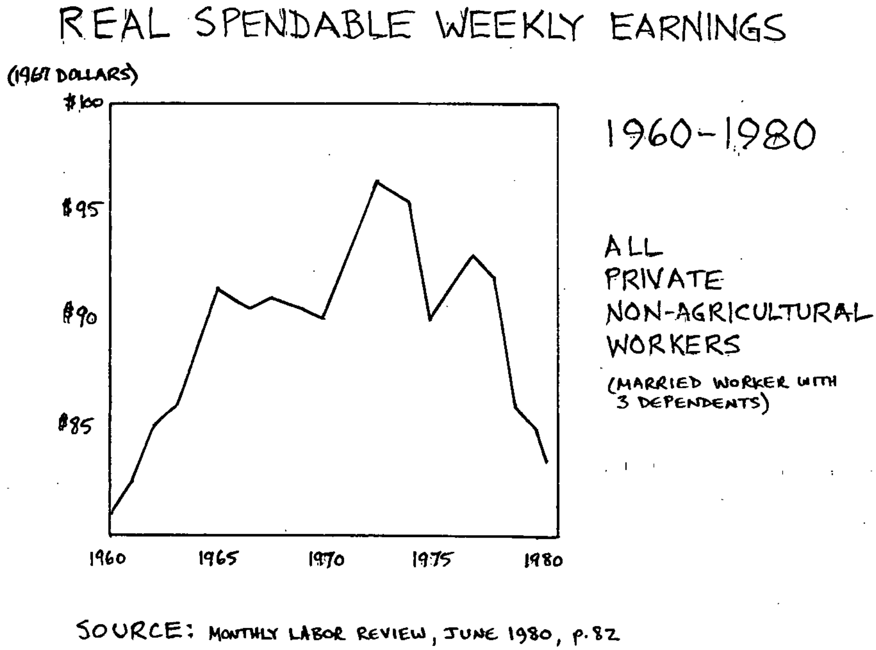
Senator KENNEDY. This is from 1978 to 1980. If we were to draw another chart about what's going to happen—this is between 1978 and 1980—into the 1980's, 1981, 1982, 1983, you have, as I understand, pretty much the same kind of curve, do you not, unless we're going to find that there's going to be some major kind of turnaround or change?

Mr. MAGGIORE. Exactly.

Senator KENNEDY. So we should be very clear about who the people are. It's going to be elderly people, retired people, working people, working men and women that are going to find out that this kind of a curve is going to take place.

Proportionately, as you stated very clearly in your statement, in your report, for working people, retired people, they pay a disproportionate amount of their income in the energy area, three or four times the median income. Even for middle-income people, it's still a great deal higher than for those in the upper incomes. And that is something—what we're also seeing is this kind of a result. This chart [indicating] is in 1967 dollars, showing all private, nonagricultural workers between 1960 and 1980. This was in 1967 dollars. The actual numbers may vary on it, but we are using a constant figure; otherwise we'd have very significant distortion because of the rates of inflation.

[The chart referred to follows:]



Senator KENNEDY. But using constant dollars, this is an accurate statement about the purchasing power for Americans. This is the real, spendable, weekly earnings for the nonagricultural workers. This is across the board. Spendable weekly earnings are approximately three-quarters of actual earnings as a general rule of thumb.

And what we have seen now is the dramatic decline. And what I hear, from your own statement and testimony, it looks pretty much like for working people and others that this is going to continue to decline.

We had an increase in the real expansion of purchasing power for working people during this period of time, up to the early 1970's, leveling off briefly during the Vietnam war. But now we have seen this precipitous decline. And I don't think that there should be any question that that's the result of both our economic policies and our energy policies. We'll come back to that a little later in the hearing. But it does seem to me to be rather dramatic, and I think it's important for people to understand where we're going, what the direction is. And it's the result of both energy and economic policies. But the earlier chart is strictly the result of the energy policies.

OK.

Mr. MAGGIORE. I'd like to point out as well that this matter, in terms of low-income people, is further compounded—and we begin to see a pattern emerging among the States, whereby they're beginning to withdraw and reduce their welfare expenditures.

So, for people who receive AFDC and public assistance—they will receive less assistance—which by the way represents less than 50 percent of the eligible people at 125 percent of poverty—what I am saying is that most poor people are not on welfare. Therefore, any program that is designed to reach poor people, it should be designed to reach all poor people, the elderly who are not on public assistance, as well as other groups. But recently we've seen trends emerge that the Washington Post reported on yesterday, where States are beginning to reduce their contribution to welfare programs. That further compounds the problem for those low-income households.

[The Washington Post article referred to follows:]

[From the Washington Post, Monday, July 7, 1980]

WELFARE BENEFITS GREATLY ERODED BY LONG INFLATION

(By Spencer Rich)

Over the past six or seven years the states have massively cut back the real level of monthly welfare checks to the poor.

And they did it without provoking bitter fights or publicity because they did it largely by doing nothing.

Faced with the highest inflation in modern times, many states have simply left cash welfare benefits at the same dollar levels, or raised them so little that welfare families can buy far less than they once could.

The result is that "the most impoverished people in the nation are taking it on the chin," in the words of Scott Bunton of the National Governors Association.

Some states have begun trying to cut their rolls directly. The governor of Pennsylvania asked the legislature to chop 81,000 "employable" people off the state-funded general assistance program to save about $69 million a year. The state House has already complied and the state Senate is considering the proposal.

So far, only a few other states have cut welfare directly, but welfare experts fear this will become more prevalent if the nation's economic troubles continue.

The more common route is that followed by Texas, which has about 300,000 people receiving benefits under the Aid to Families with Dependent Children program.

In Texas, the maximum payment for a family of four without any other income has been $140 a month under the AFDC program since 1969, although a temporary bonus equal to another $5 a month was paid in 1979. An effort to raise the $140 to $187 a month failed last year in the Texas legislature, according to the office of the state welfare commissioner.

Since 1969, the nationwide cost of living has increased about 115 percent, so the $140-a-month basic payment for a family of four buys less than half what it bought in 1969.

New York City is another example. In 1975, the maximum AFDC payment in the city was $476 a month to a family of four without any other income, a fairly sizable benefit compared with other jurisdictions then.

But, as Sen. Daniel P. Moynihan (D-N.Y.) repeatedly points out, that $476 has not gone up a penny since then, while the cost-of-living index has jumped by about 46 percent. That $476, which enabled a mother with three children to get along with perhaps some degree of decency five years ago, can buy only two-thirds the food, clothing and shelter it bought then.

Some jurisdictions, like the District of Columbia, have substantially raised their welfare figures over the inflationary 1970s, but in few cases have they been able to raise them enough to keep pace with the cost of living.

Melone Broome, acting administrator of income maintenance programs for the District, said the maximum payment to a family of four without other income on AFDC here was $246.40 a month in 1973. It has been raised in steps and today is $348.73 for the same family, an increase of 41 percent. But in the same period the consumer prices index shot up 78 percent.

The fact that states have failed to keep AFDC payments up with the cost of living is shown starkly in national figures computed by the Department of Health and Human Services (HHS).

Measured in terms of constant 1979 dollars, the average State maximum for a family of four without other income was $424 a month in 1973. By 1979, it had dropped to $349.

Add food stamps to the benefits a family of four receives, and their situation in three quarters of the States is still worse today than in 1973–74, according to a Health and Human Services calculation.

Again, measured in constant 1979 dollars, the real value of a family of four's maximum benefit plus food stamps was $523 a month in 1974 and $479 a month last September, according to a calculation of population weighted averages of State maximum payment schedules.

"Certainly, we have seen this inflation cutting back on the real value of AFDC," said Rudolph G. Penner, director of tax studies for the American Enterprise Institute.

Other Federal programs for the poor have grown, like rental aid (more than $6 billion a year) and the cash payments for fuel assistance, estimated at about $1.8 to $1.9 billion a year.

But Dean Mitchell Ginsberg, of the Columbia School of Social Work, Assistant Secretary of HHS John Palmer and several other economists or welfare experts doubt that these added payments fully compensate most welfare clients for loss of purchasing power, especially since they aren't evenly distributed throughout the welfare population.

One reason that the big U.S. outlays for food stamps (more than $9 billion a year), housing (more than $6 billion) and energy assistance ($1.8 billion) don't fill the deficit for all the AFDC and aged-blind-and-disabled (SSI) welfare clients is that large amounts go to other poor people not quite eligible for AFDC or SSI. Those at the lowest end of the scale, the direct welfare clients, don't get all this money.

Thus, people over the maximum income limits for welfare are eligible for food stamps, Medicaid, housing aid and fuel assistance and get a big portion of these outlays. And these benefits are also spread over a larger population with more unemployment than in 1973.

Only about a third of those living in subsidized housing for low-income people are on welfare, and only a little over half the households on food stamps are welfare clients.

Medicaid, the charity medical programs, has also expanded greatly and is estimated at $25 billion, for fiscal 1980, three-fifths federally paid.

But welfare clients who are lucky enough not to get ill don't receive a penny from the program. And even for those who do, the outlays merely cover extra costs of sickness, and "they don't put food on the table or pay your rent," said Ken Bowler, a welfare expert on the staff of the House Ways and Means Committee, "You can't eat your crutches."

Even while the states have been saving large amounts by failing to keep welfare payment levels up to inflation, Bunton and welfare experts said, they have also kept the AFDC welfare rolls below what they would otherwise be by failing to increase dollar eligibility cutoffs.

Thus, using Texas as an extreme example again in 1969, only a family of four with an income of less than $187 a month was considered poor enough to be eligible for AFDC. Today, $187 buys less than half what it bought then, so theoretically the cutoff should be doubled so that families of the same real poverty would be eligible. But it is still $187.

To a generally lesser degree, the same is true in many other states.

For the 4.2 million aged, blind and disabled, or SSI population, the overall benefit-erosion isn't nearly as bad because the U.S. government makes the basic support payment and raises it annually to keep pace with inflation. But many states supplement the federal payment and, generally, their added cash payments haven't kept up with inflation.

As painful as all this is for the genuinely needy, Ginsberg fears it could get worse as states desperately seek out places to cut and prune to save money in tight times.

Already there are some signs he may be right. This year, Washington state and Michigan, relatively high-benefit states, are actually cutting the dollar amounts of supplements they pay to SSI clients.

Mr. MAGGIORE. In addition, our study found that low-income households had less ability to offset increased energy costs through product substitution in the marketplace than for any other necessity utilized by households. We discovered that they used less than 50 percent of the total energy consumed by the average American household and 25 percent less household energy, and that by and large low-income household will continue by necessity, occupying low quality, energy inefficient housing stock that currently penalizes them in their efforts to cut energy costs, and obviously can only be helped by financial assistance to deal with energy conservation requirements.

We published this report a year ago. As you are aware, the $1.6 billion program was implemented during the past year. Our analysis of the costs of that program for the next year and the current debate in Congress is approximately $1.6 to $2.2 billion. And I think there is some sort of settling at $1.8 billion.

In this report, we indicate that, based on our data, the cost of implementing the full design nationally would range from $3.5 to $4.6 billion for the 1980–81 winter heating season. This is significantly more than the $1.6 billion to $2.2 billion currently discussed in Congress. And it's a matter of commonsense.

If you take, for example, under next year's program guidelines, apparently 20.7 million households are eligible. If 75 percent of such households participated and received an average of $200 per household, the total budget needed for 1980–81 would be $3.1 billion. In other words, if you just take the figures and take a percentage of that, that $1.8 billion to $2.2 billion program is absolutely inadequate for next winter.

I understand we're in a period of conservatism relative to spending for poor people. I think we've gone beyond being conservative. I think we're now withdrawing support. It's not just a question of holding people on line.

Last year, throughout the country, many thousands of households received up to $400. If they were to receive $400 next year, these figures would be doubled. Therefore, I would suspect that how states design the program would be probably try to implement a program where the poorest of the poor are served and the program benefits, therefore, will not be available to all eligible clients under the legislation. And as that happens, it means that we will be seeing hardships next year that we experienced several years ago, prior to the energy program.

I would suspect that the program may well run out of funds sometime during February at the current discussed funding level.

Finally, our committee's recommendation is that what is needed is an energy assistance program which includes conservation, a significant and massive increase in the area of weatherization, as well as a large increase in programs in the area of consumer education and alternative energy.

What is needed is a permanent national program of energy assistance—I want to mention that specifically—in contrast to an income transfer program. As long as the current program operates as a State-operated program, you're going to have differentials throughout the country and you're going to have a program that takes on the character of income transfer. In a matter of a few years, if that pattern continues as it did this year—and may well next year, depending on what the State plans are—there will be a compelling reason congressionally to merge the program with public assistance.

As I pointed out earlier, most low-income households are not on welfare. If it's merged with welfare, we are, in effect, denying benefits to the bulk of the population not currently receiving service through that system; plus the fact that we're dealing with an energy problem that our committee feels needs to be dealt with in an energy way, not an income transfer way, we're promoting a design that has energy fuel payments, intimately tied into weatherization, conservation, education, and alternative sources of energy. That's what we call an energy assistance program versus a straight money income transfer program.

Senator, thank you for allowing me to testify to this subcommittee. I certainly appreciate your interest in this crucial problem.

[The prepared statement of Mr. Maggiore follows:]

PREPARED STATEMENT OF ANTHONY J. MAGGIORE

I am Anthony Maggiore, Associate Director—Office of Programs for the Community Relations-Social Development Commission in Milwaukee County, Milwaukee, Wisconsin. In addition, I am also the Chairman of the Subcommittee on Energy Assistance Programs for the Fuel Oil Marketing Advisory Committee of the U.S. Department of Energy.

Thank you for inviting me to testify before your Committee today on a most serious and urgent problem confronting low-income households and the elderly. The Community Relations-Social Development Commission has been involved in designing low-income energy assistance programs since 1973 in Milwaukee County. Our agency is an intergovernmental public social planning agency established by state statutes, as well as, the local Community Action Agency funded by the Community Services Administration.

Today, I will share with this Committee some of our findings through our experiences in operating the Federal Energy Crisis Assistance Programs this past winter, as well as, the summary report of the document titled, "Low-Income Energy Assistance: A Profile of Need and Policy Options" to be published shortly by the U.S. Department of Energy.

During the past winter heating season, our agency served over 15,000 low-income households or over 30,000 people. Our statistical findings of one half of such households are:

1. Over 49.1 percent of the households served earned less than $399 per month.
2. 85 percent of the households served paid $199/month for rent or housing payments or approximately one half of their monthly income.
3. The primary fuel utilized was natural gas with approximately 20 percent of the total households utilizing oil.
4. Of the households utilizing home heating oil and served by our program, most were either completely out of oil or had insufficient quantities of oil when they applied for assistance.
5. The majority of natural gas users served by the program had received disconnect notices at the time of application.
6. Over 75 percent of all households served were in arrears to utility and home heating oil companies.
7. Housing plus home heating costs, together, comprised 68 percent of the monthly income of all eligible households and 70 percent of the monthly income of elderly households at the time of application.

In other words, when households applied for assistance, their housing plus home heating costs, together, equaled 68 percent of their monthly incomes.

We also served several thousand households where the heating cost alone for the month, exceeded the total monthly household incomes.

Attached is a summary of the Fuel Oil Marketing Advisory Committee report dated July 1980.

Thank you for the opportunity to appear before your Committee. I am hopeful that this Committee and others will seek to rectify the impact of rising energy prices on low-income households.

I. EXECUTIVE SUMMARY

The purpose of this second report of the Fuel Oil Marketing Advisory Committee (FOMAC) of the Department of Energy is twofold: to update information on the energy needs of low-income persons and governmental response to such needs; and to emphasize the need for energy conservation programs which may alleviate the enormous financial burden placed on low-income people by rising energy prices.

While continuing to emphasize a national program of energy assistance utilizing an income indexing/vendor line of credit approach, FOMAC has sought to develop further and refine its initial energy conservation recommendations. With energy prices rapidly increasing, the necessity of a comprehensive energy conservation program to protect the health and safety of low-income households and preserve our Nation's energy supplies is even more evident.

Since FOMAC issued its initial report and recommendations a year ago (July, 1979), rising energy costs have had an even greater negative impact on the 16.2 million poor and near poor households (nearly 40 million persons) it proposed to assist.

The 1978 data indicated that, nationally, low-income households were spending 17.8 percent of their income on household energy. Projections for 1979 and 1980 indicate that during 1980, the poor, nationally, will be spending, on the average, at least 21 percent of their income directly on household energy, while energy costs in certain regions of the country will exceed 30 percent of the income of poor households.

Overall, the updated needs assessment document finds that the poor:

1. will expend at least 35 percent of their income directly on energy and will spend at least 21 percent of their income on household energy;
2. will still continue to pay nearly four times more the percentage of their income on household energy than the average American household;
3. suffered a loss in average total income in real terms since 1972, making the acquisition of adequate energy for this group more difficult;
4. will lose over $6 billion in purchasing power in 1980 due to increases in energy costs;
5. have experienced, in certain regions of the country, a particularly harsh and disproportionate burden in paying for energy;
6. have less ability to offset increased energy costs through product substitution in the marketplace than for any other necessity utilized by poor households;
7. will use less than 50 percent of the total energy consumed by the average American household and 25 percent less household energy;
8. will continue, by necessity, to occupy low quality, energy inefficient housing stock that further penalizes them in their effort to cut energy costs; and
9. lack financial resources to implement significant additional conservation improvements.

