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INDEPENDENT OFFICES APPROPRIATIONS, 1962

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HEARINGS BEFORE THE SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE EIGHTY-SEVENTH CONGRESS

FIRST SESSION

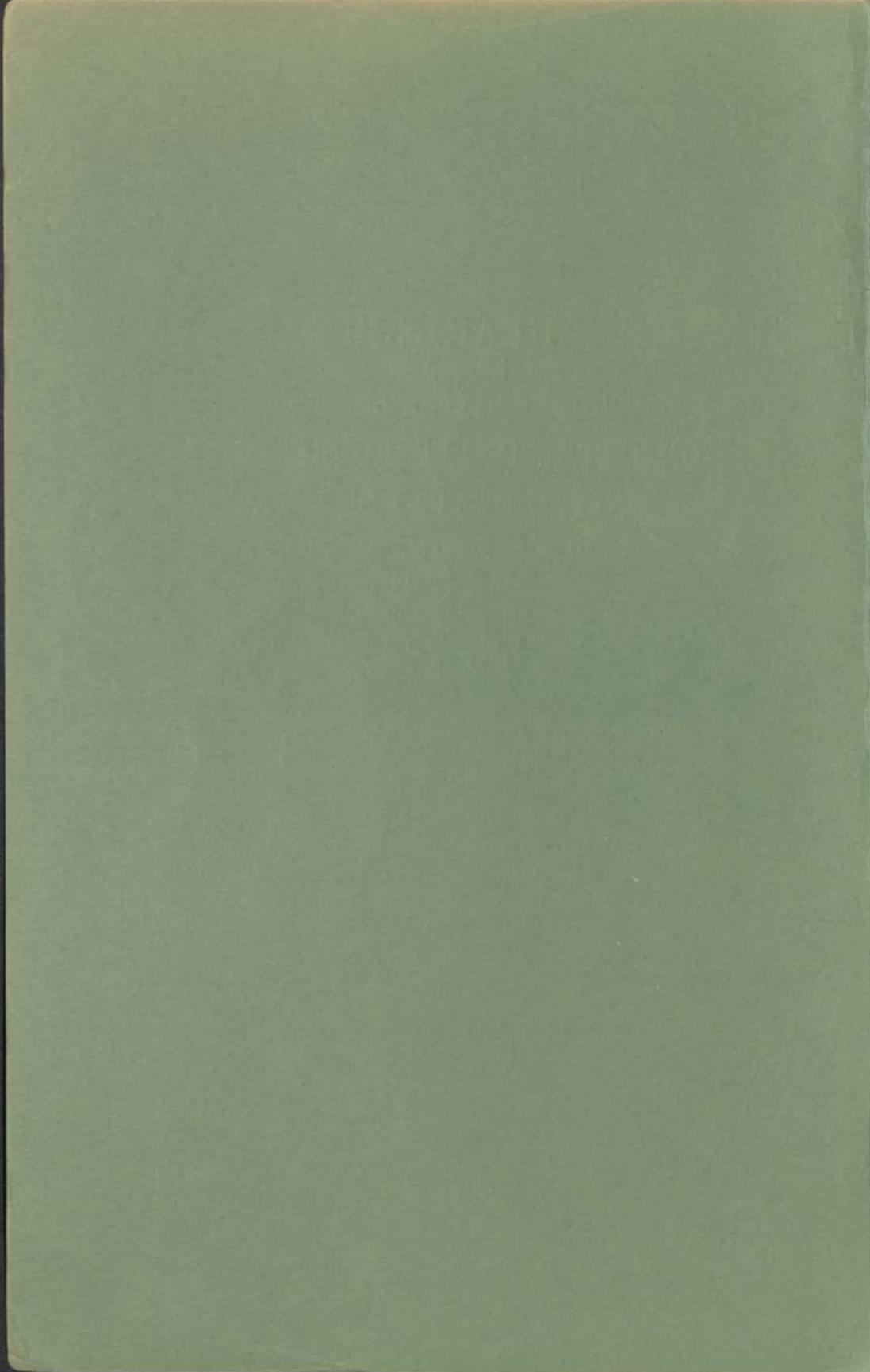
ON

H.R. 7445

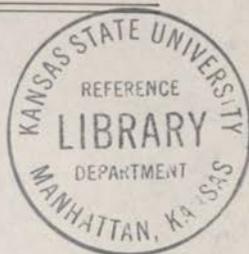
MAKING APPROPRIATIONS FOR SUNDRY INDEPENDENT
EXECUTIVE BUREAUS, BOARDS, COMMISSIONS, CORPORATIONS,
AGENCIES, AND OFFICES, FOR THE FISCAL YEAR
ENDING JUNE 30, 1962, AND FOR OTHER PURPOSES

Printed for the use of the Committee on Appropriations





INDEPENDENT OFFICES APPROPRIATIONS, 1962



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BEFORE THE
SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
EIGHTY-SEVENTH CONGRESS
FIRST SESSION
ON
H.R. 7445

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INDEPENDENT OFFICES APPROPRIATIONS FOR 1962

MONDAY, JUNE 12, 1961

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:05 a.m. subject to call, in room F-39, the Capitol, Hon. Warren G. Magnuson, Chairman of the subcommittee, presiding.

