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THE WHITE HOUSE

WASHINGTON

To; **Phil Buchan**

From: **Dick McCormack**

**Here are a couple of random
thoughts which may be worth
pondering.**



In 1960 President Eisenhower's failure to pump up the economy in time resulted in a Democratic President.

For this reason it is imperative that Vice President Ford immerse himself deeply in the present game plan for combating inflation. He should make absolutely certain that the scenario calls for reflation of demand--or loosening of the belt--by late Spring and Summer of 1976.

What this means is that much more stringent policies--both budgetary and monetary--will have to be adopted for 1975 than would be the case if the excess liquidity could be more slowly wrung out of the economy, say, through 1976.

But here's the hooker: unlike 1971 when John Connally and a number of other economically savvy and politically aware individuals were around to modify the game plan generated by the technicians, these people are now largely gone. And what few of these types still around now will be rapidly bailing out in the next year to secure much more lucrative jobs in private industry.

What this means is that the Vice President is going to have to look out for himself in this matter. There are two steps he should take now: He should recruit a first rate political economist and insert him deeply in the policy making process. Secondly if the economic scenarios do not call for a loosening of the belt--a considerable loosening of the belt--by mid 1976, Ford should go to the mat with the President on this issue. And this is a battle neither the Vice President nor the Republican Party can afford to lose.

THE WHITE HOUSE
WASHINGTON

July 10, 1974

TO: Phil Buchan

From: Dick McCormack

Dick

This paper has gotten fairly wide circulation over the past few years, and some people tell me that it was useful to them.

Feel free to duplicate it and give it to anybody who might find it helpful.



SOME THOUGHTS FOR NEWLY ASSIGNED
SENIOR POLITICAL APPOINTEES ON
THE MANAGEMENT OF BUREAUCRACY



Richard T. McCormack
June 20, 1970
President's Advisory Council
on Executive Organization

WASHINGTON

June 18, 1970

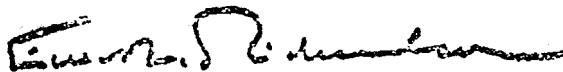
Dear Mr. McCormack:

Wil Hastings gave to me a copy of your paper on advice to new political appointees in positions of major bureaucratic responsibility. I understand that Wil has already relayed his compliments to you on the draft and I simply want to add my own comment, in spades. I really think you have produced an extremely valuable and timely paper.

I hope you will see that it gets wide distribution.

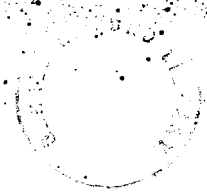
With kindest regards,

Sincerely,



Elliot L. Richardson

Mr. Richard T. McCormack
130 Executive Office Building
Washington, D.C.



INTRODUCTION

How can a few hundred top short-term politically-appointed administrators, many with no management experience whatsoever, cope with a permanent bureaucracy numbering in the millions, and make a useful contribution to Government and the public interest?

The purpose of this paper is to collect the advice of other political appointees at the Assistant Secretary level and above who have faced the problem already in the present or earlier administrations.

Basically the advice centers around ways of quickly getting an understanding of your new job and obtaining the cooperation of the career people who will work for you. Virtually everyone interviewed stressed that Respect and Knowledge were the two keys to power in a bureaucracy. The advice presented suggests how to maximize both.

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I. THE ROLE OF THE POLITICAL APPOINTEE

Because as a new appointee you will generally have had no part in developing the existing agency framework, programs, and personnel, because you come from an outside background, because you don't depend upon the internal forces in your agency as the ultimate source of your power, and because you know you will be leaving shortly; you, as a political appointee can be more effective as a force for change than the permanent staff in your agency.

But your job will not be an easy one. At times the interests of your agency or bureau will appear to conflict with the overall program of the President. Moreover, it will be initially exceedingly difficult for you to assess independently program recommendations prepared by your career officials who not only possess vastly superior substantive knowledge and experience, but who also understand the orchestration of lobbyist, political and other elements of program constituencies helpful in securing support for individual programs. Despite these ambiguities and handicaps, some of your politically appointed predecessors have achieved great success. Others failed.

The remainder of this paper is designed to provide some general management suggestions to help you as a non-career official do a better job.

II.

THE INITIAL BRIEFING

Because of the short job commitment of most political appointees (average length, two years or so), whatever impact you wish to make must be quickly planned and executed.

It is, therefore, of crucial importance that you learn in the minimum time possible what's really going on in your agency--who does what, and the problems and the opportunities for innovations.

The initial mass briefings prepared by some agencies for political managers are of only marginal utility. Individual private briefings by heads of subdivisions and key specialists are better so that you can ask very basic questions which you might otherwise be reluctant to pose in a larger meeting. The Bureau of the Budget with its central viewpoint and institutional memory is equipped to provide an especially useful briefing; and if arranged before your departmental briefing, you will be able to ask more searching questions.

The BOB briefing can include such areas as:

1. Pinpointing and outlining the historical background of major issues and trouble spots within your department or agency.
2. Suggesting how to anticipate and deal with possible congressional problems during the confirmation process.
3. Suggesting how to identify and cope with various special interest groups and program constituencies affecting your department or agency.

Past incumbents of your office are often quite valuable as briefers and the value of these previous job incumbents as permanent unofficial consultants should not be overlooked.



III. DURING THE FIRST MONTHS IN OFFICE

Concentration on Key Areas

Peter Drucker, a management consultant, urges you to ask yourself constantly this question: "What can I contribute which will significantly affect the performance and results of the institution I serve?" Realizing the impossibility of getting deeply involved in everything, successful political managers concentrate on areas of maximum importance and sensitivity. Many initially stake out certain goals or projects and resist as best they can the subsequent pressures to devote an increasing amount of time to handling day-to-day crises.

Frequently this fire fighting role is assigned to deputies or career staff in whom they have confidence. Thus they are able to concentrate on innovation and change.

Program Constituencies

Political managers also seek to develop quickly an early understanding of the respective program constituencies affected by their departments' key programs. This includes the bureaucracies entrusted to the program--or likely to be entrusted to a new program if accepted--lobbyist groups, the press, and various congressional interests. Recognizing the key importance of the program constituencies, many political managers devote considerable time to understanding and working with these diverse interest groups. Trusted assistants are often dispatched to supplement the efforts of the political managers in these areas.



Staffing

The first thing to do is find out for yourself who can be depended upon in the organization and start using them.

The sheer limitations of one man make it clear that a key part of your job is to find and attract first class talent to your office and department. It is particularly important in your immediate office since the quality of your office reflects your image to the whole organization and to the outside and frequently determines your effectiveness. There is no question but that this talent search will initially require a substantial investment of your time; but superior talent thus acquired provides an important multiplier affect upon your power to influence the department and affect change.

For a few crucial positions, it is important that you seek out and insert a key man upon whom you can absolutely rely so that you can influence, instead of being absorbed into, the organization.

It is particularly important that you have special confidence in your staff appointed to head Congressional Liaison, the Budget or Controller's office, and the Legal office.

It is also important that staff in whom you have special confidence handle your mail and appointment scheduling as well as control key processes such as the legislative program development, and the hiring, placement, and promotion of higher personnel.

One observer points out that good leadership talent does not come from spontaneous generation--it must be taught, guided, and supported by you.

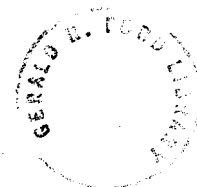


In placing good people, it is also important that they be in influential positions so that the organization cannot neutralize them.

Remember also the disaster that befell Lincoln by appointing a series of well-rounded, congenial, incompetent general. Lee, on the other hand, named his entire general staff from men with great personal defects and flaws, but he knew the strengths of each individual and built his organization on these strengths.

This type of staffing requires the top political manager to devote some time to acquiring an understanding of what special tasks and functions each key slot is expected to accomplish. A few telephone calls to previous incumbents of each key office can, in many cases, provide this information. Then specialized men can be chosen to fill the slots.

Even in the best of all possible worlds, you will have very few positions at your disposal to fill. And while many new political managers feel rather lonely during the first few weeks or months in their new responsibilities, many who have held such positions in the past strongly advise against filling the few discretionary positions with trusted old friends with little relevant experience. When this does occur, the political manager and his inexperienced friends tend defiantly to circle the wagons and spend a large amount of their time in an isolated state of siege, fighting off what they view as hostile attacks and sabotage by the bureaucracy.



IV.

GENERAL MANAGEMENT PROBLEMS

The BureaucracyA. Obtaining Support and Loyalty.

The better managers interviewed do not harbor the illusion that the few spaces available for them to fill will enable them to manage the department. There is a real need to elicit the cooperation of the permanent bureaucracy since in their ranks rests a vast institutional memory of experience and information, and since they, in the last analysis, must carry out what you want done.

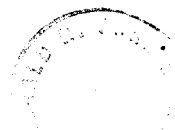
One former appointee commented: "The way to get the most out of the career ranks is to remember that bureaucrats are people and they respond the way you and I do in very human terms. If you take the time to seek them out and get to know them, to have lunches with them, learn about their families, professional problems, their strengths and weaknesses, their ideas about the department and give them praise and recognition for jobs well done, your investment in time will be repaid many times over by cheer and productivity... And you will have received an invaluable education as a result.

"If, on the other hand, you and your immediate staff preside in comparative isolation over the department, nurture fears about being captured by the bureaucracy, you will be shut off from an invaluable reservoir of information, ideas, and criticism. And your career staff will not have a clear idea of your own priorities and ideas. Management of your department will suffer as a result."

Another political manager phrased it somewhat differently. "On January 20 our administration was able to appoint a veneer of a few hundred managers and administrators to superimpose upon a massive permanent career establishment of nearly 3 million civil servants. And even though God is undoubtedly on the side of our David, the odds are simply too great to indulge in continued open battle with this Goliath. For in this battle, there is neither victor nor vanquished, just an endless series of skirmishes that divert the energies of both the political appointee and the career officials from department business to personal clashes and disgruntlement.

"Instead we must rely largely on the carrot plus information to induce voluntary cooperation."

Yet, there are occasions when the stick is absolutely necessary, but only after having first made a real effort to determine the facts and reason with the individual involved. Most personnel management problems stem less from active attempts to sabotage or shirk than from misunderstandings. Outlining the big picture and his part in it will frequently turn an uncooperative or poorly performing subordinate into a loyal and useful worker. Men simply cannot do good work when uninformed or unconvinced of its significance.



B. Removal of incompetent personnel.

While a number of political managers complained about the difficulty of getting rid of high civil servants whose performance and personality were causing problems, others flatly denied this to be a significant issue. The latter's experience led them to believe that simply telling a poorly performing employee that you believe him not to be the right man for the job for X reasons and that you want your own man in the slot usually suffices to cause him to look elsewhere for employment. This is particularly true if you offer him a bit of time and any one of many possible face-saving means to depart graciously.

In those rare cases where cooperation is refused, the Civil Service Commission or a sympathetic agency's general counsel can outline more drastic means to remove the man.

Identifying and replacing problem personnel should be done as soon as possible after you take office.

C. Some general suggestions for dealing with the career officials.

1. Get to know the key individual career men. Find out what each man does, and how each man views his own job and responsibility.
2. Ask questions. Don't make assumptions.
3. Issue clear directives to your department. Almost every man wants to do what is expected of him. When he does not do so, it is usually because he has not been instructed properly.



4. Let the department know your views, objectives, and where you stand on each issue.
5. Find out what comes in and what goes out of your office. This includes correspondence and telephone calls. Your secretary can keep a record.
6. Loyalty must be constantly sought and earned. Remember the comment from Machievelli's subordinate: "What have you done for me lately?"
7. Endeavor to align individual self-interests with institutional interests, and with your interests.
8. Ascertain the biases and viewpoints of each component of your department.
9. Remember that the expectation of an evil, sabotaging, uncooperative bureaucracy can easily become a self-fulfilling prophecy. As you treat a man, so will he often be.
10. If you detect a morale problem, ask yourself the following questions:
 - a. Are your subordinates well informed?
 - b. Are they sufficiently trained for the assignments you give them?
 - c. What are their individual chances for promotion and advancement?
 - d. Are you giving them good administration?
 - e. Do they have confidence in you?
 - f. Do you reward them for doing a good job?



