The Ford & Carter Years: A Crisis in Confidence

I. The 1970s
A. An Overextended Society
   1. The economy was defined by low economic growth, inflation, & rising unemployment
   2. American politics were defined by a distrust of the government due to Watergate & “passionless presidents”
   3. An end to détente with the Soviet Union

B. The U.S. Economy in the 1970s
   1. Oil and Energy
      a. The 2 major oil shocks of 1973 & 1979 led to gas shortages, increased prices, & a recession
      b. The U.S. created the Dept of Energy & led a new emphasis on conservation & domestic energy production
   2. Stagflation
      a. The economy stagnated due to a decline in industry, unemployment, outsourcing, & foreign competition
      b. Inflation grew due to deficit spending, oil shocks, & the lack of an effective plan by Ford or Carter

II. The Lean Years: The Presidencies of Ford & Carter
   1. Ford failed to restore American confidence in the presidency by pardoning Nixon
   2. Ford made blunders in foreign policy by revealing CIA operations & vetoed domestic social reforms

B. The election of 1976 was won by “dark horse,” “outsider” candidate Jimmy Carter (Democrat from GA)

   1. Carter’s lack of a clear vision was best reflected in his inability to solve the economic recession
   2. The “National Malaise” speech seemed to blame Americans for the recession

III. Carter’s Human Rights Foreign Policy
A. America’s world dominance declined due to its failure in Vietnam, War Powers Act, & Cold War deficit spending

B. Carter pledged his foreign policy to a commitment to human rights
   1. Spoke out against oppression in Latin America & Africa & reformed the CIA’s covert operations
   2. Negotiated a return of the Panama Canal
   3. Greatest achievement was the Camp David Accords resulting in peace between Egypt & Israel in 1979

C. Cold War tensions between the U.S. & USSR increased
   1. The USA & USSR developed new nuclear weapons & SALT II failed to reduce nuclear weapons
   2. Détente ended when the USSR invaded Afghanistan in 1979
      a. The U.S. retaliated with an economic embargo, boycott of the Olympics, & aid to Afghanis
      b. Carter hoped to end the Cold War, but helped make it worse

D. The Iran Hostage Crisis in 1979
   1. Islamic fundamentalist Ayatollah Khomeini led a coup over the shah of Iran
   2. Iranian mobs stormed the U.S. embassy in Iran & took 52 hostages & held them for 444 days
   3. Carter’s attempts at returning the hostages failed & hurt his re-election bid in 1980

IV. Conclusions
Tragically, American foreign policy has historically supported many countries that hold power through murder, torture, and other violations of human rights—practices that are an affront to basic American values. During the presidency of Jimmy Carter, the United States began to show a growing regard for the human rights practices of its allies. Carter was convinced that American foreign policy should embody the country's basic moral beliefs. In 1977, Congress began to require reports on human rights conditions in countries receiving American aid. Iran has been one of the most frequently cited nations accused of practicing torture. Estimates of the number of political prisoners in Iran ranged from 25,000 to 100,000. It was widely believed that most of them had been tortured by SAVAK, the secret police.

Since the end of World War II, Iran had been a valuable friend of the United States in the troubled Middle East. In 1953, the CIA had worked to ensure the power of the young shah, Mohammad Reza Pahlavi. During the next 25 years, the shah often repaid the debt. He allowed the United States to establish electronic listening posts in Northern Iran along the border of the Soviet Union, and during the 1973-1974 Arab oil embargo, he continued to sell oil to the United States. The shah also bought arms from the United States, helping to ease the American balance of payments problem. Few world leaders were more loyal to the U.S.

Like his predecessors, President Carter was willing to overlook the shah's violations of human rights. Carter visited Iran in late December 1977 to demonstrate American support. He applauded Iran as "an island of stability in one of the most troubled areas of the world" and praised Mohammad Reza as a great leader who had won "the respect and the admiration and love" of his people.

The shah was indeed popular among wealthy Iranians, but in the slums of Teheran and in rural, poverty stricken villages, there was little respect, admiration, or love for his regime. Led by a fundamentalist Islamic clergy and emboldened by want, the masses of Iranians turned against the shah and his Westernization policies. In early fall of 1978, the revolutionary surges in Iran gained force. The shah, who had once seemed so powerful and secure, was paralyzed by indecision, alternating between ruthless suppression and attempts to liberalize his regime. In Washington, Carter also vacillated, uncertain whether to stand firmly behind the shah or to cut his losses and prepare to deal with a new government in Iran.