Governmental concern regarding these problems has heightened since FOMAC issued its first report in 1979. Congress appropriated 1.6 billion for the 1979–80 fuel assistance program and has enacted into law the Home Energy Assistance Act of 1980. That Act authorizes grants to states for assistance to eligible low-income households to offset rising costs of home energy. In addition, a variety of bills have been introduced in both houses of Congress to establish a permanent program to alleviate the burdens imposed by rising energy costs and to promote residential conservation.

Congress has also stipulated that 25 percent of the recently enacted Windfall Profits Tax, approximately $56.8 billion, should be utilized for low-income assistance over the next 10 year and has authorized $3.1 billion for energy assistance in the calendar year beginning October 1, 1980. The House of Representatives is currently reviewing appropriations for the 1980–81 fiscal and program year and the Senate will consider the issue after the House takes action. Hopefully, a decision on funding for the 1980–81 program will be reached this summer.

After careful review of various program designs, FOMAC continues to support the income indexing/vendor line of credit approach originally proposed as retaining its fundamental validity. This design would provide assistance to eligible households based on:

Energy needed.—Heating/cooling needs would be based on size of dwelling and heating/cooling degree days.

Cost of fuel.—In terms of energy needed, cost would be calculated on the basis of price of fuel to provide needed heating and cooling.

Percentage of income.—The method of providing assistance requires that households be responsible for a portion of their heating/cooling expenses on the basis of income.

The FOMAC design operates through a vendor line of credit, assuring that the benefits are utilized for household energy and places responsibilities on the vendor for delivery and recordkeeping. With variations, the FOMAC design can be used to assist households whose energy costs are included in their rent.

The FOMAC design would clearly serve to offset some of the design flaws of this year's Federal energy assistance program in four ways:

1. Assistance would be more proportional to household energy needs and ability to pay.
2. Assistance would be more readily available to all the poor, especially the elderly and working poor not enrolled in public assistance programs.
3. The national, local, and individual allocations of assistance would be more clearly tied to heating/cooling needs versus poverty status alone.
4. Assistance provided to low-income households would have to be utilized for fuel bills.

On May 30, 1980, the U.S. Department of Health and Human Services (HHS) issued interim final regulations setting forth the requirements for states seeking allotments under the Home Energy Assistance Act of 1980. These regulations have incorporated some of the major features of the FOMAC proposed program design as well as recommendations contained in the FOMAC report issued in 1979. In addition, the HHS regulations also attempt to resolve many of the program design problems characteristic of the 1979–80 Energy Assistance Program.

The cost of implementing the FOMAC design nationally would, according to our estimates, range from $3.5 to $4.6 billion for the 1980–81 winter heating season. This figure is significantly more than the $1.6–$2.2 billion budget figures currently being discussed in the Congress.

For example, under the income eligibility guidelines for the 1980–81 Home Energy Assistance Program approximately 20.7 million households may be eligible for assistance. If 75 percent of such households participated and received an average of $200 per household, the total budget needed for 1980–81 would be $3.1 billion, excluding administrative costs.

In view of continually rising energy costs, FOMAC has further developed its recommendations for a comprehensive energy conservation program for low-income households.

Conservation will not only reduce annual increases for energy assistance expenditures, but will also produce conservation energy for the Nation. The cornerstone of such conservation programs must be weatherization coupled with consumer education and the use of appropriate forms of alternative energy. Clearly the costs of conservation efforts will be paid back in terms of savings to the individual low-income household as well as to the Nation.

Since the publication of the 1979 FOMAC Report, the needs of low-income persons have continued to increase because of the high rates of inflation and the current recession. Fuel prices have escalated rapidly. At this time in history, the establishment of an equitable, permanent and standardized national program of energy assistance is critical. At present, however, no agreement on a permanent program design has been reached. The FOMAC design, and the principles on which it is based, can serve as the basis for this national program.

Meeting the ongoing energy needs of the poor will require a coherent national policy which consists of a program to aid the poor in paying their energy bills as well as a program to aid the poor in their efforts to conserve energy.

This report seeks to promote such policies.

Senator KENNEDY. Your study and review and knowledge of this has been of enormous value, I think, to the Congress and to the American people.

It's advice and counsel that should be heeded and listened to.

We're very grateful for your presentation and your continued work and continued projections about this problem.

Peggy Sheeler, would you be No. 2, please?

STATEMENT OF PEGGY F. SHEELER, LEGISLATIVE CHAIRMAN, NATIONAL ASSOCIATION OF MEAL PROGRAMS

Ms. SHEELER. Thank you for the privilege of presenting to you the impact energy has upon the voluntary, nonprofit service delivery. I am

Peggy Sheeler, and I speak on behalf of Mrs. Lois McManus, president, National Association of Meal Programs, Inc.

Senator KENNEDY. You're the legislative chairman of the National Association of Meal programs.

Ms. SHEELER. Our National Association of Meals is made up of approximately 800 people, three-fourths of whom are voluntary, nonprofit, home delivery meal organizations. One-fourth are congregate food programs. There are approximately 150,000 volunteers serving home-delivered meals, and we know that for each Meals on Wheels we have identified there is at least one, possibly two, that are not affiliated with any national organization.

In order to accurately explain the impact of the increase in the cost of energy, I would like to cite a few specific projects. For example, Meals on Wheels of Central Maryland, Inc., serves 2,050 meals daily. Deliveries are made by a driver and visitor teams who donate their time, their automobiles, and their gasoline.

These volunteers drive approximately 150,000 a week in Baltimore City and the surrounding counties. Recently, they have not been able to add new clients, if they do not reside in close proximity to one already on a route. It is significant to note that 70 percent of the volunteers are themselves over 65. They're living on fixed incomes which do not allow for payment of exorbitant gasoline prices. Most of the meals are prepared in church kitchens that do not charge for the heat, the gas, or the electricity. Now, some of these churches are no longer able to afford to allow the Meals on Wheels to use their facility without charge.

Projects throughout the country have been writing and calling, concerned particularly about gasoline prices. In Decatur, Ga., for instance, 350 volunteers, one-third of whom are senior citizens. A county in California cites the savings in home-delivered meals because it prevents costly institutional care. This project reports that more than half of their volunteers are over 55.

A volunteer from Winston-Salem, N.C., reports she's been helping Meals on Wheels for 11 years, but now that she's on a fixed income, she will have to discontinue assisting this program. Syracuse, N.Y., has been serving for 20 years. Volunteers drive 735 miles per week to reach 261 homebound seniors. Volunteers do not even count the amount of gasoline they use to travel back and forth from their homes to the home-delivered meal sites. To my knowledge, home-delivered meals is the only service whose entire delivery system is dependent upon volunteers.

The majority of the volunteers are senior citizens, desirous of making a contribution to the well-being of their neighbors. Not only is this the contribution of the volunteer's time and energy, vitally needed by the recipient, but it also adds meaning and worth to the life of the senior volunteer giving the service.

Home-delivered meals prevents more costly institutionalization of disabled persons. This service is provided almost entirely by volunteers, a majority of whom are living on fixed incomes, and by community and religious organizations who donate the cost of utilities for food preparations.

These characteristics emphasize the energy dependence of this service. Adequate energy resources are vital to the delivery of the service. Escalating costs of energy will curtail the continuing contribution of energy costs, which could lead to a decrease in this service. Energy impact has a ripple effect across all human services, public and voluntary.

And if I may share with you some of these instances, Life Support, for instance, in Maryland, trains volunteers to visit the aged and disabled confined in nursing homes. These people would otherwise have no visitors. In 1979, in Baltimore City alone, 225 volunteers made over 6,500 visits to individuals confined in institutions. Cancer patients are driven for therapy by volunteers, because certain forms of treatment are available in designated locations within geographic areas.

Many patients are brought long distances. Partial statistics on transport services offered to patients by volunteer drivers to hospitals in Baltimore indicate two patients were driven 40 times for treatment, a total of 2,894 miles, the average trip 73 miles. Big Brothers and Big Sisters of Central Maryland, Inc., stated to me they've experienced difficulty recruiting volunteers. Potential volunteers state they cannot afford to volunteer, and older volunteers are beginning to seek compensation.

This organization provides the companionship of adult single-parent families and children with special needs. This year, they assisted 500 young people, and have more requests than they can accommodate. A voluntary action center in a rural county with no mass transportation except a small senior bus service which cannot go over the county line uses volunteers to transport patients for kidney dialysis, mental health patients for treatment, and nursing home residents into the inner city for specialized care.

They are not able to recruit new volunteers. Three-fourths of their volunteers are also seniors, who cannot afford to contribute the cost of these trips, which average 65 miles a round trip.

I have presented to you the impact upon the organized formal services. But what about families and neighbors who are helping one another?

These statistics, no organization is keeping. Agencies will have to absorb even more service delivery if the income and support of neighbors and families is no longer there. We know from a research study that 80 percent of the in-home services to the elderly, for example, are provided by daughters and daughters-in-law. What will be the impact and ripple effect if this informal support is no longer available in our communities?

My experience and the information I have gathered from others documents the need for some kind of assistance to people using gasoline to help others in need. In order to maximize this assistance, the Federal solution should be administratively as simple as possible. I would encourage you to examine tax credits or reductions as one possible way to alleviate the costs of energy upon volunteers.

Senator Durenberger and Congresswoman Mikulski have been aware of this problem. Each has introduced a bill that would provide tax deductions for mileage in voluntary services. Speedy enactment of the Durenberger and Mikulski bills would provide some immediate relief—despite a loss to the Treasury because of a possible tax credit or deduction. The alternatives, in terms of institutionalizing the elderly and disabled, would be far more costly.

Thank you for the opportunity to present this material to you at this time.

Senator KENNEDY. That's very important, because the spirit of voluntarism is very significant in our society, very important in our society, and I think you've illustrated it from your testimony about what is happening and what will happen to the spirit of voluntarism in our society with the increase in costs of energy.

I imagine some of your volunteers take a look at these figures, at these gas pumps—$1.33 and $1.28 or $1.31 and $1.27. Those figures are high enough to discourage, I would expect, volunteers, as you pointed out, elderly people—we've heard from some seniors that are prepared, have got some time, have got some strong commitment to improving the quality of life of others.

We've heard Mrs. Bennett mention it, and others that spoke here earlier today. Even with scarce resources, they're prepared to do it. They run into those kinds of figures at the gas pump. We know what the answer's going to be, and that is that there's going to be reduced help for seniors who are shut-ins, fewer calls to them—that's going to be one of the results. Some of the elderly people are probably going to, because they're not going to be able to get this kind of attention, they're going to be forced out of their homes or apartments into other institutions, nursing homes, or hospitals.

And I just wonder whether the experts program in this kind of information when they're reaching policy choices and decisions—the kind of information that you mention here about the impact of this ever-increasing cost of energy on the spirit of voluntarism and the spirit which has been so important in our society.

I've seen it so many times myself, seeing some of the special olympic programs out in Eugene, Oreg. They had 600 volunteers there, older people, younger people, people who give up some time to work with the mentally retarded and some of the handicapped, and go on out to help and assist some of these young and old people alike.

And it makes you wonder how this kind of spirit can be maintained, when we see such extraordinary escalation of costs. I just really wonder, when policymakers are making policy, whether they really take this kind of human impact into consideration.

Ms. SHEELER. I think we fail to take into consideration that the seniors are not merely seeking some assistance for themselves, but many of them are making a serious, needed contribution that benefits all of us—but we don't take that into consideration, and we need to enable them the dignity of doing that, because we need them.

Senator KENNEDY. Well, that's well stated. That's very, very well stated by somebody who is an authority on this, and I think we lose track of this fact. When we're drawing these pencil lines, we lose track of the human aspects of these issues and you've certainly reminded us today about them.

Mr. Steve Morris, Universal Utilities, New York. We're looking forward to your testimony.

STATEMENT OF STEVEN MORRIS, VICE PRESIDENT, UNIVERSAL UTILITIES, NEW YORK, N.Y.

Mr. MORRIS. Senator Kennedy, my name is Steven Morris. I am vice president of Universal Utilities, a retail fuel oil dealership in Long Island. I am also president of the Oil Heat Institute of Long

Island, which is a trade organization representing hundreds of dealers involved in the distribution of fuel oil in that area. The past few years have been very difficult years for both consumers and dealers, fuel oil dealers.

When I say "consumers," I am talking about both low-income consumers and middle-income consumers—they've all felt the impact of the results of OPEC greed, of major oil company business practices, and of an administration that has failed to act and act decisively and forcefully on this situation. The year 1979 was a good example of the kind of inaction that we experienced, and probably the worst experience we've had, where prices rose from an average of 54 cents retail per gallon up to over 90 cents a gallon retail. Prices continued to rise in 1980, until April, when they reached around 97 cents a gallon. Now they've leveled off. They've leveled off because our supply situation is the best it has been, probably in history—it's 40 percent above last year, and the immediate future looks good.

Yet prices stay where they are, and in some instances continue to rise. If there was real competition in the wholesale market at the refiner level, then the laws of economics would have their normal effects, and prices would go down, but in reality, that competition has disappeared. True, there are no price controls on fuel oil, and yet there seems to be a kind of de facto control that has come about through the manipulations of major oil companies and administration inactivity.

Senator KENNEDY. It does probably make people wonder when they see and hear so many platitudinous statements. We've heard them all over the period of these past months—at least I have—I'm sure most Americans have, about competition in our system. You point out here, now, you've got a 40-percent increase, I guess, in the storage, a glut on the world market, and yet people say, you know, under the traditional supply and demand, "with that kind of increase and glut on the world market, why aren't the prices for my home heating oil going down?"

You mention now that they've flattened out pretty well, which I understand they have, but you wouldn't be able to give us much assurances that they're not going to go on up as soon as colder weather comes later on this year.

People have to ask themselves why, if we have a glut now on the market, why we don't see some reduction. That's the way the free enterprise system, the American free enterprise system in the good old days, is supposed to work. You made some comment on it. As a former chairman of the Antitrust Subcommittee, I am always interested in these kinds of things as well as trying to represent consumers interested in this issue.

Maybe just make a brief comment on what your observations are, as somebody who's living out there on the firing line, and talking to both the dealers and homeowners.

Mr. MORRIS. As a dealer, I know today that I have few choices in terms of where to go for my oil. I buy from one supplier who has traditionally handled almost all my supplies. If I approach another major refiner, a major oil company, and ask them to sell me oil, they say: "Well, we're not taking on new customers. We don't see the future as permitting us to make long-term commitments."

When they write a contract, they put it in front of me—and when I say "me," they put it in front of all fuel oil dealers, and they say, "Sign on the dotted line. We don't negotiate contracts." Those contracts are written in such a way to prevent us from walking away from a bad deal. We have to buy every gallon that we contract for, or we are penalized in the future.

Senator KENNEDY. All the major oil companies have similar kinds of contracts?

Mr. MORRIS. Very much so; that's true.

In addition to that, we've experienced recently changes in credit terms and changes which have had significant impact on many dealers. I myself have experienced the elimination of what was called the summer fill program, which permitted me to buy large quantities of oil early in the spring and not pay for them until October. The elimination of that program cost me in excess of 2 cents a gallon over the period of a year, and that's a cost that I have to pass on to my customers.

The reason that has been given for the elimination of that program is that we can sell all the oil we have; we don't have to bend over backwards for you anymore; you buy what we give you. There is no more competition at the refiner level—we are stuck with who we have, and we have few choices.

Senator KENNEDY. Well, how can the major oil companies put the squeeze on you, for example, in terms of their credit, these credit restrictions—because they need the money, is that what they tell you, that they need the money?

Mr. MORRIS. Well, Texaco in recent months reduced their credit terms from net 30 days to net 10 days, and indicated that they were in difficult trouble with collections.

Senator KENNEDY. Now, they had a profit last year of $1.8 billion; is that right?

Mr. MORRIS. That's true.

Senator KENNEDY. They had their record profits for the first quarter of this year, and they're putting the squeeze on you, on the small guy, reducing the time from 30 days to 10 days. I understand some of the other companies have gone from 60 days down to 10 days as well. Gone from 60 days. And here, we have record profits in just about every one of those major oil companies.

So they're getting the resources, they're getting the money, they're getting the flow. As a matter of fact, they're even buying up other companies in other areas. American Oil last year bought up a gold and copper mining company for over $100 million. Sun Oil is spending millions on trucking companies and grocery stores. Arco bought a copper company, and the London Observer—a newspaper. And they're after you for additional kind of credit, saying, "Sign on the dotted line, or else," then you have to buck this onto the consumers that we heard testify here today.

That's the way I read it. I don't know whether you reach a different conclusion than that.

Mr. MORRIS. Well, you read it correctly, Senator. I should note that Texaco with the help of your office and the New England caucus did reverse their position on credit terms, and did hold to the 30-day terms, reversing their position. This also happened with Gulf Oil.