Present: Senators Magnuson, Ellender, Hayden, and Allott.

OFFICE OF CIVIL AND DEFENSE MOBILIZATION

STATEMENT OF FRANK B. ELLIS, DIRECTOR; ACCOMPANIED BY: EDWARD A. McDERMOTT, DEPUTY DIRECTOR; LEWIS E. BERRY, ASSISTANT DIRECTOR FOR PLANS AND OPERATIONS; WILLIAM S. HEFFELFINGER, DIRECTOR OF ADMINISTRATION; CHARLES H. KENDALL, GENERAL COUNSEL; HUBERT R. GALLAGHER, DIRECTOR OF SPECIAL LIAISON; GERALD R. GALLAGHER, DIRECTOR OF RESEARCH; G. LYLE BELSLEY, DEPUTY ASSISTANT DIRECTOR FOR RESOURCES AND PRODUCTION; RALPH E. SPEAR, DIRECTOR OF PROGRAM AND POLICY; PAUL F. WAGNER, DEPUTY ASSISTANT DIRECTOR FOR TRAINING, EDUCATION AND PUBLIC AFFAIRS; EUGENE J. QUINDLEN, DEPUTY ASSISTANT DIRECTOR FOR FEDERAL, STATE AND LOCAL PLANS; WILLIAM R. WILSON, DIRECTOR, BUDGET AND FISCAL OFFICE; EDWARD S. JOHNSON, DIRECTOR, BUDGET DIVISION; DR. JOHN D. PORTERFIELD, DEPUTY SURGEON GENERAL, PUBLIC HEALTH SERVICE, DHEW; AND SHELBY T. GREY, FOOD AND DRUG ADMINISTRATION.

LETTER TO COMMITTEE

Senator MAGNUSON. The committee will come to order. We are beginning hearings this morning on the Civil and Defense Mobilization Appropriation.

We have with us Mr. Frank Ellis, who is the Director of Civil and Defense Mobilization.

Mr. Ellis, you have a short statement here. You also sent the committee a letter, which we will place in the record in full.

(The letter referred to follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF CIVIL AND DEFENSE MOBILIZATION,
Washington, D.C., June 8 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of the Independent Offices Appropriation Bill
for 1962, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In response to your letter of June 2, 1961, concerning our recommendations for changes in the independent offices appropriation bill for 1962, I am transmitting herewith the changes we propose, identified and arranged by page and line of the bill as reported to the House.

The 1962 budget presented to Congress by the previous administration has been carefully reviewed and reaffirmed by the current administration. As indicated by the President in his address to Congress on May 25, 1961, action is being taken by the executive branch to reassign certain responsibilities for civil defense and mobilization programs, to be followed by transmission of proposals for a much strengthened program which will include, in all likelihood, budget requests for more than triple the budget currently pending before Congress. In view of the urgency attached to improving our nonmilitary defense, it is highly essential that the basic request for \$104,200,000 be allowed in full. The programs covered by this basic request are consistent with the areas of increased emphasis proposed by the President and full appropriation of the funds requested is necessary to provide a sound base for expansion.

One particular feature of the House committee bill which is completely unacceptable to efficient and economical administration of a nationwide civil defense and mobilization program is the language imposing an arbitrary ceiling of 303 positions on employment in the Washington, D.C., area. One of the most important single functions inherent in this program is the provision of coordination and guidance, on behalf of the President, to the sprawling Federal establishment at the seat of Government, insuring consistency of emergency planning and readiness actions, preventing duplication, and assuring uniform Federal leadership for the States and cities throughout the United States. This restrictive language must be eliminated to give the President the flexibility of action so essential to realine and reassign these programs in any manner he determines in the best interest of the Nation.

In addition to the changes enclosed for the OCDM portion of the bill and the recommended deletion of section 303 of the General Provisions, I request favorable consideration of the changes proposed by other agencies, particularly the General Services Administration, to restore funds for provision of radioactive fallout protection in Federal buildings. The incorporation of such protection in Federal facilities is an indispensable factor in demonstrating Federal leadership and example to the States and cities across the Nation.