In January 1979, the shah fled to Egypt. Exiled religious leader, Ayatollah Ruholla Khomeini, returned to Iran, preaching the doctrine that the United States was the "Great Satan" behind the shah. Relations between the U.S. and the new Iranian government were terrible, but Iranian officials warned that they would become infinitely worse if the shah were granted asylum. Nevertheless, Carter permitted the shah to enter the United States for treatment of lymphoma. The reaction in Iran was severe.

On November 4, 1979, Iranian supporters of Khomeini invaded the American embassy in Teheran and captured 66 Americans, 13 of whom were freed several weeks later. The rest were held hostage for 444 days and were the objects of intense political interest and media coverage.

Because Iran was not a stable country in any recognizable sense, its government was not susceptible to pressure. Iran's demands—the return of the shah to Iran and the admission of U.S. guilt in supporting the shah—were unacceptable.

What Should Carter Do?

Step 1: Identify the problem:

Step 2: Brainstorm five possible solutions to this problem as well as the positive and negative consequences of each alternative

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<th>Possible Solution</th>
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Step 3: Rank order your decisions and justify your #1 choice. What should Carter do and why?
Wrenching Economic Transformations
At one time, the car makers in Detroit produced automobiles that mirrored America's strength and power. They were big, heavy, powerful cars with such expensive options as power windows, power brakes, and power steering. So what if they were not energy-efficient (most got 10 to 13 miles per gallon)? Gas was cheap—just 37 cents a gallon in 1973. The public kept buying big cars, Detroit kept producing them, and the automobile industry reaped big profits.

By the late 1970s, the rising costs of Middle Eastern oil forced the American automotive industry to rethink its strategy. Emerging Arab nationalism and the solidarity of the Organization of Petroleum Exporting Countries (OPEC) drove the price of a gallon of gas toward the dollar mark. American drivers started purchasing smaller, better-engineered, fuel-efficient cars from Japan and Europe. By 1982, Japanese cars had captured 30 percent of the U.S. market.

Since 1973, the American economy has undergone a series of wrenching economic transformations. Economic growth slowed; productivity flagged; inflation rose; and major industries faltered in the face of foreign competition. Despite a massive influx of women into the work force, family wages stagnated. A quarter century of rapid post-World War II economic growth had come to an end.

The Age of Inflation
In 1967, the average price of a three-bedroom house was $17,000. A brand new Cadillac convertible went for $6,700 and a new Volkswagen $1,497; a Hershey chocolate bar sold for a nickel; a pound of sirloin for 89 cents. Two decades later, the prices of these products had quadrupled.

The upsurge in inflation started when Lyndon Johnson decided to fight the Vietnam War without raising taxes enough to pay for it. By 1968, the war was costing the United States $3 billion dollars a month, and the federal budget skyrocketed to $179 billion. With hundreds of thousands of Americans in the military service and even more working in defense related industries, unemployment fell, wages rose, and government deficits increased. Inflation was further fueled by a series of crop failures and sharp rises in commodities, especially oil.

High inflation had many negative effects on the American economy. It wiped out many families' savings. It provoked labor turmoil, as workers went on strike for higher wages. It encouraged speculation in tangible assets—like art, precious metals, and real estate—rather than productive investment in new factories and technology. Above all, certain organized interest groups were able to keep up with inflation, while other less powerful groups, such as welfare recipients, saw the value of their benefits decline significantly.

Inflation reduced the purchasing power of most Americans. For over a decade, real family wages remained flat. By the end of the 1970s, wages had climbed just $36 over 1973 levels. Yet, inflation raised the prices of virtually all goods and services. Health care and housing, in particular, experienced price rises far above the inflation rate. The consequences were a sharp increase in the number of Americans unable to afford health insurance, and a dramatic increase in the cost of housing, which resulted in an increase in homelessness.

