

**Transcript of  
Arthur F. Burns' Handwritten Journals  
January 20, 1969- July 25, 1974  
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**Journal II (Blue Notebook)  
Transcript completed: 2007**

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**Aug 22 '71** The meeting at Camp David last weekend was not much of a surprise for me. On Aug. 4<sup>th</sup> the President opened the door to a new wage and price policy – not widely, to be sure, but he at least indicated that he might take another look. On Aug 5<sup>th</sup>, when we talked over the phone, he stated – on his own initiative – that our differences were confined to the problem of wages and prices; that even on that subject we were not necessarily far apart – indeed, that he might surprise me one of these days. Whereupon I told Helen [Burns] that I expected the President to order a wage and price freeze; my reasoning being, first, that the President loved to think of himself – as he also would have others think – that he is a bold innovator, second, that I (and others) had not urged a freeze publicly – thereby augmenting the chances of such a move being regarded as highly innovative, dramatic, etc.

The meeting was also not much of a surprise for me because Shultz had come over with an urgent message – namely, that the President was thinking of making some major pronouncement on economic policy in the near future, and that the President wanted my views on the subject of wages & prices, taxes, gov't spending, and balance of payments, etc. Schultz

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was obviously the messenger and no more in this instance; he listened intently to what I had to say on these subjects, repeated my views more than once to make sure that he would be reporting accurately; and as the next day proved, he reported my thoughts fully and accurately to the President – for the President summarized my views at the very start of the discussions on Friday.

Thursday evening Shultz called and informed me of the plans for the weekend – we would leave in the early afternoon of Friday and be “locked up” at Camp David through Sunday. The departure was to be from the helicopter pad at the Pentagon; but Dwight Chapin called Friday morning to say that we would leave from the White House grounds. The President joined several of us from the helicopter; it was the first time I had seen him since the day when he and Connally launched their assault to quiet me. If there was any feeling of anger or annoyance still lurking in the President’s mind, he did not show it – either then or at any time at Camp David. On the contrary, he was particularly deferential to my views; not

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only that, he kept referring to our old friendship, to this or that experience we had shared together, etc. Yet, he was concerned about my views; for both Schultz and Safire told me that he kept wondering whether I would go along with the decisions that had to be reached.

This first meeting was long, but peaceful and harmonious - as such things go. The President set the tone of [earnestness?] and decisiveness; decisions would be reached; their effect would depend on complete secrecy; no telephone calls were to be made; any leak would be treason. The drama of all this was excessive; but it helped to put everyone into a constructive mood.

It became clear very quickly that the President would set out a tough wage and price policy, & that the only thing to settle on were the details of that policy; also that he would move on taxes and on expenditures – the idea of setting the investment tax credit at 10% the first year and then going to 5 appealed to him and he seized it eagerly; the border tax was also on his mind as he wanted to move on that; but he was puzzled about what to do about the convertibility of dollars into gold and this subject was discussed more extensively than

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any other.

I argued that if RN adopted a tough wage and price policy, and also took steps to curb the [proportion?] of [percent?], the import duty surcharge would be sufficient to bring about a rather prompt and sizable readjustment of exchange rates in our favor (something that Giscard d'Estaing and more lately the Japanese ambassador had assured me would happen). I expressed fear that a closing of gold window would lead to chaotic financial markets, and that it might be followed by trade wars, currency wars, and political friction – such as occurred during the thirties. No one else embraced this argument; they all seemed to want a floating exchange rate – either permanently, as in Schultz's case, or for some vague purpose or period, as [with?] Connally and Volcker.

In the end, those who wanted to end convertibility had their way. The President's reasoning on this was interesting. If we left the window open and then realigned the exchange rates, the new arrangement might prove ephemeral and blow up next year before the election. To be sure, the immediate response – both here and abroad –

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would be unfavorable; but it was better to take the criticism now than later. The President explained that he had a way of dealing with crises, as in the case of the invasion of Laos; that is, taking a tough decision, accepting immediate criticism, but reaping the harvest of approval later on. So it would be also with the gold matter under discussion. All this seemed to assume – though nothing was said to this effect – that the dollar would be allowed to float until after the election. When I later pointed this out to Volcker, he became truly frightened and he has been doing penance for his recommendation to close the gold window – ever since.

There was extensive discussion also of the direct controls on direct investment and lending abroad. Connally advocated abandoning this, so did Schultz and others. I objected on two grounds; first, that the action would be interpreted as a belligerent move on our part to achieve maximum depreciation of the dollar; second, that the trade unionists would condemn the policy on the ground that we were fostering an accelerated export of the jobs of our people. The latter argument proved pervasive; & RN decided

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to postpone action on these controls.

All in all, there was little room for any doubt – taking the President's words as he moved from one subject to the next – that he was governed mainly, if not entirely, by a political motive; that he had reached the decision that the kind of changes that we were discussing – on prices & wages, taxes, etc. – were essential for the campaign of 1972. If there was any other motive, it either did not come to the surface or I was too occupied with my own thoughts to recognize it.

I assured the President that I would support his new program [fully? or totally?]. I could do this readily, except for the gold [suspension?]; and, though the President seemed unaware of this, I could not responsibly question what he did on gold – publicly. Moreover, I was aware of the margins of doubt on this question, and I could not be sure that my position was right and his wrong. In any event, as the meeting drew to an end, the President was obviously relieved to find that I would support him. He wistfully commented that the chair in which I was sitting was the one occupied by Khrushchev during his Camp David sessions

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with Eisenhower during the mid-50's. That evening, Saturday, Safire came to see me and told me how pleased the President was with my entire attitude and that he had said that he did not think that one could find another half dozen men like me in the entire country – that, indeed, I was a rare jewel.

The next day, Sunday, the President presented everyone at the meeting with a Camp David jacket; but he singled me and Kennedy out – we were also to receive some Camp David glasses.

The weekend confirmed my growing feeling that the President needs to act in a way that satisfies his hunger for drama and novelty, that he lacks true self-assurance and that therefore requires some dramatic act to convince himself that he is a strong leader, and that his prejudices – or [shall? or should?] I say principles? – will not survive clear evidence that the political winds require a change.

One byproduct of the new harmony is, apparently, that I can have a free hand in choosing Sherrill's successor. Previously, Schultz had come to see me with the announcement that the Pres. wanted me to know that he had already selected Sherrill's successor. Schultz did not name him.

[118 – One of three legal pad pages within the journal]

**Sept. 10<sup>th</sup> [1971]– Friday**

Met with President and Connally to talk over U.S. position at Group of 10 meeting in London.

The President started out by telling us that he would talk very frankly to us since we were both “friends and “politicians,” but that he did not want us to communicate any part of his thinking to our staffs or others in government. He proceeded to comment on the needs of domestic politics – to maintain import surcharges, to press foreigners for trade concessions, currency realignment, and defense-burden sharing. This was clearly the mood of the country as evidenced by sentiment of Congress, particularly the [impress?] of his address to the Congress on the interesting monetary and trade problem. We therefore should not be in a hurry to achieve a settlement, that in fact some “demagoging” on the President’s part this year and next was good politics, and that a settlement should be postponed until after the election.

When I asked whether this meant that import surcharges could not be dropped before the election, President indicated that this would be difficult to do – unless, of course, we got truly major concessions.

This communication confirmed my fears that considerations of domestic politics would delay and distract serious efforts to rebuild international monetary order. In preparation for meeting, I had prepared a memorandum listing, country by country, the restrictive measures that had developed since Aug 15. I gave this to the

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President and to Connally and proceeded to explain the special danger of an unfolding dual exchange system: that, to the extent that it succeeded in its purpose, the rate on the commercial dollar would be at or close to the old parity and thereby frustrate U.S. efforts to improve trade balance. President said he recognized danger; but – unless we hold firm – even worse restrictions on foreign trade could be legislated by Congress and that, after election, a reform of a more liberal commercial policy will again become possible.

I then told President that, while I fully understood his position, I did have to warn him of the risk he was taking; that much of his life has been devoted to strengthening the international order, that he would like to – or at any rate I hoped he would – go down in history as the President who reconstructed international peace and strengthened international harmony, but that a postponement of serious efforts to rebuild international monetary order would probably lead to a wave of protectionism and restrictions of all kinds, and that he was taking a chance of ushering in an era of growing restrictionism, trade wars, currency wars, and the like. He took this warning well, indicated that he would ponder the point; but I do not think I influenced his basic position - which seems to be that he

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will act in [?] [?] fashion only when he can again afford it; that is, after the election.

On the personal side the President could not be more gracious. He invited me and Helen [Burns] to attend next Monday's Cabinet meeting (wives included); but I explained that I had to be in London. Previous Thursday, he invited us to concert at Kennedy center, including reception; on Sunday to church services; and on Friday to his meeting with labor leaders (also another meeting in [following?] week, which I could not attend); on Saturday to his meeting with Cost of Living Council. Safire arrived on Thursday with a request from President that I go on TV with a view to helping him get tax bill out of Congress.

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**Sept. 20 [1971]** – President called and asked me to come over within an hour. Hastily rearranged my schedule and spent an hour and a quarter with him. President was in a thoughtful mood. He wanted my impressions of the London meetings. Apparently, he was concerned about what he read of Connally's handling of the meeting. I told the President that Connally had conveyed very well to the Minister of Finance and the central bank governors his own toughness and the firmness of the U.S. position, but that he did not show enough understanding of the position of other countries, that there was a danger therefore that the position of other countries – which have pride as well as problems – will harden, that Britain is now reflecting the thinking of the Common Market countries, that other countries are apparently in a process of establishing a common front against U.S., that they have enough power to frustrate our economic objective, and that they may also prove less reliable as political partners if we do not show a certain willingness to recognize their problems – as in the case of gold price. I explained that latter was a political problem for other countries, although some of them – quite wrongly I felt – saw also some substantial economic advantage. I advised President to take steps to get negotiations [seriously?] started. We talked again about the [advantage?] of U.S. toughness for domestic politics;

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but I warned that this advantage may be much smaller a year from now. He readily admitted this, and acted as if the thought were a new one. I suggested that he address the IMF-World Bank meetings; but he rejected this on ground that he may not have anything constructive enough to say. Instead, he would give a reception – which I thought was a very good idea but I also suggested that he invite Schweitzer for fifteen minutes before reception and have a quiet talk with him. He agreed to do this. We then talked about setting up a group that would work with Connally on negotiating technique and I strongly urged State Department representation; for the way in which the negotiations were handled could have far-reaching implication for our political position in the world. He agreed to do this, indicated that certainly Nat Samuels and probably also Kissinger will need to play a part.

President asked me to suggest what he might say in Detroit on international problem, and also to give him by end of week my thoughts on Phase II of price-wage stabilization policy. I agreed to do both.

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**Sept. 22 [1971]** – Bill [Rogers?] called for an urgent meeting. Met him for lunch. He sees international problem much as I do, is greatly worried about Connally's ineptness in dealing with foreigners, is eager for an early solution of international monetary problem, fears a collapse of President's foreign policy, and is resolved to take a very active part in the activation of policy on import surcharge, gold price, and so on. He had heard reports of Connally's outburst in London, and was greatly concerned about the effects on foreign opinion.

**Oct. 7 [1971]** – Attended Cabinet meeting on Sept. 24<sup>th</sup>. There saw President together with Connally. Cabinet meeting was devoted entirely to the approaching IMF meeting. President emphasized the domestic political advantage of the import surcharge; but he also noted that we had the responsibility for leading out of the present monetary impasse. There was a good deal of comment on the advantage of our not hurrying a settlement. Packard led off with the argument that time was on our side, since foreign trade was vastly more important to foreign countries than to us and they therefore could not afford or resort to discriminatory or retaliatory measures. Connally echoed this fatuous

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argument and so too did Kennedy. President seemed a little uncertain whether they were right.

At the private meeting, we discussed negotiating technique. President indicated that he was going to rely on Connally and me on the negotiating problem and tactics. He emphasized the domestic political angle once again, which favors delaying tactics on our part. This time I spoke up and indicated crisply why I could not go along with the thesis that time is on our side: first, because reason does not always prevail in human affairs – that pride, emotion, even madness may govern human and [mental? or medical?] conduct for extended periods – that countries may not therefore focus on their long-run interests but may instead focus on short-run advantage, economic or political or both – that in fact this was already happening, as evidenced by the growing list of restrictive measures abroad; second, that there were some signs of recession abroad, that in consequence – if this materializes – we would not get as good a readjustment of exchange rates next year as now, and that – alas – we would be blamed for any international recession. All this seemed new to the President. We discussed next our negotiating stance. I argued that we should yield on the price of gold; and this was or

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seemed to be accepted – although it was also agreed that we would not disclose this until we seemed to be making progress in the negotiations. Connally made a proposal that we offer to drop import surcharge and also our direct investment controls (as if this was a concession to others!) if any of other countries would permit a “free float.” I argued against this, urging that there wasn’t a chance in the world that any such proposal would be accepted; indeed, that we would only anger foreign countries by offering (or threatening?) to end our direct investment controls. Connally agreed to drop the direct investment part, but urged that the rest be kept.

I inquired again of the President whether he would invite Schweitzer. He later did at meeting that Connally & I attended on or about Sept 29. George Schultz told me that Connally was very angry and opposed to Schweitzer invitation; he never gave me a hint of this, although he had ample opportunity. In any event, Schweitzer was invited, and acted like the damned fool that he is. More accurately, he is a pathetic man, always on the defensive one way or another. However, the Schweitzer meeting helped to improve international sentiment, and this was what I wanted.