Sincerely,

FRANK B. ELLIS, *Director.*

OFFICE OF CIVIL AND DEFENSE MOBILIZATION

SALARIES AND EXPENSES—GENERAL RESTRICTIONS

(Estimate, \$6,000; 1961 act, \$2,500; H.R. 7445, \$3,000)

REQUESTED AMENDMENT TO H.R. 7445

Page 2, line 22, after the word "exceed;" delete, "\$3,000", and insert in lieu thereof, "\$6,000"—restoring the appropriation language to that contained in the estimate.

JUSTIFICATION

From time to time, dignitaries from foreign countries visit the United States to discuss, among other things, the civil and defense mobilization plans of the Nation. Reciprocal visits, for similar purposes, are made by high officials of OCDM. Governors of the State and directors of State and local civil defense organizations meet with the Director to discuss civil and defense mobilization problems and plans to strengthen the survival capabilities of the Nation.

On these occasions, courtesy demands that the Director entertain accordingly. With increased emphasis on Federal civil defense functions and greater participation of State and local organizations, it is anticipated that the Director will be having more high-level discussions with State governors and civil defense directors.

SALARIES AND EXPENSES—GENERAL RESTRICTIONS

REQUESTED AMENDMENT TO H.R. 7445

Page 3, line 2, after the word "travel" insert, "excluding rental of passenger, motor vehicles;"—restoring the appropriation language to that contained in the estimate.

JUSTIFICATION

Prior to 1962, rental of passenger motor vehicles was budgeted as an item of "all other" expense under object class 07, and by object class definition was excluded from the travel category and appropriation language limitation. On July 22, 1960, the Bureau of the Budget defined and realigned the standard object classifications. In this realignment, the rental of passenger motor vehicles from Government motor pools was included under object class 21—travel and transportation of persons. To assure that vehicle rental payments are legally separated from normal commercial travel, the Bureau advised that agencies may propose specific exclusions of such payments from travel limitations. Therefore, the exclusion phrase set forth above was recommended in the 1962 OCDM budget submission.

The dollar travel limitation established by the House is the same amount (\$900,000) as requested in the budget, and the same as authorized in the 1961 appropriation. This indicates that the Committee intended to continue our allowance at that level. However, their failure to insert language excluding vehicle rental from the limitation may raise a legal question at some future date as to the proper accounting classification of rental costs. Vehicle rental funds are used to reimburse the General Services Administration for cars permanently assigned to the Headquarters and regional offices for normal administrative requirements. They sometimes also are used for short operational trips for one-time conferences or similar requirements. The use of vehicles is fully reflected in the OCDM budget justifications for Salaries and Expenses.

It is strongly urged that the clarifying wording set forth above be included in the appropriation language excluding costs for rental of vehicles from the travel limitation, thereby affirming, the intent of Congress to continue travel expenses of OCDM at the 1961 level.

SALARIES AND EXPENSES

(Estimate, \$30,500,000; 1961 act, \$25,346,000; H.R. 7445, \$25,000,000)

(House hearings, p. 633)

REQUESTED AMENDMENT TO H.R. 7445

Page 3, line 2, strike out "\$25,000,000" and insert in lieu thereof "\$30,500,000", the estimate.

HOUSE REPORT NO. 449

"The committee has allowed \$25 million for personnel and other operating expenses of the agency, a reduction of \$5,500,000 in the budget estimate. This is the same level of appropriation as Congress approved for 1961, except for a \$346,000 reduction the committee has made in jobs in the District of Columbia from its present high level. * * * For 1962 the authorized staff level in this appropriation is 1,600. * * *"

JUSTIFICATION

The House committee allowance reduces the number of permanent civilian positions in OCDM from 1,650 budgeted to 1,600. By reducing the appropriation to the 1961 level, it also eliminates the expansion requested for communication warning, public information and education. The effect of each of these reductions is discussed in the following paragraphs. A separate recommended amendment to the bill has been prepared deleting the appropriation language imposing a ceiling on employment in the Washington, D.C., area.

Civilian positions.—The civilian employment level of 1,650 reflected in the 1962 budget requests represents the lowest employment level proposed by OCDM or its predecessor agencies in recent history. It was based upon the principle of maximum delegation of operating functions to other Federal agencies and the States, with the OCDM role restricted to coordination and guidance to the greatest extent feasible. The request was slightly below the 1960 end strength of 1,653.

