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THE WHITE HOUSE

WASHINGTON

September 18, 1976

MEMORANDUM FOR:

MIKE DUVAL

FROM:

JIM CONNOR *JEB*

The attached was received in the President's outbox. It is forwarded to you for your information in case you have not seen.

Attachment:

Letter from Forrest J. Rettgers
re debate material

M.D.
NATIONAL ASSOCIATION OF MANUFACTURERS



FORREST I. RETTGERS
Senior Vice President
Operations

VICE PRESIDENT AND CHIEF

*Dick Cheney
live read.*

September 13, 1976

The Honorable John O. Marsh, Jr.
Counsellor to the President
The White House
Washington, DC 20500

Dear Jack:

Please do not ask me where I obtained this. It was written for the Carter-Mondale Policy Planning Group by Henry Wilson as a preparatory piece for the debates. I thought you might know what to do with it in order to help President Ford.

Sincerely,

FORREST

FIR/gc

Enclosure

August 30, 1976

Mr. Matt Schaffer
Carter-Mondale Policy Planning Group
Suite 2811
National Bank of Georgia Building
34 Peachtree Street, N. W.
Atlanta, Georgia 30303

Dear Matt:

This letter is responsive to your call requesting my thoughts on the establishment of a cabinet department of International Economics.

I won't attempt to buttress this with research and statistics because it would take me forever, and I'm sure you will do it better than I, but I will undertake to record some impressions and experiences that might be useful.

Prior to World War I our economic involvement abroad consisted almost entirely of the export of cotton and tobacco and the importation of manufactured goods and exotic raw products such as tin, rubber, certain metals, coffee, cocoa and tropical fruits.

So far as the government was concerned this was handled by detailed tariff schedules hammered out solely in the Congress.

We drew even further back into our shell in the depression period.

But during World War II and immediately thereafter we were compelled by the destruction of Britain and France as major powers to assume the leadership of the Free World diplomatically, militarily and economically.

This imposed enormous overnight pressures on our government to organize itself to handle these matters.

For diplomatic purposes, fortunately, Truman named two great Secretaries of State, George Marshall and Dean Acheson, and their works are graphically portrayed in Acheson's remarkable book, Present at the Creation.

Rearrangement of the military began, of course, at the outset of World War II and continued through the consolidation of the Army and the Navy into the Defense Department in the latter 'forties and through the Korean War, which consumed a far greater percentage of the national effort than did the Vietnam War.

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Roosevelt assembled the best talent in America to do this.

Marshall, Stimson, Lovett, Patterson, McCone, Forrestal, McGeorge Bundy's father, the young Robert McNamara, the young Adlai Stevenson.

I'll venture that this was the most able collection of Americans working at a government venture since the Constitutional Convention.

And they did their job.

But the economic approach simply was not handled. It just grew up like Topsy.

The initiative ought properly to have come from the Department of the Treasury. But Truman's Secretaries, Vinson and Snyder, hardly were take charge guys.

Snyder was the weakest Secretary of the Treasury in modern history, though he had some competition.

And so in this vacuum the various departments and congressional committees moved into assert their suzerainty over what they assumed to be their piece of the action. And there it sits frozen in amber.

I don't know what the Hoover Commission reports said about this. Maybe they recommended drastic change.

If they didn't, perhaps the reason they didn't was either because the authors thought it was just too tough to get done or because Hoover was such a profound isolationist that he wanted to shut his eyes to the outside world.

I can't point too many fingers.

Certainly the Kennedy-Johnson administration didn't even tackle it.

We managed to slide by with the use of chewing gum and rubber bands, but that wasn't the way to do it.'

Then in the late 'sixties the government and the American people were being forced to face the sickening conclusion that there was a limit to what could be achieved with American military might and almost simultaneously the similar conclusion that there was a limit to what could be achieved with American economic might.

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Both Johnson and Nixon waited too long to move on both fronts.

Finally the economic situation was at the point where action simply could not be further delayed, and so on a crash weekend in late August 1971, Nixon, Connally, Schultz and a cloud of other officials convened at Camp David and wrote the speech concerning wage and price controls, devaluation of the dollar and other things which Nixon delivered to the television audience on the Sunday night of that weekend.

I both read in the press and heard privately about the slapdash fashion in which these momentous decisions were arrived at and of the clashes among the cabinet officers and the Council of Economic Advisors and the Director of the Budget.

This wouldn't have happened if a single department had had responsibility and had been developing a policy.

But there probably wouldn't have been a decision made at all if John Connally hadn't been a strong man amongst a collection of pygmies.

What if John Snyder had been Secretary of the Treasury, or, worse yet, what if all the major departments had been headed by people of the stature of Connally?

Some comment now on the diversity of foreign economic functions of several of the departments and agencies which will be in no way comprehensive, but which I hope may be illustrative.

Bear in mind, too, that in most cases the departments are reporting to different authorizing committees and different appropriation subcommittees of each house of the Congress.

STATE

This is into all manner of economic things from foreign aid through multi-lateral organizations and international banks through a heavy input into trade negotiations.

Professional diplomats are not economists but are by definition international politicians. Politicians must have a constituency and the constituency of the diplomats is other countries.

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An example is their persistence through the years in pressing for us to enter into an International Wheat Agreement in the face of the opinion of every economist I know that this action would be severely adverse to the interests of the United States.

I have read pretty carefully after Henry Kissinger including a couple of books about him.

I've always thought he was a disaster generally, but he's a particular disaster in the economic field.