11. Insist on high but just standards of performance from your subordinates. And give public recognition to the good work done by them. When criticism of a subordinate is necessary, always do it in private. Do everything you can do to increase the personal pride of your subordinates.
12. Make a systematic search to identify the best that the bureaucracy has to offer, then concentrate on providing it with challenge and leadership.
13. In staffing up new ventures, take advantage of the high level of bureaucratic talent usually found in other young or new organizations in an agency.
14. Consider the alternative of creating new groups to handle particularly important innovative programs. Not only does this give the political manager an opportunity to design a new instrument from scratch for a specific purpose, but also has the effect of fixing responsibility on a team. The entire new team not only has the positive stimulus of knowing that they were specifically chosen for this important new task, but also are aware that subsequent promotion will depend upon successfully accomplishing the high visibility mission entrusted them.
15. Respect for you personally and professionally is the currency which you have to deal with the bureaucracy. Cooperation comes from respect.



16. Don't commit yourself until you understand an issue.
17. Remember that knowledge is power in any bureaucracy.
18. Develop a good information system.

Building an Information System

It's very easy to be insulated and isolated at the top. Narrow vertical reporting systems sometimes have a way of ensuring that only the lowest common denominator of ideas and proposals survive the filters to reach the top -- and these slowly.

A good information system can greatly reduce this problem and consists of two distinct elements:

1. Devising a format for reporting through the regular channels which will reduce the distortion factor.
2. Developing additional sources of information and information processing.

In such matters, you must strike a careful balance between trust (for morale and confidence purposes) and distrust (to obtain information in spite of authority and line channels). Excess in either direction will prove counter productive and often leads to opposite and equally counterproductive excesses by frustrated administrators.

One way to make the regular reporting channel work for you is to insist that original reports be included in the package presented for your action. The comments of others who have seen the report, needless to say, increase its value to you in making a decision, but the comments in themselves are not sufficient unless



you have consciously decided to delegate full responsibility in this particular matter to another trusted individual or individuals.

This system also has a great virtue of combating one of the greatest enemies of good work -- anonymity; this assures the man who labored to produce the original report that his contribution will be recognized -- by perhaps the Secretary himself. This system also reduces the likelihood of undue influence in the decision-making process by the opinionated but ill informed.

A second way to make the regular reporting channels work for you is to set targets, milestones, etc., and to insist upon quantifiable progress reports at regular intervals on activities about which you have a special interest. This is particularly true about those areas which you have selected for major innovation.

Keep your reporting heirarchical structure flat. Eliminate the middlemen. The shorter the lines of communication between the original reporter and the political appointee, the less likelihood for distortion. A model, impractical in most institutions, is the Bureau of the Budget which at key periods, preserves an almost two-tier reporting relationship between the individual Bureau of the Budget examiners who cull the information from the agencies and the Director who must ultimately make the large budget decisions. While this is quite impractical for agency-wide application, its selective usage in high priority areas merits consideration.

The undesired middlemen in a reporting chain can be circumvented either by reorganizing to create a flat reporting system, or



by such various by-pass devices as:

1. Recurrent informational or friendly personal contacts with officials two or more levels below on the hierarchy. It is a sound practice to include intermediate superiors, or at least inform them of such visits.
2. A few young personal assistants who can move comfortably at lower echelons and act openly as your eyes and ears.
3. Talks with department or bureau clients or others from the outside who deal directly with the lower departmental echelons. Here, too, include appropriate subordinates at such talks as practicable.
4. Mechanized means of communication that channel reports directly from the lowest to the highest level, but which permit comment -- though not alteration -- by intermediate officials.

Needs will vary from agency to agency, as will the appropriateness of various types of information systems. You will be the judge yourself as to what kinds of redundancy you must build into your information generating system to ensure that you get all the information you need to make intelligent decisions. You should, however, make certain that your staff, particularly young personal aides, are not permitted to give orders in your name to line personnel. Their activities should be restricted to information gathering and personally advising you.



Information Processing System

One seasoned Washington veteran suggested instructing your staff to compile a list of names, addresses and telephone numbers of experts in areas of particular interest affecting your department. These experts can be found in the Bureau of the Budget, other government agencies, congressional staffs, as well as in the business and academic world. These experts, combined with a small personal staff with an analytical bent to poll the experts regularly, can serve both to generate new ideas and initiatives, and to comment on the ideas and recommendations generated from below the career ranks.

On broad issues of particular complexity or controversy, task forces, senior advisory committees, or teams of consultants, can be organized to provide part of the information gathering and processing function. These devices are particularly useful in such matters as departmental reorganization, program innovation or termination, or changes in personnel policy where the bureaucracy can sometimes be expected to resist major initiatives or subvert them once begun.

The literature suggests a number of more formal information processing systems appropriate in some situations. It points out that any attempt to control one large organization requires another, though much smaller organization. This is the staff which processes the information, verifies it, and more importantly, helps suggest ways of using it to further the policy maker's objectives. This is



the monitoring organization, policy planning staff, office of system analysis, etc., etc.

Effective monitoring staffs often have personnel structures entirely separate from those of the bureaus they monitor. If officials were constantly shifted back and forth between the inspectors and the inspected, monitors under some circumstances could be motivated to ignore mistakes and deviations in hope of being treated similarly when they were being inspected and to avoid career damage when they return to their normal jobs. Thus, monitoring and information processing bureaus that are not at least partly staffed by personnel with separate career paths are often half-hearted operations.

IT SHOULD BE EMPHASIZED, HOWEVER, THAT TECHNIQUES OF CONTROL BY USING ZEALOUS MONITORING AGENCIES MUST BE PRUDENTLY APPLIED. The Office of Systems Analysis of the Department of Defense, for example, greatly increased the control of the Secretary over the decision making process of the Department and resulted in a substantial net increase in organizational effectiveness, but this occurred at a not inconsequential cost. This cost included a degree of demoralization of many higher career officers.

In the vast majority of administrative situations, encouraging cooperation by developing genuine rapport with upper levels of the permanent staff, and developing non-hostile information networks are considerably more effective.



Follow Through

Johnathan Daniels in his book Frontier on the Potomac illustrates the problem of follow through at the highest levels:

"Half of a President's suggestions, which theoretically carry the weight of orders, can be safely forgotten by a Cabinet member. And if the President asks about a suggestion a second time, he can be told that it is being investigated. If he asks a third time, a wise Cabinet officer will give him at least part of what he suggests. But only occasionally, except about the most important matters, do Presidents get around to asking three times."

If the President has this problem, less senior political appointees face the same difficulty multiplied by a considerable factor because orders are simply not self-executing.

The narrow vertical reporting system, which distorts information on the way up, operates the same way in reverse when the political manager issues a directive. In the long process from him to the final man who must pull the right lever, all kinds of distortion and fudging is possible -- and in bureaucratically unpopular directives -- very likely indeed. And it is almost impossible to pinpoint responsibility for this fudging and consequent non-compliance. In the extreme cases, the operating level people will be without clear directives from you, and by sheer weight of numbers, will set the course. Sometimes it's not really clear who is running whom.

A number of follow-through aids are often developed by political managers:

1. Information networks are established.
2. Virtually all directives are put in writing.



3. An ultimate reporting deadline, including a quantifiable goal, is included in the directive.
4. On larger projects, a number of quantifiable progress reports are scheduled.
5. On less significant matters, the subordinate is directed to deliver progress reports to someone other than the man who issued the directive.
6. The one to whom the order is issued is consulted as to the feasibility of the suggested reporting deadline.
7. A single briefing team is often used to inform all levels of a hierarchy about a new procedure, policy decision, or program to be developed.
8. A small special follow-up staff is organized.
9. Subordinate organizations are encouraged to improve their own follow-up procedures and staffs.
10. Personally asking from time-to-time about progress on key directives even if only with a "tickler" system.

Change and Organizational Stress

Nothing can be more calculated to create dissent, sabotage, insecurity, and outright fear among affected career employees than the prospect of a poorly understood imminent change.



A leader who appears capricious and unpredictable causes his underlings confusion and uncertainty as to what is happening in the present and what can be expected in the future.

The prevention of this kind of stress is not only desirable from a humanitarian point of view, but in view of the disruptions entailed, a very practical requirement for affecting the desired change and for agency operation generally. You should, therefore, in most circumstances, avoid appearing arbitrary in imposing change upon your department.

It is first of all necessary to remember that people are more moved by appeals to the feeling man than to the rational man. Thus, in producing changes, you must identify and deal with the basic permanent structural units of the department or agency and the respective systems of belief -- their mores, traditions, customs, and values.

Actually changing the traditions and customs of any bureaucratic sub-culture is exceedingly difficult -- if not impossible. The alternative is to examine the traditions in question and try to work within them, using the areas which you see to be elastic and flexible. These areas almost always offer you a wide field within which to operate.

The easiest way to launch a painful change is often to bring the effected parties to your office -- singularly or as a group -- and solicit their views -- not on your proposed change, which you won't mention -- but on the problem itself which seems to require a change for solution.



The group may suggest to you a less painful but equally effective means of dealing with the problem. They may even suggest the change which you have in mind, in which case it becomes their solution.

And in the worst of all cases, they will realize that you had consulted them about the problem and that they had been unable to come up with a solution. So when you reconvene the group to ask again if any solution has occurred to anyone, and in the absence of any, propose your change, it will appear that you have been fair and have done everything possible to seek another less painful solution.

At times, massive changes should be tried out first on a pilot basis -- and after the indicated modifications have been made, apply them to the whole, using the successful precedent of the pilot operation to allay fears and uncertainties.

When, upon occasion, an arbitrary change is forced by unchangeable outside circumstances, then an administrator is well advised to make it appear as reasonable as possible and to avoid protecting himself with silence -- which of all the courses open in a difficult situation, is often the most tempting, and the least profitable.

Finally, in proposing alterations in policy and in other connections, it is well not to be too afraid of admitting that you have been in error. It is better to have people believe that you are honest, than to try to convince them that you are infallible.



3. Malfunction in information -- garbled, incomplete transmittal of directives and reports. Oral directives and reports are a chief villain.
4. Malorganization -- The symptom of malorganization is an excess of meetings, although, obviously, some meetings are both good and necessary to boost morale and to sound out individuals informally early in the decision making process. Drucker maintains that excessive meetings are by definition a concession to deficient organization, for one either meets or works.

Since time is the scarcest resource, unless it is well-managed, nothing else can be managed.



THE WHITE HOUSE

WASHINGTON

July 22, 1974

TO: RAYMOND PRICE

From: Richard McCormack

Enclosed are a series of questions that the President should bluntly ask his economic advisors. The memorandum enclosed is a backup for these questions.

Not all of the ideas in this paper should be included in the speech by the President. If I had had the time or staff resources to do some tight economic analysis, I might well have discarded some of the smaller proposals. I offer this paper only to provoke thought by those now in the process of hammering out the single most crucial economic message of this Administration.

But there are three things of which I am certain.

1. If the President on Thursday does not convince a skeptical American people that he knows what he is doing, and that some rapid progress on inflation is in prospect, the chances that the President will be impeached are vastly increased. Public opinion and public approval of the President--not legal points--will determine how the House and Senate act on impeachment.
2. If there is any question in the President's mind as to the wisdom of the economic plan proposed to him by his advisors this weekend, he should by all means postpone his speech on Thursday. He can use the Cyprus crisis as a perfectly understandable reason for holding up final action on his economic policy development.
3. If he doesn't get satisfactory answers to his questions, or if he has fundamental doubt about what would or would not work, he should call in John Connally for a private head to head talk.



SUMMARY OF MEMORANDUM

THE BASIC PROBLEMS

There are two primary problems afflicting the world economy right now, from which other smaller but still potentially dangerous secondary difficulties emerged.

The first: A fundamental inflation caused by too much money chasing too few goods exists in virtually every industrialized country, and a wage-push inflation is rapidly developing.

The second: The sudden and massive increase in the price of oil threatens to overstrain the financial capacity of the free world to assimilate it.

AN OVERALL PROGRAM

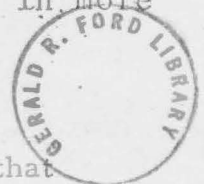
In general, many economists believe that the economic policies of the Administration should observe the following six main principles:

1. Tight money policies should be continued by Arthur Burns at the FED.
2. These should be supplemented by a considerable cut in the Budget -- at least 10 billion.
3. As weak spots begin to appear in the economy which threaten to get out of control, the Federal Government must be prepared to step in quickly with rescue operations. It is important that order be maintained.
4. Money in the hands of consumers should be reduced, and more resources should be channeled into capital investment to increase the supply of goods.
5. The Administration should clamp down hard now with anti-inflation measures because long term gradualist programs are likely to be irrelevant and discarded after 1976 or earlier.
6. A close eye must be partly kept on the turbulent conditions in the financial world caused by the quadruple increase in the price of oil. We must attempt to project the medium and long range consequences of this new development and take steps to protect the system.
Selective
7. / Wage and price controls should be reimposed on the economy without delay.

