The original documents are located in Box C1, folder "Presidential Handwriting, 8/19/1974" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

8/19

An excellent letter outlining the problem, and proposing solutions — from a senior corporate executive.

JM

3/9/74

THE WHITE HOUSE

WASHINGTON

Bill Seidman

from Jack Marsh -

talk with him.

ATO

A-T-O Inc./4420 Sherwin Road/Willoughby, Ohio 44094

WHITE HOUSE MAIL
[illegible] & SECURITY
[illegible] 1974
Processed by:

Mr. John O. Marsh, Jr.

Attention: Ms. Nancy Chirdon

D. F. McGillicuddy
A-T-O Inc. Government Relations Representative

1730 Rhode Island Avenue, N.W. / Washington, D.C. 20036 / (202) 785-5132

Harry E. Figgie, Jr.
Chairman and Chief Executive Officer

August 9, 1974

may be a
good selection
to represent business

Honorable John O. Marsh, Jr.
Executive Offices of The White House
1600 Pennsylvania Avenue
Washington, D. C.

Dear Jack:

I know you people are going to have your hands very full and will be receiving all kinds of well meaning advice, but having lived in the business world and the world of practical economics for over a quarter of a century and being privy to much of the top thinking that occurs out here in the hinterland, let me give you the benefit of how I, as well as some of the top business economists, see the picture in the short run.

Let me start out by saying the reason I feel a need to write this letter is that Mr. Ford couldn't be taking office at a worse time for his own political well being. The short term outlook is quite depressing and could well extend through the period that Mr. Ford would normally have a honeymoon with Congress. For this reason I think it is imperative that he understand these problems facing him, as well as a realization of some of the things that must be done immediately. I think you know that in writing this letter, I am doing it motivated only out of what is good for the country and because I want so desperately a conservative and practical man like Mr. Ford to succeed.

If I could give you the scenario for the next six months, it would be like this. The severe crop failures in the Midwest are going to set off a very severe inflation in food prices which will begin to be felt in the very near future. Soy bean prices have already gone up 60% in the last several weeks and corn is beginning to

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move. As you well know, not only do I run a big business and a small business, but I also have large farms in Virginia and Georgia, so I know first hand of what I speak. For example, my agricultural service forecast 39¢ beef for us this year and they are right on target. At the same time, they forecast 40¢ cotton, down from 91¢. Cotton has never gotten below 61¢ and will probably go back up. We thought we were looking at $4.50 soy beans. We sold part of our crop three weeks ago at $7.13. Soy beans already are at $8.50. Some are talking as high as $15.00 before it is over. All of the economists who had been forecasting a lessening of the inflation, which actually has happened in this second quarter, were basing this on zero oil price increases and declining food prices. With the imminent increase in food prices due to the extensive crop failure and drought, you are now looking at double digit inflation at least for the next nine months. Hopefully, if crops are good next year, the rate will slow.

The net result is that the public is going to look at the same type of decline in earning power this year and early next year that they experienced all last year. This will substantially reduce the disposable income for the consumer, and it will bring loud cries into Congress and upon your administration to do something to stop inflation. Strikes, which are already serious, will become even more serious, and labor could well be totally dissatisfied at their current level of 9 to 10% settlement and try to move up to a 14% level which would really add fuel to long range inflation, because most settlements go for three years, whereas crop failures go from year to year.

I don't think there is any figment of my own imagination in what I have just described. Instead, I would say you are looking at a 99% certainty, and I need not tell you how quickly this type of problem could destroy the needed cooperation between the administration and Congress. There is no question in my mind that our recession will now extend through the first quarter of next year; unemployment figures will have to be revised upwards; the stock market will fall further; long term industrial interest rates will go two points higher probably; and capital expansion, which has been the only mainstay of the economy through the recession so far, will begin to erode and grind to a halt on a marked slowdown. The net result is that the recession could deepen.

On the periphery of all this is the delicate structure of the banking system and the retail distribution system where illiquidity and high interest rates could bring about a series of bankruptcies. If many banks today cannot roll over their CD's, they would be in dire trouble as without the CD's, they are loaned out 120%. The major discount and distribution houses faced with a slow down in consumer spending and high carrying interest rates could be very shaky in many cases and as you know, a number have already gone out of business. Industry has been carrying heavier than usual inventories because business has been good but more likely, there being such severe shortages, they just couldn't assemble many of their products on schedule. The net result of all this could be the spectre of a severe inventory recession on industry.

I have never considered myself a pessimist or an optimist but rather a realist, and can't sympathize more with Mr. Ford that he has to take over the country at a time when his internal economic problems are severe and are going to get worse in the eyes of the public.

On the other hand, we stand an excellent chance of getting through the recession by the end of the first quarter of next year; however, you realize well that in the political arena, Mr. Ford could become totally ineffective with Congress if things take that long.

For this reason I bring this whole matter to your attention. To bring the problem to your attention without some rather strong suggestions is inexcusable. I do think there are certain things Mr. Ford could do during this period; however, the time must be immediate and there aren't too many positive programs he can go forward on.