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**Oct. 7 [1971]** – Talked to President by phone. He accepted completely my revision of his paragraph on interest rates. Expressed gratification over my taking chairmanship of Committee on Interest and Dividends, hoped that this would not be embarrassing to Fed, that my hand in this was needed, for a Stans or a Romney would not command the authority or respect required for success. I kept quiet for the most part. How could I disagree?

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**Nov. 6 [1971]** – Bob Ellsworth came to see me today and brought the following message from a source (unidentified) that he described as absolutely reliable: 1) The White House staff has formulated a plan to blame the Fed if Phase II turns out to be a failure. The argument will be that Fed failed to permit a sufficiently rapid rate of growth of the money supply; and this, so the argument would go, was responsible for the failure of the economy to recover as expected. 2) The President himself was organizing a campaign against the Fed – by pointing out to his financial supporters in Wall Street that the money supply has failed to rise in past 2 or 3 months, by arguing that this was contributing to – if not causing – economic weaknesses, and that they should write me – or otherwise get in touch with me – and urge a more expansive monetary policy. This campaign was supposed to have gotten under way some three days ago.

Is this a true report? There was no question at all in Bob's mind, and I trust him. Just three days I got a stern letter from the President urging me to start expanding the money supply and predicting disaster if this didn't happen. But I still await evidence – The kind of mail or the phone calls that

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Ellsworth described have not yet come my way –

Now I must go back in time a few days:

**Oct. 28 [1971]** – A quadripart meeting which Peterson and Flannigan also attended.

Peterson presented a very civilized report – outlining a reasonable plan for ending the international monetary crisis. A discussion followed in which I pointed out that no realignment of currency parities, such as we wanted, would take place unless we agreed to raise the price of gold by, say, 5% or so; that if we failed to do that, and still wanted the French franc to appreciate against the dollar, the price of gold in terms of French francs would have to go down; that this would be virtually impossible for the French government – in view of its encouragement of gold hoarding by the French populace over the years.

At one point Connally burst out: Why are we always talking about what WE should give up? Why don't we emphasize what they should give up? This was unfair, particularly to Peterson and me, and I pointed it out.

The meeting was inconclusive on the foreign side, despite the need for formulating

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a clear policy to guide Connally in his Far Eastern trip. What would Connally do? His free-wheeling is dangerous; he is taking no one with him. Are we going to build a new world in sheer bluff and bombast?

On domestic side, McCracken urged further tax reduction. I disagreed and so did Connally. The President questioned me closely about money supply, and Connally did too. I was prepared thoroughly for the former. As for the latter, I reminded him that Treasury criticized Fed two months earlier on ground that money supply was growing too fast and that I then told him that they may soon criticize me because m. supply was not growing fast enough; that they had better, [therefore], make up their mind.

Towards end of meeting, President told me he would see me tomorrow (Friday) to go over what I wanted to cover in private

**Oct. 29 [1971]** – My purpose of this meeting was (i) to review problem of Fed Board replacements (ii) to inform Pres. About Zijlstra's secret mission (to which I had referred in a letter to RN), and (iii) to comment further on money supply.

When I turned to (ii), President stated before I finished my sentence – “Oh yes,

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you mean Zijlstra, Connally told me about that.” This astonished me; for there could be only one reason why Connally would go to the President with this - namely, to complain about me. This was very revealing to me; it meant that Connally was not a fair player – that he was working behind my back, while I took him completely into my confidence even after I began to have doubts about his character.

Since the President already knew about Zijlstra, but knew it through Connally’s eyes, I no longer had any reason to withhold from him the disturbing conversation I had with C. about Zijlstra a few days earlier; where I learned that Connally was refusing to see Zijlstra . When I intervened he condemned the whole arrangement; denied that he had ever agreed to having Zijlstra serve as an intermediary; that he thought this was simply an affair of the central bankers – something that didn’t concern him. I pointed out that the international monetary problem involved government, not central bankers; that finance ministers were inevitably involved; that he had agreed to the arrangement when I

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first planned it; that I consulted him again when I had the details worked out; that he then expressed a reservation about finance ministers; that I explained that the enterprise would be pointless without them; that the Zijlstra arrangement could be most helpful to the U.S.; that, however, if he no longer wanted it, I would call it off; that he then replied that we might as well go ahead since the intervention could be helpful; that since he didn't remember these conversations (Bob Holland was my witness – though I didn't tell C. this), there was no use arguing about the past; that we must now make the best of a bad situation; that Zijlstra was a distinguished personality who must not be rebuffed; that if Connally refused to see him, every capital in the world would soon know this; that an international incident like this would hurt him (Connally), the President, & the U.S. government, for it would supply evidence that C. did not want a settlement – something the Europeans & Japanese already strongly suspected. Connally fumed, even spoke of presumptuousness of central bankers attempting to deal with matters in province of finance ministers. I pleaded for

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common sense and decency, pointed out that C. need not tell Z. anything of value if he so chose, that – if he wanted to be secret – he would rule out flatly what we did not [?] and thereby make sure that Z. did not present any such thing in his mediation proposal! C. agreed to think about this, but I discovered later – from Volcker - that he was holding firm. Of course, I told the President all this in much abbreviated form; but President was concerned about C's not seeing Z, took notes on the point. President also advised me to talk over political aspects of international monetary problem with Kissinger. When I left, he said on parting: "Maybe we will need to change our position. It may be having undesirable political effects."

**Nov. 3 [1971]** – Zijlstra cabled asking for appointments with me, Volcker, and Samuels. This required immediate reply. Volcker consulted Connally (then in Far East [somewhere?]), and he said no. I then took matter to Kissinger, who called Volcker advising meeting with Z,

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Volcker called C, who agreed. Thus this foolish and time-wasting episode finally ended.

Volcker's part in all this was not [manly?]. But he is an indecisive man, full of flaws, and anxieties. His petulance in this instance is, however, understandable; for, instead of learning about Z's mission from Connally (as C & I agreed he would) he learned it from a European at a Paris meeting. He felt hurt; but he lacked the strength or wisdom to sort out issues and excited C's mad temper, instead of seeking to curb it.

In my talk with K he made this astonishing statement: "President wanted me to talk to you about international money problem. He wants me to divert you, so that C. can roam freely as he wishes." This is very strange – quite Rooseveltian. What a dangerous game RN is playing! And why?

Kissinger shares my fear of the economic & political consequences of delaying resolution of the international problem. We agreed to talk again soon.

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**Nov. 4 [1971]** – Saw President at Gandhi dinner; he urged me to go to India, indicated that he had informed Mrs. Gandhi of this wish; and asked me to phone him tomorrow.

**Nov 5 [1971]** – Steve Bull called & asked me to come over instead of phoning. Kissinger was there for a couple of minutes. President stated that he wanted Kissinger and me to meet, discuss international monetary problem, and advise him on it; that he didn't trust State Dept and that had no use for Peter Peterson as well. Then Kissinger left.

We talked about President's letter expressing deep concern about money supply. He told me that only Rose Mary Woods knew about this letter; that he will not discuss it with Connally; that he wanted me to know of his deep concern. I told him that I felt sorry about his concern; that he had some real problems to worry about, that he did not really understand what Fed

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was doing, that we of course would not permit the money supply to decline next year. He seemed reassured. We then talked about ways of manipulating expenditures for the election; he thought that Cap Weinberger could do that for him and that he would go after this at once.

The President's preoccupation with the election frightens me. Is there anything that he would not do to further his reelection? I am losing faith in him, and my heart is sick and sad.

**Nov. 26, [1971]**

Met with Connally for breakfast on Wednesday, Nov. 24. He seemed to be in a calm mood, apparently interested in reaching a settlement with the Europeans and Japanese. This was a most pleasant surprise for me, as was my brief meeting with him upon his return from Japan the preceding week.

Volcker kept on reporting that Connally was in a belligerent mood. And that was a cause for my surprise. Also a few days earlier Bob Anderson called and expressed deep concern upon finding Connally "an angry man." Bob repeated

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twice what John had said in his most truculent manner: "I did not take this apart to put it back at a cheap price." What arrogance! What a difference from the August-Camp David meeting! When I finally assented to the import surcharge and the suspension of convertibility, I stated that by these acts we were destroying the international monetary system, and that we could justify our actions only if we move at once to rebuild the monetary system, that not a minute can be lost, that if we delay the rest of the world will react with retaliatory or protective devices, and that the political unity of the Western World will be severely tested. Connally agreed at the time, and suggested that Volcker go to Europe at once to explain and start the rebuilding process. But he – and others – forgot what we originally wanted, or perhaps they never really meant what they said. And so I came back to the contrast between Connally's talks with me and his talks with Volcker and Bob Anderson. I found the contrast puzzling and disturbing, but not entirely – since his comparative calm gave me some hope.

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At 11:30 / Same day, Connally and I met with the President. We talked mostly about plans for the Rome meeting. President made it plain that he wanted progress at that meeting; and that he indeed wanted us to indicate as much to the press – which I did later in the day. The President also made it clear that he did not want a final statement at Rome – that he wanted to get some direct credit for this through his meeting with Pompidou (Dec. 13 at Azores), then with Heath a week later at Bermuda, and with Brandt two weeks later at Key Biscayne. Connally naturally agreed, hearing what the President had expressed, can it be that Connally spoke to me in a conciliatory manner because he already knew that the President was moving toward a settlement (Kissinger saw him upon his return from Japan, and he angrily inquired of him whether he had been sent by me) and that I had the President's ear? If so, his belligerent, angry, vindictive manner – in speaking to Volcker and Anderson, who never saw the President – becomes clear. Or so it appears. Connally continued to take a somewhat ambiguous – if not downright hard – line on the price of gold; but I patiently explained that no

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settlement is possible without small (5 to 7%) increase in the price of gold, and that we would be giving up nothing of economic substance if we agreed to that. [Key? or My?] [exposition?] was very simple, and I think that the President understood it, but I doubt if Connally did. Somehow, poor and wretched Volcker – never knowing where he stood on any issue – had succeeded in instilling an irrational fear of gold in his tyrannical master, whom he tried constantly to please by catering to his hatred of foreigners (particularly the French) instead of his capacity (not inconsiderable) for strategist reasoning. This point about gold was left dangling in the air.

President at this meeting again expressed his concern about the money supply. I reminded him that I was looking after that properly, that he need not worry about that, that an apparent drive by White House (according to Ellsworth, dictated by President himself) to get Financiers to write me alarming letters on this subject would accomplish nothing but harm to the Administration,

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(For in fact two of the men whom Flanigan had urged to write me, telephoned me instead to report on Flanigan's maneuvering; this too I told to the President), and that Ziegler (by his stupid comments about Fed action on margin requirements) thwarted my plan to reduce margin requirements that very day. The President tried to defend Ziegler, and Connally echoed the President's defense; but their case was weak – and I'm sure the President knew it.

We later met at a long luncheon meeting in RN's EOB office – joined this time by Schultz and Kissinger. President had explained at earlier meeting that this was the group on which he was relying, that he had no use for Pete Peterson (second time he told me this) nor for anyone from State Department (though Bill Rogers was decent and meant well). The one new point that emerged at meeting was that trade concessions – even small ones, especially in field of agriculture – were particularly important to him, and that this could speed a final settlement from his viewpoint.

The role of the President's summit meetings was also clarified; he wanted the credit for achieving a settlement. And in the course of that

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discussion, he decided to have a meeting also with [Sato?] – this one in early January in San Clemente.

The line-up at discussion became clear early in the meeting. I stressed the importance of our domestic economy – particularly, capital investment and stock exchange values – for an easy removal of the uncertainties surrounding international trade and finances. Kissinger stressed the political danger of a delay in settling the issue. Schultz and Connally balked. As I had already suspected, they had reached some kind of understanding (which apparently included [destruction?] of Pete Peterson, Nat Samuels, etc) on the international problem – which included resistance to changing the gold price and objecting to any kind of convertibility. I had talked to Schultz before on these issues, and particularly explained the economics of these policies. Apparently, Schultz was still wedded to a floating exchange rate, although he now acknowledged the need for a realignment of parities; but he somehow thought that raising the gold price, even though there would be no convertibility of any sort for

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two years anyhow, would inevitably restore the old monetary system; and he also thought that our making a modest sum of reserve assets available for a functioning of IMF would again reintroduce convertibility and thereby restore the old monetary system.

Schultz' performance was an astounding exercise on the part of a man who should know that he has not the slightest understanding of international economics or finance! What a pity that this quiet, persuasive, but woefully ignorant ideologist, has such influence with the President.

Here we were – Kissinger, a brilliant political analyst, but admittedly ignorant of economics; Connally, a thoroughly confused politician, suppressing his desire to punish foreigners in view of the President's moving away from narrow domestic political [c?]; Schultz, a no less confused amateur economist; I, the only one there with any knowledge of the subject, but even I not a real expert on some aspects of the intricate international problem! What a way to reach decisions! No one from the State Department there, no technical experts to aid us!

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All the same, despite Connally and Schultz, I feel that we're going to bring this issue to an end by this coming January. I am leaving nothing to chance in working for this outcome – so necessary for our country's peace, prosperity, and progress.

**Jan. 19, 1972**

President telephoned yesterday morning, indicating he wanted to see me and Connally later in the morning.

Upon my arrival, President said at once that he had learned of my deep concern about the budget deficit for fiscal 1972; that he had also heard of my drastic suggestion for dealing with the danger to financial markets that would probably follow the announcement of this extraordinary deficit; that he liked the idea, was inclined to adopt it, and that he wanted to discuss implementing procedures.