The following discussion goes into some of these points in more detail.

A FINAL CONSIDERATION

Unless the President on Thursday convinces the American people that he knows what he is doing in the economic area and that stability and a decrease in inflation is in prospect, the chances for impeachment greatly increase.



QUESTIONS FOR THE PRESIDENT TO ASK HIS ECONOMIC
ADVISERS

1. Based on the present game plan, at what rate will inflation decrease? 1974-1975-1976?

2. Will the Administration by Summer of 1976 be able to initiate mildly stimulative economic policies, or will the Republican party have to face the elections with a serious case of national stagflation -- high unemployment and high inflation?

3. What will long term inflation do to the social and economic fabric of the United States?

4. If our Administration is unable to make serious progress against inflation, what steps is a Democratic administration likely to take in 1977?

5. What can be done to curb the currency speculation that has led to the downfall of three major international banks within the past month? (Franklin, Herstatt, Israel/British)

6. Can an effective program to curb currency speculation be developed by the Secretary of the Treasury without dislocating the legitimate business in which currency transfers are a means rather than an end in themselves?

7. What are the likely consequences to the U.S. and world economy if my speech does not convince the informed public that our policies are likely to make meaningful progress on inflation?

8. If a substantial tax increase does not seem politically possible, are there other means to reduce consumer demand that have been tried successfully in other countries?

9. Would a "refundable tax surcharge on incomes" to be returned to the people once the economy cooled off and capacity grew be a feasible alternative here?

10. Wasn't this kind of program very successful in Germany many years ago?

11. Would it be feasible to encourage savings by asking Congress to exempt the first 500-1,000 dollars in interest earned from income tax? Hasn't this been done successfully in Europe?



12. If the Administration were to throw its weight beyond the capital gains reduction passed this week by the Ways and Means Committee, would be able to get it passed by the Congress?

13. Would a reduction in capital gains tax enable business to float new stock issues to finance capital expansion?

14. Would this cause the stock market to rise?

15. Would Government guarantee of utility bonds reduce bond interest rates by taking the risk out of these bonds?

16. Would a reimposition of the interest equalization tax prevent American dollars from going overseas in search of the highest interest rate?

17. Would this step increase the availability of capital to finance expansion in the U.S.?

18. Would this step reduce inflationary pressures in Europe and reduce the volatility in the international currency market?

19. Would selective imposition of measures requiring a larger down payment reduce demand sufficiently to warrant the additional burden that the depressed auto industry would have to bear?

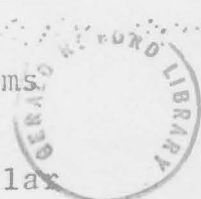
20. Would a budget slash of 10 billion dollars have an anti-inflationary impact beyond the direct withdrawal of the 10 billion dollars?

21. Would not the visible pain and suffering that the government would have to undergo be psychologically reassuring to the American people -- convincing them that the government is serious about reducing spending and inflation?

22. What can be done to help the worker and his family who have been hit much harder than more affluent Americans by the inflation?

23. What can be done to increase the supply of items purchased by workers and their families especially?

24. What are our plans for coping with the oil dollar problem?



25. Are there ways in which the impact of the oil dollar problem on the financial world can be reduced?

26. Is the price of oil likely to decline? What is to prevent one or two of the major OPEC countries from simply cutting off production until such time as a new supply shortage develops -- and an upward pressure on prices is reestablished?

27. Did not Kuwait effectively do this last week? And merely by threatening a cut-off, secure a higher price for its oil?

28. Within a very short time, will not the vast currency resources of the Arabs permit them to reduce production at will without disrupting their own development policies and plans?

29. What options does this country have if it appears that the increase in the price of oil cannot be borne by the world's industrial countries without risking a major depression or financial collapse?

30. Isn't wage and price controls the only way we will be able to make significant reduction in inflation during the lifetime of this Administration -- even if we continue with tight money and balanced budgets?



July 22, 1974

MEMORANDUM FROM RICHARD MCCORMACK

RE: Policy Suggestions for the President's
Thursday Speech on the Economy

INTRODUCTIONS

Ideally, an economic plan for the nation should be long range in nature with a heavy emphasis on gradualism and stability. However, the economic decisions of the Government affect the lives and prosperity of millions in a very direct way. Thus, economic plans which are long range solutions to immediate and painful problems stand the risk of being overwhelmed by political events. For example, a long range gradualist solution to the present inflation runs the almost certain risk of being repudiated in mid course by the people in the 1976 elections.

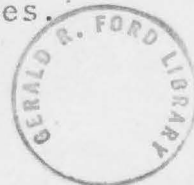
An economic program which ignores the political reality stands in as great a danger of being overtaken by events as an economic program designed by political expediency, which ignores basic economic laws.

The best example of gradualism was Paul McCracken's "soft landing" economic game plan of 1960-70. Although it was beginning to have some impact, the approach of the elections made it necessary to abandon it and initiate a more stimulative economic program.

The policy decisions due this week culminating the President's speech on Thursday are really this Administration's last chance to address the central problem of inflation. And I am fearful that we will once again err on the side of gradualism and wind up facing the 1976 elections with nothing more than another dose of the stagflation that we experienced after two years of the McCracken plan.

WHY IS IT ESSENTIAL THAT WE DO SOMETHING
ABOUT THE INFLATION SOON

A new economic policy should be executed during 1975 and the first half of 1976. In Spring of 1976 we must be able to take off the brakes, stimulate demand, reduce unemployment or be prepared to suffer the inevitable political consequences.



The people who are hurt most by inflation are older people, thrifty people, and solid citizens. Moreover, government has a responsibility to develop policies that reward the virtuous, the prudent, and the thrifty. Continued inflation penalizes these individuals for their very virtues -- and seems to reward the debtor and the spendthrift. The solid citizens of America hold the society and the political system together. Once these people become demoralized, disillusioned with their government, and assume a passive role in the political arena, a vacuum is created in which demagoguery and ultimately tyranny spawn. The political history of the first half of the 20th century is strewn with examples of this.

There is a feeling of great unease abroad in the land today.

Three major world banks -- the Franklin, the Herstatt, and the Israel/British -- have become financial basket cases.

The stock market has plummeted, a trend which can only continue as earnings decline in the coming recession.

The petrodollar problem hangs threateningly over the world financial system.

Disintermediation -- where funds are withdrawn rapidly from thrift institutions -- threatens the solvency of some savings and loans and overextended banks.

The bond market, because of the general financial apprehensiveness and overstrain, has sent interest rates beyond the range of many needy utilities, municipalities, and corporations.

Much of our basic transportation infrastructure -- the railroads -- is either actually insolvent or on the brink of bankruptcy.

Every major industrial nation in the free world is faced with the need to make major unsettling adjustments in its energy consumption and trade patterns in order to be able to pay the now quadrupled prices for imported oil.

Because of the skyrocketing internal inflation in every major industrialized country, virtually every government simultaneously is having to deflate -- clamp down on monetary and fiscal policy.



Labor -- on a world-wide basis -- has been demanding and receiving massive wage increases -- guaranteeing still another hefty round of price increases -- and presumably subsequent wage increases.

And this is by no means a complete catalogue of the economic problems we face.

Nor is it surprising under these circumstances that there is a deep-seated and swelling feeling of apprehensiveness, beginning with the world bankers and penetrating into virtually every household. And because the world's economy -- and more particularly the world's financial structure -- depends upon confidence, this general apprehensiveness combined with these fundamental structural problems is exceedingly dangerous.

I cite all of this to underscore my belief that in the face of this general situation, the President of the United States cannot appear on television and make a speech that does not offer genuine promise of greatly reducing the inflation within the next 18-24 months.

There are simply too many forces now exerting an upward push on prices for the inflation to decrease by itself in the absence of strong action by our government.

If the President appears on television and says, in effect, to the peoples of the world there is nothing that can be done except wait for the inflation to burn itself out, it will have the following results:

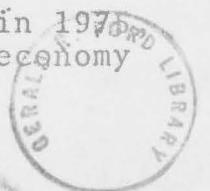
The stock market will plummet still further. Wage demands will intensify. And the financial structure will become increasingly shakey.

There must be a realistic alternative to this.

The American people, I suspect, would much rather tighten their belts for a fixed period of real austerity than linger on in anticipation of continued massive inflation.

In its starkest form the options for the President are this: **selective** controls and higher unemployment in 1975 or continued high inflation through 1976.

I urge that we opt for **selective** controls and higher unemployment in 1975 so that we can have higher employment and a more stable economy and prices in 1976 and beyond.



Let's address the two primary problems separately, with an eye to what can and must be done now, and what we can profitably put off until later.

Because there is so little time before the 1976 elections, and because the inflation problem is so acute, immediately steps must be taken to take money out of the hands of consumers to reduce the pressure on demand, while at the same time putting more money and more resources into the hands of the producers of goods and services.

REDUCING CONSUMER DEMAND

The classic device to take money out the hands of consumers is to increase income taxes. There are, however, several disadvantages to this. It would be politically unpopular at a time when the President may not be able to afford this unpopularity. At very least, it would make it very difficult to reduce the taxes on business -- which is the classic means to provide industry with the capital to make major expansions.

Moreover, pressures to spend the revenues collected by the increased taxes would inevitably develop in the Congress and within the Executive branch. And this would tend to mitigate the whole purpose of the tax increase.

There are, however, other ways in which money can be taken out of the hands of consumer spenders:

One is to encourage people to put more of their money in thrift institutions. Right now the collapse of some banks and the very high rate of inflation compared to rate of bank interest paid to depositors has discouraged bank savings.

A method by which savings could be encouraged -- and which is practiced in many European countries to exempt from income taxes the first \$500 to \$1,000 earned in interest per individual on savings accounts.

There are some advantages to doing this.

This would effectively increase interest paid to depositors without causing interest increases to private borrowers. Increased bank deposits would reduce the amount of money in the hands of consumers and thus reduce demand.

It would slow or stop the disintermediation process which now threatens some savings and loans and banks.



It would provide the banks and savings and loans with more money to loan to businesses to expand capacity -- and would provide the hard-hit housing industry with a modest and needed shot in the arm.

To discourage the increased bank deposits from being rechanneled back into the consumer market, it may be prudent to consider increasing the percentage of down payment necessary on installment purchases. Problems of the depressed automobile industry may however require some special treatment in the formula. This is a proven and effective measure. This will ensure that a large part of the increased bank deposits will go to the capital goods borrowers.

A REFUNDABLE TAX SURCHARGE

Another way in which money can be temporarily taken out of the hands of consumers until the supply of goods is increased is through a program of forced savings. This too has been done before in some countries.

The President could ask Congress to institute a "refundable graduated income tax surcharge" to be held in escrow until the program of increasing the supply of goods available has reduced inflationary pressures.

This concept for this country is a novel idea, but it has a great many advantages. It would give every American a strong financial incentive to fight inflation, knowing that they would get a large tax refund only when prices began to level off. This might, moreover, have a tempering effect upon the union wage demands.

It would also remove the temptation for Congress to spend the money. And the people would get back what they paid in to the system. Politically, of course, it would be far more palatable than a regular tax surcharge. (And, if the Administration were able to return this money to the people in late 1976, that wouldn't exactly hurt its posture in the coming election.)

PROVIDING EXPANSION CAPITAL TO PRODUCERS

The second part of the problem: to give industry the needed capital to expand will be helped by encouraging people to put their money in banks and savings institutions.

There are two other sources of money available to businesses wishing to expand: The stock market and the bond market.



THE STOCK MARKET

The stock market right now is obviously unattractive to investors. This is particularly true because general instability of the economy makes the immediate prospects for growth and profits questionable. It is therefore very difficult to float new stock issues in this atmosphere. The Administration should, therefore, give serious thought to reducing the capital gains tax to its former level, as Wilbur Mills has suggested. It may be that a formula to encourage people to hold on to stocks longer could be incorporated in the new capital gains legislation by reducing capital gains tax increasingly if the stocks were held over a multi-year period.

There are 30 million Americans who own stock and who have a vested interest in the prosperity of the market. Because of this, if the Administration put its full weight behind the capital gains reduction measure passed last week by the Ways and Means Committee, it could possibly be carried through the Congress, this year in time to be of real help to the economy.