They've thrown other little switches in our way. From time to time, they've attempted to enforce restrictions that required additional charges for trucks that were loading in their terminals that were under a specific size. These were terms that have been in their contracts for years and not enforced.

It should be noted that the Federal Government has not treated the fuel oil consumer with the kind of fairness that they have other consumers of other energy products, and that is a difficulty for us, also; 22 percent of Americans heat their homes with oil—that's 16 million people. In my State, New York State, better than 50 percent of the people heat with oil, and on Long Island, better than 80 percent, over 600,000.

These people seem to be forgotten.

Heating oil dealers cannot solve the problems.

Senator KENNEDY. Do you want to just expand? Why? How do you reach that conclusion?

Mr. MORRIS. We look at the Natural Gas Policy Act of 1978, which gave residential consumers of natural gas a benefit of incremental pricing and slow, gradual decontrol. Fuel oil users don't have that benefit. Fuel oil users have not been given tax credits, which are sorely needed.

Just to give you an example, there was a whole new heating tax rebate that was passed by both the House and the Senate. When the Crude Oil Equalization Act was defeated, that home heating tax rebate was lost. That tax rebate would have gone across the board to all consumers of energy for home heat.

In the end, only gas users received the benefit. We don't think that's fair, and we think there are reasons behind that.

Senator KENNEDY. What ones have you got in mind?

Mr. MORRIS. One of the things that has happened in the past years is that our administration has promoted the conversion of fuel oil heating systems to natural gas. I believe that this approach is a politically motivated hoax on the American people, and it's perpetrated by the administration on the basis that they can't solve the problems we have with oil. They can't solve the problems we have with gas either, but our psychology today is to get angry at oil companies, to get angry at the very word "oil," because it's so much in the news, and it has presented so many difficulties to us.

So rather than deal with the problem, our administration has diverted our attention by saying, "Convert to natural gas." Now natural gas is not in large supply either, and there are proven facts that say that we are using twice the volume of natural gas than we are discovering. In 1976, in 1977, just 3 years ago, our Nation experienced major natural gas shortages that shut down tens of thousands of businesses, that put hundreds of thousands of people out of work, and threatened to shut the heat off in millions of homes. Yet now we say, "Convert to natural gas."

I think it's a diversion and a hoax.

Senator KENNEDY. I'm going to give you about 3 or 4 minutes just to wrap up your presentation.

Mr. MORRIS. Sure.

Major oil companies actually make the administrative polices of our Government which have raised prices. The administration opposed tax credits for home heating oil users. The administration has opposed tax credits for the installation of conservation equipment.

There's a reason for that. The reason is that if we gave tax credits for conservation equipment, it would have a serious impact on the Government's income. It would also have a tremendous impact on our use of oil. And we must choose between that income to Government and the conservation of oil and other energy sources in our country.

We have limited tax incentives for the installation of energy-saving equipment. There are no tax incentives for boilers, for furnaces, some of which if installed today would save consumers in excess of 33 percent of their annual usage, yet we look at that as a loss to our Government rather than as a benefit to consumers.

There are solutions to this, and I think they're consistent with some of the solutions that have been previously stated—programs of information for consumers, not only low-income consumers but all consumers; support for weatherization of homes, both in the form of information and tax credits; a tax credit for all residential energy users; and tax credits for major conservation efforts in the home and in industry. Those are the only means of solving these problems.

I thank you, Senator.

Senator KENNEDY. We want to thank you very much for your presentation. It's courageous as well as helpful, and we're grateful for your presence here and for your willingness to speak frankly about the problems the dealers are facing, which we're enormously interested in.

I've found that that is one element within the petroleum industry that is really competitive; at least it is in our part of the country—a place where small businessmen and women are in the business, and we're always interested in those who are out on the firing line, trying to make that system function and work, and we thank you for your presentation.

Mr. Dietrich, would you be kind enough to make your presentation now?

STATEMENT OF NORMAN DIETRICH, GENERAL MANAGER, AUSTIN UTILITIES, AUSTIN, MINN.

Mr. DIETRICH. Senator Kennedy, it's a pleasure to be here and give you the utilities' viewpoint on the customers' problems that we're experiencing.

The northern tier States, Minnesota being one, are constantly experiencing more and more problems with their customers and their ability to pay their higher and higher fuel bills.

Senator KENNEDY. You're the general manager of Austin Utilities in Austin, Minn.?

Mr. DIETRICH. I am.

Senator KENNEDY. And that's a small municipal operation; is that correct?

Mr. DIETRICH. Yes, I am general manager of Austin Utilities, in a community of 25,000 people, located in the southern part of Minnesota. We are a municipal utility and, being consumer owned, we do have great concern for our customers, who are basically our owners.

Senator KENNEDY. OK.

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Mr. DIETRICH. The State of Minnesota is a very cold State in the wintertime, as everybody knows who lives there. Fuel is an extreme necessity to our customers; it's life itself to them. We have a number of people who had thermostats set down as low as 65 degrees. They are elderly people; they are struggling; they are cold all winter; they are depriving themselves of some of the other necessities of life to pay their bills.

There is some assistance being given to some of these people. It is not, however, reaching some that are just on the borderline or in need of additional money. There are going to be a lot of disappointed customers who find that there is the possibility of some reduction in this subsidy money.

Austin has an income level that is slightly above the average, yet we have about 550 out of 9,000 heating customers that are on the subsidy program. There are some close to a hundred more that are just on the borderline and should be receiving subsidies in order to meet their commitments.

Utilities have been criticized for showing some nonconcern for their customers in the past, but I tell you, this is not true for most utilities. In fact, one of my comments to our customers is that our concern for you is much more than you think, because we know what's ahead of you, and you don't. Rates are increasing tremendously.

Senator KENNEDY. Why don't you tell us what's ahead for the likes of our first panel, working people, young working people as well as retirees.

Mr. DIETRICH. We are finding that of those on subsidy, some 60 percent are the elderly people. Others are in the younger, 28- to 30-year class. There are those that are struggling with a family on very limited income, and the escalation in rates in rising tremendously. For instance, from January 1976 to date, gas prices at the consumer level have increased 212 percent.

That increase percentagewise and annually has slowed somewhat through the past year to a 35-percent increase. We recently had been given some projections—and it was rather startling to see that the projections indicate a 33-percent further increase in residential bills in 1981; 53 percent—this is over 1980—in 1982; 1983, 97 percent; and in 1984, a 117-percent increase in their gas costs from 1980. It's a rather startling increase.

Senator KENNEDY. What does it mean to the people that you serve in that community? What does it mean in human terms? What are you finding out? The people who can't pay the bill, what kind of people are those? How are those numbers increasing? What are some of the human aspects of this that you've come across?

Mr. DIETRICH. We struggle throughout the heating system with our customers to work with them to get their bills paid. Obviously, there's no chance of cutting off a customer in this cold climate, because that would be life itself to him. Where 2 and 3 years ago, we had customers in arrears in numbers of maybe 200, 250 customers a month in the winter months, that has now gone to 450, to close to 500 customers that we find in arrears.

Dollarwise, where we were normally $25,000 to $30,000 in arrears, we now are reaching $100,000. This is a very good barometer as to the problems the customers are experiencing in paying their bills.

Senator KENNEDY. So this has tripled in the last 2 years.

Mr. DIETRICH. It has, and we see it getting worse.

Senator KENNEDY. And your testimony is, the news is not good for the next year and the following years. You think the numbers are going to increase. There's going to be more hardship, more anxiety, more suffering?

Mr. DIETRICH. I certainly see that coming, Senator, yes. Of course, if the subsidy is going to be cut back some, that will make it even more so. The low-income people are caught in a box. They live in residences that are old and rather poorly insulated. They don't have the money to pay the utility bills and certainly don't have the money to insulate their homes.

A program to assist in the insulation of homes would be of great benefit to these customers.

Senator KENNEDY. We're seeing where even some of that is being reduced. The figures for that are being cut back in terms of the real value of that program. But you state that that's one of the programs that would be most helpful and most useful to people. Am I correct?

Mr. DIETRICH. Yes. The home insulation program is almost as much in need as the energy subsidy in the northern tier States.

Senator KENNEDY. OK. Well, I want to thank this group. It's been helpful for a number of reasons. I think we've heard from the members of the community organizations about what has been the impact of increasing energy costs on voluntarism, on families, on retired elderly people, shut-ins, the impact that it has on a number of the elderly people, not only from the increased cost of energy but what this means to them in terms of the whole quality of life, their ability to help and assist members within the community and the satisfaction and the joy and the self-fulfillment that that gives to individuals. And that opportunity, now, is increasingly denied to them, let alone many of the people that they're serving. Whether it's because of illness or hardship or age, these people are not being served.

We've listened to the businesses, the utilities, who see the harsh impact of the prices on the people within their communities. We've seen the direct impact from our earlier panel on people who just can't afford to pay the bills, on dealers and utilities caught in the squeeze, on customers who can't pay, and on oil companies who are insisting on even harsher credit terms.

We are seeing the results of, I believe, an energy policy that is basically unwise, unfair, and really ineffective. These victims are not invisible. They are real human beings, proud men and women, many young in age, many old, retired, who are having an extremely difficult time in making ends meet, and we'll hear from our next group which will be the administration officials from the principal agency of government that monitors inflation in our society.

But we want to make it clear at this hearing that the one group that did not come and would not testify were the major oil companies. We asked Exxon, and they said no. Mobile said they were too busy. We asked Gulf and Shell and Texaco; they all said no.

We can understand their reluctance, because this is what is really happening. The communities and the individuals—what's happening in energy policy today—there's a darker side to their higher profits.

Their dollars are drenched with the tears and pain and sacrifice of millions of hard-working men and women of this country, working men and women and retirees.

Sooner or later, the oil companies are going to have to learn that they can't exist by profits alone. They can't just point their fingers at OPEC and Washington. They have responsibilities to the American people. The American Government has the responsibility in the area of energy to the American people, and the oil companies have a responsibiltiy to the American people. And the sand is running out through the hourglass.

It seems to me, it's probably even past that. The elected representatives of the American people are going to respond to these human needs. All the testimony we gather today is going to be even harsher and crueler in the years to come.

I want to thank the group very much for their appearance here.

We have a final group—Roger Alcaly, who is the Assistant Director of the Council on Wage and Price Stability for Policy, Planning and Evaluation and Tom Hopkins.

All right. We'll be in order, please.

Mr. Alcaly, do you want to introduce the group?

STATEMENT OF ROGER E. ALCALY, ASSISTANT DIRECTOR FOR POLICY, PLANNING, AND EVALUATION, COUNCIL ON WAGE AND PRICE STABILITY, ACCOMPANIED BY THOMAS D. HOPKINS, ASSISTANT DIRECTOR FOR GOVERNMENT PROGRAMS AND REGULATIONS

Mr. Alcaly. I am Roger Alcaly, Assistant Director of the Council on Wage and Price Stability for Policy, Planning, and Evaluation. The testimony that we are going to deliver today has been prepared jointly by myself and Mr. Hopkins, who is Assistant Director of the Council on Wage and Price Stability for Government Programs and Regulations.

We, as you know, have prepared a joint statement which we'd like to submit for the record, and I would spend a few minutes just summarizing that statement. And then we would both be happy to answer questions.

Senator Kennedy. Fine.

Mr. Alcaly. You've asked us to testify about the relationship between energy and inflation and the role of the Council on Wage and Price Stability in limiting the inflationary increases we've been experiencing over the last couple of years or so.

Let me say at the outset that the Council's primary responsibility is not in formulating or effectuating energy policy. We do have a role, but our role in energy policy is not primary.

As is all too well known——

Senator Kennedy. Do you distinguish the Department of Energy from, say, the Department of HEW or other Departments or agencies of government?

Mr. Alcaly. Excuse me?

Senator Kennedy. Do you say, "Well, we don't have a responsibility in energy, and therefore we're going to put that really aside, and we're not going to take a view of that like we do policy decisions that are made by, say, the administration in the Department of HEW"? You have a different standard?

Mr. ALCALY. Not at all.

Senator KENNEDY. It's the same; it's basically the same? I want to get that established in the beginning.

Mr. ALCALY. I was distinguishing between our primary responsibilities and our secondary responsibilities.

Senator KENNEDY. But it's basically the same for all the departments of the Government. Am I correct in that?

Mr. ALCALY. That would be correct.

Senator KENNEDY. I think that's important to understand. So you have decisions being made by the administration and the Department of Energy. You have responsibilities there as the principal inflation fighter of the administration to make comments. There are policies being made by the administration in HEW; you have responsibilities there. At Interior, you have administration policy, and you have a responsibility there.

Energy isn't just put aside or put off, is it?

Mr. ALCALY. Not at all.

Senator KENNEDY. OK.

Mr. ALCALY. We are all painfully aware of the close connection between energy and inflation. Let me just summarize briefly a few of the most pertinent facts.

When the anti-inflation program was first announced in October of 1978, the annual rate of inflation, as measured by the Consumer Price Index, was about 9 percent. That rate accelerated in early 1979 to about 13 percent, stayed in the 13- to 14-percent range throughout most of the rest of the year, then accelerated in the first quarter of 1980 to about 18 percent before decelerating in April and May to something like 11 percent.

The two accelerations in the rate of inflation were due primarily to surges in prices not covered by the Council's standards. Large raw material price increases pushed many companies off the basic price limitation standard and onto the various cost passthrough standards that are available to cover instances of uncontrollable cost increases.

Energy price increases were the most dramatic component of this surge in raw materials prices; crude oil prices increased about 110 percent in 1979 and the first quarter of 1980. Energy commodity prices increased about 80 percent over that period. As a result, energy commodity prices—which constitute only 7 percent of the weight of the Consumer Price Index—contributed about a fifth of the observed inflation in 1979, and about a third of the increase in the first quarter of 1980.

These are direct effects only. There are, in addition, substantial indirect effects which arise basically through two mechanisms. First, energy is an important input into the production process. Second, rising prices generally tend to inflate wages, which then inflate unit labor costs, leading to further price increases.

It has been estimated that the total effect of increased energy prices is about twice the direct effect, taking account, of course, of the lags involved in this process. We independently estimate that during the first quarter of 1980. the indirect effect of energy price increases added about 2 percentage points to the 5.2 percentage points of the inflation rate accounted for by the direct effect of energy price increases.

The other major element explaining the overall increase in consumer prices, of course, is interest rates, which enters the Consumer Price Index through the homeownership component.

Mortgage interest costs, which reflect both interest rates and home purchase costs, increased by 35 percent in 1979 and at an annual rate of 54 percent in the first quarter of 1980. As a result, the mortgage interest component of the CPI—which accounts for about 8.5 percent of the weight—accounted for about a quarter of the overall increase in 1979, and also a quarter of the increase in the first quarter of 1980.

These two components together—mortgage interest costs and energy commodities—account for less than one-sixth of the total CPI, but contributed about half of the overall inflation in 1979 and early 1980.

Even more dramatically, these two components explained about three quarters of the acceleration of inflation from 1978 to 1979, and from 1979 through the first quarter of 1980. Energy commodities alone explained about half of the accelerations in inflation during these periods.

No reasonable anti-inflation program could have prevented the surge in the Consumer Price Index caused by these energy—commodity price increases and increases in mortgage interest costs without introducing substantial distortions and/or shortages into the economy. In fact, no major industrial country has been able to insulate itself from the explosion of crude oil prices. The United States has been hardest hit by the explosion in crude oil prices, essentially because it's the most energy-intensive major industrial country except Canada. This energy intensity, of course, makes us not only more vulnerable to energy price increases, but itself can be explained by our historical access to relatively low energy prices.

As a result, in an attempt to balance longrun energy goals with our shortrun anti-inflation goals, the Council's price standards exempt crude oil prices from coverage cover and only the margins introduced at both the refinery and distribution levels. Crude oil prices are exempt because these are determined in world markets, and energy policy requires replacement cost pricing. The standards that cover the margains of refiners and distributors apply to revenues from sales of all refined products, and thus don't restrict individual product prices and possibly interfere with production incentives.

Of course, not all of the increase in retail prices can be explained by the explosion of crude oil prices. Some of the increase can be explained by expanded margins at the refining and distribution levels. These expanded margins were analyzed extensively in a Council report that we issued in February, "Petroleum Prices and the Price Standards."

Not only did we break down the sources of the increases in refinery margins, but in the process of conducting the study, we introduced substantial modifications to the standards that made them more restrictive.

The major changes in the standards included expressing the gross margin limitation on a per-barrel basis, which has the effect of restricting margins when volumes of production decline. We also required petroleum companies to disaggregate their refining and marketing operations from all other operations for purposes of compliance and to demonstrate the operation within the gross margin standard would seriously restrict the profitability of the refinery and marketing operations before they could move to the profit margin limitation. Finally, we reduced by 50 percent the catchup that was permitted under the profit limitations.

There were additional changes, which I won't enumerate, but all but possibly one had the effect of tightening the standards and making them more constraining.

In a followup study to the February report, released on May 30, 1980, entitled "The Council's Petroleum Refiner Standards," we analyzed more explicitly the relationship between the standards and energy goals, particularly as those energy goals are expressed in the Department of Energy's regulations.