President had learned of my proposal from Connally the day before. Connally appeared to lean toward my proposal, but

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was not fully convinced. My proposal was: announce at the very beginning of budget message that the budget had reached a state requiring drastic measures; that unless such a step was taken the budget would be totally out of control; that the only way to prevent this is to legislate a ceiling on budgetary expenditures – a ceiling that would be absolutely firm, a ceiling that would apply equally to the Congress and the Executive, a ceiling that would permit no escape hatches whatever.

President indicated that he would do just this; that he would not leave it to Schultz or anyone else to write this part of the message; that he would do it himself in a manner that was absolutely clear, forceful, unambiguous; and that he would send me the paragraph or two for any editing I might wish to do.

President asked Connally and me to ‘leak’ information on this to papers, for publication on Sunday. I later told Connally he or Volcker should do this, and that I prefer not to participate.

With this out of way, I turned to Pay Board & Price Commission, indicating that I had spent a good deal of time [recently?] with Grayson, Judge

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Boldt, individual members of the Pay Board (public and business), and the entire Price Commission.

I explained proposal I had put up to Grayson and his Commission; namely, pick some number below 2 ½ % - say, 2%; inform business firms that they may, if their business judgment so indicates, raise prices up to that figure; that they could do so without prenotification, but that they would still need to report the price advance, that they would need to justify it on grounds of cost increase; and that they could run the risk of a rollback if the justification did not stand up under analysis. Connally supported proposal – though without enthusiasm (Perhaps he was depressed; he seemed to lack energy at this meeting. Was he disturbed by Nixon's apparent nod in Agnew's direction? Or was it some temporary indisposition? For a week or more, his old bounce seemed lacking; and he seemed to be avoiding publicity – which he previously sought so avidly and so conspicuously). President liked idea. Decision was to give Price Commission a bit of time, and

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- in the absence of action – to make discreet inquiries (presumably by Connally or me).

Next I turned to Judge Boldt & stated my conclusion: that he was a man of exemplary character; that he was a true patriot – eager to serve his country as requested; that, however, he was still a judge rather than a political leader – that he did not know how to use a staff, that he felt his office required him (along with the other 14 members) to act judiciously; that he did not seek to lead the Board, that he would not do so as a matter of principle (he so told me), and that he probably would not succeed in a leadership role even if he attempted it. I then pointed out that time for a change was short; that the way Pay Board was going it was by no means clear that [wage?] performance would improve; that if a change was to be made, this should be done within the next few weeks; and that my candidate for the post was Arthur Goldberg – who, I know, wanted to talk to President about Pay Board, and who, I felt, would be only too happy to accept the chairmanship. President was most interested in the idea; so

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was Connally (though he indicated he wanted to know more about his administrative skills).

Decision was that Connally would inquire discretely about his administrative abilities; & that

President would have a meeting with Goldberg – at the least to get his advice about the way that incomes policy was going.

Upon leaving President's office, saw Schultz in the waiting room – awaiting his turn to move in. I told him about the proposal on the ceiling (he had my thoughts a day earlier and was skeptical, without being opposed), and the President's intention. He shrugged his shoulder – this could not be done, since message was already printed up (what nonsense!) Later in day, I learned from Connally that my proposal would not get into budget document (since the printing was already done), but that President would accomplish the purpose by putting out a statement before Budget Message went up, that this statement would proceed along previously agreed lines, and that it might be made on TV. (Apparently, President did not

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realize that the Budget message could still be corrected – at a cost, to be sure, of money – by printer. How easily the technicians have their way at times even with Presidents!

Later in day I told Schultz that Proxmire had indicated to me that Boldt might not be confirmed (hearing scheduled for Jan 27; and that I wanted him to pass on this message to President. Schultz said that he would try to do this, but that he wanted me to know that he now rarely sees the President; that his influence had been drastically reduced; that this was a result of Connally's dominating personality and doings; that, I therefore might want to consider other ways of getting messages, if time was a factor, to the President. He sounded very pathetic and I felt sorry for him. He sounded bitter against Connally, & was critical of the President. Poor Schultz! He tried so hard to be a politician; he was entirely willing to politicize, if need be, the Budget Bureau; he actually did so in large part; and now he found himself the author of the most distressing budget in [peacetime?] history – no longer a politician with

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influence, merely a technician but one who had earned the scorn of professional men – in short, having neither technical excellence nor political power to show for all his tireless efforts.

That Schultz was in this mood has been clear to me for several weeks, and he seems to have appraised his position accurately. Connally told me after the Azores meeting that President had no use for his monetary advice, and that he (President) could not accept Schultz's "doctrinaire thinking" or his "economic theology.[?]" Schultz told me several weeks ago that he now rarely sees the President, that he no longer has relaxed conversations with him – as he used to, that his influence is diminishing, and that all this was Connally's unprincipled doing. Schultz had come to see me, also, to defend his handling of military budget which the President had criticized (apparently, as a result of my conversation with President).

Last Saturday, Peter Peterson

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cried again on my shoulder about his diminished influence with President: he too blamed Connally – correctly so; but I suspect that Schultz had something to do with this as well. Schultz could not forgive Peterson for his opposition to a floating exchange rate. Connally was concerned with power, not with Peterson's ideas; he had to get Pete out of his way, just as he sought to get practically everyone else out of his way.

Vanity! What vanity! Why do grown men act so foolishly?

**January 30 [1972]**

Had Quadriad meeting on Wednesday, Jan. 26<sup>th</sup>, Schultz started out by buttering up President, telling him how wonderful he was the night before on TV; John Connally followed in similar vein. I felt disgusted with the two of them, remained silent; though I did indeed think that the President did exceptionally well, and I might have written him a note if the [dispiteous?] manner of these two had not killed the desire.

Stein gave a gloomy report on economy. I

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felt he exaggerated the shortcomings and failed to note the significant improvements – as in the length of the workweek and capital spending plans; and I commented accordingly. Connally spoke in a similar vein, and was better prepared than usual – probably the result of Fiedler's briefing.

George spoke about the budget, how hard he was working to get cabinet officers to spend more energetically; this kind of talk by a budget director sounded very strange to my ears. Indeed, he complained that some government officials did not understand that it was their duty to spend more or else that they lacked the good sense to know how to bring this about. (According to reports of recent Cabinet meeting, George pleaded with all of them to spend more.) The President was pleased, urged that the spending be speeded up by April to May; that what happened later would not count so much. I could understand the President, but I found it hard to accept such unashamed politicizing of the Budget Bureau by its director.

Connally complained about the trade conversations with other countries; he spoke bitterly and urged punitive measures. He indicated that he would not make one cent

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available out of our international reserves to enable the IMF to function! I protested, pointing out that such action would undermine confidence in the Smithsonian agreement – particularly now, when uneasiness about this agreement was already disturbing foreign exchange markets. I also urged that the gold bill be sent up promptly, that we stop casting doubt on our own intentions, that we claim reasonable success in our trade conversations, and that we remove doubt about legislation on the gold price. Connally then became very annoyed, indicated that he too was concerned about confidence, and that he would move as fast as possible on the gold price; his annoyance was obviously directed against me; but his bitterness was reserved for the “damned foreigners” – and he raved on and on.

I commented on monetary conditions, indicated that M, was not behaving satisfactorily, but that reserves were now growing rapidly. As for M, I pointed out that its behavior, while disappointing of late, was not a magnitude that we could effectively control in the short run[.] Some talk followed about the inadequacies of Hayes and Brimmer; and the President indicated he would do what he could to rid me of Brimmer.

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(A couple of days later the President wrote me a long and anxious letter about the importance of getting the money supply up. My, how he has been taken in by the [monetarist?] talk of [Friedman?] and Schultz!) I joined in the criticism of some of the Fed practices, but indicated that it was important to focus on the essentials; namely, that the Fed had supplied reserves on so liberal a scale that the banks were hunting for customers – that it was not lack of liquidity that was holding back the economy – that there was too much loose talk about monetary and fiscal policy – that what we needed was confidence-building policy!

**Feb. 29 [1972]** – Saw President on 14<sup>th</sup> shortly before his departure for China. He expressed hope, but also uncertainty, about the Chinese trip. He talked also a little about the later trip to Russia. With respect to latter, he shared feeling that very considerable achievements will be announced; that this trip would be a definite and huge success.

Our conversation covered numerous subjects. I warned him that budget for fiscal 1972 was much less stimulative than raw figures suggested;

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that there was much overwithholding not allowed for; that revenue sharing would, at best, not lead to any expenditures this fiscal year; that advance payments to contractors are not equivalent to purchases of hardware or labor; and that the like was true of advance payment, on account of welfare, to the states.

I stressed confidence factor most; and indicated that social policies – as in the case of busing – have their economic impact. President was much interested in my view that busing was having an adverse effect on the economy. He talked indignantly about the [horrors?] of busing and indicated that he was on the verge of taking a strong public stand against it.

I reassured him on the money supply; but he continued to express anxiety about this magnitude – speaking as if he knew what it was all about.

I told him that I was looking after monetary policy and that he need not be concerned about the possibility that the Fed would starve the economy. I told him that he should concentrate instead on fiscal policy, and I suggested that he get weekly reports on progress with regard to expenditures; Ehrlichman got this assignment at once.

We talked about [personnel?] problems at Fed,

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President knew that Rogers would not have Brimmer for U.N. We talked about an ambassadorship; President thought that Sweden – preferably Austria – would be possibilities. I expressed strong doubt about Brimmer accepting an African post.

Hayes' recalcitrance came up. I told the President that he could do nothing about this; and that if problem can be solved at all, I would have to do it. My paying more attention to Allan Holmes, and making him feel that he is a partner, may pay off.

Had dinner with Agnew and our wives. Ted is extremely unhappy; he is informed of nothing and is treated with contempt by White House crowd – that is, when they choose not to ignore him.

Ted felt confident that the President would ask him to serve again as the Vice-Presidential nominee; not because he really wants him but because he cannot afford to drop him. He showed no concern about Connally replacing him on the ticket; and while this seems hard to believe, I am inclined to take him at his word.

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Ted sought my advice about dropping out on his own. Reasons for doing it: (1) he cannot accept being so useless for another 4 years; (2) he could make \$500,000 a year and thus put his family on a sound financial footing; (3) that if he ran with President again and the election was lost, he (Agnew) would be blamed all around; (4) that as far as his chances in 1976 are concerned, he cares little for it, but that he would have a chance on his own through extensive exposure in print, TV, etc.

I advised him not to give up: (1) because he would have feeling of inadequacy in later life if he did; (2) that he should not dismiss too lightly the chance of becoming President – by moving before 1976 into oval office or being in a good spot for nomination in 1976. But I also warned him that he might get hurt, since I was far from sure that the President would have him.

We argued back and forth. Finally, I advised that he follow his instincts, that they deserve respect; that I thought he wanted to stay on ticket (otherwise, why did he tell John Mitchell that Ehrlichman's leaving was a condition of his continuing); but that when the President asks him to stay, he should lay down

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some definite conditions about having an active role in domestic matters (as the President himself suggested in 1968). That is how we left it – except that we would talk again before long.

Ted Agnew is an honest man. He has plenty of guts and good sense. His estimate of Ehrlichmann – as an immoral upstart and intruder – came through with special clarity.

Somehow, I couldn't understand why, he spared Haldeman his scorn and contempt.

I feel sorry for Ted Agnew. I think Dick Nixon has no use for him and that he will be dropped.

**Sept. 16 [1972]** -Spent two hours in meeting with President. Schultz, Stein, Connally, Ehrlichman and Ziegler there. This was second of recent meetings (previous one on \_\_\_ ), lasting 2 ½ hours (with Schultz, Ehrlichmann: Ziegler brought in after 1 hour or so).

[F?] impressions that came through: President seems determined to keep expenditures down. He discussed this at length and explained that he wanted each of us to understand this; that when he was elected he was a minority President and cities seemed to be falling apart; that  
now

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he expects to be elected by a large majority, that House and Senate may go Republican, and that even if they don't he'll have much more support there; that he will get rid of OEO, of [community?] action programs, that he had no use for model cities, food stamps, etc.

He explained that he didn't want welfare reform to pass. I first heard him say this on \_\_; Schultz indicated this earlier to me.

Most of time was spent in trying to figure out how he could deal with promise made in acceptance speech to reduce burden of property tax. He seemed attracted to a proposal to provide a tax credit, up to \$500, for property tax of people over 65; the cost of this would be little more than 1 billion. How was this related to the broad promise he had made? Well, one could be vague about this – savings on other expenditures, [primarily?] tax reform, something Schultz called a fiscal [progressing?] dividend (what foolishness!)

President was opposed to saying anything about tax reform. He wanted it to be made clear that there would be no value added tax under any circumstances now (before he kept releasing hints about this). He would not ask for an increase of the minimum tax from its present 10% (on people with [preferential?] income); although at preceding meeting when I urged this, supported by Schultz, he seemed to be in favor of doing this.

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What then was Nixon for? How would he use the opportunity of another four years? Nothing positive. His only values: to get rid of a lot of expensive programs that we don't need.

Opposition to tax reform was seconded by Connally to Schultz's great [discomfiture?]. President indicated that contributions by the affluent to the campaign were a consideration. A week ago he argued that he didn't care about [fat cats?]; that they ought to kiss the ground on which he walks no matter what he proposes in tax field.

All in all, Nixon appears to be more self-confident; his prejudices are coming to the surface again; he is more willing to articulate them; but no convictions are coming through, new or old. Clearly, he wants power; clearly, he feels that he is saving the country from the madness of McGovern; but I don't think he has any positive ideas at all as to what to do with his power – at least in the domestic area. Ehrlichman and Connally – both entirely amoral men – both very close to him – are not helping him to reach any convictions.

