Foundation for Iranian Studies

Program of Oral History

JAMES SCHLESINGER

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FOUNDATION FOR IRANIAN STUDIES

RESTRICTED

INTERVIEWEE: JAMES SCHLESINGER

INTERVIEWER: WILLIAM BURR

WASHINGTON, D.C.: MAY 15 AND JUNE 27, 1986

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IRANIAN - AMERICAN RELATIONS ORAL HISTORY PROJECT

The Reminiscences of

James Schlesinger

Oral History Research Office

Foundation for Iranian Studies

1992

PREFACE

This manuscript is the product of a series of tape-recorded interviews conducted for the Oral History Program of Foundation for Iranian Studies by William Burr with James Schlesinger in Washington, D.C. in May 15 and June 26, 1986.

Readers of this Oral History memoir should bear in mind that it is a transcript of the spoken word, and that the interviewer, narrator and editor sought to preserve the informal, conversational style that is inherent in such historical sources. Foundation for Iranian Studies is not responsible for the factual accuracy of the memoir, nor for the views expressed therein.

PREFACE

The following oral history memoir is the result of two tape-recorded interview sessions with James Schlesinger on May 15, 1986 and June 27, 1986. The interviews were conducted by William Burr in Washington, D.C.

This interview is one of a series on Iranian-American relations in the post-World War II era which were conducted as part of a joint project between the Oral History of Iran Archives of the Foundation for Iranian Studies and the Columbia University Oral History Research Office. Similar projects have been undertaken in England and France.

The reader is asked to bear in mind that he or she is reading a verbatim transcript of spoken, rather than written, prose.

Columbia University in the City of New York | *New York, N.Y. 10027*

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April 2, 1991

The Honorable James Schlesinger
Shearson, Lehman, Hutton
1627 Eye Street, NW, Suite 1100
Washington, D.C. 20006

Dear Mr. Schlesinger:

In early January of this year we wrote to you concerning the transcript of your interview for the Foundation for Iranian Studies/Columbia University Oral History Research Office oral history project on American relations with Iran.

Essentially, that letter stated that if we did not receive the edited version of your transcript by March 8, 1991, we would proceed with processing and archiving the interview. As part of this process, we will do relatively minor editing: checking dates, names, etc... and clearing up stylistic problems. We will then index and abstract the interview and submit it in our Collection. Copies will also be held at the oral history archives of the Foundation in Washington, D.C. and at the Hoover Institute. The interview will be closed for five years, until April 1, 1996, unless an interested researcher receives your written permission to consult the transcript. If you prefer, we can open the interview immediately. If you do want us to open it now, please let us know.

Thank you for your consideration. Please feel free to contact me at (212) 854-2273 if you have any questions.

Sincerely,

Ronald J. Grele

Ronald J. Grele
Director

cc: Dr. Mahnaz Afkhani

BIOGRAPHICAL NOTE

James Schlesinger has served as the Director of the CIA (1972), Secretary of Defense (1973-76), and Secretary of Energy (1977-80). His recollections span a decade of U.S.-Iranian relations and cover such important aspects of the two country's relations as their geostrategic interests, negotiations over oil, arms sales, and the handling of the Iranian revolution. Schlesinger's interview furthermore, provides a detailed account of debates in Washington over U.S.'s policy toward Iran in the 1970s.

CORRECTIONS LIST

PP.4,13 and 19	Iraqui should be Iraqi
P.21	Pushtans should be Pushtuns
P.43	Hassan Toufanian should be Hasan Tufaniyan
PP.44-48	Van Marboorg should be von Marbod
P.68	marshal law should be martial law
P.87	Massadegh should be Mosaddeq

SCHLESINGER, JAMES

OB

Interviewee: James Schlesinger Date: May 15, 1986

Interviewer: William Burr Place: Washington D.C.

Q: The following interview with James Schlesinger by William Burr took place in Washington D.C. on May Fifteenth 1986. The interview is part of the joint project by the Columbia University Oral History Research Office and the Foundation for Iranian Studies.

Q: How is it you came to work for the Nixon administration in 1969? What brought you into the administration?

Mr. Schlesinger: That's a puzzling question: it's a question of my motivation at the time. I was working for the RAND Corporation; I had been in an advisory position; I had been in advisory positions to various government agencies. And I thought that it would be interesting for a while to be on the policy-making side as opposed to the advisory side. I was recommended to Mr. [Robert P.] Mayo, then designate to run the Bureau of the Budget by various people, and he offered me the job of Assistant Director the BOB [Bureau of the Budget], with responsibilities for National Security.

Q: That became the OMB [Office of Management and Budget] shortly thereafter.

Mr. Schlesinger: It came under study, it became the OMB fifteen, seventeen months into the Nixon administration.

