RESPONSE OF THE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE TO THE PRESIDENTIAL VETO OF THE BILL S. 1849 WHICH PROVIDES FOR AN INTERIM EXTENSION OF PETROLEUM PRICE AND ALLOCATION CONTROLS CONTAINED IN THE EMERGENCY PETROLEUM ALLOCATION ACT OF 1973

The Committee believes that it is incumbent upon the House and the Senate to override the President's veto of S. 1849. The abrupt termination of price and allocation controls which would be occasioned by the President's veto would significantly imperil the U.S. economy. The resultant price increases would be disproportionately and unfairly borne by the low and middle income sectors of our society who are least able to pay, as well as being least able to avoid, the inflationary consequences of decontrol.

Economic analyses of the effects of oil price decontrol have been prepared by (1) The Federal Energy Administration (FEA); (2) Data Resources Incorporated (DRI); (3) Chase Econometrics Associates (Chase); (4) the Congressional Budget Office (CBO); and (5) this Committee's Subcommittee on Energy and Power (E&P). These analyses were all performed on the three most widely used and respected econometric models developed by DRI, Chase and Wharton Economic Forecasting Associates. The effects of sudden decontrol of domestic old oil prices, even when mitigated by the removal of oil import tariffs, is adjudged to constitute a major economic setback in all but the FEA analysis. For example, FEA suggests that unemployment will increase by only 1/10 of 1 percent, or approximately 100,000 workers by the end of 1977. The four other studies indicate that unemployment will be from .3 to .5 percent higher by the end of 1976 and from .25 to .8 percent at the end of 1977 if sudden decontrol takes its full effect. Thus, as many as 800,000 additional jobs could be lost over the next two years should the DRI analysis prove to be correct. Moreover, with the exception of the FEA analysis all four studies show an increase in consumer prices ranging from 1 to 2 percent due to sudden decontrol. This increase is above and beyond those due to other inflationary trends in consumer prices such as those expected from increased food costs.

In short, the Committee believes that sudden decontrol would greatly wound the economy. This is a self-inflicted wound which the President proposes; and one which can and must be avoided. Paradoxically the President appears to recognize the dangerous consequences of the course of action which he has adopted and has announced that if his veto is sustained he will propose to the Congress -- at latest count -- at least four separate legislative devices for softening the disruptive effects of abrupt decontrol. The Committee is firmly of the opinion that the Congress should reject these "band-aid" attempts to patch up a damaged economy. Instead we should not permit the damage to occur in the first place.

The President speaks about the need to protect this nation from continued vulnerability. However, by removing controls on 60 percent of our domestic production, he advocates a policy which would make this nation fully subject to the whim and caprice of the OPEC cartel. It is as if the President would prefer that the OPEC cartel establish oil pricing polieies for the United States rather than retain this authority for our own people. In this respect, all analyses -- even that of FEA -- anticipate that old oil prices will accelerate from the presently controlled price of $5.25/barrel to the price fixed by OPEC. Indeed the FEA analysis suggests that the price of domestic oil will go to $13.00 a barrel, a $7.75/barrel or approximately 150 percent increase for old oil.

The President appears to hold the belief that a phased decontrol program offers the best balance of economic and energy policy objectives. Yet, in refusing to permit an interim extension of the Act, the President is playing a dangerous game of economic brinksmanship in order to compel the Congress to accept his proposal for phased decontrol -- a proposal already rejected by the House in July. This constitutes an irresponsible use of the veto power to coerce the Congress into accepting a position which a majority in the House has already found to be contrary to the public interest.

The Committee believes it is also irresponsible to permit controls to terminate while the Congress and the President search for a compromise solution to the oil pricing controversy which will undoubtedly entail a reimposition of controls. This type of "on again-off again" strategy can only lead to greater confusion. How can we expect the oil industry to take any action to increase investment in additional production in an environment so fraught with uncertainty.

From the beginning, the President's energy program has placed reliance on increasing prices as the almost singular means for curtailing energy demand and maximizing supplies. The Congress has repeatedly rejected this strategy on the premise that this program would damage an already weakened economy and retard recovery to such an extent as to be unacceptable. Instead, the Committee believes that we should work toward a more broadly focused policy which combines a number of programs designed to manage energy demand while additions to supply are obtained. It is time for the President to work with the Congress on these objectives and to abandon his singular focus on a pricing strategy as a cure for this nation's energy problems.