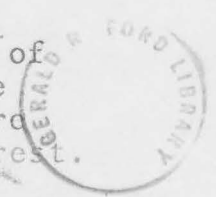
THE BOND MARKET

The bond market is a special case. The shakey financial prospects of many of our utilities -- whose rates are held down artificially by politically sensitive state regulatory agencies -- have prevented these utilities from growing rapidly enough to meet anticipated demand. Because they were risky prospects, the utilities have had to pay extremely high rates for their bonds which has had a very unhealthy impact upon the whole bond market. Interest rates have gone sky high. If the Government were to guarantee the bonds of the utilities, rates would fall, perhaps as much as two percentage points. The government has already guaranteed the bonds of a number of corporations, and could expand with Congressional approval, its coverage of certain kinds of investments by utilities. The Japanese government has been doing this for years domestically.

An easing of the bond market would also enable and stimulate corporations to finance more expansion. There are some capital investments that are profitable when financed at seven percent that are not even thinkable at today's prevailing rate.

INTEREST EQUALIZATION TAX

Another measure which can be taken to increase the amount of capital available in American banks is to re-institute the interest equalization tax. Right now, American dollars are going all over the world seeking the highest rate of interest.



This aggravates Europe's inflation problems -- and at the same time denies the capital to American businesses needing to expand at home.

This tax was removed last February.

THE BUDGET

As a final measure to reduce the amount of money in the hands of consumers, consideration should be given to cutting the budget up to 10 billion dollars. In itself, the 10 billion dollar cut will have only a very small direct impact on the inflation. But it will have some very positive side effects. The budget slash will only be accomplished with a great deal of vocally expressed pain and suffering by the impacted government agencies. There will be public weeping and rending of clothes by government officials deploring the cuts in their agencies' budgets. At that point, the American people will actually believe that their government is serious about doing something about the inflation -- and this will temper the inflationary psychology abroad in the land today. This in itself will have a more beneficial impact upon the overall inflation problem than the direct impact of the 10 billion dollar cut itself.

THE UNION WAGE DEMANDS

The problem of the labor wage demands deserves some special understanding. Inflation has hit the low income individual far more heavily than it has hit the average and higher income families. Foods which are a staple of the low income families -- rice, spaghetti, bread, potatoes, cheese -- have shot upon much more rapidly than foods preferred by the more affluent. Moreover, gasoline, small imported cars, basic clothing, and other items on which low income families have traditionally spent a far higher percentage of their income than the more affluent, have also become far more expensive than the average rate of inflation. In short, the worker has suffered much more inflation and more more painful inflation than has the lawyer and the doctor. As a consequence, the worker has put real pressure on his union leaders to get considerable increases in wages. The problem posed here suggests that any anti-inflation campaign -- to stop the wage/price cycle -- must pay special attention to that part of the economy in which the worker lives. Increasing supply in those areas heavily patronized by the wives of workers and low income people, should be given special priority. Not merely for humanitarian reasons, but because the second phase of the inflation caused by wage push, will not be alleviated until the worker sees that his special problems are getting attention.



THE SPECULATION IN CURRENCY

Reducing our inflation will relieve the instability in the world monetary system today. But the problem is aggravated by currency speculation by our own banks, by the treasurers of multi-national corporations, by professional speculators, and by oil dollars. The Secretary of the Treasury should draw up a plan of action to discourage currency speculation, while avoiding penalizing legitimate business transactions whereby currency exchange is the means, not the end.

OIL PRICE PROBLEM

The second great problem of the world economy is the sudden and massive increase in the price of oil by the OPEC countries.

Walter Levy, the world's foremost oil economist, David Rockefeller, and a number of other individuals of their stature believe that the post-war economy of the western industrialized nations stands in real danger of a financial collapse because of the oil price increases and the secondary problems stemming from OPEC's actions.

Many Washington officials discount the likelihood of this happening. But the divergence between New York and Washington on this problem is deeply disquieting.

But it is obvious that the new oil prices vastly complicate the efforts of all nations to deal with internal inflation -- particularly for heavy importers like Italy and France. It is also obvious that the new oil prices and resultant oil dollars are beginning to cause disorder and uncertainty in the banking system. And the flood of oil dollars is just beginning.

Optimistic predictions that the Arabs will voluntarily reduce the price of oil ignores the fact that many Arabs themselves lack the sophistication to appreciate or anticipate the damage they are beginning to cause to other economies. Moreover, internal politics in many OPEC countries make it very difficult for an oil minister to advocate lower prices for his countries' major export. Finally because of the vast surplus of currency that the oil producing countries are accumulating, any surplus oil production which might have a depressing effect upon world oil prices would be easily reversed by unilateral cut-offs by only one or two of the major OPEC countries until such time as upward pressure on prices begins to reestablish itself.

A case in point: Kuwait did not get a sufficiently high bid for its oil last week. Its mere threat to cut production immediately brought the major oil companies to heel, and the full price demanded by Kuwait was forthcoming.



The truth of the seriousness of the danger to the world financial system can be established with an analysis by a blue-ribbon financial and investment task force within the government. If it turns out that the fears are exaggerated, the Government then can concentrate on dealing with the basic inflation problem.

If on the other hand, it appears likely that the new oil prices will, in time, swamp the world financial structure, then this analysis must be pointed out to Congressional leaders, allies in NATO, and to the more responsible OPEC nations. If OPEC still refuses to cooperate, the stakes are such that the Free World may have to consider taking the brass knuckles out of its closet. Because truly vital interests of its society will be at stake.



SELECTIVEWAGE AND PRICE CONTROLS

Most leading American and British economists agree that deflating demand through monetary and budgetary restraint does not reduce a serious inflation over the short or middle term. This was the great lesson of both the McCracken game plan of 1969-70 and the similar, tougher, plan of Heath in England.

On the other hand, ^{selective} wage and price controls, in the absence of consistent monetary and fiscal discipline and restraint will not, over the long run, work either.

Thus, all experience shows that if we are to make meaningful progress on inflation within the next 18 months, without a severe recession, we have absolutely no alternative but to re-impose wage and price controls, and simultaneously deflate demand through tight money, tight fiscal policy, and other measures.

That represents our only hope.

Deflationary policies which during the next six months accomplish nothing more than hardships in the form of unemployment and bankruptcies, but which do not make a measurable and significant impact on inflation, vastly increase the likelihood of the impeachment of Richard Nixon, setting a tragic precedent for the American system of government.

On the long run, wage and price controls are not a good idea. But the simultaneous deflation of demand in virtually every other industrialized country, made necessary by both internal inflation and the need to discourage imports to pay oil bills, reduce the likelihood that massive foreign purchases will once again produce shortages here. But if the problem develops, export controls can and should be quickly imposed on selected sectors. Domestically adjustments will certainly have to be made to permit labor to recoup some of its losses in purchasing power. What we can and should prevent with controls are leapfrogging wage increases which are anticipatory in nature and which can only fuel another round of price increases. And once any key industry makes a massive increase in wages, every other union leader is under impossible pressure from the membership to produce similar results. An explosive situation very quickly occurs-- and will occur ^{here} within the next few months unless we take effective action now to prevent it with controls.



The international economic situation has in the past complicated isolated national efforts to deal with problems like inflation. Gresham's law whereby the bad currencies drive out the good is now operating on an international scale. Nations which make strenuous internal efforts and succeed in holding down prices, become the bargain basement for less disciplined neighbors. This has the effect of bidding up prices and or creating shortages.

Although the imposition of price and wage controls in the United States will cause us some problems in this regard-- as happened during our earlier freeze--a very important world event, the great increase in the price of oil, has caused virtually every major nation to discourage other imports. Moreover, all these nations are now struggling to deflate demand domestically to deal with their own raging inflations. Thus conditions are different and more promising for controls in the United States that was the case in 1972.

In the long run, the United States should join with its trading partners in seeking some international rules for monetary and fiscal policy. This is true because one undisciplined nation exports its inflation to its neighbors, and because a set of fixed rules governing fiscal and monetary policy would reduce the pressures on political leaders to over-heat their economies in advance of elections. The problems involved in developing such international rules--and gaining international acceptance--should not be underestimated. But it is worth exploring as a possibility.



ON THE NEED FOR SELECTIVE EMERGENCY HELP BY THE GOVERNMENT IN SEVERELY IMPACTED AREAS OF THE ECONOMY.

Tight money and tight fiscal policies will inevitably cause special hardships in selected areas of the economy. For example, the tight money policies are already causing severe problems for the Savings and Loan industry and the Housing industry.

We should not hesitate in such circumstances to step in to provide selective assistance in these areas-- and to avoid disorder. Obviously the Government can not and should not create boom conditions for these sectors, but widespread bankruptcies should be avoided. In the present atmosphere these could snowball out of control.

The government is already heavily involved in subsidization of certain sectors of the economy. And there is an economic law operating here: Government subsidy of one part of a basic industry weakens or destroys the economic health of non subsidized competing parts of the industry. The disaster that befell the railroads came about partly because of direct and indirect government subsidies to the air and trucking industries.

None of us like this kind of situation. But we can not solve all our economic problems at once. Priorities must be established. Right now our urgent problem is to slow down inflation and prevent dangerous disorder in the financial world. We must, therefore, do what is necessary now to deal with these two specific problems. And we should not hesitate to act because of our long term philosophic objection to government intervention.

Once we have reduced the inflation, America will have the time and the leisure to slowly and systematically extricate itself from private sectors of the economy over the course of four or five years, and allow the forces of the market place gradually to assert commanding influence in the shaping of a healthy, stable and free economy.

Unwise Government action extending back to the Johnson Administration has been the cause of the present fundamental problems of our economy. For the Government now to wash its hands of the problem its ill considered action has caused in the belief that economic shock and readjustment will over the short term restore equilibrium to the economy is dangerous and wrong.



Finally, for President Nixon to propose now anything less than an economic policy which will convince a sceptical American public that he knows what he is doing, and that inflation will measurably and significantly decrease, is an almost certain invitation to impeachment.



August 30, 1974

To: Jim Cavanaugh

From: Phil Buchen

**Attached is the commentary on
the Mine Workers situation as furnished
me by Dick McCormack, who is
presently with Treasury.**

Attachment



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THE WHITE HOUSE
WASHINGTON

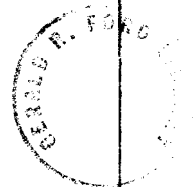
September 6, 1974

MEMO TO PHIL BUCHEN
FROM: MIKE DUVAL

D

I talked with Dick McCormick concerning the Mine Workers' situation. Thanks for letting us know of his interest and that he has some good ideas concerning this matter.

cc: Jim Cavanaugh



*McCormack
Dick*

August 21, 1974

To: Bill Seidman

From: Phil Buchen



THE WHITE HOUSE
WASHINGTON

Eva:

have delivered to
Please ~~send to~~
Bill Seidman.

Call Dick to say
you have and also
tell him I thank
him for all his input
a letter written to
me, as well, especially
the exciting but now
impossible suggestion
about my accompanying him
on a foreign mission.
Will get back to him when I can.



THE WHITE HOUSE

WASHINGTON

August 16, 1974

MEMORANDUM FOR: WILLIAM SEIDMAN
THROUGH: PHILIP BUCHEN
FROM: DICK MCCORMACK

Dick McCormack

The Grand Strategy for the Democrats in 1976 will be to try to portray President Ford as an extension of the Nixon Administration. For this reason, it is important that President Ford act now to avoid carrying the onus for the economic mess that the policies of the last 10 years have caused.

It is therefore important that President Ford in his next address on economic matters discuss candidly the causes for the present situation.

He should talk about GUNS AND BUTTER and what LBJ's 25 Billion Dollar deficit did in 1968 in starting inflation.

He should talk about the overstimulation of the economy in 1971-72 and what happens when you print more money than you have goods. (I'd go easy on the FED though, because you may need a favor from Burns in 1976...)

He should talk about the Russian wheat deal -- and how depleting our reserves of grain left us to the mercy of the weather in basic food prices.

He should also say, that had we acted more wisely in the past seven or eight years, we would not be in the mess we are in today, where there are really no easy solutions.

He should say candidly what the prospects are for reducing inflation -- and talk about numbers in a very realistic way.

But above all, he should sharply disassociate himself from the economic policies -- and economic advisors -- of the past. Ford will be President during the slow and painful wringing out of inflation from our economy. The conditions generated could quickly be a political disaster for him personally unless he sharply pins the blame on those to whom it justly belongs -- and avoids raising unrealistic expectations.