Q: How long were you at the Bureau of the Budget and then OMB?

Mr. Schlesinger: I was there approximately two years.

Q: From there you went to--

Mr. Schlesinger: I went to the Atomic Energy Commission as Chairman in the summer of 1971, so I stayed on at the BOM-OMB for a--oh, I guess it's close to 30 months.

Q: Now in early 1973, you left the Atomic Energy Commission Chairmanship and became Director of Central Intelligence.

Mr. Schlesinger: That's right.

Q: Now, why did Nixon appoint you to that post? What were the reasons?

Mr. Schlesinger: That's a question that you better ask Mr. Nixon--

Q: Yes.

Mr. Schlesinger: Early in the administration, since I had responsibility for the national security area, I was urged by the President--Mr. Mayo was urged by the President, specifying that I would do a study on reducing outlays for the intelligence community.

The President had been approached by John McMahon, who was then Chairman of the Appropriations Committee in the House, who said that expenditures on intelligence were simply getting out of hand. He, at that time, mentioned the number of 5 billion dollars. As you recall, we were reducing the Department of Defense, and the intelligence budget is buried in the Department of Defense. As the overall DOD budget came down, it was essential to reduce intelligence outlays, and in addition both McMahon and the President felt that we were spending too much on intelligence anyhow. So that the President came into it, from the outset, with the view that intelligence expenditures should be reduced. In addition to that, as you may know, Mr. Nixon was not particularly fond of the Central Intelligence Agency, and I believe that that was reflected in his judgments of the time. He had the view, I am told, that the CIA discussions of the missile gap had cost him the election in 1960. Whether or not and to whatever extent he may have had that view, the fact of the matter was that he really was not very fond of the Central Intelligence Agency and of many of the senior personnel at the agency.

How did he come to appoint me? Once Mr. [George] Schultz came in as director of the OMB, he talked to Nixon, and Nixon talked again about the need for an intelligence study. It was then that I turned out the study--now known as the Schlesinger Report--that described what alternatives the President had for restructuring of the intelligence community. I then more or less disappeared into the Atomic Energy Commission. But after the election of 1972, Nixon and his senior advisors were busily emptying out personnel who had served in the first term. And as you recall, he requested a resignation

from everybody. I was called up to Camp David sometime in December of '72, and the President and [Robert] Haldeman and [John] Erlichman, I think, were there, and indicated that the President wanted me to go to the CIA. I was perfectly happy at the AEC, and I urged them not to move Mr. Helms out. But they were--they listened politely, but paid no further attention to my remarks. A few days later it became clear that they treated the prior conversation about my probable move to the CIA as a fait accompli.

Q: Now when you were at the CIA--but first, who were the people who advised you on questions that would involve Iran, like the Kurdish question? What kind of people that you relied upon for policy advice?

Mr. Schlesinger: Well, I did not need to rely on policy advice. At that time, we had an ongoing operation. The attitude of the Iraqui government at that time was distinctly hostile to the United States, and the attitude of the Iranian government was quite friendly. I inherited a policy, and therefore it did not seem to me essential to analyze the merits of a policy that was already in place. As you may know, I only spent four months at the CIA, and between the breaking-in process and the Watergate problem that busted over the agency, there was not a great deal of time to reflect on external activities.

Q: So you just continued the Kurdish operation, basically, while you were there for the six months?

Mr. Schlesinger: Well, I am not sure I want to confirm or deny.

Q: Okay. Let me go on to something else. Maybe more general questions about the U.S.-Iran during the seventies as a whole. Maybe back to the CIA for a second. What was the overall importance of Iran to U.S. foreign policy goals during the Nixon and Ford administrations?

Mr. Schlesinger: Well, I think there was some difference in tone between the two. I think that Mr. Nixon and the Shah had a personal relationship and a degree of warmth that was not true of the Ford-Shah relationship. President Ford tended to follow the commitments of his predecessor, and the advise of Secretary Kissinger, but I don't think that the degree of commitment was there, and consequently some of the things to which we had committed ourselves during the Nixon years--those commitments <u>might</u> not have been made during the Ford years, one can never tell.

The overall relationship during that period, obliterating difference between the two, was one of great closeness, probably excessive closeness, not only from the standpoint of the United States but probably from the standpoint of the well-being of the Shah and Iran, both. The closeness was in part an outgrowth of the public atmosphere in the United States, and our involvement in the Vietnam War, which as you know continued in diminuendo until 1975, although U.S. forces were effectively withdrawn after '73. The public opposition to the war was, to say the least, substantial, and the

Congressional opposition as well, and as a result the possibility of the United States using its own military resources for the protection of the region of the Persian Gulf, given public and congressional attitudes, were regarded as low. What is referred to as "the Nixon Doctrine" of relying on the Shah and other regional powers was not so much a decision taken as an ideal outcome, but driven by the constraints that were established during the Korean War period. Therefore you had--excuse me, the Vietnam War. I should have said the Vietnam War.