We recognized at that time that there were certain major outstanding questions, primarily concerning the investment incentives that are contained within the Council's standards and the fact that these standards apply on a quarterly rather than annual basis. We concluded that our standards strike a reasonable balance between longrun energy goals and the shortrun objective of constraining inflation, but indicated that these issues would be the subject of further discussion and would be examined again in the paper—just released today—outlining the various unresolved issues that we face as we approach the third program year.

Senator KENNEDY. I want to give you time to make your presentation, but I also want to get to the questions, and we didn't get your testimony, until just a few minutes before we started. So it doesn't do us as much good, at least for me, to hear the recitation of the presentation, since I haven't had a chance to examine it.

So I'd like to give you a chance to make an opening comment, but I'd like you to summarize those and we'll include the prepared statement as if read, but I'd like to get to the questions.

As I say, we didn't have the benefit of the prepared statement in time to do it justice, and I want to get into the questions.

Mr. ALCALY. Let me just briefly touch on another major aim of the Council's efforts, which Mr. Hopkins would be glad to amplify.

Senator KENNEDY. Well, briefly, then.

Mr. ALCALY. I certainly will be brief.

Another major component of the Council's program is its role in helping to insure that Federal regulations and related programs meet their goals with minimal adverse effects on inflation, efficiency, and productivity.

Toward that end, we are engaged in a number of activities; a primary one is the filing of comments on proposed rulemaking and ratemaking proceedings by independent and executive branch agencies. These analyses typically focus on whether the proposals are cost effective—that is, whether they achieve their objectives in the least costly manner—and whether the benefits to society outweigh the costs.

Our record of regulatory interventions from September 1979 through June 1980 is summarized at the very end of the prepared statement; if you have questions on this subject, Mr. Hopkins will be pleased to answer them.

[The joint prepared statement of Mr. Alcaly and Mr. Hopkins follows:]

JOINT PREPARED STATEMENT OF ROGER E. ALCALY AND THOMAS D. HOPKINS

Mr. Chairman and members of the Subcommittee, you have asked us to testify about the role of energy in the accelerated inflation from which we have been suffering during the last two years or so, and the role of the Council on Wage and Price Stability in limiting that upsurge.

We must point out at the outset that it is not the Council that formulates or is primarily responsible for effectuating energy policy in the Administration. Our role is not insignificant, but it is also not primary.

Clearly the upsurge of energy prices has played a major role in the recent acceleration of inflation. When the anti-inflation program was announced in October 1978, the annual rate of inflation—as measured by increases in the Consumer Price Index (CPI)—was about 9 percent (see Table 1). During the first quarter of the program, the inflation rate changed very little, but in early 1979 it increased sharply to about 13 percent. Then, after remaining in the 13-to-14-percent range throughout 1979, it rose sharply again in early 1980 reaching an annual rate of 18 percent, before falling in April and May to an annual rate of 11 percent.

The surge in the inflation rate in 1979 and early 1980 was the result primarily of a sharp acceleration in the rate of increase of prices not covered by the standards. The world-wide economic expansion that continued throughout 1979 sent raw-material prices skyrocketing. These soaring raw-material prices rippled through the American economy, forcing many companies off the basic price limitation and onto the gross-margin and profit-margin limitations, which allow pass-through of uncontrollable cost increases.

The most dramatic price surge was the 110-percent increase in crude-oil prices during 1979 and early 1980. This jump contributed to the 80-percent increase in the U.S. energy-commodity prices during that period. In fact, the energy-commodity component of the CPI, accounting for only 7 percent of the weight, was directly responsible for one-fifth of the overall increase in consumer prices in 1979, and nearly one-third of the price surge in the first quarter of 1980.

There were, moreover, also substantial indirect effects, not only because energy is an important input into the production process, but also because rising consumer prices elicit higher wage demands, and so inflate labor costs. It has been estimated that the total effect of energy-price increases is roughly double the direct effect, although much of the indirect effect is lagged. We independently estimate that at least 2 percentage points of the inflation rate in early 1980—on top of the 5.2 points of direct impact—is attributable to the lagged effect of soaring energy prices in 1979.

Another important contributor to the recent surge in the CPI was a steep climb in interest rates. These contribute directly to the measured rate of inflation through the homeownership component of the CPI. Mortgage interest costs increased 35 percent during 1979, and at an annual rate of 54 percent in early 1980. Thus, the mortgage-interest component of the CPI, whose weight is on'y 8½ percent of the total, was responsible for one-fourth of the total inflation in 1979 and the first quarter of 1980.

Taken together, energy-commodity prices and mortgage-interest costs, which account for less than one-sixth of the weight of the CPI, were responsible for nearly half of the inflation in the first quarter of 1980. Even more dramatically they accounted for three-fourths of the acceleration in inflation from 1978 to 1979 and from 1979 to the first quarter of 1980; energy-commodity prices alone accounted for about 50 percent of the acceleration in inflation during these periods.

No reasonable anti-inflation program could have prevented the surge in inflation caused by the escalation of crude-oil prices and interest rates without creating damaging shortages and distortions. In fact, no major industrial country has been able to insulate itself from the world-wide explosion of crude-oil prices. The U.S. economy has been the hardest hit because it is the most energy-intensive country in the world other than Canada, in part because of relatively low energy prices historically (see section V of the Council's Inflation Update, released June 12, 1980).

Similarly, any attempt by the Federal Reserve Board to prevent the surge in interest rates by accommodating the large demand for credit would have exacerbated inflation. In any event, the degree to which interest rates can be lowered by expanding the money supply is limited since high interest rates are as much a

TABLE 1.—SELECTED COMPONENTS OF THE CONSUMER PRICE INDEX

[Seasonally adjusted, annual percentage rates of change]

				Change over previous quarter							
					1st program year				2d program year		
	December relative importance (percent)	Calendar 1978[1]	Calendar 1979	1978	1978	1979	1979	1979	1979	1980	March to May[2]
All items	(100.0)	9.0	13.3	8.9	8.9	13.0	12.9	13.8	13.7	18.1	11.2
Energy commodities	(6.9)	8.1	52.3	10.9	10.0	37.5	83.8	07.9	26.7	96.5	0
Mortgage interest cost (MIC)	(8.7)	22.0	34.7	24.0	25.1	31.5	27.7	29.0	52.8	53.8	47.3
Food	(17.7)	11.8	10.2	6.7	11.6	16.0	6.4	6.5	12.1	3.0	5.2
All items less MIC and energy commodities	(84.4)	8.4	9.2	7.7	7.2	10.2	8.0	9.3	9.5	9.5	8.5
All items less food, MIC, and energy commodities	(66.6)	7.3	9.0	7.9	6.0	8.7	18.4	10.0	8.9	11.4	9.8
Underlying rate[3]	(47.9)	6.5	7.8	6.6	7.2	7.5	7.2	8.1	8.6	12.7	9.7

[1] December-to-December changes not seasonally adjusted.
[2] Rates of change from March to May; June figures are not yet available.
[3] The Consumer Price Index excluding the costs of food, energy, used cars, and home purchase, finance, insurance, and taxes.

Source: CWPS calculations based on data from U.S. Department of Labor, Bureau of Labor statistics.

result as a cause of high inflation rates. (The inflation rate affects interest rates by influencing price expectations and hence the expected real rates of return from any given level of interest rates.) For these reasons, interest rates are excluded from the program.

The tension between long-run energy objectives and short-run anti-inflation goals is accommodated in the CWPS standards by exempting crude oil but covering margins of refiners and distributors. Crude oil is exempted because its prices are determined in world markets (and under a separate regulatory program) and energy policy requires replacement-cost pricing. (Raw-materials prices generally are excluded from the standards because most are determined in competitive world markets and attempts to restrict these prices could quickly reduce domestic supplies.) The inflationary effect of increasing crude-oil prices is moderated by placing limits on gross margins in the refining and distribution sectors. These limitations apply to revenues from sales of all refined products, and do not restrict individual prices; this approach provides sufficient flexibility in setting relative prices of refined petroleum products to avoid unnecessary interference with production incentives that may be needed to effectuate energy policy.

Of course, not all of the increase in energy prices can be attributed to the doubling of crude-oil prices during the program period; part is attributable to the expanded margins of both petroleum refiners and gasoline and home-heating-oil retailers and distributors. Earlier this year, the Council published a detailed analysis of these expanded margins and significantly tightened the petroleum-refiner standards (Petroleum Prices and the Price Standards, February 25, 1980). As part of its ongoing review of the pay and price standards, the Council also analyzed the relationship between these standards and national energy objectives, and concluded that the standards strike a reasonable balance between energy goals and the national priority of restraining inflation (The Council's Petroleum-Refiner Standards, May 30, 1980).

In addition to its role in administering the wage-price standards, the Council also is responsible for helping to ensure that federal regulations and related microeconomic programs achieve their objectives with minimal adverse effects on inflation, efficiency and productivity. To this end, the Council:

(1) Submits comments to independent and Executive branch agencies on selected rulemaking and ratemaking proceedings—well over 1,000 new rules are issued annually, of which perhaps 100 have major economic effects;

(2) Provides analytical support (in cooperation with Council of Economic Advisers' staff) to the Regulatory Analysis Review Group (RARG), which scrutinizes a small number of important regulatory proposals published each year by Executive branch agencies;

(3) Prepares reports on regulatory problem areas (e.g., housing) and assists in the development of Administration legislative proposals (e.g., transportation and communications); and

(4) Utilizes staff expertise to support agencies seeking to improve the regulatory process.

Most of the Council's activity in the regulatory oversight area is prompted by a federal agency's proposal of a new regulation. Our premise is that any agency with rulemaking powers can benefit from selective, careful review, on a proposal-specific basis, by Administration economists outside the rulemaking agency. Lacking any power to coerce, but having both statutory and Presidential authority to intervene, the Council produces analyses of selected regulations. Each analysis focuses on two related questions about a proposal's analytical underpinnings:

Is the proposal cost-effective? That is, is there any less costly way to achieve the intended goal?

Second, how has the social cost-benefit question been addressed? Specifically, what benefits to society (quantifiable and other) are likely to be produced, and at what costs?

Each Council analysis is placed in the public record during an agency's public comment period and becomes a resource for all participants in the decision-making process.

Our filings often make recommendations for changes in a proposal or for further analysis of neglected issues (an agency's regulatory analysis of its proposal is often our starting point). In other cases we simply make more explicit the trade-offs involved in a proposal in the interest of making the policymaker more clearly aware of the proposal's likely consequences.

For example, in October 1979 the Council filed comments with the Department of Energy's Office of Hearings and Appeals in opposition to a petition by Union Oil Company of California. Union had requested a special subsidy (amounting to roughly $100 million) from DOE's Crude Oil Entitlements Program to compensate the company for unusually high costs it had incurred buying crude oil on the international spot market. The Council pointed out to DOE that, even if the Department determined that the company met the criteria for a special exception, there were strong public policy reasons for denying the relief.

The cost of such a subsidy would be passed through to consumers in the form of higher energy prices nationwide;

The precedent of the case would encourage other oil companies—recognizing that relief might be available—to buy expensive oil; and

The availability of a subsidy for high-priced crude could encourage OPEC and other suppliers to raise prices still further.

The Department denied the relief Union had requested, and instead ordered other major oil companies to make cheaper crude available to Union.

Two general criteria guide our choice of regulatory interventions. First we try to investigate most new proposals that have:

Large total costs—the total burden associated with compliance (including capital outlays, operating and maintenance costs, government expenses, etc.) is substantial, generally in excess of $100 million in any year, *or*

Large sectoral impact—overall costs or average prices for some industry, level of government, or geographic region would increase by a substantial percentage, as a result of compliance, *or*

Importance as a precedent—the regulation sets a noteworthy precedent that will influence important subsequent rulemakings.

Second, we seek out regulatory issues that involve barriers to competition, such as rate or entry restrictions, and other productivity inhibitors, or offer an especially promising opportunity for the use of cost-benefit (or cost-effectiveness) analysis.

A review of our regulatory activities from September 1979 through June 1980 shows the following distribution of regulatory interventions (including six RARG Reports):

	Filings
Transportation	17
Energy	14
Environmental	14
Communications	4
Worker and consumer protection	2
Other (food, international trade, etc.)	8
Total	59

Senator KENNEDY. OK. Well, as I mentioned, we will include the prepared statement in its entirety in the record.

I think we understand, both from your testimony and from the legislation that you had the prime responsibility within the administration for, the battle against inflation—you've mentioned in your statement, some of the areas in which you are unable to oversee various Government policy decisions, but there are certainly important responsibilities in the areas of energy; that's what we're focused on here today. That's what we'd like to focus more sharply on during the time that we have available.

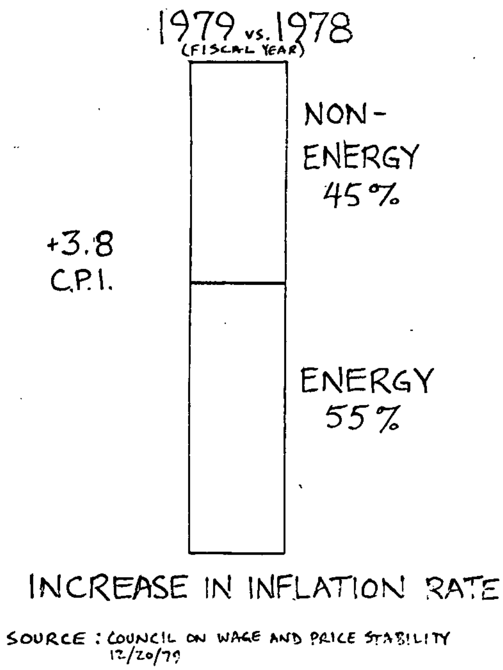
Now, as I understand, both from your testimony—I don't know whether it's specific, but it's generally agreed, that of the recent acceleration in the inflation rate, 55 percent is energy and nonenergy is about 45 percent, as I understand. There may be some dispute whether it's 50 or 53 or 55 percent, but in other testimony that's been made, this is a rough breakdown on the major reasons for the increase in the inflation rate that's affecting millions of American people.

Can we agree on that as a basic?

Mr. ALCALY. Yes.

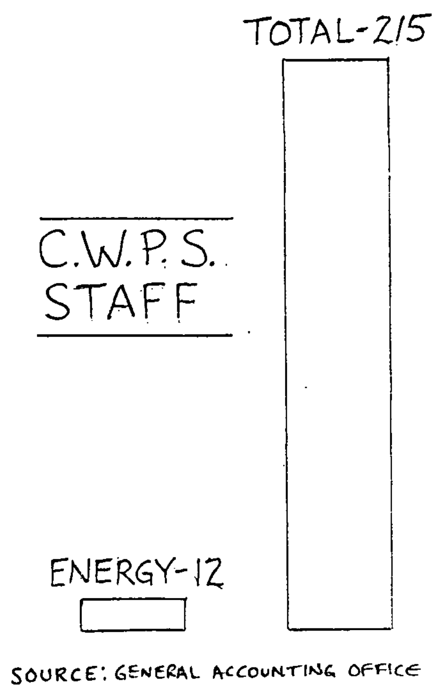
Senator KENNEDY. So of the inflation rate, 55 percent is the energy area, which is shown by this chart [indicating].

[The chart referred to follows:]



Senator KENNEDY. Now, with regard to your staff, you have some 215 members on the staff, and as I understand, you have 12 that are working on energy matters, which is shown by this chart [indicating]. The rest of them are working on nonenergy matters.

[The chart referred to follows:]



Mr. ALCALY. That's not quite correct. However, before correcting the figures, I'd like to correct the misleading impression that the figures convey.

We don't allocate staff in proportion to the rate of inflation that a particular sector may be experiencing. It's more efficient to allocate staff according to the difficulties of monitoring the price increases in particular sectors, and that's what we try to do. That's the basic principle underlying our staff allocations.

Senator KENNEDY. In other words, you're quite satisfied with 12?

Mr. ALCALY. No—the number 12 is incorrect.

Senator KENNEDY. I thought it might be. The General Accounting Office said it was five, so I thought I might have overstated it.

Mr. ALCALY. We have had a dispute with the General Accounting Office over these figures. Earlier this year we estimated that approximately 12 professionals were allocated to energy-related matters; they misreported that as 5 or 6. A more comprehensive estimate, developed in connection with this testimony, is that 30–35 Council employees work on energy-related issues. The latter estimate includes an allocation of the Council's overhead personnel as well as the energy-related activities of support group professionals, such as computer programers, and the Chairman's office. One of the major things that we've tried to do is to increase the computerization of our operations to make them more efficient. It also reflects our intensified monitoring of the petroleum industry and substantially increased allocation of legal staff to energy-related problems. Finally, if we take account of Council personnel working in areas in which energy price increases have particularly significant effect, approximately 55 employees—almost 25 percent of the Council's staff—are allocated to energy-related price inflation.

Senator KENNEDY. Even using the General Accounting figure, I understand from other testimony, your agency estimated it as approximately 12. Now it's up to 30.