THE WHITE HOUSE

WASHINGTON

August 16, 1974

MEMORANDUM FOR: WILLIAM SEIDMAN
THROUGH: PHILIP BUCHEN
FROM: DICK MCCORMACK



The blue ribbon economic group meeting which will publicly assemble soon to discuss ways of dealing with the inflation should be very carefully prepared and structured -- otherwise you run the risk of having each participant talking "on camera" to his constituency. Worse, you could have what in Washington is known as a run away Commission going in directions that may be economically or politically unwise or undesirable.

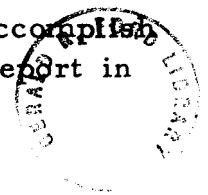
Labor leaders, for example, are used to conducting constructive negotiations in a reasonable and balanced atmosphere once they are in side a closed room. Prior to the meeting, and intermittantly throughout, the labor negotiators emerge to make harsh and extreme demands.

This, of course, is to mollify the membership, their constituency -- and assure the brethern that they are being tough with the barons of capitalism.

This constituency problem must be very carefully factored into the preparations. And an opportunity must be given to each of the participants to be in the position of championing the interests of his backers, and if possible speak to the overall interests of the nation as a whole in addition. We must enable the participants to be advocates and statesmen at the same time. This is a tall order, but nothing less will do if the conference is to be a success, a contribution.

For example, there is a legitimate need to do something to increase capacity -- and hence ease inflationary pressures in that part of the economy in which the worker lives. How many resources we can afford to address to this specific part of the problem should be very carefully calculated before the conference with the help of OMB.

Then you can assign George Meany to develop a program to accomplish this task within a certain spending ceiling. Later Meany can report in



the public session his views and ideas on this aspect of the problem -- and speak to his constituency but avoid making recommendations which bust the budget. Or worse, have his public recommendations later rejected by President Ford as unworkable, and thus poisoning their budding relationship at the onset.

We should calculate in advance a rough dollar price ceiling for the entire conference's recommendations. There's no point in letting a lot of extreme, simplistic, confusing or pie-in-the-sky proposals get a public airing in the President's presence and raise false expectations -- if this can be avoided or minimized with careful preplanning.



fil
August 21, 1974

To: Bill Seidman

From: Phil Buchen

THE WHITE HOUSE
WASHINGTON

Ever,
Please ~~send to~~ have delivered to
Bill Seidman.

Call Dick to say
you have and also
tell him I thank
him for all his input
other written to
me, as well, especially
the exciting but now
impossible suggestion
about my accompanying him
on a foreign mission.
Will get back to him when I can.



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August 16, 1974

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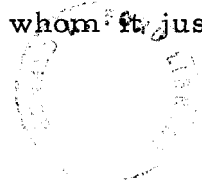
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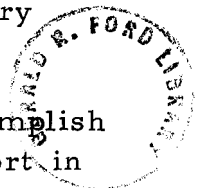
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This constituency problem must be very carefully factored into the preparations. And an opportunity must be given to each of the participants to be in the position of championing the interests of his backers, and if possible speak to the overall interests of the nation as a whole in addition. We must enable the participants to be advocates and statesmen at the same time. This is a tall order, but nothing less will do if the conference is to be a success, a contribution.

For example, there is a legitimate need to do something to increase capacity -- and hence ease inflationary pressures in that part of the economy in which the worker lives. How many resources we can afford to address to this specific part of the problem should be very carefully calculated before the conference with the help of OMB.

Then you can assign George Meany to develop a program to accomplish this task within a certain spending ceiling. Later Meany can report in



the public session his views and ideas on this aspect of the problem -- and speak to his constituency but avoid making recommendations which bust the budget. Or worse, have his public recommendations later rejected by President Ford as unworkable, and thus poisoning their budding relationship at the onset.

We should calculate in advance a rough dollar price ceiling for the entire conference's recommendations. There's no point in letting a lot of extreme, simplistic, confusing or pie-in-the-sky proposals get a public airing in the President's presence and raise false expectations -- if this can be avoided or minimized with careful preplanning.



~~TOP SECRET~~-EYES ONLY

MEMORANDUM FROM:

RICHARD McCORMACK

There is broad concern that unless the price of oil comes down--and by down I mean at least 35-40 percent--the present financial system may not be able to process the increasingly massive dollar transfers without major economic damage.

There is also general agreement that the OPEC will never lower the price of oil to that extent unless quite extraordinary measures are taken.

I believe that pressure can be exerted on OPEC through Saudi Arabia to lower prices. But the way in which this pressure is exerted influences the probability of success.

Because loss of face is such a crucial matter--especially for semi-despotic heads of state who have been issuing edicts and receiving compliance all their lives -- I do not believe that the price of oil will be voluntarily lowered after the strong U.S. statements of last week.

Neither do I believe that economic retaliation against the major OPEC nations has much chance of driving the price of oil down. Taken on a case-by-case basis, I doubt that our staying power could outlast OPEC's power, if push came to shove. (Excluding, of course, purely military power.)

There are, however, diplomatic methods which may be more promising.

This is one possible scenario.

The President could send a very high level personal emissary such as William Scranton--to talk alone with King Faisal. He should begin by saying quite openly that the speeches were unfortunate, not because they misrepresented the deep concern felt in the U.S., but because it now becomes much more difficult to achieve compromise solutions without public humiliation by the leaders of OPEC states.

He should also say that he was here to help the King understand why the President felt so deeply concerned, and to talk about possible compromise solutions.

DECLASSIFIED
E.O. 12958, Sec. 3.5
NSC Memo, 11/24/98, State Dept. Guidelines
By WJM, NARA, Date 5/2/00

The emissary should carry with him a convincing analysis showing that the present price of oil is likely to lead to financial and political disorder in the Western industrialized states, as well as to great personal suffering in the less developed countries.

The emissary should stress to the King the following points:

That we in the West fully understand his natural desire to keep the price of oil high, that oil is a depleting asset.

But that the overall strategic situation is so favorable to the Soviet Union in this area, that if the United States and its allies became seriously weakened, it would only result in a predominate role for the Soviet Union in this area--or possibly lead to a war fought in this area with vast devastation and an unpredictable outcome.

That our problem comes not so much from the magnitude of the increase in the price of oil--we recognize that price was very low--too low--a year ago. Our essential problem has been the suddenness by which this price increase took place. If we had had more time--say four or five years--it would have been possible for us to develop alternative sources of energy and develop effective financial methods to handle the vastly increased dollar transfers.

The the U.S. realizes that any price help given by the Saudis must appear to be a humanitarian Saudi initiative--and not an American extraction or demand.

The emissary should propose to King Faisal that he establish with a great deal of fanfare two Royal Commissions, headed by Saudi Arabia, but with consultants drawn from all over the world.

The first commission should have the following terms of reference:

"It has come to my attention that the present price of crude oil threatens to cause a financial and possibly political collapse in the industrialized countries of the West. Within 60 days return to me with a report on the likelihood of this situation, and what it would mean to Saudi Arabia if this did happen."



The Second Commission should have the following terms of reference:

"In the event that it is proven that the present price of oil is likely to cause a financial and political disorder in the Western industrialized countries and also cause unacceptable damage to the vital interests in my kingdom, what options does Saudi Arabia have?"

The emissary should propose two options.

To make massive concessionary loans and grants through the World Bank or other international institutions.

To "temporarily" lower the price of oil -- while the U.S. agrees to move ahead full steam on self-sufficiency on energy.

At the same time the emissary should offer the following political concessions to Faisal:

1. A massive U.S. commitment to assist in the development of Saudi Arabia as rapidly as the king desires using the construction techniques and methods done in Vietnam to build infrastructure. Secretary Simon's proposal of September 28 to the Saudi Arabian Ministers of Finance would be a major first step. (See attached.)

2. Internationalization of the Moslem holy places in Jerusalem and agree in principle to an independent Palestine on the West Bank.

In the event that the President's emissary meets with complete intransigence on the part of King Faisal, then the emissary should tell Faisal that the United States has a long tradition of humanitarianism--extending back into the nineteenth century. And that the United States simply can not tolerate the kind of untold human misery throughout the world that the present price of oil will cause.

If we crack Saudi Arabia--which I think is the weak link on the chain--then we can turn our attention to any other OPEC states which may try to water down Saudi Arabia's impact on overall prices by cutting production elsewhere.

This kind of quiet diplomacy, although not certain, has, I think, a reasonable chance of turning the tide.



*McCormack
Richard*

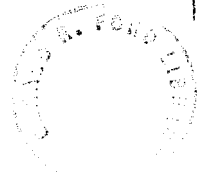
THE WHITE HOUSE
WASHINGTON

September 6, 1974

MEMO TO PHIL BUCHEN
FROM: MIKE DUVAL **D**

I talked with Dick McCormick concerning the Mine Workers' situation. Thanks for letting us know of his interest and that he has some good ideas concerning this matter.

cc: Jim Cavanaugh



August 30, 1974

To: Jim Cavanaugh

From: Phil Buchen

**Attached is the commentary on
the Mine Workers situation as furnished
me by Dick McCormack, who is
presently with Treasury.**

Attachment



Sensitive

THE WHITE HOUSE

WASHINGTON

August 28, 1974

MEMORANDUM FOR: PHILIP BUCHEN

FROM: DICK MCCORMACK 7

As you know, the Mine Workers under Arnold Miller and the coal operators (Bituminous Coal Operators Association) are on a collision course for a crippling strike on November 15. You know also what this will probably do to the economy. Nor is the Taft Hartley Act a feasible remedy here because of the unique ability of this industry's workers to go underground and simply not manage to dig much coal. (You will recall that Truman actually had to send the army into man the coal mines in an earlier era.)

This strike is partly an exercise of Machismo both by Arnold Miller-who needs a strike to build up his own image and position within his union-and the bituminous coal operators some of whom represent the most Neanderthal types still functioning in the American economy.

Miller's problem is that he doesn't have the support and reputation with the rank and file to enable him to forge out a compromise settlement and call off the strike plans. And right now everybody is so psyched up for a strike that events have taken a momentum all their own.

There's something you can do about this. We have a month or two to help Arnold Miller build up his own position within his union which will give him the clout and prestige essential for him to take a leadership position in moderating demands and avoiding a strike.

I have three recommendations:

1. Include Arnold Miller on the economic summit meetings. And take other opportunities to give Miller high level exposure.
2. Assign somebody from the White House staff to get the facts on the present state of informal negotiations between the Mine Workers and the BCOA. If he gets topside company clearance,

Pete Slaybaugh of the Denver regional office of Continental Oil can give your staff man a good picture of the industry's expectations. So can Guy Farmer, a labor lawyer with the BCOA in Washington.

3. If need be, put some heat on the BCOA officials to work for a compromise --not a cave in--but a meaningful compromise.

It is important, I think, that President Ford not commit his own personal prestige to avoid the coal strike until thorough staffing indicates whether or not this is a realistic possibility. Ford should not be put in the position of getting the UMW and BCOA at a table with him--and later have the mediation process flop and a strike occur.

A final note: If a coal strike occurs, the probability of a January 7 strike in the oil industry is greatly enhanced.



Friday 9/27/74

McCormack
Richard

2:05 Dick McCormack has now returned from the trip he had invited you to go on -- and would like to come by and talk with you.

Indicates the Ford and Kissinger speeches where they mention war (2-3 days ago) have really caused some problems. Suggests there are some other alternative strategies they could follow -- this could become a very partisan issue. Senator Jackson has already made some statements.

Dick's suggestion is that someone should arrange to have Clark Clifford, Bob McNamara, and two or three other prominent Democrats to talk privately with the President. Clifford is very anxious to do this.

Had two main points he wanted to get across to you:

1. Thinks they would prefer not having Dr. Kissinger present.
2. It would be an absolute discreet thing and they would tell nobody about the meeting.



McCormack

Friday 10/11/74

11:55 Dick McCormack said it is probable that Secretary Simon will be going to Russia and offer to sell the Russians a certain amount of grain. Sen. Jackson will inevitably link a grain deal to subsequent rises in prices. This will be a small grain sale (only a million and a half tons) but the small foreign policy advantage of doing this compared to the real political savaging of the Ford administration for totally disproportionate in his view.

Somebody should look into this right away ----
they only have today to do it!



McCormack,
Dick

April 30, 1975

The Honorable
Philip Buchen
The White House
Washington, D.C.

Dear Phil;

Thanks very much for your note. Dudley's recommendation seems on balance to be the most sensible course of action.