The Vietnam War established constraints; there was the belief that we had to create a new security structure in the region of the Persian Gulf; the British indicated that they were in the process of withdrawing; and there was this intimate relationship between the Presidents, President Nixon and the Shah. President Nixon had a failing that he tended to believe those who were close to him emotionally had greater strength and capability that was actually the case, and the Shah certainly fell under that rubric. We overloaded the Shah in terms of putting him in a position that was greater than his resources, his real resources, could bear. We overloaded the Shah too, in my judgment, in calling upon him to perform missions that resulted in reinforcing his own estimate of his own importance. But that was a reflection, as I say, of the constraints on the ability of the United States to replace the British as the British withdrew from the region; a good deal of wishful thinking about how much the Shah could do as the regional protector; and the personal relationship between Nixon and the Shah.

Q: What accounted for this relationship?

Mr. Schlesinger: Now, I should say one other thing. As a result of this relationship, we made commitments to the Shah that were open-ended commitments. Those commitments antedated my involvement in the problem--they go back to, I think, the meetings of Persepolis and other places in which the President in effect said that the Shah could not only rely on the United States, whatever he wanted he could have. That was the background.

Q: Now, how did policy-makers generally define the U.S. interest in Iran?

Mr. Schlesinger: I don't know that they were very explicit in defining it. I think that it filtered down from the commitments that Nixon and Kissinger had made in the early days of the administration, to the extent that it was defined, it wasn't defined all that well, the role of the Shah was of the principal U.S. ally, and as the strong man of the Gulf, serving as a proxy, as it were, for American power. But that was rather ill-defined, and needless to say, while that was the view at the top, many of the functionaries at the government didn't necessarily subscribe to it, most particularly the people at the Department of Defense.

Q: When people looked at Iran as a country in that area, what was the importance assigned to it? Why was it seen as important?

Mr. Schlesinger: It was seen as important for a number of reasons. The first reason was the real estate that it occupied--going back to the 1950s, and Secretary [John Foster] Dulles' attempt to establish what was the short-lived Baghdad Pact that became CENTO. The Shah was the centerpiece of CENTO. That was the northern tier. With the passage of the years, the northern tier grew in importance. Why did it grow in importance? When it was set up, the dependency of the industrial world on the oil resources of the Persian Gulf was limited. With each passing year, more or less, that dependency grew, so that the Persian Gulf oil resources had become critical to the industrial world and to the west! And for that reason, the tier, which was served as a kind of band, presumably keeping the Soviets from penetrating southward to reach those oil resources--to say nothing of the historic interest in the warm water ports, as expressed, at least by legend, from the time of Peter the Great--that became more and more important. I don't think at the time of the Baghdad Pact it was fully appreciated. I know it wasn't fully appreciated, how important the Persian Gulf was due to become. So the first thing is the real estate, where it was located. The second thing was the role of the Shah in CENTO: the Shah was, as it were, an unencumbered U.S. ally; after the price revolution of 1973, he was not only an ally but he was an ally with lots of cash to spend and one who had a certain authority with regard to the oil price that had become critical. And finally, he was a source of military power that could be--finally and not least--a source of military power that was believed to be capable of serving as a stabilizing presence in the region: outside of the role of the northern tier as a band to prevent

Soviet movement southward, it was also going to serve to stabilize the Gulf itself, as the Dhofar involvement suggested.

Q: I have some questions about the CIA period, you can answer them if you can. Now during the 1950s and early 1960s, the CIA Station Chief in Tehran generally had a fairly close working relationship with the Shah. Is this something that is still the case in the early 1970s, this kind of close relationship, on a working basis?

Mr. Schlesinger: It would be my impression, and I should not, I should not say that it's more than that, that it ceased, that the Shah had gradually become more elevated, and that he would deal, that he dealt increasingly with the Ambassador. And it was natural for an Ambassador, not to specify any particular one, to want those kinds of discussions to go through the Ambassador rather than through a station chief. And then of course, when Mr. Helms became Ambassador, he was--he could be regarded as one who was knowledgeable about the functions of the station chief more than one might say he was a glorified and elevated station chief. So I don't think that the relationship would have survived in that period. I have no recollection of any such close involvement between the Shah and others. The Shah as you may know became, to some extent, increasingly remote as the years passed.

Q: During the 1960s and early 1970s, through the 1970s, the Embassy used Iran as a listening post on Soviet missile tests. Now it's been alleged that during the 1960s--or perhaps later, it's not clear to

me--

Mr. Schlesinger: Well that's your statement about listening posts.