What we're talking about is less than 15 percent of the personnel of your department is working on the problem, which accounts for 55 percent of the acceleration in the rate of inflation. That would be—at least I would think, a fair enough summary of the situation.

Mr. ALCALY. Yes. Of course, I also should emphasize the point I made in my testimony that most of the increases in the rate of inflation, even those that can be attributed to energy, have resulted from increases in crude oil prices which are not covered by the standards.

Senator KENNEDY. As I understand it, there have been some 300 actions which have been taken by Federal agencies which have brought about higher prices in the cost of energy, but your organization has made only 3 regulatory interventions objecting to higher prices, and on 2 occasions you actually indicated support for higher prices.

Why haven't you intervened in more of the cases?

Mr. HOPKINS. If I may speak to that, Senator.

We have intervened in a number of rulemakings over the past few years. Roughly 25 percent of our regulatory interventions focus on energy initiatives, and over the last 9 months that's meant that we have intervened in roughly 14, I believe, energy rulemaking proceedings.

We do not always object to rulemakings that lead to or result in higher energy prices. Indeed, we take the view that higher energy costs cannot be avoided, but can sometimes be contained by letting prices rise to reflect them.

To the extent that prices are kept below replacement costs, we are encouraging excessive use of energy, and discouraging conservation.

Senator KENNEDY. Why didn't you, in the over 200 which have meant price increases—why didn't you intervene to at least indicate whether they were justified or were not justified? Why didn't you intervene at all?

Mr. HOPKINS. Well, Senator, there are several thousand regulations published every year.

Senator KENNEDY. Well, we're talking about the price increases, which contribute 55 percent to the acceleration in the rate of inflation. We're not just talking about some other governmental agency issuing a rule or comment.

We're talking about what is the principal contributor to the rate of inflation. This has been experienced on the consumer side, by the earlier panel that we had here today. We are seeing close to 300 actions which have brought about increases, yet you have made no comment on it at all, and I'm just wondering why, since this is the principal contributor to the increasing rate of inflation, that you chose not to make at least some kind of comment to indicate that it is either justified or not justified?

Mr. HOPKINS. Well, as I tried to indicate, in over a dozen of the most important energy rulemakings, we did participate, where we felt that we were likely to be able to contribute ultimately to an anti-inflationary policy through encouraging conservation and through encouraging additional production of energy.

Senator KENNEDY. But in the ones that you mentioned, the energy intervention didn't always go to pricing; they went to a number of other items dealing with energy, like coal conversion and a variety of other factors.

Mr. HOPKINS. That's right.

Senator KENNEDY. I'm interested in the issue of the price increase, which has taken place now because of various actions, that you chose not to—you see, I think the consumers want to know whether the administration is really serious about trying to do something about the increases in the prices on energy, or whether you're just going to say the sky is the limit.

And I think the consumers that were speaking here today, that are paying these bills, want to know what the position is of the administration—I'd certainly like to know.

This pile here represents the nonenergy interventions; I mean, you've had time here, for example, to attack programs to provide increased employment opportunities for the handicapped.

Here is an EPA intervention to attack programs to protect the public from cancer-causing agents in the environment. This is on efforts to protect workers' pensions.

Here is one on the toxic wastes. This is a program, as I understand, that would have had some impact on the proliferation of toxic wastes. You had time for intervention in that area, and we could go down the list here on these policies. These are administration policies, or legislation, on which the Agency had time to develop a series of alternatives about how to deal with the inflationary impact on toxic wastes.

And now we have some 300 actions that have been taken by the energy agencies of government where it has not been on your agenda to protect American families from the increasing costs of energy.

Instead, you are trying to deal with the handicapped or health protections or clean air. On the handicapped, it was going to save, I guess, the overall economy $45 million, on programs to provide increased employment opportunities to the handicapped; it was going to contribute to the rate of inflation $45 million.

Your organization had time to do that kind of study of alternatives, about how to deal with the inflationary impact, and we have now close to 300 price increases on energy in which your agency has been silent.

We have a minimum number of personnel—whatever figures you're talking about, less than 9 percent, and I think the people want to know why your organization, charged by the Congress and the administration to be the principal instrument to battle inflation, has not been more aggressive in protecting the families of this country—retirees, working families, and others in this Nation.

Mr. HOPKINS. Senator, I would disagree with your characterization of our interventions in these other proceedings. I think in almost every case we were talking about finding ways in which valid social objectives, important social objectives, could be obtained with less cost and less burden. Further, we have intervened in at least as high a proportion of energy rulemakings as we have in any other type of rulemaking.

Many of the 300 energy rulemakings that you cite are small steps along the way toward the phased deregulation and decontrol of energy prices which do represent administration policy and which are supported by the Council on Wage and Price Stability.

This does not reflect a lack of concern with the very pressing social needs that have been so well illustrated today by the adverse effects that higher energy prices have on low-income people. The question is, What is the best way to address that problem?

Is it through artifically constraining energy prices, or is it through allowing phased decontrol—coupling that with windfall profits taxes so that the additional revenues do not go to the big oil companies, and making available income distribution programs, direct energy assistance programs, to help those who are most in need?

It seems to us inappropriate for us as an inflation- and productivity-oriented agency to be objecting to energy prices that more adequately reflect what true costs of replacing that energy are.

Senator KENNEDY. We could argue about the issue of decontrol or control. I've stated my position in opposition to it, but let's put that aside for the sake of this particular hearing.

You mean you have no recommendations—your organization had no recommendations about how to cushion the impact of decontrol on working families and retired people in this country? With all the amount of expertise over there in the Council, you had no opinion, you had no recommendations about how to cushion that impact so you don't have the harshness, the human misery, and the tragedy which we've heard expressed here.

Mr. HOPKINS. Senator, we operate at the Council partly through public interventions and public reports. We operate also through participation of Chairman Kahn——

Senator KENNEDY. Just answer. Have you made any recommendations?

Mr. HOPKINS. Indeed, we have been involved in administration discussions and decisionmaking about how to cushion the effect, through the discussions at the level of the Economic Policy Group.

Senator KENNEDY. Do you have any recommendations about how to cushion that impact in terms of elderly people, retired people, and working people? Have you made recommendations, and if you have, could you supply those?

Mr. HOPKINS. We have not made, separately, recommendations on the grounds that much of this administration is vitally concerned with providing for that kind of assistance and program review—and they do it quite well.

Senator KENNEDY. Are they less interested in the handicapped or the toxic wastes? You don't have any problems making recommendations about toxic wastes. But what you're basically saying is here, look, they've made the decision on decontrol and we're not going to do anything about it.

Mr. HOPKINS. On the contrary, we have no reason to object or find fault with the way in which the administration is providing energy assistance programs for the poor and for the low-income people. We, on the other hand, have had reason to feel that in other regulatory areas, toxic wastes and others you have mentioned, alternatives have been overlooked that can do the job far more effectively. And those alternatives very much affect productivity and efficiency. And that's the heart of our mandate.

Our mandate is not explicitly with transfer programs, however important we believe them to be. Those are adequately handled by other parts of the administration.

Senator KENNEDY. That's right. So they're handled by someone else.

The question concerning the pricing increases which are being issued by various governmental agencies which amount to some 300 over the past 2 years is whether they could not be done in a way which would have less of an impact on the rate of inflation.

You did not, as I understand, either from your testimony here or from the record of interventions, feel that it was useful, or worthwhile, or valuable from an inflationary point of view to make comments. At least you left no reports here for us.

Were you asked to make any recommendations on the 10-cent-a-gallon gasoline tax proposed by Mr. Carter?

Mr. ALCALY. We made comments indirectly.

Senator KENNEDY. What is indirectly?

Mr. ALCALY. Through Chairman Kahn, who is a member of the Economic Policy Group that considered the issue.

Senator KENNEDY. $10 billion, another point on the rate of inflation. What were those recommendations?

Mr. ALCALY. They are not public.

Senator KENNEDY. What are they? I mean, you cannot tell what your recommendations are?

Mr. ALCALY. That's right.

Senator KENNEDY. Were you for them or against them? You're an agency that's supposed to be serving the consumers in this country. You can't tell us in an open forum about what your recommendations were?

Mr. ALCALY. We support the administration's policy on the fee.

Senator KENNEDY. But you can tell us also whether you recommended it or not.

Mr. ELCALY. We can tell you that we support the policy.

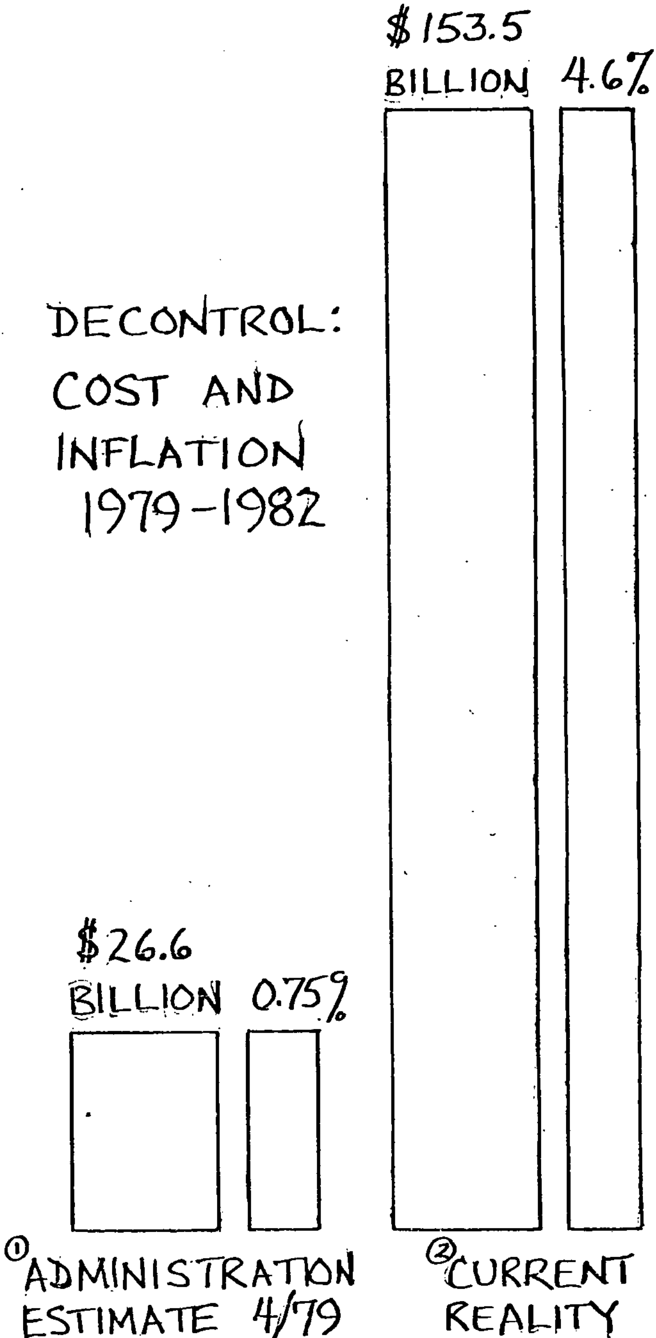
Senator KENNEDY. You can be quite clear up here. We have others that say we recommend no; they made a decision to go ahead; we support that. We're used to hearing that. We've heard that, if that is what the position is.

If it's not, then we'd like to know that, too.

Mr. ALCALY. We support the policy. I think that speaks for itself.

Senator KENNEDY. It doesn't speak for what your recommendation was. About a year ago, we had Mr. Schultze before this committee. We were talking about the issues of decontrol then. These are the figures, which are shown by this chart [indicating], that were given to us about decontrol costs and inflation.

[The chart referred to follows:]



SOURCES: ① TESTIMONY OF CHARLES SCHULTZE, 4-25-79
② CONGRESSIONAL BUDGET OFFICE, 6-13-80

Senator KENNEDY. In April 1979, it was projected to cost $26 billion—three-fourths of 1 percent on the rate of inflation, and here it is in reality the cost of decontrol and its contribution to inflation.

Now recognizing again, we're back to the fact that this is the principal contributor to the rate of inflation, the thing that is affecting the pocketbook of everyone—of Mrs. Bennett, who just testified, talking about whether she's going to be able to continue to live in her home. This is the thing that they're the most concerned and most worried about.

Now what has the council been doing for the last 2 years? I mean, have you been making any recommendations, say, that this is what's happening; this is what's going to happen; this is the impact that it's going to have on the rate of inflation, and we've got some alternative suggestions like you've made in every one of these reports?

Mr. ALCALY. I think that question has been asked several times.

Senator KENNEDY. That's right.

Mr. ALCALY. First, the difference between the latest projections of the inflationary effects of decontrol by the Congressional Budget Office and Mr. Schultze's projections are primarily the result of the substantial increases in the world price of crude oil in the intervening period.

Second, we have indicated that we support the policy of decontrol and are not at all insensitive to the effects of inflation.

Senator KENNEDY. Let's take this statement that you make now about the percentage of gasoline—take gasoline. From OPEC increases—we see 16 cents out of the 53 cents. This is without the 10-cent-a-gallon gasoline tax; this is without the 10 cents.

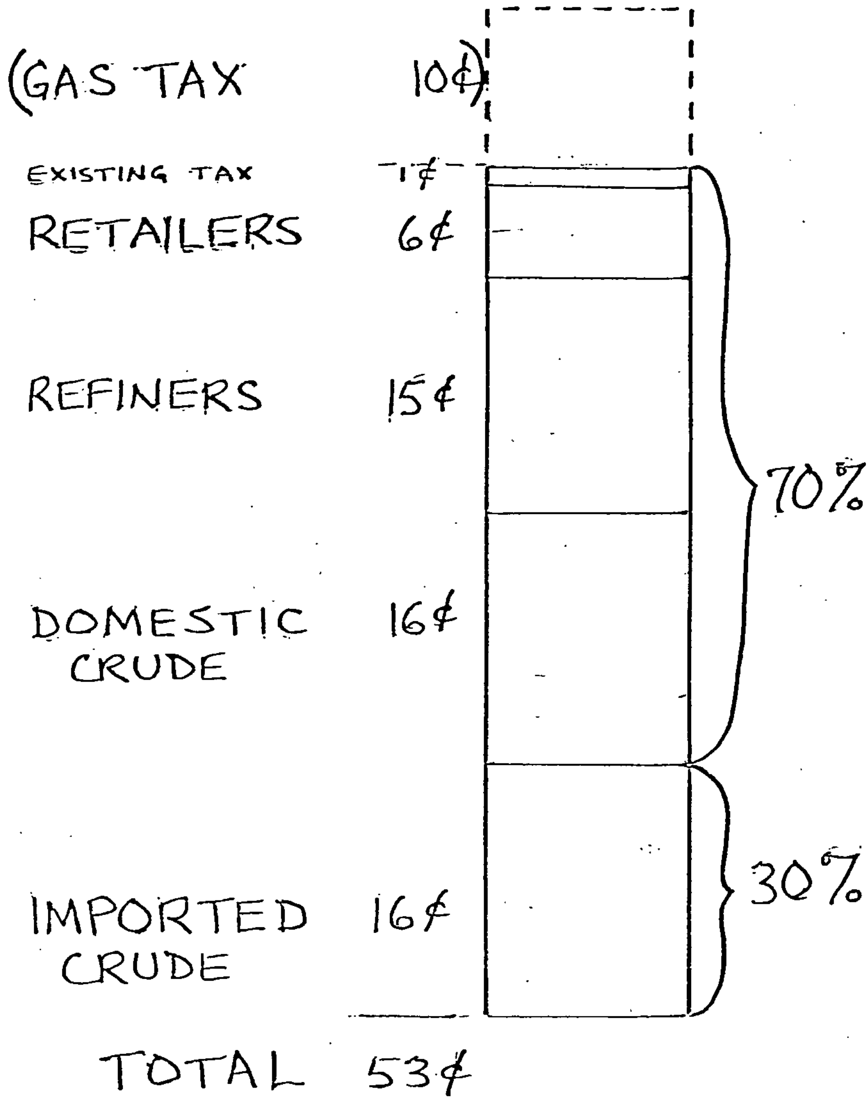
This is important. This is the OPEC increase, just that part there. So how do you get away with talking about OPEC? That's one of the great myths of this past year, year and a half—that there's nothing we could have done about it because it's all OPEC.

This is 16 cents out of the 53. The rest is in these areas here as reflected in this chart [indicating].

[The chart referred to follows:]

COMPONENTS OF GASOLINE PRICE RISE

JAN. 1979 - MAR. 1980



SOURCES: LUNDBERG SURVEY (TOTAL PRICE AND MARGINS);
D.O.E. REFINERY RECEIPTS DATA (CRUDE)

Mr. ALCALY. That's not entirely correct, Senator. We estimate that the refinery margin, in fact, increased by 5.7 cents per gallon over the period rather than the 15 cents as shown in the chart. The difference is due primarily to increases in margins at the retailing and wholesaling level, which are covered by our standards but are very difficult to monitor, because of the fact that there are over 200,000 gasoline retailers.

Senator KENNEDY. So how many people do you have monitoring that?