During the various times that Secretary Simon has felt under some pressure he has called in two of my personal friends--and probably others--to advise him. WE assume that he is doing this so that the word will leak back to the White House. This is essentially what Simon has said during these sessions:

1. That if he is forced out with his tail between his legs, he plans to depart with a blast at the Administration's economic policies. He has solicited ideas on exactly what he should say.
2. That he has political ambitions.
3. That he is considering supporting another candidate in 1976 besides President Ford.
4. That Rumsfeld wants his job.

Without going into the reasons why he should stay or go--and which I'm not qualified to comment on--it has occurred to me that some face saving solution may be called for. The best one I can think of would be for President Ford to recruit personally a large scale man like Hauge or Scranton for the Treasury position, and then offer Simon a cabinet level White House assignment as Presidential troubleshooter for certain domestic problems. I know that this will cause a certain amount of organizational confusion within the White House if he decides to accept, but I think he would do a good job in this capacity and he would be under White House discipline.

This whole subject may already be a dead issue. But to an outsider this course of action seems to have some merit.

Sincerely;

Dick

Richard McCormack




April 2, 1975

CONFIDENTIAL

TO: JAMES CONNOR

From: Richard McCormack



This purpose of this memorandum is to recommend Gabriel Hauge, Chairman of the Manufacturers Hanover Bank, for consideration as Secretary of the Treasury in the event of Simon's departure.

Hauge was formerly President Eisenhower's chief White House economic advisor. And under his leadership, the Manufacturers Hanover Bank has done exceedingly well. Hauge's personal reputation is such that he was recently elected President of the International Bankers Association, the organization of top central bankers.

Unlike men who have risen to the top entirely in the private banking world, Hauge already knows how Government works. And he is very strong on international monetary matters, which because of the developing petrodollar situation, is where any new Secretary of the Treasury is going to have to supervise some serious adjustments internationally. A Hauge appointment, for all these and other reasons, would be widely applauded both in economic and political circles. It would be a great plus for President Ford.

I understand that, in fact, he was under consideration for Treasury in December, and that Rumsfeld had requested him to come down to Washington for a protracted period to work on the State of the Union message. Hauge was simply unable to do this because of certain responsibilities which required his personal oversight at the Bank at that time. It may be that Rumsfeld was disappointed in Hauge for not being able to come down.

Hauge is not looking for this job. It would entail a large financial sacrifice, and he still has two young children. Recruiting him, I am convinced, can only be done by a phone call from President Ford appealing to his sense of duty and patriotism. Anything short of that just won't do the trick with this man.

A final word: Because of the potential damage that a sitting Secretary of the Treasury can do to potential rivals still active in private banking, it is very important that speculation on possible names of successors to Simon be kept out of the press. This is particularly true of Hauge. Because of the usual necessity for background checks, I know that it's difficult to keep something like this quiet. But there are ways this can be handled.



PERSONAL

AMERICAN ENTERPRISE INSTITUTE

McCormack
Richard

April 15, 1975

Hon. Phillip Buchen
Counselor to the President
The White House
Washington, D.C.

Dear Phil;

In the years that I've been active in Republican politics I've seen a number of hate-groups --like the Rat Fink faction of the Young Republicans-- come and go. But recently a friend mailed me a copy of a periodical that shocked the hell out of me, a blatantly and viciously anti-semitic tract called ATTACK.

As long as America prospers, there is obviously no serious danger from this sort of thing. But if for any reason economic disaster were to strike, this element would quickly become more vocal and influential. This is particularly true now when overseas financing for an anti jewish group in this country might be available.

ATTACK and like publications are being distributed on the streets of Washington, essentially as a freebie. Who is financing it? And what is to prevent an even more lavishly financed anti jewish propaganda campaign in the future?

God knows this country has enough problems without having to cope with an outbreak of anti semitism. Perhaps you might want to forward the enclosed April issue of ATTACK to somebody in the Justice Department for appropriate handling.

Sincerely;



Richard McCormack



THE WHITE HOUSE
WASHINGTON

April 23, 1975

Dear Dick:

Your letter of April 15 has been received and I am having someone on my staff review the subject and determine what steps, if any, can be taken.

I will keep you advised.

Sincerely,



Philip W. Buchen
Counsel to the President

Mr. Richard McCormack
American Enterprise Institute
for Public Policy Research
1150 Seventeenth Street, N. W.
Washington, D. C. 20036

(Info)
McCormack,
Rich.





AMERICAN ENTERPRISE INSTITUTE

FOR PUBLIC POLICY RESEARCH

1150 SEVENTEENTH STREET, N.W., WASHINGTON, D.C. 20036

TELEPHONE 202: 296-5616

April 15, 1975

Hon. Phillip Buchen
Counselor to the President
The White House
Washington, D.C.

Dear Phil;

In the years that I've been active in Republican politics I've seen a number of hate-groups --like the Rat Fink faction of the Young Republicans-- come and go. But recently a friend mailed me a copy of a periodical that shocked the hell out of me, a blatantly and viciously anti-semitic tract called ATTACK.

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Sincerely;

Richard McCormack

THE WHITE HOUSE
WASHINGTON

April 23, 1975

MEMORANDUM FOR: DUDLEY CHAPMAN

FROM: PHILIP BUCHEN *P.W.B.*

Please handle the attached request from
Dick McCormack and advise me of your dispo-
sition.

Attachment

*Mc McCormack,
Rich.*



(copy) Mr. McCormack,
V. for full Richard

THE WHITE HOUSE
WASHINGTON

April 25, 1975

Dear Mr. McCormack:

Phil Buchen has referred to me your letter of April 15, 1975,
concerning the periodical publication ATTACK.

It is certainly true that this publication is offensive for the reasons stated in your letter. There is, however, no indication of any illegal activity, and the right to publish material even as offensive as this is protected by the First Amendment. Long experience has shown that propaganda of this kind and the organizations that generate it thrive most when repressive action is taken or threatened against them. (You may recall the brief celebrity of General Walker when he was summarily relieved of his European Command by President Kennedy for engaging in extremist activities.)

The better course, therefore, would be to ignore this propaganda and hopefully assist it on its way to the oblivion which it deserves.

Sincerely,

Dudley Chapman

Dudley Chapman
Associate Counsel

Mr. Richard McCormack
American Enterprise Institute
for Public Policy Research
1150 - 17th Street, N. W.
Washington, D. C. 20036

cc: Philip Buchen ✓



Personnel
McCormack
Richard

Mr. Philip Buchen
The White House
Washington, D.C.

June 2, 1975

Dear Phil;

Our friend, Bromley Smith, hasn't been particularly happy or effective at OTP in what I rather imagine has been a classic case of a square peg in a round hole.

Bromley was the top career man in the Operations Coordinating Board/ National Security Council for more than 15 years. His speciality is the coordination of the paper flow to the President on international policy issues; and as an added bonus, Bromley is the repository of an enormous amount of wisdom and experience on the handling of international crises. He was actually present during the White House internal debates and decisions throughout the Cuban Missile Crisis, the various Berlin and Middle Eastern crises, the whole Vietnam episode. You can imagine what this taught him.

The perfect job for Bromley would be to put him in a small office next to Scowcroft, make sure that he attends all the meetings and sees all the cable flow, and then is able to offer advice and suggestions as problems emerge on a fairly informal basis.

For years now, largely because of my own interest in international affairs, I've made a point of getting together with Bromley during periods of international tension to listen to his thoughts on developing crises. Events have proven him right, very often.

It is not in Bromley's nature to push himself on other people. But I really believe that he is a resource that is largely being wasted.

Sincerely;

Dick

Richard McCormack



McCormack
Richard

Monday 11/25/74

4:10 Dick McCormack called to say that he has been working at the Treasury Dept. for the last four months with Assistant Secretary Parsky (who is very young) and it "really isn't working out very well." He would like to see Mr. Seidman to see if he might have a slot for him. 964-8696

I suggested he call Mr. Seidman's office -- and he said he didn't know Mr. Seidman at all -- and thought either you or I could see if he could see Mr. Seidman.

!!!!!!!!!!!!!!!!!!!!!!!!!!!!

For
file



OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

Nov.25, 1974

TO: Phillip Buchan

From: Richard McCormack *RM*

Since working with Governor Scranton during the Transition in August, I've been working at Treasury with a young assistant secretary, Gerry Parsky.

Although Parsky and I have a reasonable personal relationship, we have not seen eye to eye on a number of very basic operational and policy questions involving the Saudi Arabian program which I theoretically head. For these and other reasons, I am going to quietly resign within a few days.

As you know, I have a broad background in economics and organizational matters, and if Bill Seidman could use a full time consultant or staffer, I'd be delighted to chat with him.

In addition to Scranton, the following individuals would I think, be happy to comment on what I might be able to contribute:

Robert Hormats, head of the NSC economics staff.
Harald Malmgren, Deputy Special Trade Representative
Walter Levy, major international oil economist.

Seidman, I'm sure knows all of these men personally and shouldn't hesitate to phone them.-



November 18, 1970

Ambassador Philip J. Farley
Deputy Director, ACDA
Department of State
Washington, D.C. 20491

Dear Phil:

You will remember my mentioning Dick McCormack to you a week or so ago. Since then, Pat Day called to let him know that right now prospects at ACDA seemed dim because they had recently taken on eight new FSOs in the International Relations Bureau.

I know with the talks at Helsinki and at the U.N. going at full steam, you have got the weight of the world on your shoulders. But, there are not a lot of young men in the Republican Party with Dick McCormack's background and talents - as you can see for yourself from his resume - and I feel it is extremely important that the few young men of his caliber receive absolutely maximum exposure to the issues and procedures of foreign affairs. I feel this way not only because such men are assets to any organization now, but more importantly so that they will be prepared to expedite your important work, rather than hinder it through a lack of background when they are brought into the system ten years from now as senior appointees.

Sorry to add to your problems, but as you know, I very seldom make this type of request and would appreciate your looking into this matter for me.

Most Sincerely,

William W. Scranton



EXECUTIVE OFFICE OF THE PRESIDENT
PRESIDENT'S ADVISORY COUNCIL ON EXECUTIVE ORGANIZATION
WASHINGTON, D. C. 20506

July 2, 1970

Mr. Richard T. McCormack
Room 130
Executive Office Building
Washington, D.C. 20506

Dear Dick:

I could not leave the Council without expressing my admiration for the fine and highly professional work you have done on the Foreign Economic Policy Study. At the same time, and on your own motion, you put together an extremely valuable paper on the Management of Bureaucracy. If political appointees read this paper and execute its message, they will greatly reduce their difficulties.

Now you are about to undertake yet another challenge of the highest order, and in an entirely different area. You have great strength of character and intellect and I believe that the Nation will benefit if you continue to invest it in the Nation's problems.

My very best wishes and I hope that our paths will cross frequently.

Sincerely,



Murray Comarow
Executive Director





PEACE CORPS
WASHINGTON

OFFICE OF
THE DIRECTOR

February 13, 1967

Dear Dick,

Joe has told me about your excellent work in Michigan. I'm still incredulous that Jerry and Cal visited over 175 schools in one month.

The Peace Corps is fortunate to have a person with the dedication and talents you so obviously have.

Thanks for a fine job.

Sincerely,

Jack
Jack Vaughn

Dr. Richard T. McCormack,
1660 Lanier Road, N. W.,
Washington, D. C.



*McCormack
Richard*

Personal and Confidential

Hon. Philip Buchen
The White House
Washington, D.C.

August 21, 1975

Dear Phil;

After our chat, it occurred to me that there were a couple of other aspects of the Akins situation that I might have added.

Akins is the State Department's leading expert on oil and energy. His predictions over the past seven years on the eventual development of an energy crisis, on the formation of a powerful OPEC, on the way individual members of OPEC would react to our various counter measures have all been extremely accurate. To some he has proved embarrassingly accurate.

Akins is held in real affection and respect by the Saudis. This was very evident to me during my extended official visit to that country last fall. I personally feel that it would be a mistake to replace Akins under the present circumstances, weeks before the key upcoming OPEC meeting. As you know, Saudi Arabia's influence will be vital if we are to even hope for a modification of upward price pressure.

Akins has credibility and access in Saudi Arabia; these are the two most important ingredients for an effective ambassador. In the event that the United States should decide to put pressure on individual OPEC members before the September meeting--and I would not be opposed to an intelligent operation along these lines--Akins would be an asset, not a liability.

Akins is, of course, controversial in some quarters. He is extremely blunt. As long as it is conducted with respect, I have never found frankness an objectionable trait in subordinates. Others are more sensitive to such things.