Q: Yes, right. It's been alleged that the CIA agreed not to spy on the Shah in order to get use of these sights for listening on missile tests. Was there anything to those allegations that you can speak on?

Mr. Schlesinger: I couldn't comment on that.

Q: Another question: this might be one you can. At the time you were CIA director, did the agency do much monitoring of social-political divisions inside Iran? Did you get a sense of the social-political conditions of the country from reports that you read?

Mr. Schlesinger: No. Iran was not--I had enough to do, and Iran was not at the top of our priority list. In general, the attitude within the agency was, I think, that you had as ambassador there a man who was quite knowledgeable about such matters and that his sense of things probably was good enough. We--I think that there may have been some tendency for the agency to grow a little complacent with a former director as the ambassador.

Q: During this period--early to mid-seventies--were there any particular concerns at all about the stability of the Shah's rule in

Iran? Did people assess--

Mr. Schlesinger: In the early and mid-1970s?

Q: Through the mid-seventies.

Mr. Schlesinger: Well, I had considerable concerns about it. And I expressed them repeatedly. They were not concerns that went to the intelligence data; they were concerns that reflected a general analysis of the kind of forces that were working in Iran. I urged the Shah, the first time I met him, to use his resources prudently rather than squandering them on a diverse set of military hardware. And a principal reason that I gave was the lack of a substantial body of trained technicians inside the country. And to the extent that he acquired complex military hardware, and many models of it, he established the logistical requirements that would gradually absorb more and more of those trained personnel, so that fewer and fewer were available for the normal civilian activities of the society. There is that general observation; I was quite concerned about it--that the heedless growth of the armed services would result in an excessive drawing away of specific resources, in this case, trained technicians. I was not worried about the cash--the overall monetary requirements--but its direct impact on the availability of trained people. It seemed to me that the Shah's notions of modernizing the country, in particular that the unplanned growth of the Armed Services, would defeat some of those schemes. Those were general, that was a general thought. As it turned out, it was more accurate

than ever I thought at the time.

The other point that I should make is that--a simple historical point made by every historian since [Alexis] de Tocqueville--which is at the time of transformation of these societies that they become particularly unstable. That as you root up people, move them from traditional settings and traditional occupations into new occupations--and particularly, if there is a growth of real income that might be interrupted--that the society is far more vulnerable than when it is functioning as a traditional society. That's sort of a general observation: one was worried about that in a general way. But of course, general worries tend to be overtaken by specific worries. And the point that I emphasized more than anything else was the very limited number of trained people in the country, and the desirability of not allowing them to be engrossed, as it were, by the military establishment. However, the Shah--I never mentioned the latter point about de Tocqueville and so on to the Shah because that was the kind of thing that is likely to have irritated him. And I felt the irritation was unnecessary. But I stressed what was the substantive point about trained people. It did not--it effected his course of action somewhat, but not significantly, as we can see in retrospect.

Q: When you started out at the CIA, in the four months that you were there, did Henry Kissinger discuss with you the rational for the support of the Kurdish insurgency in Iraq?

Mr. Schlesinger: As I indicated earlier, this was not a high

priority item, and I only spent about four months at the agency in total. My recollection now, somewhat obscure, is that indeed, Henry did discuss this briefly as one of the things that we were doing. As you may recall, the government of Iraq was highly antagonistic at the time. My recollection is that this was discussed more in terms of creating a problem for the Iraqui regime than it was in terms of support for the Shah's ambitions. That would seem to be an appropriate emphasis for him to make. Although I supported the Shah I tended to be a little more skeptical about the hopes of the administration for the role that the Shah might play, and a little more skeptical about the Shah's ambitions than some of the other members of the administration. That is not to imply that I was as a critic--it was merely that in relative standing, I was far more cautious.

Q: It's been alleged that Kissinger and Nixon agreed to the Shah's request for this operation--that this was in '72, but only--he insisted that they support the operation--he was supposed to play the role of gendarme. Was there a sort of a quid pro quo that you know about?

Mr. Schlesinger: I do not know of that. However, that is quite plausible to me. As you may know, our role was a supportive role. I think that he wanted--that the Shah eagerly wanted the prestige of the United States involved, the backing of the United States, but he was less concerned about the quantitative support. And that he was in a position, given the overall role that we wanted him to play, to

demand a quid pro quo. So, while I cannot speak to that myself, and others presumably can, it strikes me as more than plausible.

Q: Now, in July of '73, I think, you became Secretary of Defense.