The House committee action would require reduction-in-force action to bring the total agency employment of 1,644 as of June 2, 1961, down to the 1,600 allowed. This action would have to be taken in the face of the Administration decision set forth in the President's message to Congress on May 25, 1961, to strengthen and expand the Federal civil defense programs.

Under the "tight" budget policy adopted for preparation of the 1962 budget, OCDM is unable to reduce civilian employment from the 1,650 budgeted without cancellation or deferment of ongoing activities. This solution is not acceptable in view of the urgent need for a strengthened civil defense and mobilization effort. Therefore, it is strongly urged that funds be restored to the amount requested, thereby supporting civilian positions of 1,650.

Communications.—The increases requested for 1962 represent improvements to emergency communications systems to safeguard against failure under attack conditions.

National Communications System No. 1: With funds appropriated in 1961, this system was converted to full-time operation, with circuit rerouting to bypass probable target areas. If the increased fund request for 1962 is not granted, this full-time operation cannot be sustained for the entire year, and the protected routings will have to be relinquished. Further, the plan to provide alternate direct communication routes from the OCDM classified location to the OCDM regions will have to be discarded.

National Communications System No. 2: This radio backup system will become operational during July 1961 at six OCDM regions and the Battle Creek headquarters. In the summer and fall of 1961, equipment will be installed to key relocation sites in 22 States. The 1962 increases are required to maintain this new system and provide for a modest increment for equipment for additional States. Maintenance funds are essential to the proper protection of this equipment. Denial of funds for new equipment will mean that nonmilitary defense communications must continue to depend solely on wirelines to more than half the States.

Control of electromagnetic radiation (CONELRAD): An increase of \$180,000 is requested for payment of rental of program lines to civil defense offices. These costs were previously paid by the Air Force but have been deleted from the 1962 military budget. If these circuits are dropped, the capability of furnishing the populace with emergency information during a CONELRAD alert will be lost.

Warning.—The 1962 budget requested increased funds to extend the OCDM warning network by 53 points to a total of 500 points, thereby providing instant warning information to all major centers in the United States. Denial of this increase will prevent these extensions and force cancellation of some of the points added in 1961 in order to reduce costs to the 1961 level. The 1962 budget also included an increase to permit the installation of National Emergency Alarm Repeater (NEAR) generators in the State of Michigan as a pilot program for dissemination of warning to individual homes. The House committee action will force postponement for at least a year, and will set this most vital and important program back a corresponding length of time.

Public information.—This program embraces all means and methods of conveying information to the public including printed materials, radio and television program materials, exhibit construction, briefing, and training aids and related supplies, materials and transportation costs. The total amount requested in the budget, \$3,010,600, represents an outlay of less than 2 cents per capita. Over the years, expenditures in this area have averaged less than 1 cent per capita, yet OCDM is distributing more than 75 million pieces of printed materials annually. It is supplying program material to 3,500 radio stations and 575 television stations. OCDM exhibits were viewed by over 6 million people in 150 cities in fiscal year 1960. The radio industry has donated \$122 for every dollar OCDM has spent for radio programing. We cannot take advantage of this valuable cooperation if we are unable to supply adequate material.

We have made progress with the funds available but greater resources are needed to meet the increased demands for survival information and program materials.

Education.—The largest single increase requested in the 1962 budget for this appropriation was an increase of \$2,456,300 for the adult education program on weapons effects being conducted by the States under contract with the Office of Education. This program was closely examined by the House committee and several questions were raised concerning the actual results being achieved in increased civil defense capability (pp. 635 through 649 of the House hearing). It is submitted that this search for positive results in the second year of a new program overlooks the favorable impact of a good educational program on the masses in general.

A number of radio and television programs were generated locally as a result of these courses and local discussions, meetings, seminars, etc., were participated in by instructors and graduates of these courses. For example, in Nebraska the county agents who took this course are now teaching the concepts throughout the agricultural organization with which they work. Many school superintendents require their teachers to take this course and they in turn take civil defense concepts back to their classrooms. In one city, nine teachers and administrators completed the course.

The influence of educational leaders is invaluable. Other groups of influential community leaders who regularly enroll in civil defense adult education courses are; Kiwanis Clubs, Lions Clubs, Exchange Clubs, Rotary Clubs, Military Reserve units, Air Patrol units, PTA's, veterans groups, and school nurses. The influence of these leaders can be translated into numerous examples of constructive action taken by communities and States. In many instances where no civil defense organization existed prior to the teaching of civil defense adult education classes, there is now a director of civil defense and a working organization. PTA leaders and teachers who have taken the course have been instrumental in making civil defense concepts a part of the school curriculum.