At very least I would hope that Akins would be offered another significant post within the Department of State. It would be a real pity for this country to lose his rather unique services.

Sincerely;

Dick
Richard McCormack

State Dep't. Shuffle

Envoy to Saudis To Be Replaced

By Jeremiah O'Leary
and Roberta Hornig
Washington Star Staff Writers



McCormack

Thursday 8/21/75

Richard

5:20 Dick McCormack is now with American Enterprise Institute -- tells me Tom Whitehead will be joining them.

296-5616

He (Dick) said he had worked at Treasury for a while and had worked with Ambassador to Saudi Arabia, James Akins. He understands (on the Q. T.) that Ambassador Akins is being canned. He indicates that Akins is so close to the Saudi Arabians that they asked him to choose who should be their Ambassador to the United States and this will be announced within the next two weeks. There is an OPEC meeting on oil coming in September and he feels that ~~stc~~ someone should get to Kissinger and ^{ask} tell him not to move at this time to get rid of Akins. The timing is very bad.

(Dick said he thinks the announcement of Kissinger's may be made within 10 hours at the most -- and Dick would like to talk with you about this. Doesn't know to whom to talk.)



Tuesday 1/6/76

Forsberg

11:20 Dick McCormack said he had just spent a month in Israel, Saudi Arabia, etc. , and had done a tight analysis of the situation which discusses the U. S. political situation.

He sent a copy to Brent Scowcroft and has sent you a copy (now attached).

296-5616
American Enterprises, Inc.

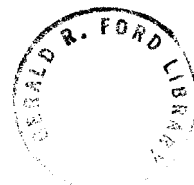


1976: THE YEAR OF DECISION

Practical Steps Toward the Achievement of a Permanent Middle East Settlement

Memorandum by Richard McCormack

January 6, 1976



SUMMARY

I have spent much of the past several months pulling together the latest information--political, economic, and military--as it related to American Middle East policy.

I concluded that conditions both domestically and in the Middle East had so remarkably evolved in the past year that major movement toward a permanent peace settlement was possible in 1976. Of crucial significance were important new perceptions on the part of a rapidly growing segment of the informed American Jewish community about the desirability of a settlement in the Middle East to forestall budding world anti-Semitism, and the growing disillusionment by major parts of Israeli public opinion with their government's policies of austerity and confrontation.

While the American Jewish community would resent any bullying of Israel, a diplomatic initiative leading to a compromise settlement which safeguarded Israel's right to exist and security would, if clearly explained to the American people by the President, receive far broader support this year than last.

I have also concluded that grave dangers for both the United States and Israel exist unless advantage is taken of the opportunity posed by a temporarily desovietized Egypt to move irreversibly toward a moderate compromise settlement during 1976.

Finally, I have concluded that President Ford has little to lose politically and a great deal to gain by taking positive measures toward a permanent settlement in the Middle East. I have also listed some possible tactical steps by which this can be done.



INTRODUCTION

Last week I returned from a month long tour of Middle East capitals including those of Saudi Arabia, Syria, and Israel. I spoke with senior Government officials, military officers, local American Embassy personnel, and with a fairly large number of ordinary citizens, both Arab and Israeli, whom I interviewed in depth regarding their views on a future permanent settlement of the Middle East conflict.

Because of my own extensive background in American politics at the national level, I also analyzed this aspect of the problem and spoke with a number of influential members of the American Jewish community, including members of the Council on Foreign Relations in New York prior to my visit to the Middle East.

There follows the principal conclusions from this trip, the analysis of the domestic American political factor, and an outline of tactical steps by which the President could implement new measures toward a permanent peace in the Middle East.

CONCLUSIONS

1. The Arab states surrounding Israel would accept and enforce a permanent compromise settlement roughly along the lines of the pre-1967 borders. The legitimate Arab powers will not support extreme Palestinian demands either now or later. It should be remembered that Hussein drove the militant Palestinians out of Jordan by force, that previously King Faisal of Saudi Arabia expelled all Palestinians from his kingdom, and that even the Syrians carefully limit the Palestinian's role in their country.
2. Arab fear of future Israeli expansionism is genuine. Their concern is long-term and includes the possibility that a major radical change in Soviet policy on Jewish emmigration to Israel or an anti-Jewish wave in a major Western country could provide Israel with still another large infusion of immigrants needing land. Golda Meir's recent call for two million more Jewish immigrants to Israel can only exacerbate Arab fears about long-range Israeli intentions. It is this fear combined with wounded Arab pride, rather than a special affection for the Palestinians per se, that fuel the Arab confrontation against Israel.
3. The Israelis would fight almost to the last man to protect Israeli heartland, but that the great bulk of Israeli public opinion would accept a final compromise settlement along the lines of the 1967 borders, with modification for a new status for Jerusalem, if this would bring real peace.

The ordinary man on the street, as well as many educated Israelis, is tired of the expense, strain, and cost in lives of the protracted confrontation with no end in sight. During the past year alone, there were five major devaluations of the currency, and riots in the streets as a consequence of these and other economic conditions. The disenchantment by many of the people of Israel with the present policy of austerity and confrontation has been commented on by a number of recent scholarly articles (see Appendix "A").

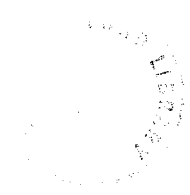
4. The image of the people of Israel as now being unwilling to accept a compromise settlement appears to be an incomplete picture generated by a very vocal minority of orthodox religious types and extremist officials, young kibbutzniks agitating for farm land in the occupied Arab territories, a Government whose potentially moderate faction is too weak to do anything but hang tough for a perpetuation of the status quo, and by the very active Israeli lobby in Washington.
5. The hard-core political and military leadership of Israel is not willing to compromise to the point of permitting an independent Palestinian state. The most they would accept, unless under duress, would be a West Bank/Gaza confederation with Israel or Jordan which could ultimately be absorbed if conditions warrant. This is, of course, unacceptable to the Arabs.
6. Prime Minister Rabin, even if he were so inclined personally, could not get his cabinet--particularly the ultra orthodox faction which has a key veto position in the present government make-up--to accept major new steps toward a permanent peace settlement unless he were able to say to his cabinet that President Ford had given him no choice.
7. The debate within the Israeli Government, settled recently, really wasn't about how to build a meaningful, lasting peace with an independent Palestinian state. Rather, the Allon/Rabin controversy appears to be largely about Israel's image abroad and negotiating tactics at the forthcoming U. N. debate.
8. For all these reasons, it will take strong and direct U.S. pressure to persuade the Israeli Government to negotiate seriously with the Palestinians and ultimately to sign a compromise settlement.
9. The forthcoming United Nations session provides one possible opportunity for clarifying some of the issues between Israelis and Palestinians. The open sessions, however, may see a great deal of damaging posturing and breast-beating unless the United States quickly moves to urge moderation on the PLO.
10. President Ford and Secretary Kissinger should immediately send emissaries to urge the PLO and the confrontation Arab states to adopt a moderate and balanced posture at the forthcoming United Nations debate on Palestinian questions. The emissaries should also inform the Palestinians and Arabs that the President hopes that some real progress may be forthcoming but that it is important that Israeli and United States' public opinion see the PLO and Palestinians as moderates and not committed to the destruction of the Jewish state of Israel.

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11. The President should also decline to give Foreign Minister Allon on his forthcoming visit assurances that the United States will not press behind the scenes for a settlement or for progress in 1976. Instead he should stress the concern about a future war. The President should make sure that all senior U. S. officials follow this same line. Otherwise informal pledges given by subordinate officials may be publicized in exaggerated form and limit the President's future options.
12. Meaningful private negotiations behind the scenes between Israelis and Palestinians will only take place if the United States insists and participates. Foreign Minister Allon in his forthcoming visit to Washington may press President Ford for a pledge not to engineer such sessions or press for progress on Mideast issues in 1976.
13. Large-scale economic inducements to both Israelis and Palestinians by the U. S. and Saudi Arabia will play an important part in a final settlement, but only after preliminary negotiations on questions of borders, sovereignty and the like are well along.
14. Russia may have an interest in perpetuating an unstable situation in the Middle East. One could, however, almost certainly expect the extremist Palestinian faction, the Irreconcilables, to do all in its power to prevent progress toward a final settlement of the dispute. For different reasons, the hard-line Israelis in the Military and in Government will act similarly. One can reasonably anticipate the most ruthless and Machiavellian operations to impair the atmosphere of compromise and weaken the credibility of moderates everywhere who are trying to bring a settlement closer. There is little one can do about these at this point except to warn all parties that this sort of behavior will not be tolerated and warn against overreaction to incidents, however outrageous they may be.
15. Toynbee's prediction of a worldwide wave of anti-Semitism may be tragically fulfilled unless statesmen who understand the larger forces that contribute to historic cycles wrest control of events from the extremists on both sides. Anti-boycott measures rammed through state legislatures can only produce displeasure toward Israel and her supporters by those adversely impacted in the business and financial world. Mexico's abjectly retreating from her earlier stand on the silly anti-Zionism vote in the U. N. in the face of economic blackmail humiliated proud Mexicans. As this battle goes on, and as the Arabs grow more sophisticated in their use of money and propaganda, Israel's counter measures and those of her Jewish supporters will have to be more and more strenuous and blatant. And more and more enemies will be created by those on the receiving end of the muscle.
16. Senior Israeli intelligence officials still try to convince some visitors that one more war in the next year or two--particularly if the United States were to occupy the oil fields in the aftermath of another oil embargo--could solve the issue for many years to come. But I cannot believe that this view will prevail within the Israeli Government; and I cannot believe that the United States would be so passive in its diplomacy and so profligate of its economic and military assistance so as to encourage the Israelis to move in this direction.

17. While the Israelis presently have sufficient arms to thoroughly defeat the Syrians and all possible present combinations of Arabs, they would not have sufficient weapons to fight the following war. And any unjustified Israeli attack could so antagonize the United States public opinion and Government that resupply could be a problem. Israel would also have to count on Egypt going radical and recalling the Soviet military mission even if Israel were to mount an attack only against Syria. Virtually all Arabs would become extremely bitter if the Israelis were to launch such an attack, particularly the kind of go-for-broke, army smashing kind of attack that Israel would be certain to conduct under present circumstances. But weapons can be replaced, and with a huge Arab manpower pool, so can the soldiers. With Arab manpower, oil dollars, and Soviet arms, it would be only a question of a few years before a new deadly assault were mounted against Israel. I see virtually no way out of this for Israel unless she manages to draw the United States directly into the conflict. She may be hoping to do so, either directly or indirectly through a campaign to break up the subsequent oil boycott by occupying the oil fields. But failing this, one more war clearly initiated by Israel could be a fatal disaster for her. It could leave her utterly isolated and friendless.
18. The Arabs will interpret continued Israeli colonization of the captured territories and calls for massive new immigration as an indication that the Israelis have absolutely no intention of coming to a final settlement which would return the bulk of captured territories to the Arabs.
19. A lack of progress toward a permanent settlement will sooner or later result in a more militant posture by Egypt, which in turn will result in vastly increased Soviet presence and power in Egypt.
20. Any new Arab military moves toward Israel may be accompanied by a last minute airlift from the Soviet Union or Syria of a modern and effective mobile air defense system to permit the Jordanian Army to cooperate in the combined Arab attack.
21. In the meantime, the Arabs will have made increased inroads in influencing American and world public opinion, and the influx of Arab money will accelerate this process. And in the long run, this will tend to erode support for Israel's post-1967 territorial possessions.
22. Any American public opinion shift will endanger the present level of support which the United States provides Israel, both military and economic. Increasingly the American people will become aware of the high cost and danger of this whole program.
23. During this election year, the militant Israeli lobbyists will once again contact the various presidential candidates, of both parties, to solicit pledges of support on Israel. It will be very difficult for any candidate to resist making suitable pledges, which will subsequently make it more difficult to put direct pressure on Israel to do things which are really even in its own long term interest.
24. Unless Israel can be persuaded voluntarily to come to terms with her neighbors, the inevitable military attempt by the Arabs will be mounted.