Oil Embargo
Political unrest in the oil-rich Middle East contributed significantly to America's economic troubles. After suffering a humiliating defeat at the hands of Israel in the 1973 Yom Kippur War, Arab leaders unsheathed a new political weapon—oil. In order to pressure Israel out of territory conquered in the 1967 and 1973 wars, Arab nations cut oil production 25 percent and embargoed all oil exports to the United States. Leading the way was OPEC, founded by Iran, Saudi Arabia, and Venezuela in 1960 to fight a reduction in prices by oil companies.

Because Arab nations controlled 60 percent of the oil reserves in the non-Communist world, they had the Western nations over a barrel. Production cutbacks produced an immediate global shortage. The United States imported a third of its oil from Arab nations; Western Europe imported 72 percent from the Middle East; Japan, 82 percent. Gas prices rose, long lines formed at gas pumps, some factories shortened the work week, and some shopping centers restricted business hours.
The oil crisis brought to an end an era of cheap energy. Americans had to learn to live with smaller cars and less heating and air conditioning. But the crisis did have a positive side effect. It increased public consciousness about the environment and stimulated awareness of the importance of conservation. For millions of Americans the lessons were painful to learn.

Foreign Competition
In 1947, the United States was truly the world's factory. Half of all the world's manufacturing took place in the United States. Americans made 57 percent of the world's steel and 80 percent of the world's cars. It was inevitable that other countries would eventually challenge the dominance that American manufacturers had enjoyed in the aftermath of World War II. During the early 1960s, foreign manufacturers produced 6 percent of the cars purchased by Americans. That figure climbed to 20 percent in the late 1970s.

The foreign penetration extended far beyond the market for compact cars. Foreign countries began to dominate the highly profitable, technologically-advanced fields such as consumer electronics, luxury automobiles, and machine tools. Americans discovered that almost exclusively foreign manufacturers now produced technologies their country had pioneered--semiconductors, color televisions, and videocassette recorders. The decline in the American share of the market meant fewer jobs in the American automobile, steel, rubber, and electronics industries. In addition, American and even Japanese companies shifted low-skill production work to such places as South Korea, Taiwan, Hong Kong, Singapore, and Indonesia, where goods could be produced more cheaply because of lower wage scales. Few economic developments aroused as much public concern during the 1970s as the loss of American jobs in basic industry. According to one estimate, 30 million jobs disappeared. Displaced workers saw their savings depleted, mortgages foreclosed, and health and pension benefits lost. Even when they found new jobs, they typically had to settle for wages substantially below what they had earned before. Plant shutdowns and closings had profound effects on entire communities, which lost their tax bases at the time when they needed to fund health and welfare services.

Whipping Stagflation
During the 1960s, the primary goal of economic policy was to encourage growth and keep unemployment low. But by the early 1970s, the economy started to suffer from stagnation, high unemployment, and inflation, coupled with stagnant economic growth. This presented economic policymakers with a new and perplexing dilemma since unemployment and inflation usually do not coexist.

The problem with stagflation was the pain of its options. To attack inflation by reducing consumer purchasing power only made unemployment worse. The other choice was no better. Stimulating purchasing power and creating jobs also drove prices higher. Not surprisingly, economic policy during the 1970s was a nightmare of confusion and contradiction.

By 1971, pressures produced by the Vietnam War and federal social spending, coupled with the increase in foreign competition, pushed the inflation rate to 5 percent and unemployment to 6 percent. President Richard Nixon responded by increasing federal budget deficits and devaluing the dollar in an attempt to stimulate the economy and to make American goods more competitive overseas. Nixon also imposed a 90-day wage and price freeze, followed by a mandatory set of wage-price guidelines, and then, by voluntary controls. Inflation stayed at about 4 percent during the freeze, but once controls were lifted, inflation resumed its upward climb.

In 1974, during the first oil embargo, inflation hit 12 percent. Gerald Ford, the new president, initially attacked the problem in a traditional Republican fashion, by tightening the money supply by raising interest rates and limiting government spending. In the end, his economic program proved to be no more than a series of ineffecutual wage and price guidelines monitored by the federal government. In the subsequent recession, unemployment reached 9 percent.