Ehrlichman has ingratiated himself to the point where he can invite Ziegler in without

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even asking the President; when he can tell Schultz, during the first of these meetings, that he won't even talk to Eddie Cohen, etc.

Schultz made a sorry picture. He asked President what he should put the staff on: should he have them work on tax reform, on what kind of reform? President seemed perplexed by his defensive queries. Connally was chuckling inwardly and winked to me. Schultz was clearly upset and unhappy, partly because Connally was there, partly because it was obvious that the President was paying very little attention to him. He was interested much more in what Connally and I had to say; at [preceding?] meeting in what I had to say. Schultz is such a good boy!

**Oct. 14 [1972]** -Had another Quadriad meeting on Oct. 9. The purpose was to survey economic and financial scene, following a long agenda prepared by Cap Weinberger. But meeting, which lasted over an hour and a half, turned into a monologue by R.N.

President requested group to say absolutely nothing about future plans of Administration – not until election is over in any event.

He spoke with great self-assurance but said nothing positive about his plans for the future by way of policy or program, except that he intends to pursue

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a tight expenditure policy. He indicated flatly that he would veto the \$24 billion water pollution bill that was on his desk.

He spoke with feeling about the inadequacy of Congress, indeed he spoke of Congress with contempt. No leaders - none. Not Mansfield, not Scott, nor Ford, not anyone in fact. Two or three good senators – all from the South.

He condemned much of the [legislation? or legislature? or legislators?] of his own years as well as prior years. He praised family assistance plan as being a brilliant idea, but stated that “we should have taken another thirty days to think it through”!

(President turned against his family-assistance plans months earlier. The first I knew of it was just after meeting that dealt [margin note: “Date:”] with FR appointment of Buecher; he indicated to me it was too costly and he didn’t want it. Schultz had indicated as much a month or so before this)

President indicated that planning for 1973 would start right after election. He asked me to postpone my trip to Japan for this reason; that is, not go until toward end of November.

I had a brief interchange with Herb Stein.

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Latter indicated that controls should come off after election. Schultz merely states that wage bargaining negotiations would be less troublesome in 1973 than is currently believed. I stated that without a lower wage guideline next year (4 or 4 ½ %), inflation cannot be brought under control. President indicated that controls are popular with general public, but he felt uneasy about continuing them for long.

Apart from a doubt here and there, President was remarkably self-assured. He clearly expects an overwhelming victory at the polls. But something happened to the President in recent weeks; he is much calmer than he used to be, looks relaxed, seems to have more confidence in himself. August 15, 1971 was a definitive and decisive turning point in the President's state of mind. Another came right after George Meany and other labor leaders walked off the Pay Board; I was quite astonished at the relaxed way in which he took this (as revealed in Cost of Living Council meeting called to deal with this). He was not merely pleased; he spoke as if he knew just what was the right thing to do and that he would do it quickly and quietly. A new Nixon is emerging – a man who feels that he finally has not only position in the world, but great

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power as well. But I see no indication as yet that, apart from foreign [field?], he has the slightest idea what he wants to use the power for; unless it be to nourish some old grudges and prejudices.

**Dec. 16 [1972]** – Attended President's dinner for Cabinet. I whispered to him that I plan to go to Europe in early January. He appeared pleased and asked me to see him before I go.

President seemed relaxed and was very gracious. He proposed a toast to Agnew, then had Rogers propose a toast to Mamie Eisenhower – my dinner partner. Finally, President announced in his inimitable mysterious way that he was appointing a new Cabinet officer; that the office would be that of Counselor; “That Arthur Burns first held the post, then moved on to become Chairman of the Federal Reserve Board; that this is a very powerful post, from which Arthur speaks only to God and me – mostly to God, since his position is independent – as it should be.”

After this lengthy introduction and reciting names of two other counselors, President announced that he is appointing Ann Armstrong as Counselor, and asked that

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no one speak of it to the press, since the announcement is being delayed until Monday.

Lucy Winchester told me before dinner that President asked her around 6 P.M. whether Ann Armstrong was coming to dinner; Lucy replied that she had not been invited; whereupon RN instructed her to get Ann immediately.

Ann was there. I asked her whether it was true, as someone had whispered to me, that she did not know before 6 or so that she would be named Counselor. She replied in the affirmative; but went on to say that she did have conversations about a possible job, but that tonight was the first time she knew what had been decided for her.

**Dec [1972] –**

Met at camp David with RN. Quadriad group. RN kept us waiting from 10 to 12. Met for an hour.

Talked about controls, also fiscal policy. RN was relaxed, only half-interested. Not really well informed. Sounded less belligerent than before, but very political still. What little hope I had that he would see things differently after the election (and they've been eroding rapidly) was shattered. Still scheming, still politicizing.

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I argued strenuously for a tough anti-inflation objective – 1 ½ to 2 % for the year. Schultz and Stein considered that too low, wanted 3 or 3 ½. RN came out, fuzzily, about midway.

RN expressed interest in my trip to Japan. I informed him it was postponed because of election.

RN inquired about Jack Sheehan. When I told him I thought well of the man, he went to say that he will leave Sheehan at Fed and not move him (Sheehan had been asked by Malek to move to Undersecretary of HUD or Commerce; Malek asked Sheehan not to tell me this; Sheehan told Malek he wanted to stay at Fed)

RN talked out loud about giving us smoking-jacket, for example; answered his own musing by saying we already had that; concluded he would do something else.

I stopped to talk to Ehrlichman once again about [Geof Moore?]- who merely said he conveyed my concern to RN. Then I talked to Haldeman, pointing out stupidity of firing [Geof?]: first, he is an outstanding man in his field – highly skilled, objective; second, it would be difficult to get someone else half as good for

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the post; third, there would be an outcry from economists and statisticians about the firing – so that this would cause political embarrassment to the Administration. Haldeman seemed to agree with all this. “We don’t need that kind of trouble,” he stated. – But [Geof?] was fired anyhow! Earlier I had protested to George Schultz, who blamed Colson. Yet I wonder. In summer of 1970, at meeting in Pacific White House, Schultz criticized Moore viciously and stupidly before President; I came to the [Geof?] defense, explaining he was a man of exemplary integrity, and that Schultz’s criticism (which dealt with proper procedure for rounding numbers) was technically in error besides! So I’m not really sure about Schultz’s position on letting [Geof?] go. But I accept what he said about Colson; namely, that he kept complaining incessantly that [Geof?] was putting out embarrassing [statements?] day in and day out. Just like Colson! (When I see him, I continue to ignore him. I look right through him, as if he were made of cheesecloth)[.]

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**Feb 21 [1973]** – Attended Inaugural on Jan. 20. Watched RN's face & bearing intently, just as I had 4 years earlier. Once again, as he stood at the head of the stairs, he looked excellent; his head was high because he had triumphed; he was very pleased with himself – clearly. But this look, unlike the earlier event, did not last. As he moved down the steps, he relaxed, looked natural, indeed almost half-bored. Apparently, he was more self-assured, and was able – finally – to take himself for granted; to think of his new duties and responsibilities rather than exalt over his purely personal achievement and triumph.

The Health dinner ( ) went smoothly. Towards end of evening, Bill Rogers ran up to me: "I've been looking for you all evening. The President was eager to have you talk to Heath." My answer: "I'm delighted. That's why I'm here tonight. Let's go." Bill Rogers: "Too bad, Heath left a few minutes ago." Not an unusual example of Washington planning!

Attended church services at White House on Jan 21. Passing through receiving line, President mentioned meeting my cousin, who had lived in Mexico, the night before. This I had heard from the cousin at the Inaugural Ball. The remarkable thing to me was the President's [recollecting?] all this.

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Politicians seem to have extraordinary memories even for – or perhaps especially for – personal detail.

Met with President secretly on February 6. George Schultz there. We laid out plans for devaluing dollar, getting Japanese to revalue an identical percentage, perhaps convincing Germans to revalue a little, and [certainly?] convincing most others who count to stand still – that is, not change the par value of their currency. Another part of plan covered trade bill – to give President broad power to reduce or raise tariffs – the latter to be across the board, for individual countries or commodities. President had little to say except that if this plan suited us, he would go along. Decision was reached that Volcker would probably leave next day to start these explorations – Tokyo the first stop.

President referred to my recent correspondence. He promised to be tough in administering Phase III and asked me to quote him to this effect when I testified – as I was scheduled to do, promptly.

President also volunteered the suggestion that I could tell the Congress that if they want prenotification, that is quite satisfactory.

President referred to my letter concerning Wilbur Mills. He wanted to know whether it would be sufficient

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to spend 1 hour 15 minutes with Wilbur. I indicated that it didn't much matter whether he spent 30 minutes, 1 hour, or 2 hours; that the important thing was the frequency of the Wilbur Mills visit. He called in Budd (?) and told him to make sure that Mills came by frequently.

**April 3 [1973]** – Had Quadriad meeting with President on \_\_\_ to discuss state of economy, our domestic problems and the new international monetary crisis. On domestic side, I urged action on inflation first, repeating earlier warning, and stressing need to stabilize food prices – perhaps through temporary freeze. I urged some attention to variable investment tax credit. Got support on this from Ash, attending his first Quadriad meeting. President liked the idea. Why hadn't Schultz bought this previously? Here, as elsewhere, he's always late. I also called attention to the low state of profitability in American industry; cited chapter and verse; this had not previously been brought to President's attention; he asked Stein to organize materials on this subject for Cabinet presentation; he asked me if I could come, or if it would be embarrassing for me – in view of Fed's independence – to do so; I indicated that I could and he was visibly relieved.

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Bulk of time was devoted to the new monetary crisis. Schultz laid out the facts & informed President of Brandt's letter – the latter telling U.S., in effect, that Europeans were going to meet on monetary crisis, that they would seek a European solution, and that the U.S. need not fear that U.S. interest would suffer. President, who has nothing but contempt for Brandt, was angry; he indicated that he felt that probably should send letters to Brandt & Heath indicating that we wanted to be there for we were very much concerned; he expressed doubt about the Common Market from viewpoint of U.S. and therefore opposition to any solution that brought the Common Market countries closer together; he indicated we need to alert the Japanese so that they too could express an interest in participating in the European meeting; and he urged us to meet promptly with Kissinger to work out a plan. Kissinger, after reading the Brandt letter, spoke without any doubt: what we had to do adroitly is to throw a monkey wrench into the Common Market machinery, for European unity in economic area would definitely work against U.S. interests. Letters went off to Brandt, Heath, and Touche – from President.

Kissinger continued his [wrath?] over the international monetary meeting. He sent

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Sonnenfeld to Copenhagen to inform Schultz of an intelligence report (apparently we know everything that goes on at German cabinet meetings) that Brandt was very critical of U.S., saying that we didn't know what we were doing. Poor Volcker came back to see me, quivering. I calmed him down; after all, what Brandt said about us we say about many other countries; and Brandt is not entirely wrong in criticizing us as he has; and that the whole thing is mischievous, nonsensical gossip; and that we should keep our eye on objective – restoration of some semblance of monetary order, which is certainly of interest and importance to U.S. Schultz, whom I saw two days later in Paris, was also not impressed by Kissinger's fears. All in all, we did a responsible job for the U.S. and the international economy in Paris. But I'm concerned about possible later effort by Nixon and Kissinger to corrupt the monetary system because of some scheme of theirs, not clearly thought through, of breaking up – or at least causing difficulties for Common Market.

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**April 22 [1973] –**

Had lunch with Schultz on April 16. He whispered to me that the Watergate case is going to blow wide open, that his own involvement in White House affairs would become vastly larger. He implied but did not say that he may have to give up Treasury post. Swore me to secrecy. I interpreted all this to mean that Haldeman is about to leave, but I kept my own counsel.

President's pronouncement which followed was no surprise. But I will never understand why he waited so long. The Watergate case was so clearly a disaster – morally and politically. Why not cut out the abscess and be done with it? Why didn't he clean house properly? And why did he tolerate an obvious cover-up? Now that he has spoken out, why didn't he go further? Why didn't he suspend all whose names are now surrounded by a heavy cloud? Does he not realize that his authority is in jeopardy? Does he not realize that we have a crisis of governmental legitimacy? Does he not realize that the wheels of government may stop grinding? Does he not realize that more and more Americans fear, though they still refuse to believe, that he himself may have been the architect of Watergate? Does he not see that the rats whom he had assembled under his tent are

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now running for cover, that each man is now for himself, and that – sooner or later – one of his “loyal” henchmen will point the finger of blame (whether or not he has truth on his side) directly at him?

Some of these questions were answered by Garment at a meeting in my office yesterday. (Curiously, Garment had informed Ziegler he was seeing me to seek my advice on Watergate. Apparently, Garment is now serving as the President’s counsel; though this is not too clear). I gathered from Garment the following:

- (1) Watergate is merely one chapter in a long series of immoral and illegal activities in political arena
- (2) Mitchell is undoubtedly implicated and so too is Haldeman. However, Ehrlichman may, perhaps, be clean
- (3) Haldeman refuses to leave, insists on fighting it out, and the President is paralyzed, since he thinks that Haldeman will point the finger directly at him
- (4) Legitimacy of government is now in question. Also, what the consequences may be for the economy and for

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our international relations.

- (5) Plans must be laid for bringing men who are “clean” into government to replace the rascals – Laird, Packard, Congressman Anderson, Rumsfeld, Schultz; perhaps Mills as Sec’y of Treasury (some of these names I suggested, when asked)
- (6) President must move quickly, before one or another of his rascals points the finger at him. The essential thing now is to protect the presidency. If a Haldeman, fired or suspended promptly, does point the finger at the President, most people will believe the President; and even those who don’t will hesitate to drag down the presidency. All this will be more difficult if the President waits.
- (7) It is important that I talk matters over with Schultz – promptly and frankly.