Mr. ALCALY. That's part of our energy component. However, we don't monitor retailing and wholesaling very intensively, because we feel it would be a misallocation of resources, given the large number of retailers and the degree of competition in that sector.

In addition, the increase in the retailing and wholesaling margins—to which was substantial—was in part the result of the relaxation of DOE's margin rules for retailers and wholesalers. So I think that chart is quite misleading.

Senator KENNEDY. The figures were basically provided by the Department of Energy. I mean, that is where we get them. They're not made up out of whole cloth, and they do come from the Department of Energy.

Perhaps you could tell us about where you do allocate—how many people you have working in any of those areas?

Mr. ALCALY. As I explained before, we have approximately 30 to 35 people working in the energy area. An additional point about the kind of breakdown that you try to show on that chart is that, as we pointed out in our petroleum study and in testimony before Congressman Rosenthal, it's really impossible to allocate joint costs to any individual product. You have costs there that are borne by a refinery on its entire slate of products, and any allocation to any individual is entirely arbitrary.

Senator KENNEDY. They're the best judgments. You can say that they're arbitrary, but they're the best judgments that have been made from data made public by the Department of Energy. And these are the figures that are basically used by Mr. Russell before congressional committees.

Mr. ALCALY. Mr. Russell never used those kinds of figures without qualification.

Senator KENNEDY. It's my information that he has stated that these are substantially correct. I'll put the reference to it as part of the record.

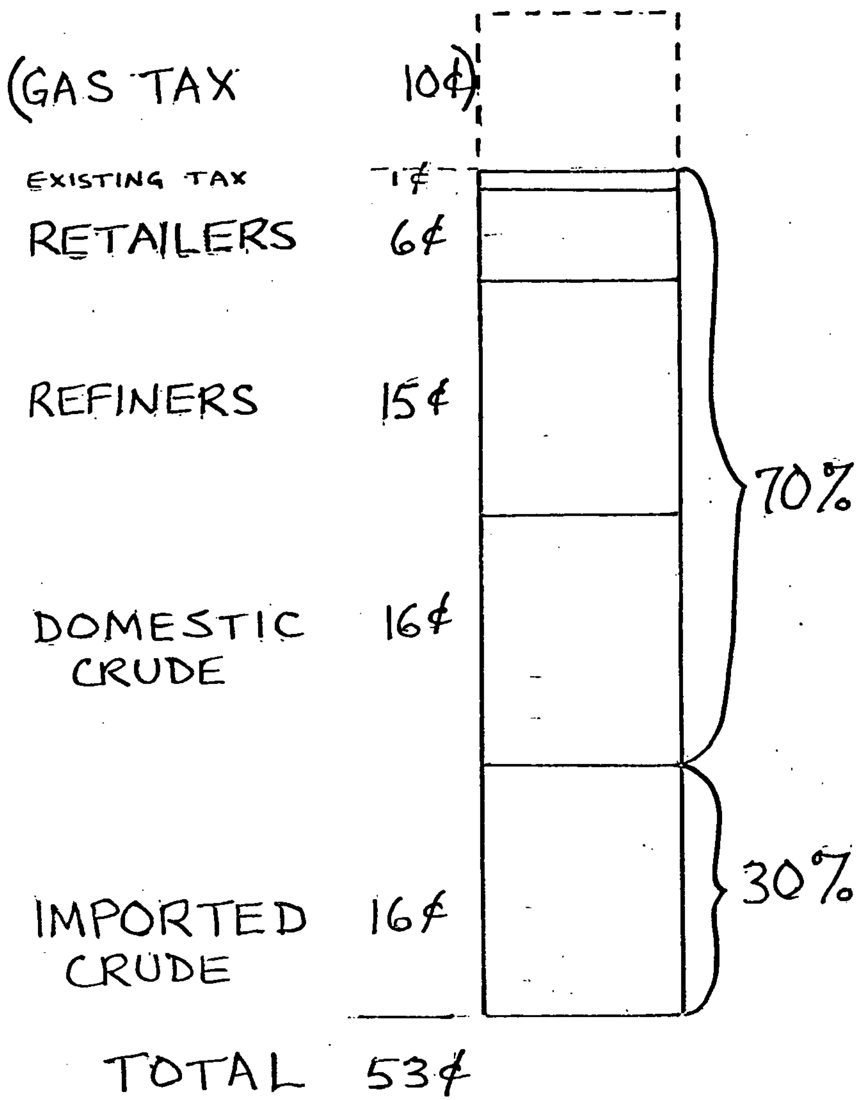
[The information referred to follows:]

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C., July 17, 1980.

Hon. BOB ECKHARDT,
Chairman, Subcommittee on Investigations and Oversight, Committee on Interstate and Foreign Commerce, U.S. House of Representatives, Washington, D.C.

DEAR BOB: In a hearing conducted by the Energy Subcommittee of the Joint Economic Committee on July 8 on "Energy and Inflation," I displayed a chart (see attached) which illustrated that most of the increase in gasoline prices in the last year was to domestic policy decisions. The chart brought up to date the material that was presented to the excellent hearing that you held on December 29, 1979. In the course of my July 8 hearing, a representative of the Council

COMPONENTS OF GASOLINE PRICE RISE
JAN. 1979 - MAR. 1980



SOURCES: LUNDBERG SURVEY (TOTAL PRICE AND MARGINS); D.O.E. REFINERY RECEIPTS DATA (CRUDE) on Wage and Price Stability began to argue with the figures on the chart. I noted that Mr. Russell of the Council on Wage and Price Stability had agreed that your estimates were essentially the same as theirs in the hearing before your subcommittee. Mr. Alcaly denied that Russell had indicated that that was the case. So that we can complete the record of this hearing, I would very much appreciate it if you could indicate to me whether Mr. Russell said that your figures and his figures were consistent.

It would also be very helpful if your staff could lay out how your estimates were computed so that we can place it in the record of our hearing.

Finally, I just wanted to congratulate you on the excellent quality of your "Impact of Energy Inflation" hearings. They set a standard that every committee of Congress should seek to emulate.

Sincerely,

EDWARD M. KENNEDY.

Enclosures.

MEMORANDUM

To: Milton Lower.
From: Jim Cubie.
Subject: COWPS testimony.

Russell agrees with the Eckhardt numbers on page 145 and 146 of your hearing record.

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
OF THE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D.C., July 30, 1980.

Senator EDWARD M. KENNEDY,
Chairman, Energy Subcommittee, Joint Economic Committee,
Dirksen Senate Office Building, Washington, D.C.

DEAR TED: Thank you for your letter of July 17, 1980, with your kind remarks regarding my Subcommittee's "Impact of Energy Inflation" hearing of December 20, 1979.

As to your request for information regarding the testimony at that hearing of Mr. Russell of the Council on Wage and Price Stability, I believe the record is definitive. Specifically, you asked whether or not Mr. Russell had agreed that the COWPS estimates of the domestic and imported components of recent gasoline price increases were essentially the same as our Subcommittee estimates.

As the attached copy of pages 145–148 of our hearing record indicates, the answer is clearly that Mr. Russell did so agree. In that colloquy, I listed the components of the retail price increase. as we had calculated them. for the period of January–September 1979, concluding that this "would indicate that about two-thirds of the increase in gasoline price was caused other than from the increase in the cost of imported crude". The colloquy then continued as follows:

Mr. RUSSELL. "Right."

Mr. ECKHARDT. "Would that generally comport with your observations?"

Mr. RUSSELL. "The numbers that you have given me, taking into account that they are not for exactly the same period, would be fairly consistent with what I have given you here . . ."

Mr. ECKHARDT. ". . . I don't think we are in conflict with your general judgment here."

Mr. RUSSELL. "No."

Mr. Russell next volunteered the conclusion that, "Indeed, our calculations seem to be very close on the margins."

As you also requested, I am enclosing a staff explanation of the method by which our Subcommittee estimates were then calculated and have subsequently been updated. It is of substantive interest that more recent data strenghten the conclusion we offered then that domestic causes account for the preponderance of the increase in gasoline prices since January 1979. For your further information, I attach a copy of Table I, from the testimony of Secretary Duncan before my Subcommittee this morning, which further supports the conclusion that two-thirds to 70 percent of gasoline price increases are due to domestic components of price.

Sincerely,

BOB ECKHARDT,
Chairman, Subcommittee on Oversight and Investigations.

Attachments.

ATTACHMENT I

IMPACT OF ENERGY INFLATION

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON
INTERSTATE AND FOREIGN COMMERCE
HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

FIRST SESSION

DECEMBER 13 AND 20, 1979

Serial No. 96-137

Printed for the use of the
Committee on Interstate and Foreign Commerce

U.S. GOVERNMENT PRINTING OFFICE
61-792 O WASHINGTON : 1980

Mr. ECKHARDT. You may proceed.

Mr. RUSSELL. The thesis that I was developing was that the primary reason for the soaring prices was on the demand side, that the Iranian political crisis was a catalyst for this, however, because this crisis raised expectations of shortage, and apparently caused a lot of speculative inventory building. This increased demand substantially around the world.

In 1978 stocks had been run down as the world economy was growing. In 1979 the world economy was again strong. Stocks were low, and they were built up during this year. There were also some cutbacks in U.S. production, as I indicated earlier. I think the DOE allocation system caused some regional shortages. These shortages of gasoline led to queues at gas stations and panic buying and even more inventory accumulation as people filled up their gasoline tanks as well, so that what we had was a situation of runaway demand driving up prices. So I don't think that there is any puzzle about why prices have been soaring not only in the United States, but around the world.

Let me turn to the three tables [see p. 136] that I handed out, to examine what the impact of these rising petroleum prices has been on the Consumer Price Index for the United States. This was the particular charge that I had from the chairman for this testimony.

Table 1 shows quarterly average prices of gasoline and home heating oil and for all refined petroleum products. I would like to refer you, I guess most critically, to the second to last column, which shows that from the fourth quarter of 1978 to the fourth quarter of 1979, gasoline prices went up 35 cents and home heating oil prices went up about 34 cents.

Not all of this increase can be blamed on the world increases in the price of crude oil and refined products. Indeed, looking down at the fifth line from the bottom, you can see that only about 21 cents of the increase can be attributed to the increased cost of crude oil and imported products.

Mr. ECKHARDT. May I interrupt just a moment here?

Mr. RUSSELL. Certainly.

Mr. ECKHARDT. Our calculations from a number of sources, calculating the components of the gasoline price increase, show about this: That from January of this year through September the total increase was about 31.4 cents. Of that, we show that the component attributable to imported crude oil is about 9.7 cents. The amount attributable to domestic crude is about 7 cents. The amount attributable to the refiner-reseller margin is about 7.4 cents. The amount attributable to the retailer margin is 6.6 cents, and the amount attributable to taxation during that period of time is 0.7 cents, which would indicate that about two-thirds of the increase in gasoline price was caused other than from the increase in the cost of imported crude.

Mr. RUSSELL. Right.

Mr. ECKHARDT. Would that generally comport with your observations?

Mr. RUSSELL. The numbers that you have given me, taking into account that they are not for exactly the same period, would be fairly consistent with what I have given you here. You are saying that two-thirds is attributable to other than imported crude. The 21 cents that I allude to is the increased cost attributable not only to imported crude but also to increases in domestic crude prices and imported refined product prices.

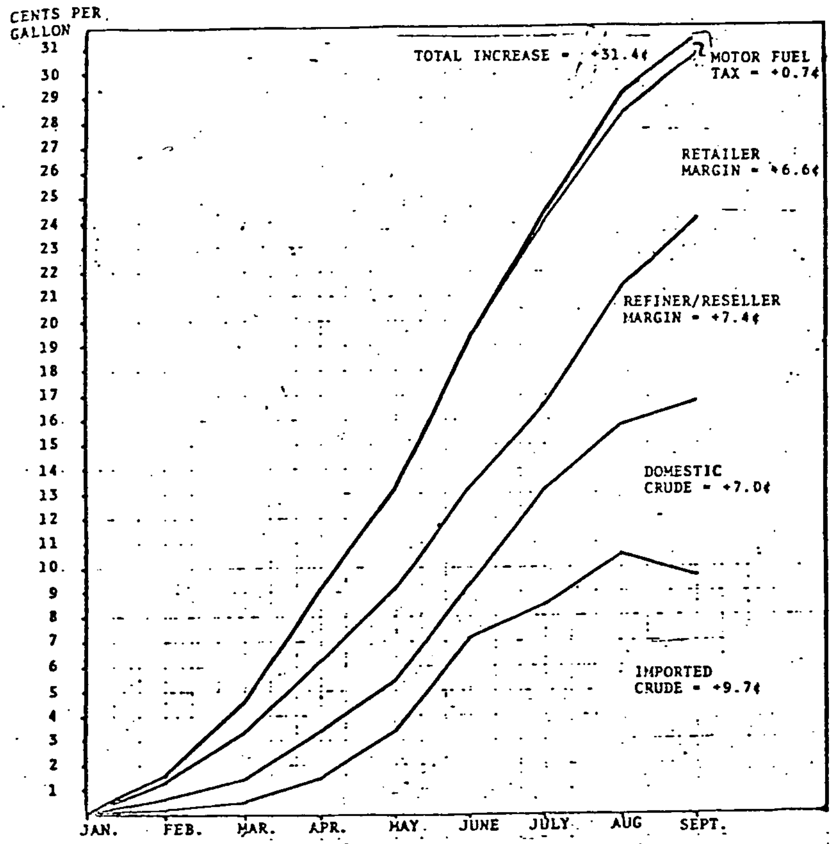
Mr. ECKHARDT. It might be helpful here if we included in the record some of the calculations that we have made and the sources of the information. I don't think we are in conflict with your general judgment here.

Mr. RUSSELL. No.

Mr. ECKHARDT. Without objection, that will be included at this time.

[The information referred to follows:]

COMPONENTS OF THE GASOLINE PRICE INCREASE
(WEIGHTED AVERAGE INCREASE: ALL GRADES, TYPES OF SERVICE)
January - September, 1979



Sources: For margins, Lundberg Survey. For crude oil, calculated from DOE data, preliminary for September.

Mr. RUSSELL. Indeed, our calculations seem to be very close on the margins. Our calculations indicate that for gasoline 7.1 cents of the 35 cents increase is attributable to expanded margins over this period, as gasoline station profits have indeed soared. They have cut back production, and number of hours of operation. Prices have gone way up, and their margins have expanded, and this is a natural outcome of a shortage situation.

Mr. ECKHARDT. I would like to ask one other thing. We had prepared figures for gasoline, but we had not had the source figures that would give us an opportunity to break these matters down in the home heating oil. You do produce figures here that indicate that you have that information. Would you be willing to cooperate with our staff in trying to make a similar analysis in the area of homeheating oil?

Mr. RUSSELL. Certainly.

Mr. ECKHARDT. And of refined petroleum products?

Mr. RUSSELL. Yes, we will provide you with the background data for these calculations.

Mr. ECKHARDT. Thank you.

Mr. RUSSELL. Since you have already done these calculations, there is no reason for me to dwell on them. You have already arrived at the conclusion that a substantial portion of the increase in the cost not only of home heating oil and gasoline but other refined products as well can be attributed to expanded margins of domestic producers and domestic distributors, and not all of it by any means can be blamed on the increased prices of imported crude and products. That is the main message of table 1.

In table 2, I have some calculations that attempt to get at as many as possible of the questions that you asked me in your letter. This table shows the increases of various components of the Consumer Price Index. We could focus on any one of these columns, but let us focus on fiscal year 1979, that is, September of 1978 to September of 1979, when the Consumer Price Index increased by 12 percent. Energy, on the other hand, increased by much more. It increased by 35 percent. Thus energy, which accounts for only 8.5 percent of the weight in the Consumer Price Index, accounted for fully a fourth of the increase in consumer prices this last year.

Mr. ECKHARDT. May I interrupt here?

Mr. RUSSELL. Sure.

Mr. ECKHARDT. That would be only the direct cost of energy, and not its indirect costs in the area of food production, et cetera?

Mr. RUSSELL. That is correct. In fact, that is only gasoline and household fuels. Perhaps more importantly, the energy component of the CPI accounts for well over half of the acceleration in the Consumer Price Index in this last year, from 8.3 percent to 12.1 percent. These comparisons can be seen by looking at the third row from the bottom, where I list CPI less energy. That indicates that if it weren't for energy, the increase in the consumer prices would have been 10 percent instead of 12.1 percent.

Also, this row indicates that the acceleration in the CPI would have been merely 1.5 percentage points, as opposed to the actual acceleration of almost 4 percentage points.

There are impacts that are slightly indirect but virtually direct also shown in this table. Public transportation costs are very de-

ATTACHMENT II

MEMORANDUM

Date: July 30, 1980.
To: Chairman Eckhardt.
From: Milton Lower, economist.
Subject: Method of calculating components of gasoline price increases.

The method that the Subcommittee staff has used to calculate the contribution of the various components to gasoline price increases is implicit in the attached two tables.

The basic data are contained in the table entitled "Components of Gasoline Price". The specific price in question is a weighted average price for all grades and types of service. This total price, as well as the amount of the retailer margin and the motor fuel tax, are obtained from the Lundberg Survey Monthly. The refiner-reseller margin is calculated as a residual, once the contribution of crude oil to the Lundberg total price has been determined.