Mr. Schlesinger: I had served, as indicated, as Secretary of Defense, basically from April or May on. My final confirmation by the Senate was held up for some months by Senator [William] Proxmire. But from mid-May on I was down at the Pentagon most of the time, and with the concurrence of the Armed Services Committee, while my confirmation was pending I went to the NATO meetings in Europe as the de facto Secretary of Defense, with the role of Special Presidential Envoy. And if you--therefore, it's quite true that I became formally Secretary of Defense in July, but I had served as Secretary of Defense de facto some months prior to it.

Q: What accounted for this transition from the CIA to the Pentagon? What decisions did Nixon make?

Mr. Schlesinger: I can't speak to that; once again, you ought to speak to Nixon himself.

[pause]. Elliot Richardson was Secretary of Defense. He wanted Elliot over as Attorney General for reasons relating to Watergate, and I forget the precise details at this time. I think that the--was it [Richard] Kleindienst whom he replaced?

Q: Shortly, yes.

Mr. Schlesinger: Of course, Kleindienst had gotten into a peck of trouble, and that had created something of a stain on the Department of Justice. And Elliot Richardson's reputation was such that he could remove that stain. Therefore, they moved Richardson as quickly as they could. And I was the logical choice within the administration.

Q: Okay. Now, when you became Secretary of Defense, had you been briefed, or told, about the substance of the meetings that Nixon held with the Shah in May of '72, in terms of arms sales decisions? Were you informed, or did you read about them in documents?

Mr. Schlesinger: I don't recall that I had any direct briefings. As one reflects on it, there were kind of hints at this and that, but there was no documentation. It became clear to me over the period ahead that, that the relationship was very deep. But now I cannot recall any explanation of the degree of commitment, and indeed I have not to this day had it confirmed from the participants that those commitments were made that you can have anything you wanted. I did not, at that time, believe that such deep commitments had been made, although I understood that we were supposed, in general, to support that Shah--because I resisted certain sales, certain commitments by the United States which I did not think were in our interest, and sometimes were not in the Shah's interest, and on some of them I just got overruled.

Q: Do you recall the details?

Mr. Schlesinger: Yes. I think that, as regard to aircraft, I was allowed to attempt to dissuade the Shah from acquiring certain aircraft. Indeed, ultimately I persuaded him that he ought not to buy both the F-14 and the F-15, simply because with forces that small he should not have a too long and complex logistics trains--once again going back to my concern about trained manpower. Then there was the case of the Tow missile, of which I got to be critical, because the Shah wanted to put a plant in country for the production of the Tow, and I was hesitant to allow the technology to produce the Tow to go outside of the country. And I protested--and I dragged my feet on that, in fact. But when the decision was made, the decision was, yes indeed, we were going to go with the Shah's request. Once again, I was permitted to attempt to dissuade the Shah, but if the Shah insisted, he won.

Q: Did he in this case?

Mr. Schlesinger: I beg your pardon?

Q: Did he in this case of the Tows?

Mr. Schlesinger: He did indeed in the case of the Tow, and I noticed all of that, but I did not know that he had--I still do not know, or I have never been informed, that whatever he wanted he could have, as the statements about the Persepolis Conference suggest. I have never

asked Nixon about that, at the time or subsequently, whether or not that commitment was as deep as it was.

Q: So, in effect, the Iranians--

Mr. Schlesinger: There was, of course, negotiations on all sort of things: about helicopters and so forth. But I thought, my general fear was the leakage of high-technology items into a region in which one could not predict the future with certainty. That's not to say I expected the Shah to be overthrown, but I thought that the instabilities in the region were such that one should not encourage the export of high technology, should not encourage the export of the capability to produce high-tech items. That was what was different about the Tow plant. Now we were engaged in selling the Shah high technology items, and one might worry about that, too. But it was less worrisome than the provision of the capability to produce. As I say, I raised these questions and in each of these cases, my arguments tended to receive relatively short shrift from which one might conclude that there had been a prior commitment. But I was never told about.

Q: These were discussions with Kissinger, in the NSC meetings? And you made your objectives?

Mr. Schlesinger: No, they were private discussions. Meetings for luncheon and that sort of thing.

Q: With Kissinger and others?

Mr. Schlesinger: Yes.

Q: Okay. So you're saying, in effect--

Mr. Schlesinger: By that time Nixon was reasonably fully absorbed with the whole Watergate problem. These kinds of things were beneath his attention level, by and large. The Shah came here, as I recall, in the summer of '73--September of '73, was it?

Q: Yes, I was going to ask you about that.

Mr. Schlesinger: Yes, I think it was September of 1973, or maybe 1974, but it was, I think, shortly after I became Secretary of Defense, and I pressed him on some of these points that I've previously mentioned about the importance of maintaining a balanced military force, not too heavily involved in procurement. That was toward the end of a period in which Nixon was reasonably fully engaged with Government, before he became inundated by the Watergate affair.