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Last Wednesday, April 18, I spent about 3 hours with President.

First hour – Schultz also there

Later, Stein and Ash came in, so that a Quadriad meeting took place.

My main purpose in wanting to see RN was to try to persuade him to appoint Holland to the Board and Mitchell as Vice-Chairman. But before I could say a word, the President greeted me with the news that he had approved my recommendations, that I would have my men, that he was pleased with the selections, and with the Board. At my request, he urged Ehrlichman – who was then taking notes – to speed up the FBI check.

President looked ten years older. His mood was belligerent and bitter as he turned, it was not clear why, to the meeting he had with Jackson, Javits, and Ribicoff. He was particularly angry with Jackson who – he felt – was completely demagogic on the issue of Soviet emigration tax on Jews. He pointed out that he had assurances from the Soviet government that they would not enforce the law; but, as he put it, Jackson and the others wanted the Soviet law formally

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nullified. They would not be satisfied until they tasted blood. But the Soviet would never do this; hence, everything he had done to build bridges of understanding, etc. with the Russians was in jeopardy. But he, the President, is not going to take this lying down. He would go before the country, denounce the Jews and the Jewish organizations who were corrupting the thinking of the Senate, and a wave of anti-Semitism such as this country had never seen would follow. I had often heard RN talk mildly, but I also had never detected any trace of anti-Semitism in his make-up. Was this a latent anti-Semitism coming to the surface? Has the Watergate disaster destroyed his judgment? Was he merely exaggerating in private, as he often did on all sorts of questions? Was all this said deliberately for my benefit, so that I might take some part on his side of the struggle? I do not know, but I also do not think that he will carry out his vicious threat. My sole response was that, if he so wished, I would talk the matter over with Javits whom I know well; he seemed little interested in what I said. Grudgingly said I might do

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this; he seemed fatalistic about the whole business in the sense that he thought that no one could change the thinking of Jackson or the Jewish leaders. Worst of all, he seemed to enjoy his bitter thoughts of revenge. After all, he could – and he surely would – go to the country – so he kept saying – and tell them what Jews had done to upset all his plans for establishing peace, reducing armaments, promoting trade, etc. Somehow, I was more puzzled than frightened by what he said; I'm inclined to think that he will [pour?] out his bitterness in public, but my guess is that he will remain the politician and excoriate Congress rather than the Jews.

We also talked about the economy and this continued with Stein and Ash. These two advised the President to stick with Phase III. I told him that this course was hopeless; that a partial return to Phase II (to use another name, etc.) was essential; that the country was in a bad state psychologically; that, while business executives were in a euphoric state about the economy, there has also been

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a sharp deterioration of consumer and investor confidence; that when such a divergence of sentiment occurs, it cannot last more than a few months; that I could not tell which blade of the [scissors?] will move, but that businessmen are generally sluggish and late in responding to events; that it was highly [improve?] to take steps to improve national sentiment; that the country is looking to the President for leadership; that he should not misread his recent victory in the House on the Ec. Stabilization Act; that Phase III is regarded across the nation as a failure; that a new plan was desirable; and that he knew my thoughts from the memorandum I sent him two or three days ago (at Ehrlichman's request).

In the course of the discussion, Ash and Stein made a plea for staying with Phase III or removing all controls. Stein argued the case ably as he usually does. But I dealt harshly with him, as I felt I had to. I pointed out that a return to free markets was good rhetoric, that rhetoric must not be confused with substance, that removal of controls would mean a return to monopolistic tactics of trade unions and many corporations, that I would indeed welcome a policy that established (or reestablished?)

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free competitive markets, but that Herb's prescription would reestablish the power of monopolists together with that of genuine competitors. Schultz said little but took an in-between position. The President indicated that while he disliked controls and questioned their usefulness, he also felt that he had to take some definite action; that the time to act was after the Economic Stabilization Act was passed; that he wanted a new program drawn up; that Schultz should do coordinating; and that the Quadriad would reassemble early in the week for some decisions.

During first part of meeting, President mentioned Watergate problem once. But he seemed to be talking to himself. Neither Schultz nor I took up the subject.

In discussing his victory in the House on the Economic Stabilization Act, the President stated that all this was accomplished by pressure from lobbyists and by contributors to Congressional elections. He mentioned cattlemen in particular.

Had a meeting with George Schultz at his W.H. office. I expressed my deep concern about the crisis in government that is shaping up; that individuals involved in the Watergate mess were now conferring with their attorneys, etc. instead of attending to the business of government; that the

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President's credibility has already been badly damaged; that the ties of loyalty among the President's henchmen have been loosened or broken; that men facing a jail sentence besides disgrace will normally seek to protect themselves by pointing the finger at others; that such destructive behavior is already well under way; that even Haldeman (and who could be more slavishly loyal?) may point the finger at the President if he feels that he is being made a scapegoat or in order to lighten his punishment; that if events take that turn the President – and worse still the presidency – will be damaged to a point where orderly government, either at the domestic or international end, will become possible; that the President must therefore act promptly, that is before any such finger is pointed at him; that if the President should then be accused by a Haldeman or an Ehrlichman or a Mitchell or a Colson, the public will be inclined to believe the President rather than his accuser; that even many or most of those who believe that the President is involved will keep decently quiet to save the presidency and preserve some semblance of confidence in government.

More specifically, I argued that the President should (1) suspend the high officials whose names figure prominently in the Watergate incident, (2) appoint

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an independent prosecutor in place of Petersen (however independent or innocent he may be, he is still a member of the Nixon establishment in the eyes of public; (3) some planning should get under way promptly to bring in men of unquestioned ability and integrity – perhaps Laird, Packard, Arnie Weber, Rumsfeld, Nelson Rockefeller – perhaps move G. Schultz to White House as chief of staff and appoint Wilbur Mills (who probably wouldn't take it) Secretary of Treasury. Schultz added an important point – namely, the need to return to constitutional government, by giving secretaries the responsibilities they have under law, and by reducing the number and diminishing authority of W.H. staff. I reminded Schultz that when the idea of supersecretaries first came up, I argued that the only right way to do this would be to appoint Kissinger as Secretary of State (since he would have the power over State and Defense) and Ehrlichman as Secy of Interior (since he would power over national resources, etc.). Schultz' assessment otherwise was same as mine, and he indicated that Kissinger felt similarly. Kissinger joined us a little later; the above four points were gone over and we were in agreement.

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The next question was how to get these suggestions to the President, and we finally decided that Kissinger could do this best. He agreed to do so by next Wednesday unless the President calls him sooner. Schultz felt he was not close enough to do this. I did not volunteer, nor did either of them suggest that I do so; for clearly I am no longer as close to the President as the others are – particularly Henry. Henry sees things as I do; he understands Nixon – his love of the tawdry and devious which goes side by side with some noble impulses; the President had already talked to him some, indicating that both Haldeman and Ehrlichman may have to go; the President, however, seems to believe that he can muddle through this one. I am not sure whether Henry will be direct enough or forceful enough; but I can only pray. May God save America!

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**May 7<sup>th</sup> [1973]** Attended Brandt dinner at W.H. President's toast was much inferior to his usual style. It was shorter than usual, and lacked grace. During dinner, he ignored Brandt (on his right) and the German Ambassador's wife (on his left) for minutes at a time, sitting with his chin resting on his hand, and just brooding. By the time we reached the entertainment hour he rebounded, and acted like his usual self.

May 2 we had a meeting of Quadriad. Schultz advised me not to quarrel with the revision of the Phase III program – on the ground that President was too upset and could not concentrate. I didn't like this sort of advice; and yet, from a human point of view, it was right. I took it and did no quarreling with the emendations of Phase III.; they didn't go far enough; but whatever they were, they were my improvements and both the President and Schultz had adopted them previously. But I could not keep honestly quiet when President asked if I had anything to add. Yes, I indicated – the variable investment tax credit; so that investment orders could be cut down. This was needed both to check the inflation and prevent a later recession. The

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President thought this was a good idea and suggested I talk it over with Wilbur Mills. George Schultz was very unhappy about this; he didn't want to do anything about the investment tax credit. In fact, he didn't want to do anything in the tax area at all.

Agnew called me and told me his new role in the Domestic Council (he mentioned this elevation to me at the Brandt dinner, and he attended Quadriad meeting – an extraordinary event) was being blocked by (of all creatures) Ken Cole. Agnew reported that Ken wanted Agnew to report to him (Ken Cole); that Agnew refused, feeling the reporting should be the other way around; that he objected because he had no confidence (and he was indeed right) in Cole's understanding or ability; that he objected also because he felt the VP's dignity left him no choice. Agnew went on to say that Cole promised to take this up with the President, but that Cole couldn't be trusted to do this, and he therefore sought my help.

I called President, but – as luck would have it – Ken Cole answered and put me through a series of questions similar to Haldeman's style. Poor Ken! He had learned what he knew (and it was mighty little) from Hald & Ehrlich; and he

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now acted like his teachers – undoubtedly thinking that this was the only right and proper way to act. Poor Ken Cole! He might have made an acceptable grocery clerk in [Fairtez?]; but here he was a wielder of power and the new keeper of the President's ear and door. Poor Nixon – too. Under circumstances, there was only one thing to do; I wrote a note to President about Agnew's problem (indicating incidentally that I was unable to get through to him) and sent it through Rose Mary Woods (my only reliable source for a long time now).

During my luncheon with Schultz last week, he indicated (as I did) that he (Schultz) would probably be asked to take the Haldeman post. We agreed that, unhappy though the assignment would be, he should do so for a stretch of 6 to 12 months, and then – probably – leave. Schultz would have to give up the Treasury post, which he loves dearly; he has some fine qualities – character and decency.

Schultz is very unhappy about the Evans pieces against him. I promised to try to straighten Evans out.

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**June 9 [1973]** – Met with President – a meeting of Quadriad attended also by Connally, Dunlop, Haig, and Ken Cole. Date \_\_\_\_\_. Subject – the economy, what to do about inflation. Meeting was preceded by one among members of Quadriad plus Connally. President was upset, looked tired, clearly could not make up his mind. He seemed to be opposed to a price freeze, opposed to any fiscal measure, indicated that he wanted to do something that would be dramatic, I was sure that what he did would be harmful, but wanted to be effective for a time, and did not want to do serious damage. Stressed the importance of doing what is politically sound. Connally echoed all this, and – much to my surprise – opposed a freeze. Schultz & Stein wanted to do very little. I argued for stronger incomes policy, also for new fiscal measures – variable investment tax credit, and compulsory savings plan. As for a freeze, I would be for it – but only for 30 days, and on assumption that President needed time to make up his mind about the precise shape of new anti-inflation policy. Schultz & I differed about need to curb investment boom.

Several other meetings followed without President. We could not agree among ourselves. Schultz acted as chairman most of the time; Stein did on one occasion. Schultz made no effort to lead, no effort

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to convince others; he acted as if his whole mission was merely to assemble views, and put them (including, but not stressing, his own) before President. Schultz complained bitterly to me about President's negative comments about the inflation program and the energy program that Schultz had developed. Schultz has become increasingly unhappy. He resents, and rightly so, Connally's intervention. He resents also the need, most of the time, to communicate with the President through Haig.

Things are going like this for the most part. Schultz talks to various advisers, particularly me; then reports to Haig; who reports to the President – at one stage refusing to transmit a document because he (Haig) didn't consider it in satisfactory form (although it was a quite fair summary of the views he had collected & identified by naming individuals; then Haig reports the President's views back to Schultz. What a way to operate!

On Saturday, June 8, we held a long meeting. Haig had informed Schultz that the case for a price freeze & mandatory controls, in the President's view, had not been put fairly. Schultz was deeply hurt but proceeded to work out a [paper?] (called Option II) to put this possibility (toward which President was now leaning) squarely

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before him. Connally had made one of his typical somersaults; this time (in sharp contrast to earlier occasions) he was in favor of an outright freeze of prices (not wages) for a period of indefinite duration. I insisted that it be limited to 30 days, and so the report went to the President. Connally also wanted interest rate freeze included in Option II; I insisted, and got good support, that this be limited to consumer instalment loans. Connally also had some damned fool ideas about gold & they were knocked [out?].

I found this whole exercise disturbing & told Schultz that he was engaging in a technocratic exercise, instead of leading with a policy. He agreed, but felt he had no choice at this stage. He did say, however, that if President took Option II, he would resign.

Spent the day with Schultz & Stein at Camp David. Haig called indicating that President felt that Option I (Schultz & Stein) was too weak, while Option II went too far; that President wanted a freeze of indefinite duration, compulsory savings plan for corporations, & preparation for licensing export of foodstuffs. This was close to position I wrote to President on June 1 & June 8; but I took strong objection to a freeze lasting more than 4 or 5 weeks. Schultz communicated this to Haig.

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Schultz is a very sad man. He is thoroughly disillusioned with the President – believes that he is up to his neck in Watergate affair, that he is devious, unprincipled. I don't understand why he puts up with it all, especially Connally's mischievous meddling.

