August 13, 1973

Dear Mr. President:

It is high time that this country got back to business and gave you the opportunity to carry out the tasks that you were elected to do.

The talk you plan to give this week may therefore be of decisive importance. My instincts tell me that you are most likely to be successful if you proceed in a conciliatory tone, recognize that you made some mistakes, explain the steps you have taken to prevent any future abuses of authority by subordinates, reassure the public concerning the integrity and patriotism of the vast majority of public officials, and ask the Congress and the press to join you in attending to the nation's business -- which must, among other things, place electoral reform high on the list of our public agenda. By proceeding in this manner, by avoiding every trace of partisanship, you may succeed in disarming your critics and tormentors. That, I think, could gain you more than a frontal attack.

I am enough of a realist to recognize that my formula may not work, and that perhaps there is no formula that will work well enough in present circumstances. The thought that your power and influence may be significantly reduced over the next three and a half years fills me with anguish, and my heart goes out to you.

Yet I have one positive word for you. For I also believe, being a student of history, that -- even if the wheel of fortune does not turn in your favor in the next month or year or two -- you will still be recognized by later generations as one of our very greatest Presidents. If the next 50 years turn out to be years of peace, if military forces around the world are reduced, if the Communist world moves in a humanist direction, if all this happens -- and I think the chances are better than fair that they will -- you and you alone will get the credit for this unparalleled achievement. All the talk about Watergate, ITT, etc., will be forgotten; and a grateful nation will remember only two things -- first, the bridges of peace that you had built, second, that it was your unique destiny to accomplish this for mankind.

I hope that this simple thought will give you added strength in the difficult days ahead.

With respect and warm regards,

Yours sincerely,

Arthur F. Burns

The Honorable Richard Nixon
The President of the United States
The White House
Washington, D. C.

to Gen Haig for the President 6/1/73 6 25

CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

June 1, 1973

Prepared per LG to AB May 31 after Din Berry mtg Burns at Ramp

Dear Mr. President:

In view of my departure on a foreign trip today, I have been advised to send you a personal message before getting away.

Let me say, first of all, that I think it is highly important that you address yourself to domestic economic issues rather promptly, as I believe you now plan to do.

This nation is experiencing great prosperity, but a spirit of unease and foreboding has nevertheless gripped the minds of very many of our people.

The investor class -- investment bankers, brokers, managers of investment funds, managers of pension funds, and the great body of individual investors -- are in a seriously depressed mood.

Consumers are spending their dollars freely. But if surveys of consumer opinion are right (and my personal observation suggests that they are), many consumers are worried about the future.

Businessmen are in an optimistic frame of mind. Their sales and profits have been improving sharply, and they are clearly in a mood to expand their plant, their equipment, and their inventories. But among this group, too, some signs of disquiet about the future, still faint and very limited, are beginning to appear.

Foreigners are showing diminished confidence in the dollar, and their thinking is shared by many Americans. The sharp rise in the price of gold and in the dollar price of foreign currencies is clear evidence on this point.

What is ailing people? The dominant factor appears to be the sharply accelerated pace of our inflation. Most people -- Americans and foreigners, businessmen and consumers, investors and working men -- have no use for Phase III. They seem to regard it as a mistake, and some regard it as a downright disaster.

The thinking and feeling of people is never compartmentalized. When they are in an anxious mood, one worry reinforces another -- whether or not they know or understand what they are worried about. Thus, many people, besides being concerned about inflation, are worried about the devaluation of the dollar, the deficit in our foreign trade, the decline of stock prices, the rise of interest rates, fraud on the stock exchanges, booming profits, shortfalls in governmental integrity, the Watergate affair, etc. Of late, questions have been raised in the press about your leadership, about your interest in the problems that concern people, about your absorption in foreign affairs, about your attention to domestic issues, and so on.

All this is affecting the state of confidence. In fact, as I see it, this country is now in danger of being buffeted by a crisis of confidence. This sort of problem clearly requires a political approach. It requires strong leadership on your part. It requires visible proof to the American people that you care about their concerns, that you are doing something real in their interest, that you intend to continue to do more as needed, and that if one policy doesn't work you will be ready to move to another in an unceasing effort to protect and advance their welfare.

I therefore urge you, first of all, to deal directly with the problem of prices that is agitating the minds of people, as follows:

(1) Reimpose mandatory controls for Tier I firms.

(2) Broaden the prenotification rules to cover more firms.

(3) Announce that some rollbacks in prices will soon be ordered in the case of firms that have violated the profit guidelines.

(4) Announce some reorganization of the Cost of Living Council (if George is ready with a plan).

(5) Announce that all agricultural price support efforts, which you can influence by administration, are suspended for the remainder of the year.

(6) Announce sale of materials from governmental stockpiles (including scrappage of obsolete naval and merchant vessels), with a view to bringing down prices of raw materials (including steel scrap).

(7) Announce that observance of profit guidelines will be monitored very closely and promptly from this point on, and that some needed expansion of personnel is being provided for the purpose.

(8) Castigate business firms that have granted large increases in salaries (including bonuses) to their top executives and order a stop to such practices.

(9) Advise the public, and particularly the business community, that the wage guidelines previously promulgated by the Pay Board are still in effect.

(10) Propose to Congress the elimination of the "bread tax."

(11) Repeat your recommendations to the Congress to cut back certain tariff duties on food imports.

(12) Request a study of the control of food exports, to be completed in 30 days, and prohibit foreign orders during this period.

Next, I would urge that you supplement what you are doing in the price and wage field with some fiscal proposals that would also contribute to checking inflation. I suggest the following measures:

(1) Besides repeating your stern appeal to the Congress on spending, announce an OMB reappraisal of Federal capital spending plans, to be completed in 30 days.

(2) Recommend to Congress a compulsory savings plan for corporations, under which some 10 per cent of their profits after taxes would be withheld, to be locked up in the coffers of the Federal Reserve, and to be repayable after two years or sooner, depending on the state of the economy, together with interest at, say, 4 per cent.

(3) Ask Congress also for a compulsory savings plan for individuals, at a rate equal to 10 per cent of their income tax, but limited to families with an income in excess of, say, $20,000.

(4) Recommend to Congress a variable investment tax credit, of which you have heard me speak often, which (like the compulsory savings plan) could be quickly adjusted to the changing state of the economy, to be available for cooling off the current investment boom and also provide insurance against recession later.

Finally, in view of the growing concern of people about the energy problem, I would propose a purchase tax based on the horsepower of all new cars and trucks. An excise tax on gasoline, such as many are urging, has economic merit; but I would defer this for consideration at a later date -- perhaps three or six months from now.

What I have put down so hastily in this letter is designed to strengthen confidence of people in their own and the country's future. I'm sure that the package can be much improved; but no package of proposals will be satisfactory unless it meets political and psychological tests, not just the criteria of professional economists.

Let me assure you, finally, that the Federal Reserve has been trying hard to bring monetary policy to bear on the problem of inflation, that our efforts in this direction will continue, but that we will also try to avoid a credit crunch of the 1969 type.

With every good wish,

Sincerely yours,

Arthur F. Burns

The Honorable Richard Nixon
The President of the United States

Copy to: George Shultz
Herb Stein
Roy Ash

P.S. Practically every point that I've covered has figured in recent discussions that George or Herb chaired. I'm sorry that I had to get away before a clear consensus emerged.