Honorable John O. Marsh, Jr. August 9, 1974

The programs that I see that would be effective are enumerated below:

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1. First and foremost, and by far the most important of anything, is to somehow convince Saudi Arabia, Kuwait and Iran into lowering their price of oil immediately before there is worldwide economic collapse or war. This is absolutely essential. If you want an excellent background article on this, get hold of the Foreign Affairs magazine for July, 1974 and read the article written by Walter Levy. If the Saudis, Kuwait and Iran would reduce the price of oil by 30, 40 or 50%, you could bring inflation clearly under control. The worldwide impact would be instantaneous and tremendous.

2. Cut Federal spending drastically and I mean by about $15 billion.

3. Simultaneously with this and to make it more palatable, give the ordinary man a tax cut totaling roughly $10 billion. The reason for this is that the consumer today is in the worse shape he has been in since 1930. He is further in hock; he has less spendable income; and he is in more dire need than he has been in any recent period of time. You are going to have to give the consumer more money to offset this tremendous increase he will shortly experience in his food prices if he is to have some disposable income for other things to keep himself and the economy afloat. Other people will say that this will have an inflationary effect but it really won't if you couple it with a $15 billion reduction in government spending immediately.

4. Burns must retain his tight money policy. By tight money, I mean his 6% policy in a period when we are getting double digit inflation.

5. Give an immediate increase in investment credit to encourage the businessman to keep up the capital goods expansion. As you know, one way to help lick inflation is not reduce demand but increase supply. To increase supply, we must have major capital expenditures. Furthermore on the energy side of the business, you know that we must have tremendous capital expansion in the next few years. If the businessman starts to slow down on his capital expenditures right now because of high interest rates and declining consumer demand, you will not only have a short range impact on the total health of the economy, but you will have a major impact on the long range health and stability of the United States. The way to help the businessman offset his higher interest costs is to give him major increased investment tax credits even if they are short lived for the next 3 to 5 years.

6. As I pointed out earlier, you face a real problem in runaway commodity prices. If we were to shut off commodity export, we could control our prices better in this country and lessen inflation. I recognize this is politically unfeasible, that other parts of the world would starve and that it would severely hurt our balance of payments; therefore, what you have to do is try to institute some type of control to stop the speculation that was experienced the last time commodities got out of control. This has to be done in the next few weeks because commodities are going to shoot up and already are starting as I have said earlier.

7. Get the Commerce Department and your people to really push all other export. We are as a country in the best position to export that we have been in for years, and in order to keep the economy moving and unemployment from going up drastically, there has to be some very close liaison for major export.

8. Do not consider wage or price guidelines because all that does is mask what is really boiling in the pot underneath.

9. De-control the gas industry from the abnormally low prices that exist in many of the older contracts in order to assure an adequate gas supply for this winter. We have been told that industry faces the possibility of gas shortages up to 30% this year and in the middle of a recession period, this could be disaster. In the face of new gas contracts where they are getting anywhere from $ .60 to $1.25/MCF, it is ridiculous to hold contracts to $ .16 to $ .18/MCF.

10. Simultaneously with this, move in immediately into the coal strike situation as a coal strike in November appears to be a certainty. Like the gas shortage, it will spell disaster for already depressed industry. I feel it is essential Mr. Ford move in now to protect the energy situation in that area long before it gets to crisis stage. You are undoubtedly aware some coal mines are on strike. Many others are experiencing slowdown tactics. We just can't have an energy crisis in late fall when business will fully realize they are faced with a much longer and much deeper recession than they expected.

11. Finally, very quietly and surreptitiously, get some standby equipment set up to reinstate the Reconstruction Finace Corporation in case the financial community starts to experience additional bank failures. If this isn't done quietly, it will cause great concern with adverse reaction. If it is done quietly, you will have the machinery available to step in should there come a series of Franklin National Bank type problems.

In closing this letter, I think you know me well enough, Jack, to know that I wouldn't write this letter if I didn't feel so certain that

Honorable John O. Marsh, Jr. August 9, 1974

I could read the handwriting on the wall. People in industry have a great deal of respect for Mr. Greenspan and I am sure you can bounce this off of him, but I urge you to have the men in power give this serious consideration so that Mr. Ford is not made ineffective by problems that were well formed and already in process before he ever came to power.

If I can be helpful in any way, if you want me to present my views to anybody personally, if I can do anything to help educate people as to how things look to a man who has been both a small and large businessman, a farmer and a teacher, please know that I will catch the first plane to Washington to talk to anybody at any time.

Kindest personal regards.

Sincerely yours,

Harry

HEF:mc

THE WHITE HOUSE

WASHINGTON

August 28, 1974

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN

FROM: JERRY H. JONES

The attached letter was returned from the President's outbox with the following notation:

-- Bill Seidman, from Jack Marsh.
Talk with him.

cc: Al Haig
Jack Marsh (with original letter)