The contribution of crude oil to the price of a gallon of gasoline (or any product) is determined by dividing the average refiner acquisition cost of crude oil per barrel by 42 (1 barrel=42 gallons). This refiner acquisition cost, as well as the total volumes and refiner costs of domestic and imported crude oil, are obtained from the Economic Regulatory Administration. The number of cents per gallon contributed by imported and domestic crude oil are calculated multiplying the total crude oil contribution (in cents per gallon) by the respective shares of these two components in the total monthly cost of crude oil at U.S. refineries.

Thus, in March 1980, the total crude oil contribution to the price of a gallon of product was:

$$\frac{\$26.878 = \text{Average Refiner Acquisition Cost for Total Refinery Receipts}}{42 = \text{gallons per barrel}} = 63.99¢ \text{ per gallon}$$

In March, *domestic* crude oil costs to refiners were 47.38 percent of total crude oil costs. Hence, the contribution of domestic crude oil per gallon was:

$$63.99¢\,(.4738) = 30.32¢$$

The per gallon contribution of imported crude to the price of gasoline was thus 63.99¢—30.32¢=33.67¢.

The second table, entitled "Components of Gasoline Price Increase", simply cumulates the month-to-month increases for each components of price, starting from January 1979. Of course this cumulation could be started from any other month that one might choose as a base.

COMPONENTS OF GASOLINE PRICE—MONTHLY, 1979–80

[Weighted average: all grades, types of service; cents per gallon]

	Total price [1]	Total crude oil [2]	Imported crude oil [2]	Domestic crude oil [2]	Refiner-reseller margin [1]	Retailer margin [1]	Motor fuel tax [1]
January 1979	68.22	31.22	17.31	13.91	17.32	6.56	13.12
February 1979	69.83	31.96	17.36	14.60	17.94	6.81	13.12
March 1979	72.89	32.60	17.72	14.88	19.26	7.91	13.12
April 1979	77.32	34.58	18.72	15.86	20.08	9.54	13.12
May 1979	81.47	36.66	20.59	16.07	20.98	10.71	13.12
June 1979	87.66	40.49	24.10	16.39	21.27	12.78	13.12
July 1979	92.82	44.25	25.32	18.93	20.99	13.95	13.63
August 1979	97.34	47.02	27.80	19.22	22.80	13.69	13.83
September 1979	99.63	47.96	27.01	20.95	24.72	13.21	13.83
October 1979	100.40	49.25	27.38	21.87	24.82	12.50	13.83
November 1979	101.69	52.47	30.12	22.35	22.98	12.41	13.83
December 1979	104.67	56.26	31.99	24.27	22.13	12.45	13.83
January 1980	112.05	59.06	32.84	26.22	26.12	13.04	13.83
February 1980	118.06	62.18	33.79	28.39	28.72	12.99	14.17
March 1980	122.73	63.99	33.67	30.32	31.84	12.73	14.17

[1] Lundberg Survey.
[2] Economic Regulatory Administration.

COMPONENTS OF GASOLINE PRICE INCREASE: CUMULATIVE INCREASES FROM JANUARY 1979

[Weighted average: all grades, types of service; cents per gallon]

	Change in—						
	Total price	Total crude oil	Imported crude oil	Domestic crude oil	Refiner-reseller margin	Retailer margin	Motor fuel tax
February 1979	+1.61	+0.74	+0.05	+0.69	+0.62	+0.25	0
March 1979	+4.67	+1.38	+.41	+.97	+1.94	+1.35	0
April 1979	+9.10	+3.86	+1.41	+1.95	+2.76	+2.98	0
May 1979	+13.25	+5.44	+3.28	+2.16	+3.66	+4.15	0
June 1979	+19.44	+9.27	+6.79	+2.48	+3.95	+6.22	0
July 1979	+24.60	+13.03	+8.01	+5.02	+3.67	+7.39	+.51
August 1979	+29.12	+15.80	+10.49	+5.31	+5.48	+7.13	+.71
September 1979	+31.41	+16.74	+9.70	+7.04	+7.40	+6.56	+.71
October 1979	+32.18	+18.03	+10.07	+7.96	+7.50	+5.94	+.71
November	+33.47	+21.25	+12.81	+8.44	+5.66	+5.85	+.71
December 1979	+36.45	+25.04	+14.68	+10.36	+4.81	+5.89	+.71
January 1980	+43.83	+27.84	+15.53	+12.31	+8.80	+6.48	+.71
February 1980	+49.84	+30.96	+16.48	+14.48	+11.40	+6.43	+1.05
March 1980	+54.51	+32.77	+16.36	+16.41	+14.52	+6.17	+1.05
Percentage of total increase, January 1979 to March 1980	100.0	60.1	30.0	30.1	26.6	11.3	1.9

ATTACHMENT III

STATEMENT OF CHARLES W. DUNCAN, JR., SECRETARY, U.S. DEPARTMENT OF ENERGY

TABLE 1.—COMPONENTS OF REGULAR GASOLINE PRICE INCREASE

[Cents per gallon]

	May 1979	May 1980	Change
Pump price [1]	81.4	123.4	42.0
Taxes [1]	13.1	13.3	1.2
Apparent dealer margin [1]	11.9	13.5	1.6
Previous month crude oil [2]	34.6	64.5	29.9
Domestic [3]	16.0	33.0	[4] 17.0
Imported [3]	18.6	31.5	12.9
Refiner/jobber margin [5]	21.8	31.1	9.3

[1] Pump prices, taxes and apparent dealer margins are from Platt's/Lundberg Survey data, which is generally consistent with EIA-79 data but available more currently

[2] Crude oil acquisition costs for the previous month are from entitlements data (form ERA-49).

[3] Domestic and imported shares of crude costs are volume-weighted shares multiplied by acquisition costs. (For example, April 1979 domestic costs are calculated as $12.06/bbl × 8,452 Mbbl/d divided by 15,220 Mbbl/d divided by 42.

[4] About 5.5 cents is associated with increased prices due to domestic crude oil decontrol.

[5] Refiner/jobber margins are calculated by subtracting other component estimates from pump prices.

Mr. ALCALY. I think Mr. Russell is on record in his testimony before Congressman Rosenthal, and we're on record in the petroleum report that I cited earlier, about the impossibility and arbitrariness of allocating joint costs to particular products.

Senator KENNEDY. What can we expect over the period of these next several months now from your Department? We've heard that the situation is even going to be more critical in the period of the future. What is your message to the consumers who testified here today? Is it that the administration now has made a decision with decontrol that we're going to get conservation by price, and they're just going to have to bear it, with all the human tragedy that they've expressed here today?

Is your organization going to review these recommended price increases as they come through a variety of different agencies of Government and monitor these closely, and put recommendations on how to realize administration policy, which we may differ on—and we do—but nonetheless you're going to make recommendations on how to carry through the administration's policy but do it in a way that's going to be less inflationary? Are you going to do that?

What's going to be your policy over this period? Are you just going to come back to the Congress and say:

> Look, you've heard these witnesses here this morning; they bother us as much as they bother you—the human tragedy. We need more personnel to do the kind of job that's necessary in the energy area to try and deal with this, and we're going to try and do it more effectively and efficiently?

What's your message to those individuals that just cannot make ends meet? What's the policy?

Mr. ALCALY. I think our message was stated very clearly in the testimony and in Mr. Hopkins' remarks supplementing that testimony.

Basically, our program exempts crude oil prices from coverage because energy policy requires replacement cost pricing, if it's not going to introduce inefficiencies and distortions.

Senator KENNEDY. Are you a professional on that? What are your credentials on that particular aspect? I thought you people were supposed to be the experts on what are going to be the inflationary impacts of various policies.

Mr. ALCALY. We always have to distinguish between longrun and shortrun effects, and our program attempts to strike a balance between the shortrun priority of restraining inflation and longrun energy policy objectives.

In addition, it's a fairly well established principle——

Senator KENNEDY. How high is it going to go? How high can the prices go? Let me ask you that.

Mr. ALCALY. How high can they go?

Senator KENNEDY. How high before you're able to say, look, in terms of even carrying forward the administration's policy of letting the prices go up through the roof, we just believe that the inflationary impact is just going to be too much, and we're making a recommendation that they take an alternative policy, that they spread this out over a longer period of time?

Mr. ALCALY. If you'd let me complete my answer, I think I would have gotten to that several minutes ago. The point, of course, is that there's a standard economic principle that indicates that one is always better off separating distributional questions from questions involving the allocation of resources. This does not by any means imply insensitivity to these distributional questions—only that it's inefficient and ineffective to deal with distributional questions through the allocation mechanism. And that's the principle underlying the Council's standards, and the administration's energy policy.

The distributional issues are, in fact, a cause of concern and are being dealt with. The fact that energy policy requires pricing these resources correctly has an unavoidable shortrun inflationary impact. That is being dealt with in other ways, but not through the direct control of prices and allocation of resources. I think that's fundamental.

Second, predictions in this area are very difficult, primarily because of the central role that the oil producing countries play. We know, however, that price increases have been moderating and are likely to continue to moderate substantially at least in the shortrun. There are significant inventories of No. 2 fuel oil now, sufficient with normal production to cover the winter season.

Senator KENNEDY. Is the price going down on that?

Mr. ALCALY. Not yet, but the increases, in fact, have started to moderate. We have deceleration there. We have deceleration particularly——

Senator KENNEDY. Have you answered my other questions that you said you would have gotten to?

Mr. ALCALY. I think I did.

Senator KENNEDY. Well, I missed it, quite frankly. I didn't ask you to make projections or predictions about how high OPEC is going to go. I was asking at what point the principal inflation fighting agency of the Government was prepared to make either a recommendation to the administration that we could not permit prices to go any higher or that there were alternative ways of dealing with the price increase over a longer period of time to cushion the impact.

Mr. ALCALY. That was precisely the question I was addressing before. I was making the distinction between trying to deal with distributional questions through the allocation mechanism versus trying to deal with those distributional questions aside from the allocation mechanism. And it's a generally accepted principle that it's more efficient and effective to do it the latter way. That's precisely the point.

Senator KENNEDY. Well, it may be extremely obvious to you or your organization, but I don't feel that it's as obvious to the people who are getting 16 cents back or 18 cents back for every dollar that they're spending on energy and will find that that will be the result over the period of this next year and the year after.

Someone is supposed to be the watchdog agency, and you're it. And I just don't see how millions of American consumers feel—with regard to price increases on energy—that the agency hasn't been asleep, either in the allocation of resources or personnel or initiatives in this area—trying to make serious recommendations for the American people on how to cushion the impact—are there alternatives?

What are those alternatives? Maybe the Congress will reject them. Maybe the administration will reject those out of hand, but I think we're certainly going to need a better answer for the panel that appeared here today and millions of people across the country that are just living in absolute fear and trepidation about whether they can survive, than the econometric model which you've spelled out here for this committee this morning.

Maybe there ought to be clearer policy direction, either from the Congress or from the administration. But I just don't see how people are going to be able to survive at the present time, and I don't see how they can take much satisfaction that all the steps are being taken that should be taken in order, at least, to provide them with the opportunity of looking to the future with some degree of hope.

I guess on that point we may have differences, but that's certainly my view.

I want to thank you. I'll include the relevant parts on the record of the Russell testimony. You, Mr. Alcaly, can provide whatever additional comments on these matters here and make them a part of your testimony.

[The following additional comments were subsequently supplied for the record by Mr. Alcaly:]

EXECUTIVE OFFICE OF THE PRESIDENT,
COUNCIL ON WAGE AND PRICE STABILITY,
Washington, D. C., July 31, 1980.

Hon. EDWARD M. KENNEDY,
Chairman, Energy Subcommittee of the Joint Economic Committee, U.S. Senate, Washington, D.C.

DEAR SENATOR KENNEDY: Thank you for your kind letter of July 9, 1980. Enclosed is the edited transcript of my testimony of July 8, 1980. I've also enclosed for the record some additional comments on the issues raised by the material you plan to insert in the record (pp. 145–147 of Mr. Russell's testimony before the Subcommittee on Oversight and Investigations, Committee on Interstate and Foreign Commerce, U.S. House of Representatives, December 20, 1979). I hope these remarks help to clarify matters.

Sincerely,

ROGER E. ALCALY,
Assistant Director for Planning, Policy and Evaluation.

Enclosure.

There are really two points at issue with regard to the relative importance of the various factors that have contributed to increases in the retail prices of individual petroleum products. First, as Mr. Russell stated explicitly in his letter to Chairman Eckhardt of March 5, 1980, "a precise breakdown is not possible because of the impossibility of allocating joint costs of production, and hence refinery margins, among individual products." (This letter is part of the record of the Hearings from which the Committee's insert is taken—Hearings before the Subcommittee on Oversight and Investigations, Committee on Interstate and Foreign Commerce, U.S. House of Representatives, December 13 and 20, 1979, p. 313.) The figures that Mr. Russell presented in his testimony are consistent with this proposition—they show the refinery spread on the entire slate of refined products, and wholesale/retail spreads for individual products (Hearings, Table 1, p. 136).

Second, although Mr. Russell's testimony and the Council's more comprehensive study, Petroleum Prices and the Price Standards, February 25, 1980, provide some qualified indication of the relative importance of the factors contributing to price increases of gasoline and home heating oil, the contributions may differ from those derived by other researchers. (The study was submitted to Chairman Eckhardt on February 25, 1980 and is also contained in the record—Hearings, pp. 268–312.) The Council's calculations are described in the petroleum study. Specifically: (1) the refinery spread is the difference between refinery prices—the Producer Price Index for refined-petroleum products adjusted for the fact that it is a month behind—and the composite cost to refiners of domestic and imported crude oil and imported product, with an adjustment for the estimated shrinkage in volume associated with the production process; (2) the wholesale/retail spread for gasoline is the difference between the retail price of gasoline and a weighted average of prices on dealer-tankwagon shipments to retailers and on sales to jobbers; and (3) the wholesale/retail spread for home heating oil is the difference between the retail price and the refinery price to resellers. The basic sources of the data for these calculations are the Department of Energy and the Bureau of Labor Statistics.

Senator KENNEDY. The subcommittee stands adjourned.

[Whereupon, at 12:50 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

News from Congressman Ben Rosenthal

FOR IMMEDIATE RELEASE:
Tuesday, June 24, 1980

FOR FURTHER INFORMATION CONTACT
COMMERCE, CONSUMER AND MONETARY
AFFAIRS SUBCOMMITTEE - 225-4407

PRESS RELEASE PRESS RELEASE PRESS RELEASE

SEVERE DAMAGE TO U.S. ECONOMY FROM FURTHER OIL DECONTROL AND PROPOSED GASOLINE TAX FORECAST USING WHARTON ECONOMETRIC FORECASTING ASSOCIATES' MODEL

Congressman Benjamin S. Rosenthal (D-NY) today released an analysis using the Wharton Econometric model that forecasts severe damage to the U.S. economy if the remaining price controls on domestic oil are removed between now and October 1981. This situation would be made considerably worse if Congress were to approve the Administration's announced intention to seek legislative authority for a 10 cents per gallon tax on gasoline.

The analysis, which Wharton prepared for Rosenthal's Subcommittee on Commerce, Consumer and Monetary Affairs, was based on pricing patterns DOE supplied to the subcommittee and shows the following:

I. Impact on the Nation's Oil Bill

-- The effect of letting U.S. oil prices rise to world levels through further decontrol will be to add nearly $40 billion a year to the Nation's already huge oil bill (approximately 53 percent of the Nation's crude oil production is currently subjected to price control but will be decontrolled in stages between now and October 1981);

-- If the Administration's suggested gasoline tax of 10 cents per gallon is permitted to take effect, an additional $10 billion would be imposed on America's energy consumers;

-- Thus, the total annual impact of decontrol and the suggested gasoline tax, can be conservatively estimated at almost $50 billion per year.

II. Impact on the Consumer Price Index (CPI)

-- With decontrol and a 10 cent gasoline tax, inflation is expected to be considerably worse than it would be with continued controls. The Wharton model forecasts that the Administration's oil plan would add another 30 percent to inflation by 1982.

III. Impact on Unemployment

-- It is projected that an additional 800,000 persons will lose their jobs if domestic oil price controls are removed and a 10 cents per gallon tax is imposed. Without them, the Wharton analysis projects that unemployment would have dropped below 6 percent by 1982.

IV. Impact on Real Gross National Product (GNP)

-- Decontrol and the gasoline tax would retard anticipated real growth in GNP by $18.2 billion in 1982, as against a projected GNP increase without them from $1.438 trillion in 1980 to $1.475 trillion in 1981 and $1.525 trillion in 1982.

V. Impact on Disposable Personal Income

-- The Wharton analysis projects that real disposable personal income (a measure of consumer spending power) will drop by $18 billion in 1982 if decontrol continues on schedule and the gasoline tax is adopted. In nominal terms, a typical family of four will lose $400 of purchasing power due to these oil price increases alone.

