

REMARKS TO THE AMERICAN PETROLEUM INSTITUTE

NEW YORK HILTON--NOVEMBER 15, 1983
10 A.M.

I AM VERY PLEASED TO BE WITH YOU THIS MORNING, AND I AM HONORED THAT YOU SAW FIT TO INVITE ME TO ADDRESS SUCH A DISTINGUISHED GATHERING. YOUR INDUSTRY IS SUCH AN INTEGRAL PART OF THE AMERICAN ECONOMY, IT IS FAIR TO SAY THAT WHAT IS GOOD FOR THE COUNTRY IS GOOD FOR THE ENERGY INDUSTRY. THE RIGHT ECONOMIC POLICIES--AND THE COURAGE TO ADDRESS REAL ECONOMIC PROBLEMS--CAN ONLY BENEFIT YOU AND YOUR MEMBERS.

THE PROBLEM OF MASSIVE BUDGET DEFICITS, THE MAIN DOMESTIC CONCERN IN WASHINGTON THESE DAYS, IS A PRIME EXAMPLE OF HOW OUR FUNDAMENTAL ECONOMIC POLICIES AFFECT THE BUSINESS OF DEVELOPING AND DELIVERING THE BEST, MOST EFFICIENT, LEAST EXPENSIVE ENERGY RESOURCES. HIGH BUDGET DEFICITS ABSORB THE CAPITAL NEEDED FOR INVESTMENT IN NEW ENERGY DEVELOPMENT TECHNIQUES AND EQUIPMENT NEEDED TO MAKE YOUR INDUSTRY A GROWING, THRIVING, JOB-CREATING ONE. SO LONG AS HUGE DEFICITS POSE A THREAT OF RENEWED INFLATION--OR OF A CREDIT CRUNCH THAT COULD BRING THE ECONOMY TO A GRINDING HALT--NEITHER YOU NOR ANY OTHER BUSINESS MAN OR WOMAN IS LIKELY

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TO MAKE THE KIND OF LONG-TERM PLANS OR COMMITMENTS NEEDED TO SUSTAIN A HEALTHY RECOVERY IN THE YEARS AHEAD. THAT IS WHY THE BUDGET DEFICIT IS AT THE TOP OF THE BUSINESS COMMUNITY'S AGENDA, AS IT SHOULD BE AT THE TOP OF CONGRESS' LEGISLATIVE AGENDA.

LEADERSHIP NEEDED

THE UNFORTUNATE FACT IS THAT THE DEFICIT DILEMMA IS NOT A LIKELY CANDIDATE FOR SWIFT CONGRESSIONAL ACTION. DESPITE THE THREAT OF \$200 BILLION DEFICITS--DESPITE THE \$1.2 TRILLION ADDITION TO OUR NATIONAL DEBT THAT WILL CUMULATE OVER THE NEXT SIX YEARS--DESPITE THE THREAT OF RENEWED STAGNATION OR INFLATION THAT COULD UNDO THE TREMENDOUS ECONOMIC PROGRESS OF THE PAST FEW YEARS--WASHINGTON SEEMS ALREADY HOSTAGE TO POLITICS, AND THERE IS A BIPARTISAN UNWILLINGNESS AT THE HIGHEST LEVELS TO FACE UP TO THE FISCAL CRISIS.

THERE IS PLENTY OF BLAME TO GO AROUND FOR THIS SITUATION. NEITHER THE PRESIDENT, NOR THE SPEAKER, NOR THE SENATE LEADERSHIP IS FREE FROM BLAME. AND NO ONE OF THOSE PARTIES ALONE CAN PROVIDE A SOLUTION. WE NEED A COMMON, BIPARTISAN EFFORT TO

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OVERCOME POLITICAL POLARIZATION, NEUTRALIZE THE DEFICIT ISSUE,
AND GET TO WORK ON A VERY REAL PROBLEM.

FINANCE COMMITTEE INITIATIVE

THAT IS EXACTLY WHAT WE IN THE SENATE FINANCE COMMITTEE
HAVE BEEN TRYING TO ACHIEVE. ON BOTH SIDES OF THE AISLE, WE
HAVE BY AND LARGE AGREED ON THE NEED FOR A MAJOR DEFICIT REDUCTION
PACKAGE, TO BE ENACTED NOW, THAT WOULD BALANCE SPENDING REDUCTIONS
DOLLAR-FOR-DOLLAR WITH TAX INCREASES TO ACHIEVE A \$150 BILLION
REDUCTION IN DEFICITS OVER THE NEXT THREE YEARS. IN RESPONSE
TO A SUGGESTION FROM DON REGAN, THE SECRETARY OF THE TREASURY,
WE ARE WORKING TO MAKE SURE THAT THE MAJOR TAX INCREASES WOULD
ONLY COME ON LINE ONCE THE SPENDING CUTS ARE ACHIEVED. WE ARE
WILLING TO FACE THE TOUGH ISSUES--SOME MODIFICATION OF SOCIAL
SECURITY COLA'S, SOME REDUCTION IN THE COSTS OF MEDICARE, SIGNIFICANT
NEW TAXES ON THE BUSINESS AND INDIVIDUAL SIDE.