Schultz told me that Dean had approached IRS and asked them to go easy on contributors to campaign. IRS director complained to Schultz, & he (Schultz) ordered that there was to be no favoritism. He told me that I was the only one to whom he had confided this. I appreciated this; but I couldn't help wondering why he had not confided this to the President. Was it because he believed that Dean was acting on the President's instructions and that he could not face the President on the issue directly? So it would seem; I can hardly recall a case when Schultz (in my presence) stood up against the President. I am sure, nevertheless, that Schultz is thoroughly honest and has avoided wrongdoing. He is, unfortunately, not a leader; and while he's become more pragmatic; he continues to worship classical principles of a free market (overlooking the fact that there is no free market in much of our contemporary economy)

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**June 14 [1973]** – General Haig called & advised me of the President's concern, reportedly conveyed to him by George Schultz, that I intend to attack publicly the President's new price freeze. I assured him that I had no such intention; that, however, I need to testify on June 26 and that I will be unable to praise the program; I will do my best not to cause the President any trouble; that I will try to help him; and that he can – and should – reassure the President.

At the same time, I noted that the new program was stupid from an economic and political viewpoint; that it would do nothing to contribute to confidence of business and financial people; that amateurs have gotten into the act; that Schultz, Stein, and I, however, are in large measure responsible because we failed to agree on a program and thus left the door open for amateurs and politicians. Haig agreed that this was the major cause of the trouble; he continued that the President was impatient with the doctrinaire (and non-objective) thinking of Schultz & Stein; that they had failed to analyze alternatives for the President with the promptness & objectivity that he expected of them. This criticism went too far & I said so.

I went on to argue that the 60 day freeze should be cut to 15 days; that we should hammer out a new program that makes sense during this period; and that this involved a new fiscal policy, [emphasizing?] taxes or

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compulsory savings, besides a less restrictive and better balanced wage & price policy.

Haig reminded me of his phone call of two days when he conveyed to me the President's interest in my ideas, his [constant?] rereading of my suggestions, and his desire to pursue my fiscal ideas a little later – once his immediate political problem was under better control.

The President's concern about my attacking him publicly apparently grew out of my telling Schultz at lunch today that I had to testify soon and that I could not defend the President's program very well. Schultz told me that he couldn't either, that he in fact was planning to inform the President today (at his 3 P.M. meeting) that he was resigning. He spoke bitterly about Connally & particularly so about Asch whom he doesn't trust at all. At most, Schultz mentioned, he would stay on through Breshnev meeting. Schultz also complained about Haig and Mel Laird shaping economic policy, and expressed view that decision to freeze was made four weeks ago and that he was performing function of the scapegoat.

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**July 14 [1973]** – Had meeting with President and others on July 10. An exceptional group attended – Schultz, Stein, Ash, Connally, Harlow, Laird, Timmons, Ziegler, Ann Armstrong. Subject – Phase IV; hence, the presence of the political people in addition to the economists.

President looked better than at Breshnev dinner and previous meetings. He asked for advice that would serve the nation well, whether or not it was politically expedient. When the President talks that way, he has succeeded in throwing off some of his lack of self-confidence. And when he is really feeling well about himself, he has the habit of damning Congress, the liberals, the intellectuals, and sometimes also the blacks.

We talked about Phase IV. I argued for a bit of freedom for business enterprise – through term limit pricing, which would establish a zone of freedom. I got no support from anyone. Stein argued against it – this astounded me since he professes to believe in free enterprise. I've reluctantly come to the conclusion that Stein is a technocrat – that he'll try to do efficiently and well whatever the President may want, whether makes any sense or not.

I argued for a tax increase. Schultz at one

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point seemed to support my position. No one else did. And Stein once again argued against a tax cut.

Ash boasted about his plan of trying to get expenditures for fiscal '74 down from 269 billion to 267.5 billion. I suggested that he get down to 260 or less. He said it was impossible. I pointed to the experience in fiscal 1973 when fiscal leadership provided results. I argued that Ash's program would impress no one in the business and financial community, that it was important to rebuild confidence, that our fiscal policy was not doing this, that monetary policy was carrying too great a burden. The President was interested. He went around the room, but I got almost no support.

The President has many shortcomings. He has few convictions, but now and then he gets into a euphoric mood where he wants to persuade himself that he's a statesman. But his sycophantic advisers cannot even recognize that. They knew his prejudices and they cater to them. What a tragedy for this fine and noble nation!

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**July 26 [1973]** – Had breakfast with Kissinger. He wanted to talk about himself and sought my opinion. First, should he accept the post of Secretary of State if it is offered to him? Second, should he resign within a three or four weeks if the offer is not made? Third, will his Jewishness interfere with his effectiveness. Fourth, how should he organize the economic side of his shop if he does become Secretary of State.

It became entirely clear to me that Henry is most eager to become Secretary. I can't really blame him. He did say, however, that he was not at all sure that the President would have the guts to appoint him. He called [Rogers?] gutless, and on an earlier occasion he called him a coward.

If not appointed, Henry felt his usefulness was gone, that operating from the W.H. he could accomplish nothing in the foreign policy area, that his appointment as Secretary would symbolize a return to constitutional government, that he and the President would therefore have some chance to make progress in the foreign policy area, but that it was quite uncertain – in view of the Watergate, etc. disaster – whether any progress was still possible.

We talked about Henry's loss of prestige on account of the wiretapping of his colleagues.  
He

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claimed innocence, that the 'bug' on Halpern was placed by Hoover himself, that he had a letter to that effect, that the 'bug' on others was also ordered by others, that he acquiesced because all this happened when he was in the W.H. only four months, was not yet trusted himself, and had no power to influence events.

We talked about Casey, Volcker, etc. Henry had no use for any of them in the economic area. I suggested David Rockefeller, explained why I thought he might take it and I agreed to think of other names.

We both agreed that our international monetary policy was stupid, that it could bring disaster, that other countries mistook our stupidity for rascality. We agreed to take counsel soon again.

Kissinger expressed the view that Nixon was anti-Semitic, that he had ample indications of this, but – being a very complex man – he also had occasional lapses into tolerance and idealism. I have myself no evidence of anti-Semitism; although on one occasion – when he was [crossed?] by Jewish [representatives?] on the Russia agreement – he shocked me by the

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violence of his reaction, by his prediction of a great anti-Semitic development in the country, and by his emphasis on his being willing to produce that if he cannot have his way on the Russian treaty.

I am reluctantly beginning to think that while Nixon is not at all anti-Semitic, he might well move in that direction if he saw a clear political advantage in doing so. More and more, I [sadly? or really?] feel that Nixon has all sorts of prejudices, both good and bad, but that he has no real convictions.

**Aug 19 [1973]** – Saw Garment on Aug 11; went over with him drafts of talk President planned to give. I found them belligerent, full of partisanship; and I thought they would prove disastrous. I then decided to write President a letter, advising that he assume a conciliatory tone, admit his mistakes, promise a new spirit, etc.

Garment talked about charges concerning Agnew. He had been informed by Richardson that they were very serious.

Couple of days later, Haig said the same about Agnew.

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Had another meeting with Kissinger. He indicated that another two or three weeks will clarify his future – either the President names him Sec. of State or he is leaving. K. did not indicate whether he's had conversations with the President on this subject; but the only reasonable assumption is that he must have.

K. explained that the President was powerless; that the only way that he (K.) could have any constructive influence now was by moving to State. He sought my advice on this; and I agreed [only?] that the time had come for him to become Sec. or leave

K wanted names for the Economic Undersecretary. We discussed three – David Rockefeller, Gabriel Hauge, John Meyer, in that order.

K indicated he will have to lean heavily on me.

My only puzzle is: Why has he so seldom turned to me for assistance before this?

K's attitude toward Nixon is very plain. He considers him devious,

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guilty of what happened at Watergate, etc. He sees no future for him, since most Americans “regard him as a felon.”

**Sept 18 [1973]** – Had meeting with President. Harlow and Laird attended. R.N. looked good – much better than in recent weeks. He was in a constructive mood, showed eagerness to get on with business of government. I emphasized the high interest rates of recent weeks, explained that they reflected Federal Reserve policy, that this policy had to be continued until we got monetary [aggregates?] under better control, that homebuilding was suffering already and that its difficulties would multiply.

Conversation turned to relief from fiscal policy. President asked my views. I presented again the case for variable investment tax credit; or for refundable income tax surcharge. I argued that President’s position that Congress would do nothing was unsatisfactory; that it was his duty to lead; and that he would be better off for trying – even if he eventually failed. President asked many questions. Knowing that I would testify before Patman’s Committee next day, he requested that I indicate to the Committee that the President is seriously considering tax increases to fight inflation and lighten the burden on monetary

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policy.

President was favorably struck by the innovative character of my proposals. He referred to this explicitly in this manner several times. He talked about the importance of innovating – or at least appearing to innovate. And he urged Laird to go to work on my tax proposals, to put them in concrete shape. He emphasized the need for innovation – in general.

I inquired about the President's housing program. He talked about resorting to housing allowances. I expressed hope that if he goes this way at all, it should be done on a pilot basis. President seemed to agree. All in all, this part of conversation was most depressing. President indicated, or at least intimated, that he may be returning to Family Security Plan. He was unhappy about this – that much was clear; but he seemed to be returning to old plan because he knew not what else to do.

Saw Weinburger a couple of days later. In response to my question about his returning to family security plan, he denied this emphatically and, I'm sure, sincerely, what he was thinking of instead, he told me, was the negative income tax. He was amazed when

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I indicated that the two came to the same thing; that in fact, negative income tax went further in direction of guaranteed annual income. Poor Cap! An able man, but too busy to learn even the rudiment of his most important policy problem!

Testified next day. Decided to mention President's tax plan only on my way to hearing. Was not entirely sure even then whether to do so. Hearing lasted all day. In Schultz's absence, I called [Simon?] to explain how I got into the tax act. My call was late, around 7 P.M.; or more accurately, I called right after hearing ended at 5, but did not get him until 7.

Schultz's outburst after Laird's statement, confirming what I told Congress about President's tax views, was not a characteristic performance. Usually, he stays – or appears to stay – calm, soft-spoken, dignified. His outburst was in poor taste, especially so in a foreign country; but it was understandable. He is probably angry with me; but he said nothing publicly.

Only after Schultz' outburst did it occur to me that President never mentioned Schultz – though the subject was taxes! That was a characteristic

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Nixon performance – ignoring other people's responsibilities and sensitivity.

Had breakfast with Kissinger on Sept. 17 – yesterday. He wants my help in reducing Treasury's role in international economic area, so that State's role may be enhanced. Strange irony! The man who destroyed State's prestige is now [being?] on the threshold of becoming Secretary, trying to rebuild State's prestige.

Kissinger confirmed that Agnew's resignation was imminent, and indicated that Connally would probably get the post.

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**Dec. 6 [1973]** – Met with President at Quadriad meeting. Others: Schultz, Ash, Stein, Dunlop. Meeting lasted nearly 2 hours. During the first hour, President was listless; looked sad; his mind elsewhere; shook his head now and then, but he was clearly not interested. Didn't say a word – as Schultz, Stein, Dunlop went through their paces. I finally woke him up by making two points: (1) contingency planning for ways of dealing with increased unemployment was essential, should get under way promptly – unemployment likely to be scattered rather than nation wide, but still sizeable; best way to deal with it – probably – was by planning a potentially large program of public service employment, supplemented by full listing of public works projects that could be speeded up in localities suffering from heavy unemployment. (2) A need for a [crash?] energy program – a massive Project Independence – to be completed well before 1980 – to be on a scale comparable to Manhattan Project and the Space program, to be so designed and announced as to maximize the nation's sense of [caring?] and desire for participation in an activity that will free us from dependence on Arab blackmailing sheiks.

President began taking notes and issuing

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instructions to Ash to plan a truly massive program for dealing with potential unemployment (not the miniscule \$250 million program that Ash mentioned as a possibility).

President expressed concern about Simon. He indicated that he wanted to make major policy pronouncements himself. He indicated great interest in a massive program that he could announce for dealing with energy problems [for?] the future; this program to emphasize reward, investment, and exploration – and combine magnitudes to be spent by gov't and by private firms.

Schultz & others urged a sharp increase in oil prices and reliance on market to equate demand & supply.

I agreed that it was desirable to have a free market carry much of the adjustment process, but that it probably could not carry it all; and that rationing therefore would probably be necessary later. Meanwhile, a tax plan should be worked out under which oil companies should be subject to an excess profit tax, while tax [however?] would be forgiven if the amount of excess profit was invested in new facilities,

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exploration or research; in other words, if the abnormal profits were used for a national purpose. Schultz had a variant of such a plan – not entirely clear to me. President asked that work on this go forward rapidly, that the Quadriad meet again next week to discuss it, and that frequent meetings such as this be held in December. It will be interesting to see if the President will follow up on this plan; he rarely has in the past; and I doubt if he will this time. This will be a good test of his ability to govern again –

President informed us, pledging us to absolute secrecy, that there was a fair chance (according to Henry Kissinger a 60% chance) that Arabs will end boycott of oil shipments before end of month. President appeared hopeful, but indicated he realized that this may not at all happen. This possibility was a major reason for his going slowly on rationing. President indicated that even if this happens, Project Independence must go forward. And, of course, he's right on this.

President expressed some concern about low volume of homebuilding; but this subject was not pursued. He kept coming back to need to plan against unemployment and warning

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Ash not to be [grading?] about budgetary costs on all this; also on the importance of developing a massive Project Independence – one that would give the American people a goal and sense of purpose.

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In meetings over recent weeks, H. Kissinger has referred to President as a “felon”, as a confirmed “Anti-Semitic” as well.

Kissinger tried to stop Schultz & me from going to [Toud?] meeting of finance ministers on monetary reform. His reason: to show contempt for Europeans. He relented only when we assured him (Schultz and I separately) that no agreement would be reached, and that we could [underline?] gravity of the political estrangement in our frank talks with the foreigners.