Civil defense directors in States where the program is in progress speak highly of its value as a contributing factor in overcoming public apathy toward civil defense. In one small town a model shelter was built as a result of the adult education course. In another city, post office employees who took the course set up a soft drink machine as a fund raising project to purchase radiation detection instruments and shelter supplies. Two rooms of the basement of the post office building are being equipped as a fallout shelter for the employees and their families. Commercial and educational television stations in Florida, Texas, and Minnesota give free time to put the civil defense adult education course on the air. Civil defense adult education State and local staff members appear on radio and TV programs, write newspaper and magazine articles, and speak to organizations, not only on the civil defense adult education program but on the need for an active civil defense. During March, Florida alone reported 45 appearances before groups and on radio and TV.

If no increased resources are available for this program, we will be unable to extend it to additional States and will be forced to control the rate of expansion in the States where it is in progress.

It is recommended that the full request be granted to permit extension of the program to include 33 States by the end of fiscal year 1962.

SALARIES AND EXPENSES—GENERAL RESTRICTIONS

(House hearings, p. 653)

REQUESTED AMENDMENT TO H.R. 7445

Page 3, lines 2, 3, and 4, strike out "Provided, That the foregoing amount shall be available for not to exceed 303 positions in the District of Columbia area."

HOUSE REPORT NO. 449

"* * * except for a \$346,000 reduction the committee has made in jobs in the District of Columbia from its present high level. Such personnel are now over 50 in excess of the 303 specifically allowed by the Congress for 1961. For 1962 the authorized staff level in this appropriation is 1,600 and the positions in the District of Columbia are earmarked in the language of the bill at not to exceed the 303 approved for the current year."

JUSTIFICATION

Following House committee action on 1961 appropriations in April 1960, several comprehensive studies were made for the purpose of carrying out the desires of the committee concerning a reduction of 50 positions in the Washington area. All these studies concluded that an arbitrary ceiling for staff in the Washington office could not be established without creating imbalances and inefficiencies in the national nonmilitary defense program. Consistent with the underlying purpose of Reorganization Plan No. 1 and in compliance with specific Presidential instructions, actions were just being completed to clarify and expand the roles of the Federal departments in nonmilitary defense, requiring increased daily coordination with all agencies located at the seat of government. Furthermore, one of the key features of the national shelter policy being carried out by OCDM

required stronger Federal coordination at the seat of government to insure adequate guidance and example on the part of the Federal establishment. These additional responsibilities, all in the Washington area, negated every attempt to reduce the Washington staff. To the contrary, in the several months which have passed since these studies were made, requirements for additional staff have arisen in many resource fields. However, no additional staff has been added and the Washington staff today stands at 345, compared with 363 requested in the 1961 budget.

It is pointed out that the House committee recommendations were substantially complied with on an agencywide basis. The total positions were reduced to 1,650, a reduction of 50 from the 1,700 positions budgeted for 1961.

Promptly upon inauguration in January 1961, President Kennedy expressed his concern with the structure and functions for our nonmilitary defenses and directed a series of studies to determine the improvements that should be undertaken. The policy recommendations resulting from these studies were incorporated in the President's address to Congress on May 25, 1961. These recommendations stressed the need for an expanded effort by appropriate Federal agencies and announced his intention to reconstitute OCDM as a small staff coordinating agency. The imposition of a statutory ceiling on positions in the Washington area denies the President the flexibility essential to reorganizing and reassigning functions in the most effective manner in the District of Columbia.

It is entirely possible, although not definite at this time, that the reconstituted small staff coordinating agency for OCDM in Washington may not exceed 303 positions. However, many employees may be assigned along with functions to Federal departments and agencies in the Washington area. Adherence to this limitation would require that these assignments be made to field installations.

It is strongly recommended that the restrictive language concerning positions in the Washington area be eliminated from the bill and the size of the Washington staff be left to the discretion of the President.

CIVIL DEFENSE AND DEFENSE MOBILIZATION FUNCTIONS OF FEDERAL AGENCIES

(Estimate, \$8,700,000; 1961 act, \$6,567,000; H.R. 7445, \$6,567,000)

(House hearings, p. 675)

REQUESTED AMENDMENT TO H.R. 7445

Page 3, line 19, strike out "\$6,567,000" and insert in lieu thereof "\$8,700,000," the estimate.

HOUSE REPORT NO. 449

"The committee recommends an appropriation of \$6,567,000 for allocation to other Federal agencies for carrying out delegations of authority from OCDM. This is a reduction of \$2,133,000 in the \$8,700,000 budget estimate and is the same amount as was provided for this purpose in 1961. It will support an average of 498 jobs in other agencies, which are in addition to the 1,600 in OCDM."