Yet Gene Black told me last week that he had recently gone through all of Kissinger's speeches and that sixty per cent of them dealt with economic matters.

I was shaken to hear it.

I don't fault the diplomats for their outlook because I guess they have to have that attitude to function. But I do feel they ought to be kept out of economics.

TREASURY

The implications here are obvious, beginning with currency and balance of payments problems and the taxation of multinational corporations and going on forever.

I'll get back to Treasury later.

DEFENSE

There's no end of foreign economic involvement here, a couple of the more obvious examples of which are the sale of arms abroad and the stationing of troops and their dependents overseas. The dependents especially make for a tremendous drain on the dollar.

AGRICULTURE

The explosive growth of the importance of the export of agricultural exports is startling.

These now constitute about twenty-two per cent of all of our exports, and that does not include Food for Peace money.

We can be very badly injured if this policy is not protected.

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I consider Earl Butz to be a very forceful and articulate Secretary and I completely agree with his policy on exports.

Yet he has repeatedly been overridden within the Administration. One example is that of the embargoes.

The reason is that his department is perceived as being too narrowly based to have sufficient political wallop when the pushing and showing begins.

It is not generally realized by most people, including most of the Congress, that agribusiness involves a great many more people and is far more important to the economy than the farmers themselves.

Farming has got to be approached as a business rather than as a welfare program.

JUSTICE AND THE S.E.C. AND THE F.T.C.

Anti-trust policy toward American based multi-national corporations competing with cartels abroad has got to be re-examined, else many of these firms will simply change their base.

Also Justice and these commissions will have the authority in the area of boycotts and bribery.

INTERIOR AND THE F.E.A.

Petroleum policy.

COMMERCE

Export licenses, patents and the Maritime Administration.

TRANSPORTATION AND THE C.A.B.

International airline policy, such as the judgment on the Concorde and the granting of international routes.

LABOR

The department is considered by the union leaders to be their domain, and Meany dictated the wheat embargoes to a Republican president.

I could go on but that's enough.

Our principal embassies are cluttered with spokesmen from these departments.

~~It is real chaos, and the Japanese and Germans are running rings around us,~~

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in large part because they have organized their governments to provide central direction.

The judgment must be made then whether to continue with the present arrangement, to best most judgments in an existing department, or to create a new department.

The present arrangement is that there is within the Executive Office of the President and sitting in the Executive Office Building a staff for an interdepartmental group known as the Council on International Economic Policy.

This simply cannot in the nature of it work effectively.

Departments are not in the long haul going to accept edicts from the Executive Office Building which are contrary to the wishes of their committees of Congress, their civil servants and their constituents in the public out across the continent.

You can in this fashion exert control over a budget and monitor testimony and speeches and legislation which is proposed to be submitted. But in the day to day formulation and execution of policy it just will not work.

The nearest approach to it was the dominance of the State Department by Henry Kissinger when he was on the White House staff and was dealing with a weak and pliant Secretary.

But you don't want that, and Governor Carter doesn't want that, and the Congress is not going to put up with it again, and shouldn't.

If that is persuasive, this then leaves the concept of a department.

A lot of people disagree with this concept, some even for disinterested reasons. A lot of the more vocal professors who disagree think that they are disinterested, but if you look into their backgrounds you'll discover that they grew up so completely enmeshed with the diplomatic community that they reflect the community's outlook reflexively.

I talked with Bryce Harlow and Roy Ash.

They think the present setup works well and should not be changed, but, then again, they're defending the NIXON-Ford record.

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Some people contend that foreign and domestic economic policy have become so intertwined that they can't be separated, but then again domestic economic policy formulation is terribly fragmented. But that's another subject.

Four or five years ago when Wilbur Mills was at his crest, and pre-Farne Foxe, I spent several hours discussing the concept with him, and he was quite enthusiastic.

I mentioned it briefly to Al Ullman in Plains last week, and he seemed favorably inclined, though we had no occasion for a real discussion.

But here, again, back to motives.

Mills and Ullman could see an enlarged jurisdiction for Ways and Means.

I don't want to give the impression that I have done a canvass, because I certainly haven't. But if you do one I just caution you in every case to look for the motives, because this is an emotional issue.

If an existing department is to be so enlarged the department would have to be Treasury. Some might argue that it should be Commerce, but Commerce is so small and so undistinguished that I don't think it's workable.

I started to write about the cabinets of Japan and Germany and France and Britain, but I don't have enough current knowledge about the operation and organization of those governments to risk misleading you.

As I told you, I'm just writing this off the top of my head, and the research facilities in Monroe leave something to be desired.

However, somebody should take a long hard look at them.

I don't feel terribly strongly about whether the power move to Treasury or to a new department, but I opt for the new department for two reasons:

- 1- I have the gut feeling that politically and Congressionally the new department would be more acceptable, especially in the midst of a reorganization of the entire government;

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2- Treasury is a terribly stodgy place with alot of vests and gold watch chains and the feeling that the ghost of Alexander Hamilton is stalking the corridors.

There will be a lot of important officials even within Treasury resistant to change, and I think a whole new crowd of people ought to address themselves to this critically important area.

I think that either path will be murderously difficult to complete.

I wrote a long letter to Frank Moore some time ago about the problems of securing Congressional approval for reorganization generally, and I'm not going to get into that now except to observe that I don't think it can be done unless it is achieved simultaneously with a complete revision of the committee system of both houses of the Congress.

Sincerely,