Schultz informed me that Connally tried to take over Fed, and that appointments of Sheehan and Bucher (my second choices, not my first) were made in order to give

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Connally the control he was seeking.

Schultz informed me that President blew his top when IRS sought to audit his tax return.

Haig, who called me on Dec. 12 or 13, to tell me that Wallich's appointment at Fed is going through, confirmed my view that President has gotten back to work; he has done this for six weeks now, Haig [stated?].

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**Dec. 16<sup>th</sup> [1973]** – Met on Dec 14<sup>th</sup> with Quadriad. Gerry Ford attended meeting. Schultz had instructions (he so told me) to hurry meeting. This was obvious from President's behavior. He had no desire to examine Treasury's windfall in any detail. Gerry Ford – at President's request – discussed status of Energy bill. Everyone seemed to agree that House bill was unsatisfactory; but Ford thought that a decent bill might still be written in conference. President at one point indicated that he wanted to blast the Congress for its handling of the energy problem – (His pugilism had returned. He seemed like his old self, belligerent and defiant; except for a certain nervousness which was clearly visible). Ford advised that it would be better to do this after Congress went home. It is curious that the President still doesn't realize that the only chance he has is to mollify the Congress (His Operation Candor is turning

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out to be a disaster. His income tax returns are not only stirring new controversy; their effect on President's reputation and public morals cannot be good; indeed, I would say, RN's tax returns are a veritable textbook in tax minimization via shady or dubious or slick transactions).

Had some discussion of economic policy. I took issue with Ash's [pale?] proposal on public service employment. President supported my view and was stern with Ash (as he had been at prior meeting)

I argued in behalf of an energy program that went beyond Schultz's windfall tax. What was important is stimulation of entire energy area - production of coal, nuclear power, natural gas, exploration of all sorts; this could be aided by 5-year amortization such as we had during Korean war. This was desirable because of energy problem; it was desirable also for dealing - at least in contingency planning - with an economic slowdown next year; and in fact, the rigid amortization should apply to [a range?] of raw material industries whose supply product was in short supply. President strongly supported this proposal; Stein endorsed it; and Schultz acquiesced - though without

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enthusiasm.

At one point, President remarked: "Arthur has understood politics all his life." I didn't quite get the point beyond this being an attempt to compliment me.

President again made searching inquiry about Simon's doings. He seemed suspicious, concerned that Simon would make political decisions – as on rationing – and suggested that Schultz watch him closely.

President asked for another Quadriad meeting next week

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On December 15<sup>th</sup>, Mary Brooks told me about a private dinner she had attended a day or two earlier at President's house. One subject under discussion was Kissinger's role. [Julia? or John?] was reported to have expressed concern about Kissinger getting all the attention in the press; that President's role in Mid-East discussions was ignored. President shared this concern, by [protesting?] that he talk to Kissinger every day; but that press gives him no credit at all.

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About a week earlier at reception in Romanian Embassy, Mrs. Nixon told me that President was in good shape; 80% of the people,

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she whispered in my ear, are supporting the President. (Talk about self-delusion!)

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On December 14<sup>th</sup>, just before meeting of Quadriad with President, I had breakfast with Senator Hughes of Iowa. Some two weeks earlier, at breakfast (Prayer breakfast) in White House, Senator Hughes talked about his own conversion in a very moving address; he mentioned his new friendship with Colson whom he previously despised but now loved. I was deeply touched by this baring of his soul, and I too was moved to forgive Colson (who was present at this breakfast). I arranged to see Senator Hughes, and did so on December [14<sup>th</sup>?]. We talked about Colson, among other things. Hughes told me that Colson had told him that he (Colson) had wronged me, but that he did what he did on the President's instructions. I had thought so all along! What I still don't know is whether President simply told Colson to "get Burns" or to "cut Burns down to size," or if President outlined the precise course of action. It hardly matters; the two came to the same thing; but I may find out if Hughes gets Colson to come to see me and

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to ask my forgiveness ( I have forgiven him in my heart already, anyhow); Hughes said he would ask Colson to do this; if Colson comes, I'll learn what happened precisely (or presumably); in any case, I'll be able to better judge whether Colson's reported conversion is real.

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Schultz keeps talking repeatedly about leaving. I'm hardly convinced – especially now, since – after a long lapse – the President is seeing him again. Schultz is tired, but I think he likes being Secretary too much to give it up. I may be wrong. If he goes, I'll miss him.

Schultz has no use so for the President, morally. He does not miss many opportunities to tell me this.

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**January 8' 1974** – Chuck Colson came to the house to have cocktails with me. Senator Hughes doubtless got him to do this; he told me that he would advise Colson to come and see me, to tell me how and why he wronged me, and thus to cleanse himself by displaying remorse and hoping for forgiveness.

I had doubts about Colson's conversion, but they have been allayed. What he told me, how he said it, how he answered my searching questions – in all this he conveyed truth to me. I believe him and I'm now inclined to accept his conversion as genuine.

Here is what Colson told me:

Sometime in mid-1971, the President had Colson, Weinberger, Haldeman, and Kissinger with him on the Sequoia.

They were all drinking, engaged in lively conversation.

My name came up. Weinberger referred to a phone conversation with me; that I was "lobbying" for a pay increase for the Chairman of F R Board.

President was at once interested. He turned to Colson: "Get this out to the press.

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Let's teach Arthur something that he'll learn to be more cooperative."

Colson was upset by this assignment. He talked to Haldeman about it next day, Haldeman told him abruptly: "You've got your orders."

I questioned Colson: Did Weinberger mention my caveats: first, that I did not want the raise to go into effect until inflation was under control; second, that I wanted the raise to start with my successor, not with me. Colson was emphatic on the point: Weinberger did not mention it – perhaps he never got the chance, since President broke in with his comment about leaking my wanting an increase in pay to the press.

Apparently, President did not know – but didn't he remember our talk about this? – that I made those caveats.

I had guessed at the time that Colson had simply carried out the President's order; but I had thought of the President doing this in a mood of anger or annoyance – a momentary mood. Colson was emphatic: President was not angry, he was in a jovial mood. I did not

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think that Dick Nixon could stick a knife into anyone in a cold, calculating fashion. Colson was sure about his recollection; he also spoke with deep affection for the President. I think he told me the truth.

I asked Colson about two other “leaks” from the White House (through Shumway) that came about the same time – in fact, same day or day apart: (1) the proposal to “pack” the F Reserve – that is, increase no. of members and thereby reduce influence of AFB; (2) the proposal to put the Fed under the White House. Colson was quite sure these subjects did not come up during the Sequoia trip. His recollection was that Haldeman had mentioned these “leaks” the next morning – when he told Colson that he had his “orders.” Colson went on to say that he associates these ideas with Schultz – that Schultz had talked about such handling of the Fed at staff meetings.

I told Colson about my conversation with Schultz; my reminding him of the conditions I laid down with regard to pay increase; his informing me that he remembered perfectly and that he had modeled his behavior – the

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salary of the OMB director – on my prescription; my advising Schultz sternly that I would not remain idle while my good name was being wrenched from me and my children. Colson then told me that Schultz went to see the President and told him all this; and that the President seemed unhappy about my having been treated unfairly.

Colson wanted to be sure that I did not resent Cap Weinberger's part; that Cap was nervous, unaccustomed to seeing and speaking to the President. I have no resentment; but I am puzzled. My recollection of the conversation with Weinberger is cloudy; but I'm morally certain that I must have informed him of my 2 caveats. How could I possibly do otherwise? Some day I may ask Cap. Or is it better not to know some things?

We talked a little about Watergate. I told Colson that I was sorry for him, since he was on the spot and that he would tell the truth about the cover-up, etc. He said that he would tell the truth, but that he knew nothing about Watergate, and that he had no reason to think the President was involved in the cover-up. At this point, whiff of doubt

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passed through my mind. Is Chuck Colson's conversion complete? I accept the genuineness of his conversion; but the mind of both the converted and the unconverted can play curious tricks on men and we often end up believing what we like to believe – about others and also about ourselves.

Upon leaving Colson asked me to join him in prayer. He prayed simply and movingly; I thanked him, wished him well, and gave him 6 huge oranges out of a crate that had just arrived – as I bade him good-bye.

XXXX

On Friday, January 4, met with Schultz, Kissinger, Casey and Sonnenfeldt. We talked about Rome monetary meeting, about oil problem, etc. Kissinger had nothing to contribute about oil problem. In fact, no one did – apart from the contribution I left in my memo on Abuses of Economic Power. Kissinger talked wildly – we should agree to nothing; we should not even talk to [French?]. Not at all helpful

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**March 17 [1974] –**

Schultz told me on plane, returning from Rome on Jan , that he had resigned twice, the last time having sent a handwritten letter to the President, that President did not answer or [comment?], but that Al Haig had indicated that Schultz can't do it now; that he (GS) is fully determined nevertheless to resign, for RN now is and will remain a President without power, that all RN is interested in is his personal problem, that he (GS) doesn't trust him, and – in fact – that he (GS) keeps wondering whether he is being set up for something awful.

We then talked about others who might take Treasury post – principally Wriston and Rockefeller

Schultz indicated also that Internal Revenue Service had started investigation of Nixon's tax payments, that Nixon was upset over it, and that his [offer?] Joint Revenue Committee decide what he owed, if anything, was his way of beating IRS to the punch.

During Rome meeting, Minister [Hjalmar Schneider?] told Schultz and me that Nixon's prestige had sunk to so low a point that Brandt would risk his political future by coming to Washington; and that he, therefore, just would not do it.

Later, on January 30, Schultz told me that no one had talked to him about his resignation, not the President nor even Al Haig, that he is being

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totally ignored, that no effort is being made to get him to stay, that David Rockefeller is being [approached?] for the Treasury post (after Walt Wriston had been sounded out with negative results)

What a way to treat a loyal and devoted servant! I can't help but think that GS would stay if he were properly (that is humanly) approached.

Some two weeks later, S. told me that President did speak to him, that he expressed hope that G.S. would stay another few months, and that he was developing doubts about D Rockefeller.

S. also told me, by way of indicating how untrustworthy RN was, that Connally had told him a short while back that RN had asked Connally to take Treasury post again. GS did not explain when he heard this from Connally, but he did indicate that neither RN nor Haig had breathed one word about this to GS. Schultz, apparently, learned this sometime before his resignation; he was not surprised about RN's doing this.

David Rockefeller consulted me about taking Treasury post. I advised him to do so. About two weeks later, he informed me that he has

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decided not to take it then; that his main reason was that he felt that he would have little or no communication with RN; that RN had not seen him about this and that Haig could not arrange it. DR also indicated that he felt that WH had cooled off, that he sensed they were not really eager to have him take post. He was right in this judgment; but I did not have the heart to tell him so.

**April 4 [1974]** – Saw Kissinger on March 8. He told me emphatically that he thought Nixon must resign; that he was no longer attending to business and that everyone knew this; that his influence was destroyed and that his (K's) effectiveness is beginning to suffer as a consequence. I quickly stated that N. will never resign, that this was not in keeping with his character, that he probably will remain as president until his term was up – since impeachment, I felt, would get nowhere.

Haig called on April 1, wanted me to know President's tentative plans with regard to Schultz replacement; wanted my reaction, since President (so said H.) wanted my advice more than anyone else's. The plan was: (1) appoint

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Simon (despite, as H. put it, his grave shortcomings – a publicity hound, not reflective enough. Reason: job was virtually promised to him, and might prove embarrassing not to proceed with it. [My query – I didn't voice it – was it promised before or after Rockefeller turned it down?]) (2) Not appoint Simon as Assistant to President; not give him a W.H. office; confine him to Treasury; (3) The broader responsibility to go in large part to Ash; (4) Make more use of Stein and when he leaves probably move Dunlop (whom Pres. likes, according to Haig) to CEA; (5) in meantime, use Dunlop more around WH; (6) draw much more frequently and more heavily on Quadriad so that I (whom the President admires more than he could say – so says Haig) could participate much more actively in basic decisions.

What a mess! Simon is clever but he shoots from the hip and may be (I don't really know) a political opportunist. Ash is surely a wheeler-dealer, not capable of sound principled behavior (also, so G.S. told me, he is heavily involved in gold stocks, and I therefore must make sure that

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he is never involved in int. monetary planning) Dunlop seems to have some of Schultz's qualities of working well with people; but Stein, who knows him better, scoffs at this description – he feels that Dunlop has an explosive, prima donna personality.

Yesterday, April 3<sup>rd</sup>, I ran into [Chappie?] Rose, the President's tax lawyer and defender. I asked Chappie whether President had a case. "No," he whispered; later, came over, and asked me to keep this absolutely confidential. I'll do this, of course. But what a disgrace for the country to have its president make use of every tax loophole or dodge in the book! God help America!

Testified today. [Raines?], whom I considered a friend, informed committee that I was the best chairman the Fed ever had; then proceeded, in sly fashion, to intimate – perhaps he said this directly – that Fed (or was it I?) permitted the money supply to explode in order to get RN elected. I told him I bitterly resented this slur – How low can a man stoop to win a cheap one-day notice in the press! Is it worth while to burn out one's heart and injure his health in this sinful city?!!

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**April 19, 1974**

Kissinger called yesterday – a long day for him, devoted to holding the hands of the Latin American foreign ministers.

The afternoon meeting, which I was supposed to attend, as a member of the U.S. delegation (Henry has been drawing me into his activities, more and more. I've got more than enough of my own work to do. But, to the extent that I can, I must continue to try to be helpful; perhaps all the more so, since I'm not at all sure that Henry is a sound [he is surely very clever] thinker), was called off. I don't know why. Henry didn't stop to explain. And I was too busy to ask.