JUSTIFICATION

In the first days of this administration, consideration was given to the expansion of the civil defense and mobilization activities of other Federal agencies. We accepted the limited expansion proposed in the 1962 budget and decided to consider further expansion in subsequent years.

The importance of the modest expansion set forth in the 1962 budget is underlined by our determination to utilize the skills of present peacetime Federal agencies in an emergency. Under this concept, Federal agencies must organize to fulfill their emergency role now, or there may be no Government after attack.

The House allowance not only precludes expansion of the Federal agencies emergency activities, but forces us to reduce "going" activities to absorb the cost of managing the medical stockpile, which had been financed in fiscal year 1961 from another appropriation.

Thus, the existing obligation rate, including stockpile management, exceeds \$6,822,000 annually. To carry out a program of limited expansion, as proposed in the budget, increases totaling \$1,878,000 are requested as follows:

Agriculture.—An increase of \$142,000 is requested to train radiological monitors for the Federal fixed monitoring system and to engage specialists for the preparation of plans to manage food stocks in an emergency.

Commerce.—The increase of \$194,000 will finance the full-year cost of personnel who were employed for a part of fiscal year 1961, Business and Defense Services Administration representatives for the OCDM regional offices, and an updating of the National Location Code for OCDM's National Resource Evaluation Center.

Federal Aviation Agency.—The increase (\$142,200) covers radiological instruction costs at civil air facilities, recurring costs which were funded for only a part of a year in fiscal year 1961, and two liaison employees to plan civil aviation defense.

Health, Education, and Welfare.—An increase of \$910,000 is devoted to the Department's two specific postattack roles, emergency health and emergency welfare. With no increase in funds, as provided in the House action, only very limited activities in increasing the Nation's capability for survival through medical self-help, expanded functional training, and other disaster measures are possible.

One of the urgent activities planned for fiscal year 1962 is the initiation of a medical self-help training program. Recognizing that professional health services in a major disaster will be unavailable or in short supply, the medical self-help training program would provide people with the capability to administer emergency medical care to their family and neighbors.

Another essential activity to meet critical medical needs is the training of dentists, nurses, veterinarians, and other health personnel to perform emergency medical and health procedures that they would not perform under normal circumstances. Correlative to this training, standardized treatment procedures would be developed so that in a major disaster all injuries and conditions of a certain type, such as burn, shock, fracture, and hemorrhage, would be treated the same way in each community, resulting in the most effective utilization of scarce resources.

Funds are requested for the first time under this appropriation for the management of the medical stockpile. Responsibility for management operations of the medical stockpile was transferred from OCDM to DHEW in fiscal year 1961 under a transfer of funds arrangement. In fiscal year 1962 we requested that funds for this operation be appropriated directly as delegate agency funds rather than on the transfer basis that prevails in 1961. Since the entire fiscal year 1962 request of \$415,000 for this activity was eliminated by the House Appropriations Committee, the result is that DHEW is left with the emergency supply and equipment responsibility for maintaining present stockpile items and the authority to acquire 500 additional civil defense emergency hospitals, but with no funds for staff and expenses to administer the program at headquarters or in the field.

An increase is also requested to strengthen the emergency welfare capability in the States. This includes the assignment of regional staff (four positions) to assist the States in regions which do not now have personnel for this purpose and also involves a new professional position in the Office of Education to complete the necessary planning for the postattack role of school facilities and school personnel which would temporarily be assigned to the emergency welfare program.

Housing and Home Finance Agency.—In fiscal year 1961 HHFA assigned representatives to some of the OCDM regional offices. The increase for 1962 finances the full year's cost of these positions and allows initiation or expansion of three projects; first, preparation of emergency housing construction plans; second, development of plans for emergency community facilities; and third, plans for real estate and credit control in an emergency.

Labor.—An increase of \$207,000 over the 1961 level is essential to bring the overall program for emergency readiness in the fields of manpower and wage stabilization into balance. About half of this increase will go to the States for improving readiness plans by State employment security agencies. About \$70,000 is needed for developing manpower programs, for advising State agencies in emergency planning, for outlining effective postattack reporting procedures to local employment service offices, and for pre-positioning plans in the field. An additional \$40,000 is needed for accelerating the completion of plans for an emergency wage stabilization program.

Manpower, unlike other resources, cannot be stockpiled, but the plans for the effective utilization of manpower can be prepared in advance for pre-positioning at all levels of government so that in a catastrophe we could, as a nation, operate more effectively, thus insuring survival and a more rapid recovery.