25. War is always unpredictable, and the decisive factor may be Russian-supplied tactical and anti-aircraft weaponry even more sophisticated and effective than that supplied to Israel by the U. S. This is unlikely but possible.
26. Pro-Arab spokesmen and propagandists in the U. N. and elsewhere will continue to attempt to reignite a form of anti-Semitism in the United States which could endanger some of the enormous gains made by the American Jewish community over the past 15 years. This could have acute repercussions in the event that another war were to break out triggering a new oil embargo and subsequent unemployment; and requiring massively expensive infusions of American weaponry, or possible air cover.
27. Pentagon complaints might explode openly in the event that America's own defense posture were threatened by heavy draw-downs of equipment for the Middle East in a new war.
28. All of these points suggest that the American Jewish community has an enormous stake in encouraging Israel to come to terms with her neighbors.
29. The American Jewish community can honorably agree to the following peace terms:
 - a. Recognition of a pre-1967 sized Israel by all the Arabs including the PLO.
 - b. Independent demilitarized Palestine forged out of the West Bank and Gaza subsidized by Saudi Arabia and the United States.
 - c. An American guarantee of Israel's security together with an expanded force of technicians provided by the United States to patrol the circumference of Israel during a five-year transition.
 - d. Phased return by Israel to approximately the 1967 borders, with modification for a new status for Jerusalem.
 - e. Phased mutual and balanced arms reduction by the belligerent forces.
 - f. Elimination of all economic boycotts.
30. Arafat and his PLO would almost certainly win any Palestinian referendum. By giving Arafat and his militant Palestinians a West Bank/Gaza state of their own, it would provide these Palestinians with an incentive to keep peace in the area. Not only would officially condoned terrorist activity against Israel which displeased the Saudis result in a cut off of their subsidies, but any militance by the tiny divided Palestinian state would be swiftly crushed by an invasion and occupation by the Israelis. And once Arafat is a prime minister, I wonder if he would relish the prospect of returning to the status of a fugitive guerrilla leader with the slim prospects.

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31. As a matter of course, the boycott and other forms of hindrance against the full participation of Israeli citizens in the economic life of the entire burgeoning region would have to be eliminated in a final settlement. Given innate Israeli skills and abilities, there is no reason why the elimination of all restrictions, and Israel's geographic position should not permit standards of living in Israel to be among the world's highest within ten years of a final peace settlement.
 32. Some U. S. officials may have tentatively decided that no major steps toward bringing about a settlement in the Middle East problem are possible in 1976 because of their judgment about domestic considerations in an election year.
 33. It is my understanding that no pledges have been made thus far to the Israelis which would preclude the Administration's taking major new steps toward achieving a settlement in the Middle East if the President's political advisors were to give him the green light to move. The only pledge along these lines which was made was the pledge to consult with the Israelis on subsequent major moves in the Middle East.
 34. The question which now must be addressed by the President's political advisors is this: have domestic political conditions so altered so as to make feasible and desirable major Presidential moves toward a permanent settlement in the Middle East? This judgment must be made by those who know the evolution of political opinion in the United States most intimately, the senior political advisors most trusted by the President.
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ANALYSIS AND RECOMMENDATIONS ON THE U. S. POLITICAL SITUATION

1. President Ford already has informed the Israelis and their lobbyists that while he, like all Americans, supports the security of Israel, he does not support Israel's conquests.
2. Therefore, those who support a permanently expanded Israel must assume that Ford, after his reelection, will work to press Israel to disgorge most of her 1967 conquests and compromise with the Palestinians.
3. Presumably these supporters consequently will work for the defeat of President Ford by candidates pledged to support Israel totally. (Indeed, there were advertisements covering a third of a page in The New York Times during their Reappraisal last March, paid for by the American Jews Against Ford, urging that America's Jews support primary and general election opponents against Ford.) Subsequently Mr. Reagan's senior staff members have been quoted privately as saying that Reagan had "taken the pledge" to support Israel 100%. And many of the Democratic candidates will certainly have taken pro-Israeli pledges.
4. One would have to assume, therefore, that Ford has little to lose politically at this point by following his instincts and conscience on the whole question of Israel.
5. Of crucial importance is also the new thinking of major segments of the informed Jewish opinion in the United States, taking a far more balanced approach toward a settlement with the Palestinians. For example, the editorial boards of both The Washington Post and The New York Times, formerly pro-Zionist, have in recent months modified their editorial policies, urging Israel to negotiate with the Palestinians. Indeed, there is the ironic situation whereby these pro-Israeli newspapers are actually putting more pressure on Israel to negotiate than some U.S. officials who are telling the Israelis that it is all right to sit tight during the entire 1976 while we get our elections over with. This is an odd situation, to say the least, and in my judgment may come from part of American officialdom being out of touch with rapid developments in American public opinion, and perhaps being more sensitive to the noise generated by the Israeli Embassy and the paid and very active Israeli lobbyist organizations in Washington than to the present views of much of the informed part of the American Jewish community itself, which is growing increasingly apprehensive about the worldwide rise of anti-Semitism stemming ultimately from the lack of a settlement in the Middle East.
6. Finally, in all candor, it appears that President Ford faces a situation whereby many Americans, particularly in the Media, question his efficacy as President. Nothing would silence these critics more dramatically, or impress the American electorate more deeply, than a series of successful operations resulting in major progress toward a permanent and lasting Middle East settlement. This goal has eluded every President since World War II.

TACTICAL STEPS

1. The President should decline to give assurances to Mr. Allon that he would not press for some progress toward a permanent settlement in 1976. Mr. Allon, who will be arriving today should also be firmly told that the President is seriously concerned about the prospect of another war in the Middle East. He should say that he thinks that it is time that the Israelis seriously move toward permanent settlement, beginning with a U. N./U. S. supervised referendum in the West Bank and Gaza to establish the will of the people as to their political future. . . confederated with Israel, linked to Jordan, independent under PLO leadership, or independent under other local Palestinian leadership. The President should make certain that all major officials involved in Middle East policy repeat this same general line, otherwise officials of a subordinate rank might inadvertently make commitments or give assurances which would subsequently be publicized in exaggerated form by the Israelis and limit the President's freedom of action.
2. Immediately, the President should send word to the PLO and the confrontation Arab states urging them to adopt a moderate and balanced posture at the forthcoming United Nations debate on Palestinian questions. The President should also inform the Palestinians and the other Arabs that he hopes that some real progress may materialize during the coming year, but that it is of utmost importance that Israeli and United States' public opinion see the PLO and the Palestinians as moderates, not committed to the destruction of the state of Israel. Israeli intelligence will, of course, learn of this message; but this should only serve to underscore the President's statement to Allon. The same urgings should be made upon the Arab ambassadors in Washington by other U. S. officials.
3. During the United Nation's debate on Palestine, the U. S. should try to work behind the scenes with both parties to see if one could bring them closer to a concensus. If the Palestinians reject the President's request for moderation at the U. N. because of internal problems in the Palestinian movement with extremists, or for other than tactical considerations, a judgment will have to be made as to the feasibility of moving ahead, in view of what will certainly be harsh criticism in the United States media. Right now all experts in the U. S. government anticipate the probability of a highly emotional United Nations debate, unless we act firmly to forestall it or channel it in a constructive way.
4. If the President succeeds in tempering the quality of the U. N. debate, and elicits moderate responses from the PLO, the President should subsequently underscore his insistence that the Israelis work toward a compromise settlement during Rabin's visit which is scheduled immediately after the U. N. debate. The President should make the following points to Prime Minister Rabin:
 - a. He is very concerned about the possibility of another war in the Middle East with the possibility of a confrontation with the USSR and the near certainty of an oil embargo which would

leave the United States with the option of accepting unemployment, recession and gas lines, or an actual war to seize the oil fields or what was left of the oil fields after the demolition by the Arabs.

- b. He considers the risks to the United States of a do-nothing policy in 1976 regarding the Middle East as being unacceptable. That he considers Sadat's willingness and ability to compromise because of the removal of the Soviet military presence from Egypt to be a golden opportunity. This could all change if Sadat were replaced by a hot head who would argue that Israel has no intention of coming to a permanent settlement, citing Israeli colonization of captured territories, and who would invite the Soviets back into Egypt in force. This event would greatly reduce the willingness and ability of the other Arabs to compromise favorably to Israel, counting instead on imposing a settlement on Israel by force.
- c. He is deeply concerned about the outbreak of a world-wide wave of anti-Semitism as the Arab powers flex their increasingly massive and sophisticated diplomatic, financial and public relations muscle, and Israel and her supporters respond with heavy-handed arm twisting of their own. Ford should cite the Toynbee prediction of a massive and savage wave of anti-Semitism of world-wide proportions unless the Middle East question is settled and settled soon. Ford should cite the reaction in Mexico to the economic boycott and pressure by the American Jewish community responding to Mexico's vote on the silly anti-Zionism question in the U. N. and the deep humiliation felt in Mexico at having to publicly back down and eat crow in Tel Aviv to avoid a tourism disaster. Ford should bring up the anger which will be felt by bankers and businessmen alike as they are embarrassed and financially harmed by the anti-boycott measures which are being rammed through U. S. legislatures in New York, Illinois and elsewhere.
- d. That these anti-boycott measures also threaten massive and utterly vital United States interests in Saudi Arabia.
- e. Ford should point out that the continuing confrontation with the Arabs is costing Israel itself immense sums of money and great financial and personal strain to ordinary Israeli citizens: massive inflation; five devaluations took place in one year; the Israeli pound which was worth four dollars in 1948 is now worth nine U. S. cents on the black market in Israel; riots in the streets of Israel have taken place because of the financial and economic strain in Israel. The leaders of Israel have a deep obligation to seek a permanent settlement with their neighbors in the interests of their own people.

- f. In the event that the PLO is forthcoming in the U. N., Ford can say that the PLO has indicated willingness to come to moderate terms with their neighbors--but that an independent Palestinian state consisting of the West Bank and Gaza was an absolute necessity. Ford should tell Rabin that if he and his government fail to agree to a U. N./U. S. supervised referendum leading to a settlement which includes an independent Palestinian state, that he, Ford, will make a major televised speech to the Nation saying approximately the same thing as he now was telling Rabin, and calling for a Palestinian referendum on the West Bank, Gaza and in the refugee camps to let the Palestinian people decide their own fate.
 - g. President Ford can say that he views the establishment of such an independent state to be the heart of the matter. Once this happens the other outstanding questions such as the demilitarization and return to Egypt and Syria of the Sinai and the Golan can be negotiated over a somewhat longer period as Palestinian peaceful intentions and good faith are shown. The main thing is to start the wheels now irreversibly moving toward the rapid establishment of an independent Palestinian homeland.
5. Immediately after this conversation with Rabin, Ford should convene a meeting with leaders of the American Jewish community, including the heads of the television networks and tell them very candidly the same message that he gave Rabin. And that he as President feels a responsibility to the American people to bring this matter to a settlement and that he asks for their active help and support; and failing that at least for their acceptance of his pressure on Israel. Ford can tell both Rabin and the delegation of influential American Jews that he intends to support a multi-billion dollar development bank for Israel and for the other confrontation states, as part of the final settlement.

It is very important that the President speak directly with the more informed and moderate leaders of the American Jewish community. Otherwise the Jewish community will take its cue from Rabin himself or from the extremist Israeli lobbyists in Washington.

6. The Israeli reaction to all this will be to propose various delaying tactics. We have seen in the Vietnam negotiations that these can drag on indefinitely if there is no real necessity for either party to come to terms with the other. If the President presses hard enough, Israel can easily agree to negotiate with anyone, but then string out the talks for months and even years hoping that conditions will change, that a new administration more indebted to the Israeli lobby

will be elected, thus removing the immediate political necessity for compromising with the Palestinians. To forestall these utterly predictable Israeli delaying tactics, President Ford should tentatively set a date for a West Bank, Gaza referendum and hold Rabin to a mid-summer 1976 deadline for these elections.

President Ford should also prepare a major address to the nation on the Middle East in any case so as to forestall a possible campaign of disinformation and protest by the Israeli lobby. President Ford should not allow the Israeli lobby to portray him as being anti-Israeli, because he is not. It is in the interest of everybody--American, Israeli, and Palestinian--to get this whole matter off dead center. The only real long-term losers would be the Soviet Union which profits by the regional instability.

Since everyone's interests are so massively in favor of a settlement in the Middle East, once this is made clear to the American people through a speech, there is absolutely no way that any domestic political opponent could win points by advocating the hard-line Israeli position. But it is important that the real issues be brought into the open.

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Boeing

May 18, 1976

Dear Phil;

All of us attending the ceremony on Monday were impressed by both the quality and the delivery of the President's remarks. The President acquired a lot of active supporters in those few minutes.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Dick', which is the signature of Richard McCormack.

Richard McCormack

Philip Buchen
The White House
Washington, D.C.