Henry's question: [Jobert?] is trying to upset negotiations between Israel & the Syrians. He is saying most awful things about Henry. Time has come to put him & France in their place. What can U.S. do, or the Fed alone, to cause economic trouble for the French? My reply: Hard to see what we could do without starting difficulties that would spread and in the end, perhaps engulf us too. Henry: "Would I give this more thought? It is urgent." I groaned that I would think it over, (H. at times strikes me as a madman; a genius, yes; but he has a lust for power – a good pupil of Nixon's

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and Haldeman's, or perhaps one of their teachers? What outrageous thinking on his part!

H. had a second question: Would I talk to Ambassador Denitz, and suggest to him that Israel must (should?) withdraw 5 to 8 miles on the Golan front? They really should do more; Henry, in their place would. What he wants for me to do is to impress on Denitz that if he (Henry) fails, U.S. will not mount another airlift and that Portugal, in any event, will not let us use the Azores. I promised H. that I would talk to Ambassador, but that I would not urge him. H. wanted me to make sure I convey to Ambassador his (Henry's) confidence in him. This is a very tough problem; I have admiration for what H. has achieved so far; but I'm troubled by his egomaniacal approach; I sometimes feel that he if he can't succeed personally in a foreign policy issue, he would just as soon wish for the enterprise to fail or collapse.

On the French matter, I did tell Henry that I would speak to [Wormser?], that I would try to impress on him the need to improve U.S.-French relations.

On the Israeli matter, I inquired why we were holding back the \$2.2 billion for Israel that Congress had legislated? Henry became defensive; he is doing

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everything he can; that \$1 billion has been made available; and that President refuses to allow more now. This may well be an accurate report; but I'm left wondering whether Henry has tried very hard (or tried at all) to raise the figure. I like Henry, but I'm not sure that he is fully trustworthy.

Yes, I recall now: Henry's big complaint is that Jobert is saying that the Egyptian disengagement didn't amount to anything!!

**April 21 [1974] –**

Yesterday, April 20, Gen. Haig called. The object of his call, he stated, was first of all why no meeting of the Quadriad had recently been held. The reason was concentration on the Watergate and impeachment problem. The recent subpoena had caused special, time-consuming problems. But, fortunately, the work on this is approaching completion. Next week, by Thursday, a complete report will be made; in view of probability of leaks, the report may be made public. It should change the atmosphere, and put various doubts to rest

A second reason for his call, Al Haig explained, is the President's increasing concern over the economy. Bad statistics are being

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published on housing, interest rate; President is especially concerned about these developments. He is getting a lot of mail about little guys being hurt. President recognizes that some indicators of future activity are favorable.

President wanted Haig to tell me that he (RN) will soon start complete review of what could be done, by way of Federal action, to aid the economy – “to help psychologically at least.” The President plans “after next Friday” (at another point, when I inquired about date, Haig said “next Friday”) to have a meeting with his advisers “to take a look at whole picture; how to position ourselves psychologically.” The following Monday, 27<sup>th</sup> [Monday is 29], President will give a strong economic message before Chamber of Commerce.

I raised a question about my Russian trip, my [mind?] to know President’s thinking on outstanding economic issues. I reminded Haig that I had written the President about this. Haig’s reply: Let’s do this on Friday, after the meeting with the several economic advisers

I then raised question about Haig’s call to me, explaining plan to appoint Simon and how others are to be fitted in, asking my counsel with regard to these plans, and suggesting that I either call

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or come over the next day to tell him what I think. I went on to say that I called more than once, that my calls were not answered, that two or three days later his assistant called and apologized and went to say that he (Haig) would call me early next morning, that this call never came and that I naturally gave up. I went on to say that no harm was done as far as the Simon appointment is concerned, since I would have endorsed it; that as far as the other arrangements are concerned, I take it there is still time to get my counsel if they wanted it; that I was raising the point to indicate that our government may not function as well as it can or should if procedures such as I had recited are repeated.

Haig apologized profusely, emphasizing preoccupation with Watergate and the need, as he put it, “to spend a lot of time holding the President’s hand.” He also noted that he got the impression from me that I favored Simon’s appointment. My reply was: Al, you read my mind correctly, but you did not hear me say this – since I

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withheld comment completely, in part because of your very request that I ponder the matter and communicate my thoughts the next day. Al then repeated his profuse apologies; I cut him short by saying that the only reason for going over the incident was to avoid repetition in the future.

Haig ended by saying that on the subpoena, etc., the W.H. will soon come out with something that they can; he is confident, stand on.

For reasons that were not clear to me, Haig spent a lot of time telling me about a “gut fight” between Ash and Simon; that this fight “brutalized both men”; and that President wanted “this to be cut out”; that President decided to give Simon less authority than Schultz had for two reasons: (1) George S. “couldn’t cope with it all,” (2) “President shouldn’t delegate himself out.” [Not quite what Ash had told me. According to Ash, President’s chairmanship / Ec. C. was sheer façade]

xxx

I now appreciate better what G.S. told me recently: Haldeman ran a much more orderly shop than Haig.

Bryce Harlow has confirmed this.

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**May 2 [1974]** – Attended meeting with President on April 24<sup>th</sup>. Lasted 2 hours 20 minutes. Those there: Simon, Ash, Gen. Haig, CEA man in agriculture.

At beginning of meeting, RN indicated he was concerned about housing and unemployment; that he wanted plans worked out; but that he wanted everyone to understand that the final decision would have to be his. Curious how his dogged inferiority complex comes through.

RN was like his old self through meeting. Full of sardonic humor – kept needling me about tight money good-naturedly, but at no time suggested that I ease up. After my vigorous statement on the need for restrictive policy, he could hardly have acted otherwise.

This meeting demonstrated once again the advantage of preparation. I was the only one with definite plan for housing and unemployment. But whereas I sought to emphasize need for fiscal prudence which these problems were attached to, RN showed little respect for the budget.

All in all, the remedies he thought of or pushed were of the sort that liberals advanced, and which [actually?] worked, ten or twenty years ago; but which are no longer working.

The plans I presented prevailed – or so it seemed,

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Ash was instructed to work out details with me and others along lines I had sketched.

**May 27 [1974]** – Catherine [Mallardi] told me a few days ago that her sister Eleanor [per Joseph Burns telcon with Ford Library staff on 1/18/2008, Eleanor Connors was a secretary then working in the White House] had informed her (upon my questioning this was confirmed by Eleanor) that one of the omissions in one of the transcripts had a derogatory comment about Jews; specifically, that Jews are leakers of information – Kissinger, Garment, Safire, and also I; that only Herb Stein was an exception. What an awful untruth! If only I could get my hand on this dastardly pronouncement!

Haig called on May 23 to inform me of appointment of Rush as coordinator. He explained that Schultz had two jobs – Secy of Treas & coordinator – but that he couldn't handle these jobs; that Rush appointment was unusual but he hoped I would not disapprove; that the CEA chairmanship might go to Alan Greenspan or Rinfret; I indicated that I favored the [Ried? or Rush?] and Greenspan appointments, but that Rinfret would be a disaster. Haig told me of Quadriad meeting on May 24

That meeting was attended by Simon, Ash, Stein, Dunlop, Rush & Haig.

President went around room, asking everyone what they thought of Rush appointment (with him there!), after explaining that Shultz's performance

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was unsatisfactory, that Rush's appoint was desirable precisely because he was not an economist, that he was to be a coordinator and not a policymaker. President was obviously embarrassed by appointment; though I don't know why (I consider Rush one of his better appointments). His unfairness to Shultz was offensive – needlessly offensive.

President was in good spirits, talked about the need to concentrate on economy, his aim to meet frequently with the economic group.

Most of discussion centered on inflation and need to bring budget under control. I took lead on this and was strongly supported by Bill Simon. Ash balked at idea of balancing budget or even reducing it.

I warned President that his national health insurance plan was inflationary and expressed hope that he will shelve his welfare plan. He seemed to agree. But can he stay put? And what, if anything, does he really believe?

Herb Stein's economic report was discussed, and President asked Herb to get a copy to me immediately.

It was decided that possibility of cutbacks in expenditure would be examined on basis of a document to be supplied by Ash; I argued that

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this was good politics as well as good economics, and informed President of change in Congressional and public sentiment that I have detected – namely, that people were now scared about inflation and would accept budget cuts as well as high interest rates. Simon supported all this. Ash objected.

**June 24 [1974]** – Had meeting with President. Others: Ash, Simon, Stein, Rush, and Haig.

President began by expressing his skepticism about economics and economists. He wanted, so he said, to explore ways of dealing with inflation; but he felt, he added that old ways do not seem to work, and that something radical – like dictatorship – might be answer. This, of course, he added is also no answer.

Stein gave a simple run-down on the economy.

I spoke next on interest rates and monetary developments, pointing out that while interest rates were breaking records the economy was not being starved for money or credit; in fact, increases in money or credit were too rapid. I then turned to Franklin National case, noted its peculiarities, but also remarked that what happened in that bank was largely typical of what the larger banks have been doing –

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living off purchased money, letting capital position deteriorate, leveraging common stock, etc. I concluded by saying that basic reforms in banking are needed, that present however is hardly the time for carrying through more than a [little?] in this direction. Markets are too nervous to absorb the necessary reforms.

Ash followed on budget. His comment was purely political – arguing that about only places where budget can be cut, politically, is in defense and social programs. This will not do; hence little to be accomplished that way.

President argued that military budget will go up by virtue of a coalition in Congress consisting of conservatives, liberals who distrust Russians because of their pro-Arab policy, or anti-Israel policy, or the President's pursuit of détente. These were interesting comments, especially in view of his trip to Russia tomorrow.

Simon made some [?] comments about need to get better control over budget.

I told the President that his scoffing at the “old religion” of fiscal conservatism was not justified; that the “old religion” was precisely what people were yearning for; that I

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did not share Ash's skepticism about cutting budget; that Ash was wrong in urging that, defense [aside?], the budget could only be cut by reducing [outcry?] for food stamps, veterans' hospitals, etc.; that sizable cuts could be made in the space program, for highways, for other public works, for agriculture, for revenue sharing; that criticism of expenditure cuts was unavoidable; that stakes were high; and that rhetoric against inflation is not enough.

President talked about his statement and asked each of us to indicate that another meeting on budget would be held, and that we should say that expenditure reductions are being thoroughly studied. I observed that this was fine; but that this, to be credible, would have to be [followed?] by announced reductions. This was a disconcerting note, and President responded that our rhetoric should be muted.

As we were leaving, I urged President to [re-establish?] Labor-Management Committee, to have this committee meet every two weeks or so, to preside at such meetings – and, in fact, to spend a full morning each time doing so. President said he liked idea; asked Rush to work on it. – Will Nixon do this? I doubt it.

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**July 25 [1974]** – Had breakfast with Henry Kissinger

He told me among other things:

- (1) President is doing absolutely nothing in the area of foreign policy
- (2) That he despises President and may leave in a month or two (he sought my opinion: I advised strongly against [resignation?])
- (3) That we have no government at present; that Schlesinger is causing unnecessary difficulties (even telling Israelis that he (Schlesinger) sought to help them during recent war, while Kissinger dragged his feet; that Simon is undercutting Kissinger (Simon is “well-meaning,” but has a mania for publicity)
- (4) That [early resignation?] would probably be inevitable for him if President is not impeached
- (5) That President gave Colson \$5,000 to [get?] Kissinger
- (6) That Haig was spying on Kissinger in National Security Council
- (7) That he, having lost 12 members of his family to Nazis, was certainly sympathetic to Israel; but that Israel must yeild some territory on West Bank,

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and that a policy of no-give would prove suicidal to Israel

(8) that [Makeries?] could not be trusted and that our sympathies were hardly with Turks

I asked Kissinger whether he had any recollection of the trip on Sequoia in mid-1971 when President instructed Colson to go after me. Kissinger had no such recollection, and doubted whether he had been on Sequoia. I asked him to check his records to see if he had been along with President, Haldeman & Colson on such a trip. He promised to do so.

Had talk with Haig on July 22, wanting to check on Coldwell appointment. President had approved it, Connally tried to thwart it – wanting some woman in post; but according to Haig, President had said Burns must have the man he wants.

Haig went on to say that President considers Mills friendly and opposed to impeachment; that Mills is influential among Southerners; and that, in view of my old friendship with Mills, he hoped that I would urge him to work with Southerners. I told Haig that I could not appropriately raise the issue, that I do not discuss matters like that with Mills.

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As it happened, I saw Mills today. He was eloquent about impeachment issue; indicated that he thought half of the Republicans would vote for impeachment; and that this would make it difficult for him not to do same. I listened and said nothing.

Mills indicated he hates Ash. One more plus for my old friend!

xxx

Going back to H.K. His experience was like mine: a failure to recognize the President [from?] the transcripts. In my contacts, President has always been articulate, and rarely swore beyond saying “damn.” In other words, he conducted himself with dignity. But, as the transcripts show, he spoke in a private jargon, sounded illiterate, and used foul language all over the place, in his conversation with H, E, & Colson. Kissinger said his experience was exactly same as mine, and that he could not recognize the man he thought he knew – as he read the transcripts.

Apparently, the President was not fully comfortable with either Kissinger or me. The transcripts clear up the old mystery why he

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spent so much time with vulgarians like Haldeman, etc; he could relax with them and be himself.

Reviewed by Beth Panozzo, March 6, 2007; edited again by Meghan Lyon, October 1, 2007.

There are still several indecipherable words.

Edited by Gail Veenstra in 2008.