Interior and ICC.—Increases for these agencies totaling \$181,000 have been requested to finance additional staff. Employees are needed for the National Resource Evaluation Center, for liaison at OCDM regional offices, and for develop-

ment of measures to protect industrial facilities in an emergency. Funds are needed also to step up the program to obtain executive personnel capable of performing civil defense assignments in an emergency.

EMERGENCY SUPPLIES AND EQUIPMENT

(Estimate, \$36 million; 1961 act, \$9,175,000; H.R. 7445, \$21,600,000)

(House hearings, p. 725)

REQUESTED AMENDMENT TO H.R. 7445

Page 4, line 8, strike out "\$21,600,000" and insert in lieu thereof "\$36,000,000," the estimate, an increase of \$14,400,000 in the amount allowed by the House committee.

HOUSE REPORT NO. 449

"An appropriation of \$21,600,000 is recommended for maintaining the stockpile of emergency supplies and equipment owned by the Federal Government. This is an increase of \$12,425,000 over 1961 and a reduction of \$14,400,000 in the budget estimate. There are 1,932 emergency hospitals of 200 beds each assembled now. In addition to maintaining the present stockpile of equipment the bill provides for procuring an additional 500 hospitals instead of the 1,000 as the agency had requested."

JUSTIFICATION

The House committee allowance of \$21,600,000 results in a reduction of \$14,400,000 to the request of \$36 million. The proposed amendment would restore the full amount requested in order to allow for the procurement of 1,000 civil defense emergency hospitals and for the necessary instruments to equip the balance of the nationwide monitoring stations with one set each of radiological equipment plus about 5 percent of the ultimate need for chemical warfare defense equipment at each monitoring station.

Medical supplies and equipment.—The Department of Health, Education and Welfare, after an exhaustive study of the medical problems anticipated following an attack upon this country, has confirmed previous decisions that further medical stockpiling is the only feasible method of assuring the availability of those supplies needed to meet postattack conditions. It has been determined that an additional stockpiling of approximately \$750 million worth of supplies and equipment will be necessary to meet this requirement.

The funds of \$24,850,000 requested in our fiscal year 1962 budget represent only a very small increment of the ultimate financial outlay which the Federal Government must provide in order to fulfill its responsibilities under our present concept of civil defense. The House reduction of \$12,425,000, one-half of the budget request, represents only a postponement in scheduling through reductions in fiscal year 1962 with offsetting larger expenditures in future years. Restoration of these funds are urgently recommended in order to permit a more significant step toward the ultimate goal of providing medical facilities for the surviving population.

Radiological defense equipment.—One of the higher priority civil defense programs entails the establishment of a nationwide radiological detection and monitoring network to inform and advise the public as to the radiation hazards within each locality following a nuclear attack. Current planning provides for a minimum of 100,000 nationwide monitoring stations to be manned and partially equipped by June 30, 1963, in order to perform this most essential task. Funds requested in fiscal year 1962 are to provide the balance of instruments needed to equip each of these stations with one set of radiological instruments. The reduction of \$1.5 million by the House committee would require a reduction of 27 percent in planned 1962 procurement, denying instruments for some 13,000 monitoring stations. This reduction to the 1962 request results in an extension to planned goals and merely represents the deferral of necessary costs to a later year. Restoration of these funds are urgently recommended as essential to the timely goal of providing the public with the minimum protection needed for their survival.

Stockpile management.—Costs incurred hereunder are recurring warehousing and maintenance expenses directly related to civil defense medical stockpile reserves of \$192 million procured in prior years. A small additional amount was budgeted for 1962 for packaging supplies related to new civil defense emergency hospitals. The reduction of \$445,000 proposed in this maintenance program can

be absorbed only by the deletion of replacement procurement against defective or obsolete items being removed from current stocks. Continuation of this practice over any great period of time would result in a gradual disintegration of the emergency stockpile. Restoration of the reduction made in this program area is requested to maintain the integrity of the current stockpile, assuring its availability for emergency use at any time.

RESEARCH AND DEVELOPMENT

(Estimate, \$4,500,000; 1961 act, \$4 million; H.R. 7445, \$1,500,000)

(House hearings, p. 735)

REQUESTED AMENDMENT TO H.R. 7445

Page 4, line 17, strike out "\$1,500,000" and insert in lieu thereof "\$4,500,000," the estimate, an increase of \$3 million in the amount allowed by the House committee.

HOUSE REPORT NO. 449

"The committee recommends \$1,500,000 for research and development programs, which is the same as 1961 less a nonrecurring item of \$2,500,000 for a program of prototype fallout shelters for demonstration purposes which is being completed this year."