Q: Before I ask you about that visit of the Shah, I have some general questions about the arm sales and their implications.

Now, was there much concern at the DOD [Department of Defense] and other agencies that the Iranian arms build-up might aggravate a

regional arms race and lead to further instability in the region? Was that considered a problem, or a future possible problem?

Mr. Schlesinger: I think that was used from time to time as an argument within the Pentagon, but it was only an argument. The Pentagon was not given either institutionally or emotionally to deep and excessive neurosis about the arms races, regional or otherwise. And I think that, of course, tends to be a failing. It was justified, probably, in this case to a considerable extent by the attitudes taken by the Iraquis--the fact that our arming of Iran tended to reinforce the inclination of the Iraquis to run to the Soviet Union, however, was not given a great deal of weight. I think, in these matters, that at one passes a point of no return, as it were. And that is the appropriate kind of question to raise before one develops an extensive arms relationship. Once you engage, and the other party in that arms race, the Iraquis in this case, have turned to the Soviets as suppliers, the tendency is for that relationship between the third party and the Soviets to obliterate other concerns. And that relationship tends to justify thereafter arms sales.

Q: Now, some students of arms sales have suggested that by making Iran more dependent upon U.S. high-technology weapons, the Nixon and Ford administrations hoped to be in a better position to influence the Shah's political and military moves in the region, through a process of dependency.

Mr. Schlesinger: Ah, that's a kind of academic suggestion. It's a reflection of the academic capacity to see logical relationships, and infer from a logical relationship that it may have been a principal motivation. No! The fact of the matter is that we had an intimate relationship with the Shah, and that the notion of using arms sales as a way of--of high-technology arms sales, making dependency, as a way of making him more responsive, was pretty far off. What is true, and is generally true about arms sales, is the belief that the arms relationship, not necessarily involving high-technology, breeds an intimacy that is politically useful. And that certainly applied in this case, as it does in almost any case that I can thing of offhand. The Shah--providing the arms for the Shah made him closer to the United States and therefore more responsive to our suggestions, but it wasn't a "dependency" on high technology items--that's carrying logic too far.

Q: Now, you said a few minutes ago, the same month that you officially became Secretary of Defense the Shah visited Washington D.C. Do you recall the general purposes of his visit to the District?

Mr. Schlesinger: I don't recall the general purposes or anything, other than it was the continuation of the relationship that had been engendered in the early years of the Nixon administration and a renewal of vows, as it were--a renewal of marital vows. The Shah tended to develop his strategic hypotheses, most of which involved the Soviets in destroying Pakistan by Soviet subornation of the

Baluchis and the Pushtans. It was, of course--it was his belief that the Soviets were going to move against Afghanistan politically--a fact which became much more true some years later, at the time that [Mohammad] Daud was overthrown. But Daud was regarded by the Shah as pretty much of a Soviet tool--that's not correct, but he pretty much regarded him in that light. The dismemberment of Pakistan was his principal concern, and its relationships, for the stability of the region as a whole, and particularly Iran itself. The Shah, as you may know, since he was an absolute monarch, tended to spin out these theories in Tehran, and as he did so he was surrounded by a group of people who'd say, "How wise you are, Your Majesty, how insightful!" And so he tended to be unchecked, as it were, in the development of his strategic views, some of which were soundly based, but some of which became pretty fanciful.

[end of side one: beginning of side two]

Q: Do you want to continue your train of thought?

Mr. Schlesinger: No. I completed it; that particular point.

Q: Is this the first time you had met the Shah?

Mr. Schlesinger: Yes, indeed.

Q: What were your impressions of him? What were your impressions of the Shah?

Mr. Schlesinger: My impression of the Shah at the time was a man of a high degree of apparent self-assurance, underscore the apparent. As I mentioned a moment ago, he tended to be unchecked within his own country, and therefore to expect agreement. But knowing something of his history as a younger man, I was concerned with the apparentness of his self-assurance. He did not strike me as an immensely tenacious person, as opposed to one who was used to getting his own way and had the appearance therefore of self-confidence for that reason. He had not been proved, as it were, under adversity--much had been handed to him. In addition to that, I was reasonably impressed with his articulateness, with his general intelligence, with his ability to formulate and express his views. Some of those views tended to get a little far-fetched. He had developed some grandiose notions about the future of Iran, much of which were captured by Ms. [Oriana] Fallaci or whatever her name was, in that interview in which he was going to catch up and surpass West Germany and France in a decade's time, or something like that. That's the fanciful part of the Shah, and he tended to be carried away on these flights of fancy. Unfortunately, there was nobody inside of his country that could really say: "Ah, Your Majesty, you'd better think that one over again." They tended to be "yes men", and he tended to select people who were yes men. That became increasingly clear. He was--one was impressed, as I recall, with his role as absolute monarch. It tended to be so different from the comportment of senior officials in a democratic society, who however overwhelmed they are with their own importance or self-confidence,

tend to be much more reasoned in expressing themselves.