The New York Democrat said that "The Administration's energy policy of driving up prices is in dramatic conflict with its expressed desire to reduce inflation and prevent a serious recession." Rosenthal called on the President to "establish immediately a Blue Ribbon Commission to examine the far-reaching consequences on the U.S. economy of our present policy of fostering higher energy prices; and to make speedy recommendations for basic policy changes."

WHARTON ANNUAL AND INDUSTRY MODEL
DECONTROL WITH GASOLINE TAX
OIL PRICE CONTROL - NO GASOLINE TAX

TABLE 1.00 SELECTED ECONOMIC INDICATORS

LINE	VAR LABEL	I T E M	1979	1980	1981	1982
1		GROSS NATIONAL PRODUCT (1972$)				
2	GNP	OIL PRICE DECONTROL	1431.92	1433.93	1466.00	1506.72
3	GNP	OIL PRICE CONTROL	1431.92	1437.64	1474.74	1524.94
4	GNP	DIFFERENCE	0.0	-3.72	-8.74	-18.23
5	GNP	% DIFFERENCE	0.0	-0.26	-0.59	-1.20
6						
7		REAL DISPOSABLE INCOME (1972$)				
8	YPD	OIL PRICE DECONTROL	994.36	996.41	1023.25	1050.30
9	YPD	OIL PRICE CONTROL	994.36	999.86	1031.01	1068.81
10	YPD	DIFFERENCE	0.0	-3.45	-7.76	-18.50
11	YPD	% DIFFERENCE	0.0	-0.34	-0.75	-1.73
12						
13		NOMINAL DISPOSABLE INCOME				
14	YPD$	OIL PRICE DECONTROL	1623.75	1806.49	1986.94	2188.06
15	YPD$	OIL PRICE CONTROL	1623.75	1802.84	1977.74	2166.05
16	YPD$	DIFFERENCE	0.0	3.64	9.20	22.01
17	YPD$	% DIFFERENCE	0.0	0.20	0.47	1.02
18						
19		CHANGE IN CPI				
20	PCW	OIL PRICE DECONTROL	11.47	15.15	8.95	8.87
21	PCW	OIL PRICE CONTROL	11.47	14.23	7.94	6.86
22	PCW	DIFFERENCE	0.0	0.92	1.01	2.01
23	PCW	% DIFFERENCE	0.0	6.50	12.72	29.26
24						
25		UNEMPLOYMENT RATE				
26	NRUT	OIL PRICE DECONTROL	5.79	6.88	6.95	6.72
27	NRUT	OIL PRICE CONTROL	5.79	6.74	6.59	5.96
28	NRUT	DIFFERENCE	0.0	0.14	0.36	0.76
29	NRUT	% DIFFERENCE	0.0	2.14	5.40	12.72

SOURCE : WHARTON E.F.A.

National
Farmers Union

July 7, 1980

Honorable Edward M. Kennedy, Chairman
Energy Subcommittee
Joint Economic Committee of the Congress
G-133 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Senator Kennedy:

On behalf of the membership of the National Farmers Union, we are submitting the attached statement concerning the impact of inflation and energy prices on the American family on which you are holding hearings tomorrow.

We respectfully request that this statement be made a part of the record of hearings.

Sincerely,

Robert J. Mullins
Assistant Director
Legislative Services

RJM:bg

cc: All Members of the Energy Subcommittee
Joint Economic Committee of the Congress

Suite 600, 1012 14th Street, N.W., Washington, D.C. 20005 – Phone (202) 628-9774

National Farmers Union

STATEMENT OF

ROBERT J. MULLINS
ASSISTANT DIRECTOR OF LEGISLATIVE SERVICES
NATIONAL FARMERS UNION

PRESENTED TO THE
ENERGY SUBCOMMITTEE
OF THE
JOINT ECONOMIC COMMITTEE OF THE CONGRESS
WASHINGTON, D. C.

Relative to the Impact of Inflation and Energy Prices on the American Family

July 8, 1980

I am Robert J. Mullins, Assistant Director of Legislative Services for the National Farmers Union, an organization of family-type farm operators.

Mr. Chairman, you and the Subcommittee deserve to be commended for focusing on what is still the most urgent problem of American families -- the effects of the escalation of inflation rates and energy prices.

Since we are an organization of family farmers, we look at these twin scourges of inflation and energy costs as they affect families.

As farmers, we know that to sell our products to American families, they must have fair wages and purchasing power.

We are aware that average weekly earnings in private non-agricultural industries have not kept pace with inflation since 1973, although the average wage in current dollars has risen from $145.39 per week in 1973 to $230.45 early in 1980. However, in constant (1967) dollars, the average weekly earnings have dropped from $109.23 in 1973 to $95.82 in early 1980.

Inflation has more than cut in half the value of the average weekly earnings of wage earners, since the current $230 average weekly wage has a purchasing power of less than $96.

Suite 600, 1012 14th Street, N.W., Washington, D.C. 20005 – Phone (202) 628-9774

At the same time that inflation has been reducing the purchasing power of wages of American families, the tripling of energy prices since 1973 has diverted much spending power from other necessities to energy outlays.

Rising energy prices have direct effects upon American families in what it costs for personal transportation and for heating or cooling homes. There are substantial indirect effects in higher prices for virtually all consumer products and this includes food.

Current estimates are that about 12 percent of the $265 billion which American families will spend for food products this year will be attributable -- a total of about $32 billion -- to energy costs in the food system. After adjusting this total to exclude energy in food and grain exports, while adding about $12 billion in energy expenditures by American households for home storage and preparation of foods, it can be concluded that the energy element in 1980 food costs will be about $40 billion.

It is further projected that each future increas of 10 percent in energy prices will add about 1.3 percent to food prices. A doubling of energy prices (what has happened roughly since 1977) therefore adds about 13 percent to food costs for consumers.

On the farm, direct and indirect energy costs now account for about eight percent of total farm production outlays.

The delegates to the 78th annual convention of National Farmers Union in March of this year in Denver, Colorado, set forth their concerns about energy policy in a comprehensive energy statement. Sections of this statement dealing with overall energy policy and with energy pricing policy are attached to this testimony. While the Nation's farmers have been acutely concerned about energy supplies and the possibilities of shortages and interruptions in supplies, they are now becoming equally alarmed at what has happened to energy costs.

The conclusion is that the Nation has gone beyond an acceptable point in rationing energy by price and ought to be moving towards the rationing of energy by allocation, if rationing is essential.

At the March convention, Farmers Union delegates declared that farmers have perhaps a greater stake than most others in the economy in reducing inflationary pressures to manageable levels. (See also attached statement on "Economic Policy and the Family Farm.")

Inflation is not neutral in its effects upon farmers. An analysis of the past five years shows that inflation has added three times more to farming costs than it has to prices received by farmers for their products.

This occurs because with prices received by farmers averaging at 70 percent of parity and less (60 percent of parity in April and May, 1980), farmers are able only to an extent to pass through rising costs in the price-tags of the products they sell.

The Farmers Union policy statement points up the shortcomings on national economic policy and concludes that recent money and credit strategies have aggravated rather than curbed inflation.

The statement recommends that the Executive Branch of government and all agencies, and particularly the Federal Reserve Board, be compelled to conform their policies to the goals of the "Full Employment and Balanced Growth Act of 1978," with its stated objectives of reducing both unemployment and inflation rates to tolerable levels.

These goals are not unattainable.

As a great president, Franklin D. Roosevelt, wisely observed in 1936 -- "We had to balance the budgets of American families before we could balance the budget of the federal government."

1980 POLICY OF NATIONAL FARMERS UNION

Adopted by Delegates to
the 78th Annual Convention

Denver, Colorado
March 2-6, 1980

ARTICLE V
ENERGY AND THE FAMILY FARM

A. National Policy

Energy policy must serve the nation's need for food and fiber. To that end, energy policy must be consistent with our system of family farm agriculture.

1. Elements of a National Energy Policy

a. Reducing control of giant corporations of the sources, production, and distribution of energy;

b. Equitable distribution and efficient development of energy to assure adequate production of food and fiber;

c. Pricing policy which will prevent economic hardship;

d. Balancing energy needs with the necessity to maintain a safe and ever-renewing environment; and

e. A massive program to develop renewable sources of energy to reduce our dependence on fossil fuels, including economic assistance for family farmers to make agriculture more self-sufficient through increased application of alternative forms of energy.

D. Pricing Policy

1. Price Controls on Oil and Gas

Until there is a national energy policy which meets the guidelines spelled out earlier in this article, Farmers Union:

a. Opposes the phased deregulation of natural gas and calls on Congress to repeal the natural gas pricing provisions of the National Energy Act and return to the pricing provisions of the Natural Gas Act of 1938; and

b. Supports extension of effective price controls on oil, gas, and refined petroleum products.

An excess profits tax on oil companies, which would be essential in the event that price controls are ineffective, should be structured to prevent oil companies from avoiding the tax through reinvestment of revenues in other energy sources that would result in more integrated control by the oil companies over the whole range of energy sources.

To the extent necessary to provide oil, refined petroleum products, and natural gas to the people of the United States on a fair and equitable basis, we support a federal rationing system for such products.

2. Electric Rates

We favor legislation designed to reduce electric rates in states where regulatory commissions have been negligent, or have cooperated with power companies in establishing exorbitant rates.

Electric utilities should be encouraged to provide rate structures that offer an incentive to consumers to use off-peak power.

ARTICLE IV

ECONOMIC POLICY AND THE FAMILY FARM

A. National Economic Policy

Farmers cannot isolate themselves from what is happening in the rest of the national economy. The demand for our farm products is severly reduced by economic stagnation and high unemployment. The costs which farmers must pay to produce and live are inflamed by energy prices, inflation, and low productivity in industry.

The severe depression in our agricultural economy is a special problem requiring urgent attention to avert a worldwide food crisis as dangerous to world stability as the energy crisis. Current prices received by American farmers are the lowest of any country in the world, and the lowest in purchasing power of any time in history except the years 1931 and 1932. Positive measures to raise farm prices into balance with returns in other sectors on labor, investment, management, and risk must be initiated at once.

Our government must take vigorous steps to reach full employment, to dampen inflation rates, and to encourage higher productivity. This is basic to the attainment of a balanced federal budget, the strengthening of the dollar, and to a healthy national economic recovery.

Because current monetary and fiscal policies are neither curbing inflation nor spurring sufficient employment growth, better strategies must be developed and implemented. Tough decisions and hard choices must be made. We recommend a brief freeze on prices, wages, interest, and profits, with provision for adjustments to enable farmers and others whose returns are currently below those prevailing generally in the economy to "catch up," followed by selective price and wage controls where needed.

The provisions of the Federal Reserve Act of 1913 are the root cause of the inflation, both in our national economy and in international influence such as the escalating oil, silver, and gold prices.

We, therefore, call upon Farmers Union leadership to become informed as to the provisions of the Federal Reserve Act and the workings of the Federal Reserve System, the Federal Reserve Board, and the Open Market Committee, with the intent to offer leadership to Congress to lead the way out of our economic dilemma.

B. Farmers and Inflation

Farming costs are currently 14 percent above a year ago and 43 percent above the level just three years ago. Obviously, high costs and inflation are reducing total United States net farm income by several billion dollars a year.

Inflation has a particularly punishing effect upon farmers. Although it may add somewhat to the level of prices received by farmers, it has a more pronounced effect on the cost side and, with prices a third below parity, it is not possible for farmers to pass on the burden to others in the economy.

Farmers, therefore, have perhaps a greater stake than most others in the economy in success in reducing inflationary pressure to manageable levels.

C. Money and Credit Policy

Farmers are drastically injured by the current high interest rates being employed, without success, to dampen inflation.

As of January 1, 1980, farmers had outstanding debts of $157 billion and it is predicted that debt will grow by $25 billion during the year.

Interest outlays by farmers, which were $11.9 billion in 1979, are expected to reach $14 billion in 1980. This would be a doubling in four years and a ten-fold increase since 1960.

At the same time, interest payments on the federal debt in fiscal year 1981 are now projected at $80 billion, a major cause of the difficulty in balancing the federal budget.

A better remedy is available in the form of the emergency powers conferred on the President by the Emergency Credit Control Act of 1969, under which the President may limit credit use, may prescribe interest rates and credit terms and, if needed, allocate credit to productive uses. Severe as such actions would be, they are preferable to continuing the present totally ineffective policies.

The Federal Reserve Banking Board should be compelled to conform its policies to the goals of the "Full Employment and Balanced Growth Act of 1978." The Federal Reserve statutes should be amended to require representation on the Board of agriculture, small business, and labor.

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Alice M. Rivlin
Director

June 13, 1980

Honorable Edward M. Kennedy
Chairman
Subcommittee on Energy
Joint Economic Committee
Washington, D.C. 20510

Dear Mr. Chairman:

In response to your request, the CBO has reestimated the inflationary impact of decontrol of domestic crude oil prices. The inflationary impact has, as you suggested, been significantly altered by the unexpectedly large increases in OPEC oil prices over the past six months. We now project that the decontrol of domestic crude oil prices will raise the general (Gross National Product) price level 3.6 percent by 1983 and the Consumer Price Index by approximately 4.3-4.6 percent by 1983.

The increase in expenditures per year, the GNP price level impact, and the Consumer Price Index impact are given below. The price level and CPI-W impact are fourth quarter to fourth quarter:

	Expenditure Increase*	General (GNP) Price Level Impact	CPI-W Impact (approximate)
1979	$ 2.0 billion	0.2	0.3
1980	21.8	1.1	1.5
1981	54.9	1.7	2.1
1982	74.8	0.6	0.7
		3.6 percent	4.6 percent**

I would briefly like to describe four aspects of the CBO analysis:

- o Methodology,
- o Assumptions,
- o Interpretation of results, and
- o Other estimates.

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* Does not include expenditures for oil produced as a result of higher prices due to decontrol.

** CPI-U impact would be approximately 4.3-4.4 percent due to lower relative importance for gasoline in that measure.

Methodology

The GNP price level impacts are calculated by dividing the increase in expenditures due to decontrol by nominal GNP. The increase in expenditures represent increases over what would have occurred under indefinite continuation of controls with a composite price limitation on the average price of domestic crude oil. The CPI impact is calculated in several steps. The direct impact is computed based on the percent increase in price of petroleum products consumed directly (chiefly, gasoline and fuel oil) multiplied by the relative importance of these items in the index. The indirect impact is calculated by subtracting the increase in petroleum products consumed directly from the total increase in expenditures, and dividing the result by nominal GNP.

Assumptions

The analysis is based on five key assumptions:

- o $35 first sale domestic decontrolled price in the fourth quarter of 1979, increasing 12 percent per year through 1981,
- o Full passthrough of oil price increases,
- o No effect on prices of substitute fuels,
- o No effect on world oil prices, and
- o Fifty percent wage price feedback.

Interpretation of Results

The results of the CBO analysis should be interpreted in light of the key assumptions in the analysis. The impacts will be smaller than those above if the higher domestic crude oil prices resulting from decontrol are not fully passed through to consumer and other prices, if wages do not rise significantly in response to higher consumer prices resulting from the increase in domestic crude oil prices, or if decontrol results in lower world oil prices than would prevail under continued controls. The impacts will be larger if wages are quite responsive to higher prices or if prices of substitute fuels, such as coal or natural gas, rise substantially faster as a result of domestic oil decontrol.

The impact on the CPI is larger than on the GNP price level because of the greater petroleum intensiveness of the CPI. The calculation of the CPI impact is, however, less precise than the GNP price level impact, due to the approximation of the indirect CPI impact. More importantly, the direct impact on the CPI is based on 1972-73 consumption of gasoline and heating oil. Since gasoline and heating oil usage among consumers has declined relative to the consumption of other items, the direct CPI impact overstates the impact.

The impact is larger on the CPI-W than the CPI-U. This reflects the fact that gasoline has a larger weight in the CPI-W than the CPI-U. The impacts on both measures are of importance. The CPI-U is generally regarded as the preferred measure of consumer prices since it covers about 80 percent of the population as opposed to the 40 percent covered by the CPI-W. On the other hand, the CPI-W, and not the CPI-U, is used for indexation, that is, increase in wages under cost of living agreements and in benefits under Social Security and other programs are tied to the CPI-W.

Other Estimates

CBO estimated the inflation impact of the decontrol in May and November 1979. In May 1979, CBO estimated an impact of 0.6 to 0.8 percent based on an assumption of world oil prices of $14.54 at the end of 1979, increasing at 7 percent thereafter. In November 1979 the estimate was increased to 1.9 to 2.1 percent based on world oil prices of $30 in the fourth quarter of 1979 increasing at a two percent real rate thereafter. Both of these estimates were impacts on the general price level, not CPI impacts.

CBO's estimate is higher than most other estimates. Most of these estimates were prepared at the time of the President's decision to decontrol domestic crude oil prices. Thus they would require upward revision in order to be comparable to the CBO estimate. CBO's estimate may also be higher than other estimates because it assumes full passthough of oil price increases to the consumer, whereas other estimates may assume less than full passthrough.

We would, of course, be pleased to respond to any further questions you may have.

Sincerely,

Alice M. Rivlin
Director

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