WE ARE DOING OUR BEST NOT JUST TO REDUCE THE DEFICIT BUT
TO MAKE SOME GOOD PUBLIC POLICY AS WELL. SAVINGS FROM ANY COLA
CHANGE WOULD BE CHANNELED TO THE MEDICARE TRUST FUND, TO HELP
ALLEVIATE THE SEVERE CASH-FLOW PROBLEMS THAT FUND IS EXPECTED

TO EXPERIENCE LATER IN THIS DECADE. SIMILARLY, A PORTION OF THE REVENUES THAT WOULD RAISED FROM A NEW ENERGY TAX--A TAX THAT WOULD BE CONTINGENT ON ACHIEVING THE MAJOR SPENDING REDUCTIONS, I WANT TO EMPHASIZE--WOULD BE DEVOTED TO A TRUST FUND ESTABLISHED FOR THE PURPOSE OF FINANCING A FEDERAL CONTRIBUTION TO DEALING WITH THE PROBLEM OF ACID RAIN.

THE ENERGY TAX I REFER TO--A 2% TAX ON THE VALUE OF ALL FORMS OF ENERGY, TO TAKE EFFECT IN 1985--WOULD RAISE ABOUT \$16.7 BILLION BETWEEN FY 1985 AND FY 1987. AS I SAID, THE TAX WOULD COME ON LINE ONLY IF THE SPENDING REDUCTIONS ARE MADE. IT WOULD BE IMPOSED ON 2% OF THE NATIONAL AVERAGE VALUE OF MOST ENERGY PRODUCTS: OIL, NATURAL GAS, NATURAL GAS LIQUIDS, COAL, AND ELECTRICITY. FOR OIL THE TAX WOULD BE IMPOSED ON THE FIRST SALE BY THE REFINER--FOR NATURAL GAS IT WOULD BE IMPOSED ON THE SALE OF GAS TO A LOCAL DISTRIBUTION COMPANY OR ON A DIRECT SALE TO THE END USER OF NATURAL GAS.

BY SPREADING THE BURDEN OF RAISING REVENUES AMONG ALL FUELS; NOT JUST OIL, THIS TAX AVOIDS SADDLING ONE PART OF THE ENERGY INDUSTRY WITH A FINANCIAL DISADVANTAGE. FEEDSTOCK

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USE AND ENERGY PRODUCED FOR EXPORT WOULD BE EXEMPTED. IN ADDITION, THE EARMARKING OF THE REVENUES FROM IMPOSING THIS TAX ON COAL FOR DEALING WITH ACID RAIN MAKES A USEFUL LINKAGE BETWEEN ENERGY USE AND A MAJOR ENVIRONMENTAL PROBLEM THAT IS THE SUBJECT OF INTENSE SCRUTINY IN BOTH THE ADMINISTRATION AND THE CONGRESS.

THIS LINKAGE, I BELIEVE, MAKES GOOD SENSE. PRESENT PROJECTIONS SHOW A 46 PERCENT INCREASE IN COAL USAGE BY THE END OF THIS DECADE. THE LINKAGE BETWEEN ACID RAIN AND GROWING USE OF COAL BY UTILITIES AND IN INDUSTRY HAS BEEN ESTABLISHED IN A NUMBER OF REPUTABLE STUDIES. THAT MEANS THE SENSIBLE GOAL OF DIVERSIFYING ENERGY SOURCES CAN AGGRAVATE A SERIOUS ENVIRONMENTAL PROBLEM WHEN DIVERSIFICATION TAKES THE FORM OF CONVERTING OIL AND GAS-FIRED POWER PLANTS AND INDUSTRIAL BOILERS TO COAL USAGE.

A TRUST FUND FINANCED BY THE ENERGY TAX ON COAL COULD RESEARCH FURTHER THE ACID RAIN PROBLEM AND FIND WAYS TO WORK WITH INDUSTRY AND AFFECTED STATES IN ALLEVIATING THE ENVIRONMENTAL HAZARDS ASSOCIATED WITH THE PROBLEM. THIS IS JUST ONE EXAMPLE OF AN ATTEMPT TO DEAL WITH THE DEFICIT IN A CREATIVE WAY, ADDRESSING

OTHER PUBLIC POLICY PROBLEMS AT THE SAME TIME.

SO A FORWARD-LOOKING DEFICIT REDUCTION PACKAGE IS WHAT WE NEED, AND WHAT MANY OF US WANT TO ACHIEVE NOW. TIME IS OF THE ESSENCE, BECAUSE THE CLOUD OF UNCERTAINTY THAT HANGS OVER THE ECONOMY THREATENS TO UNDERCUT ALL THE GOOD NEWS WE ARE HEARING ABOUT UNEMPLOYMENT, INDUSTRIAL PRODUCTION, INFLATION, AND CONSUMER CONFIDENCE. WE WANT TO KEEP THE GOOD NEWS COMING, NOT JUST THIS MONTH, BUT FOR YEARS AHEAD. WE CAN DO THAT WITH A COMMON ACT OF LEADERSHIP. BUT IT WILL TAKE EXTRAORDINARY LEADERSHIP, ON THE PART OF GOVERNMENT AND ON THE PART OF THE PRIVATE SECTOR-- THE ENERGY INDUSTRY NOT LEAST--TO TAKE THE NECESSARY BUT PAINFUL AND POLITICALLY SENSITIVE STEPS RIGHT NOW THAT CAN REDUCE DEFICITS OVER THE NEXT FEW YEARS. WITH THE PRESIDENT, AND THE SPEAKER-- AND ALL OF YOU--PITCHING IN, WE CAN DO THE JOB.