Q: When he was in Washington, did you have meetings with him?

Mr. Schlesinger: Yes. He came to the Pentagon--

Q: You discussed the arms sales issues, you mentioned that.

Mr. Schlesinger: Yes, well, we discussed that--generally speaking, it was an exposition. He was primarily concerned with expressing his strategic judgments, and I was eager to express my concern about the possible wastage of resources. It was under those circumstances that I suggested that he put together a staff, so that he could monitor the balance of expenditure, so that his armed forces were capable of fighting rather than merely acquiring weaponry. To which, as I recall, he agreed. I don't--agreed: he did more than acquiesce. But I'm not sure that he embraced the notion in its entirety on the spot.

Q: I've read that during those meetings, in July, there were discussions on petroleum policy with the Shah? Did you participate in those talks?

Mr. Schlesinger: I do not recall so doing. As you recall, this was some months before the Arab oil embargo, before the Yom Kippur War. I know that there were those discussions; the Shah did mention to me his desire to sell directly to the United States and to have, in

effect, a guaranteed market here, so that he could move more oil, so he could get more returns, and thereby play an even better role in terms of stabilizing the Gulf. But it was a very brief sort of comment. It was--he pressed that quite hard with Secretary Kissinger, and I'm certain he pressed it with Nixon as well.

Q: So in effect, he was making assurances about the stability of supply; is that what he was doing, in a way?

Mr. Schlesinger: He was, I think, making such assurances, but he was talking more about the mutual advantages in terms of trade, as it were--that he was a reliable friend of the United States. There was not an insinuation, I don't think, that the Saudis might cut us off, just four months later, or three months later. He offered to provide all the oil--at one point or another during this period, to provide all the oil that the United States might want at some guaranteed price, which was about the market price as I recall. Kissinger has repeatedly joked in subsequent years that he, Kissinger, was such a good businessman that when the Shah offered him a guaranteed supply of oil at five dollars a barrel, that he turned him down. This was about the time the price of oil jumped to 30 to 35 dollars a barrel [laughter]. That was Kissinger's humor, because obviously, if the market had changed, the Shah was not going to abide by any 5 dollars guaranteed price. But that--Kissinger's jokes about these matters, I think, reflect the nature of the conversations with the Shah. Needless to say, it was not regarded as appropriate for the United States Government to enter into a commercial relationship with the

Shah, and that the decision of where to lift oil was going to be left to the market price, to the major oil-importing companies. But that is not necessarily what the Shah wanted to hear, because he had had enough experience with those companies, and he did not think that they were in existence to serve his purposes. He was quite right about that.

Q: At these meetings, were there any decisions made about arms sales that you recall? Or was it merely on the general terms? Any specific decisions come out of the meetings?

Mr. Schlesinger: No. In fact, the principal issue was the F-14 and the F-15. The Shah indicated he wanted both of them. I urged him not to establish two complicated logistical trains for two separate weapon systems, that he choose between the two. And I think I said that, if it were my choice, that I would choose the F-15. The Shah was pretty well committed to the F-14. As it turned out, he started to order the F-14 thereafter. He never did get around, whether persuaded by my comments or not, to order the F-15--which he had originally intended to do--for which I got into considerable hot water with the Missouri Delegation, and Senator [Stuart] Symington chided me, or more than chided me during my appearances before the Armed Services Committee. I took the simple view from the first that arms sales were not intended to fatten up the U.S. balance of payments, or that they were not intended to satisfy the military services by achieving lower unit costs with activities of particular firms and particular states or districts. That was not a universally

popular view, but I think it was a sensible view in general, but it was particularly sensible given the climate of the times and the view and public opinion that we ought not to be fostering--either arms races or arms sales merely for commercial motives.

Q: Well, I had the sense that the Navy and the Air Force procurement bureaus were keenly interested in selling.

