

EYES ONLY

September 27, 1971

MEMORANDUM FOR: FRED MALEK
FROM: CHARLES COLSON
SUBJECT: BLS Reorganization

Confirming our conversation of this morning, I concur that we should move ahead with Daniel Rathbun as the deputy to Jeff Moore at BLS. You should be aware that Shultz does not think highly of Rathbun and would prefer Fiedler, as I'm sure we all would. You should also be aware that Rathbun and Julie Shiskin do not get along; according to Rathbun it is because he was criticized Shiskin's operation. This is probably understandable in that the President's Commission on Statistics was set up to do just that and Rathbun would naturally be in conflict with the establishment.

The appointment of Rathbun as a deputy to Jeff Moore, however, is not going to solve our problem, I am now convinced. After extensive discussions with Fiedler, further analysis of my own as to how the BLS seasonal adjustment process works and memos that I have been compiling over the past several months, it is clear to me that Rathbun will not be able to make any fundamental changes in the way BLS operates. He will be able to keep the bureaucrats from weighting things against us on a month-to-month basis. He will be able, if he does his job well, to prevent publication of obviously biased figures. In short, the best we can hope is that he will keep things honest. Unfortunately the system is such that that alone may not be enough.

As I have now come to understand the seasonal adjustment process, it is really very flexible. The way in which the seasonal adjustment factors are applied is very much within the subjective, philosophical determination of the Commissioner. This is one reason why Fiedler would not take the job. I think he understood full well ~~that~~ we wanted but was afraid that he would not be able to have that much influence on Jeff Moore.

The seasonal adjustment factor is designed to level out what would otherwise be wide monthly swings in unemployment. In fact, this summer it had a precisely contrary effect. It created a precipitous decline in unemployment in June and then compensatory upward adjustments in the succeeding months. If the same thing happens next year, we will have a very sharp decline in unemployment in June followed probably by three successive monthly increases. Hence on the first of July, August and September there will be "reported" increases in unemployment.

On balance politically a very favorable June is hardly outweighed by unfavorable reports for the three succeeding months. The impact of this next year could be absolutely devastating. If the seasonal adjustment process works as it did this year, then four out of the five unemployment reports preceding the election will be negative and you can bet the Democrats will make the most of this.

I am, therefore, convinced that the Commissioner must at this point come to grips with this. His deputy cannot; it is beyond his control. The Commissioner must begin planning at the first of the year how he is going to apply the seasonal adjustment factors in such a way as to, in fact, see that the seasonal adjustment does what it is intended to do, i. e., level out the monthly aberrations, not aggravate them. This can't be done next summer. It has to be done in advance. There has to be a conscious decision on the part of the Commissioner starting early this coming year that he will in fact through judicious use of the seasonal adjustment factors and if the economic facts warrant, assure a steady decline in unemployment from June through November.

I am absolutely convinced that Jeff Moore could not and would not cooperate in such an undertaking. I am also convinced that Rathbun would not have the influence on Moore to accomplish this nor is he essentially a political animal. Fiedler could and would do this. In fact, we have discussed it, but he could only do it if he were Commissioner. He is quite right in concluding that he would not otherwise be able to exert influence on Moore, especially since he would be under the peculiar handicap of having been one of Moore's students.

My only reason two months ago for not arguing for Moore's removal was that I did not feel that we could afford to offend Arthur Burns. That still may be an important consideration even though we have now adopted Arthur's recommendations. Therefore, I think we should search immediately for a position for which Moore can be moved which he at least will regard as a promotion.

I no longer, however, feel that the risk of offending Burns is significant. Therefore, if we cannot find a position, I still believe that Moore must be removed within the next 30 days and replaced with Fiedler.

I realize that this is going to cause a major confrontation with Hodgson and possibly also with George Shultz, but this area is simply too important, too sensitive and too filled with political implications to take any chance. Maybe Moore could accomplish what I believe has to be accomplished, but I am not sure and, in fact, don't think he can. I am convinced that Fiedler can do it. The stakes are much too high to gamble on one whose track record is as poor as Jeff Moore's.

I suspect that what we must now do is look hard for a place to move Moore. As soon as you have some thoughts in this area, you, Hodgson, Shultz and I should meet, thrash it out and then present an option paper to the President. Obviously there will be different points of view which is why I am especially eager to at least have some possibilities available to offer Moore.