When Jimmy Carter took office in January 1977, unemployment had reached 7.4 percent. Carter responded with an ambitious spending program and called for the Federal Reserve (the Fed) to expand the money supply. Within two years, inflation had climbed to 13.3 percent.
With inflation getting out of hand, the Federal Reserve Board announced in 1979 that it would fight inflation by restraining the growth of the money supply. Unemployment increased, and interest rates rose to their highest levels in the nation's history. By November 1982, unemployment hit 10.8 percent, the highest since 1940. One out of every five American workers went some time without a job.

Along with high interest rates, the Carter administration adopted another weapon in the battle against stagflation: deregulation. Convinced that regulators too often protected the industries they were supposed to oversee, the Carter administration deregulated air and surface transportation and the savings and loan industry. The effects of deregulation are still hotly contested. Rural towns suffered cutbacks in bus, rail, and air service. Truckers and rail workers lost the economic benefits of regulation. Travelers complained about rising airfares and congested airports. Cable TV viewers resented rising rates. Champions of deregulation, however, argued that the policy increased competition, stimulated new investment, and forced inefficient firms either to become more efficient or to close down.

**Foreign Policy Triumphs**

In the Middle East, President Carter achieved his greatest diplomatic success by negotiating peace between Egypt and Israel. Since the founding of Israel in 1948, Egypt's foreign policy had been built around destroying the Jewish state. In 1977, Anwar el-Sadat, the practical and farsighted leader of Egypt, decided to seek peace with Israel. It was an act of rare political courage, as Sadat risked alienating Egypt from the rest of the Arab world without a firm commitment for a peace treaty with Israel.

Although both countries wanted peace, major obstacles had to be overcome. Sadat wanted Israel to retreat from the West Bank of the Jordan River and from the Golan Heights (which it had taken from Jordan in the 1967 war), to recognize the Palestine Liberation Organization (PLO), to provide a homeland for the Palestinians, to relinquish its unilateral hold on the city of Jerusalem, and to return the Sinai to Egypt. Such conditions were unacceptable to Israeli Prime Minister Menachem Begin, who refused to consider recognition of the PLO or the return of the West Bank. By the end of 1977, Sadat's peace mission had run aground.

Jimmy Carter broke the deadlock by inviting both men to Camp David, the presidential retreat in Maryland, for face-to-face talks. For two weeks in September 1978, they hammered out peace accords. Although several important issues were left unresolved, Begin did agree to return the Sinai to Egypt. In return, Egypt promised to recognize Israel, and as a result, became a staunch U.S. ally. For Carter it was a proud moment. Unfortunately, the rest of the Arab Middle East denounced the Camp David accords, and in 1981, Sadat paid for his vision with his life when anti-Israeli Egyptian soldiers assassinated him.

In 1978, Carter also pushed the Panama Canal Treaty through the Senate, which provided for the return of the Canal Zone to Panama and improved the image of the United States in Latin America. One year later, he extended diplomatic recognition to the People's Republic of China. Carter's successes in the international arena, however, would soon be overshadowed by the greatest challenge of his presidency--the Iran hostage crisis.

**No Islands of Stability**

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was not susceptible to pressure. Iran's demands--the return of the shah to Iran and the admission of
U.S. guilt in supporting the shah--were unacceptable. Carter devoted far too much attention to the
almost insoluble problem. The hostages stayed in the public spotlight, in part, because Carter kept
them there.

Carter's foreign policy problems mounted in December 1979, when the Soviet Union sent tanks into
Afghanistan. In response, the Carter administration embargoed grain and high-technology exports to
the Soviet Union and boycotted the 1980 Olympics in Moscow (the Soviet Union gradually withdrew its
troops a decade later).

As public disapproval of the president's handling of the Iran crisis increased, some Carter advisers
advocated the use of force to free the hostages. At first Carter disagreed, but eventually, he authorized
a rescue attempt. It failed, and Carter's position became even worse. Negotiations finally brought the
hostages' release, but they also brought humiliation to Carter. The hostages were held until minutes
after Ronald Reagan, Carter's successor, had taken the oath of office as president.

When Carter left office in January 1981, many Americans judged his presidency a failure. Instead
of being remembered for the good he accomplished for the Middle East at Camp David, he was
remembered for what he failed to accomplish. The Iranian hostage crisis had become emblematic of the
perception that America's role in the world had declined.

1. Which was the more important concern for Americans by 1980: economic stagflation or America losing
   its place in the world?