Mr. Schlesinger: Absolutely. That's what I just hinted at when I said the desire of the services to lower per unit costs. I dealt with that, as a matter of fact. I think I dealt with it; I certainly dealt with it conceptually by telling the services that they were not going to benefit by arms sales in terms of their budgetary outcomes--that to the extent that they successfully sold a package to a country, that I was going to reduce the aggregate for that service by the reduction in the cost of that weapon system to the service. I wanted to remove the incentive to the individual services to go around the world hawking arms. And I think that I certainly weakened that incentive as an economic incentive. There's a good deal of service pride and the tendency amongst the services was to push their weapon systems for reasons beyond economic. But I hoped to pull away the budgetary incentives, and I gave instructions early on that there was to be no deliberate hawking of weapon systems, that the whetting of appetites of potentially recipient countries, that we as a country should neither sell weapons simply for balance of payments reasons, nor should we sell weapons unless there was a good military reason. Now from time to time we would have to respond to the desires of

potential recipients, but we should not be there whetting their appetites. I think that that position of mine may have had some influence, but basically the services continued in the game of whetting appetites.

Q: It's very difficult to control, I would imagine.

Mr. Schlesinger: It's very difficult to control. I think that I did much of what one can do, simply by taking away the budgetary incentive. And to the extent that I told the Navy directly that they were not going to benefit in the budgetary sense from the sale of the F-14, and I also told them that they were to sell the weapons system at a price that redeemed some of the R&D costs that had gone into the weapons system. The Navy in that case--but the services would generally fight that off because it raised the price, and therefore diminished the prospect of sales. They were interested very much in reducing their out-of-pocket costs. They weren't worried about past history like R&D.

Q: According to a report commissioned in '76 by the Senate Committee on Foreign Relations regarding arms sales to Iran--it suggested the various armed services procurement bureaus were in such intense competition for selling weapons in league with the contractors, that there was a state of near anarchy within the Pentagon in terms of effective control over arm sales--

Mr. Schlesinger: Oh, I don't know where they got that. I don't

think that there was anarchy. That was the kind of thing that was being pumped up at the time by critics on Capital Hill who, as I indicated a few moments ago, were quite concerned about arms sales in general, and the arms race, and any sale by the United States. That kind of assertion about anarchy in the Pentagon, I think, was just wholly wrong. Now, what is true, of course, is that there was a great deal of competition within the Pentagon, and that to some extent that was accepted. It certainly had been encouraged by previous Secretaries of Defense: as you will remember, Senator McNamara had told Kennedy that he was going to solve the American balance of payments problems, in so far as the defense budget was concerned, by foreign sales! And when he decided that, he's a man of great determination! So the history was of eagerness to push sales. I was opposed to that for policy reasons. As I indicated, the fact that I weakened incentives did not necessarily curb the habit, but it certainly weakened the habit, and to the extent that the competition in arms sales continued, it continued more covertly than it previously had been.

Q: Is it possible that Nixon and Kissinger had balance of payments considerations in mind when they made the large decision in May of '72?

Mr. Schlesinger: I don't think so. I don't know whether this is a compliment to the two gentlemen or a criticism, but Kissinger never worried 20 seconds about that kind of low commercial motive, and while Nixon might have, I don't think it was a major one. It became

a motive later on, after the Yom Kippur War and the explosion of oil prices, and the immense surpluses that the Shah began to pull in. At that point we were seriously worried about our balance of payments position, and the notion of getting back the monies we were paying out in oil by weapon sales became, I think, more powerful, became an increased motive. It was also, in a sense, a motive for me when I made the decision that we were going to reclaim part of the research and development costs, and charge the Shah and others full costs for these weapons, over the protests of the services, who wanted to maximize sales by avoiding full-cost pricing, since such sales did not go to the service--they were only indirect beneficiary of such sales. And my notion of full-cost pricing was based, in part, on the explosion in the balance of payment surpluses by the oil-producers of the Middle East. So it was not a consideration that was irrelevant as far as I was concerned.

Q: You enforced this policy?

Mr. Schlesinger: What?

Q: You enforced this policy of full-cost pricing?

Mr. Schlesinger: While I was there, indeed we loaded in Research and Development costs and full average cost pricing. What happened to it after I left I don't know.

Q: I have some questions about the price explosion in oil and the

OPEC crisis. Now this happened in the late fall of '73, the winter?

Mr. Schlesinger: That's right.

Q: Did you take part in the Nixon administration's discussions of policy responses for this action? You know, what you just talked about a minute ago--

Mr. Schlesinger: I was only marginally involved in that.

Q: Now, later on, in early '75--

Mr. Schlesinger: In so far as it was defense responses, during the period of the oil shortage or subsequently, prospective oil shortages--what defense policy should be, how oil should be allocated--of course in those things I was fully engaged. But beyond that area, no.

Q: In early '75, in the midst of the recession, Henry Kissinger suggested the possibility of military action against the oil producers, as they kept on raising prices, "economically strangled the West", as he put it. Did Kissinger discuss this with you before he brought up this statement?

Mr. Schlesinger: You mean, those particular words? No, he didn't discuss it with me, as I recall it, those particular words, but I was not unsympathetic to the point of view that he expressed. I thought