JUSTIFICATION

The action by the House committee effects a reduction of 67 percent in the austere research and development budget estimate of OCDM. The statement in the House report that the 1962 recommendation is the same as 1961 is correct with respect to the level of new appropriations from the Treasury. However, since new appropriations in recent years have been substantially augmented by carryovers of unobligated balances which will be exhausted by the end of 1961, the actual research and development effort for 1962 must be curtailed sharply to remain within the funds allowed by the House. This situation is illustrated by the following recapitulation of actual and estimated obligations, excluding the prototype fallout shelter program:

Fiscal year 1959.....	\$2, 922, 679
Fiscal year 1960.....	2, 027, 438
Fiscal year 1961.....	3, 731, 713

On the basis of the above figures, it is obvious that if the House committee recommendation is allowed to stand that the OCDM research efforts must be curtailed at a time when the President is urging that civil defense and mobilization efforts be strengthened.

The House committee action would require elimination of funds requested for sampling surveys of the shelter potential of existing structures and shelter design grants and would reduce the contract research effort to \$1,500,000. Each of these areas are discussed separately below.

Shelter surveys.—The objective of this program is to identify and evaluate all potential shelter space offered by existing buildings in specific metropolitan areas. The program contemplates a detailed survey in a major city in each State, preferably the capital, utilizing a task force organization composed of State and local personnel, thereby providing a trained nucleus of personnel with the knowledge and skills to conduct further surveys at State expense. Studies identify inherent protective features in the buildings, establish requirements for modifications to improve shelter capacity, and provide information on equipment and expendable supplies to permit survival for 2 weeks.

With funds provided through 1961, these surveys have been initiated in pilot cities in 30 States. Funds requested for 1962 cover the balance of 20 States. To end the program now would leave the job half done and suspend a program which the President, in his address to Congress on May 25, 1961, indicated should proceed without further delay.

It is urged that the amount of \$500,000 be restored to the 1962 appropriation for shelter surveys.

Shelter design grants.—This program was established to promote the shelter effort by (1) developing a design capability in the architect and engineering professions which will result in the routine inclusion of protective features in future light and heavy construction with little or no increase in cost; (2) development of special designs to include protective features for various types of structures such as

schools, churches, and office and apartment buildings; (3) a program of grants to architect and engineering schools for curriculum development for graduate and special courses for semester system schools, design curricular materials for incorporation into the existing curriculum of undergraduate schools and new shelter designs suitable to high humidity and high water table areas of the gulf and coastal areas of the country.

In fiscal year 1961 workshop training sessions in survey techniques and design requirements were conducted for architects and engineers throughout the country. The high attendance and response has been such to indicate the widespread interest of architects, engineers, contractors, industries and trade associations in developing capabilities for the design and evaluation of fallout shelters. The OCDM efforts to promote a design capability in the architectural and engineering professions can do much to improve the protection afforded our people since, in many cases, it will be possible to include shelter in everyday construction with little increase in building costs. Properly indoctrinated designers will include protective features as a matter of routine once they have been convinced of the need and trained in the methods of achieving this goal.

It is considered essential that this program be carried to completion so that the Nation will accrue the full benefit of a shelter oriented educational system and construction industry. In keeping with the President's desire for a much strengthened civil defense program it is urged that \$150,000 be restored to this activity.

Contract research.—The House committee action would have the effect of reducing the OCDM research effort from \$3,850,000 to \$1,500,000. Since OCDM obligations for comparable kinds of research have averaged \$2.5 million annually since 1957, the real effect is to reduce the normal research programs by some 40 percent.

Through the years OCDM has initiated long-range investigations with certain research groups that have yielded much information of significance in planning for emergencies. These investigations are not yet complete but the results so far achieved warrant continuation at a rate not less than in prior years. To reduce or eliminate any of these activities would cause a considerable loss of valuable information, disbanding of research staff, and ultimately result in far greater costs for obtaining the kind of information they are providing. Furthermore, additional information would be denied, since investigations of these kinds are not ongoing elsewhere. Illustrative of some of these studies are:

Project and average annual obligation

Advisory services of the National Academy of Sciences.....	\$155, 000
Radiological reclamation and countermeasures—Naval Radiological Defense Laboratories.....	270, 000
Radiation penetration studies, National Bureau of Standards.....	100, 000
Radiological instrument development.....	100, 000
Postattack management decisions, National Planning Association.....	125, 000
Inventory exhaustion and postattack new production, CEIR, Inc.....	100, 000
Systems analysis studies, Stanford Research Institute.....	210, 000

The above projects alone account for over \$1 million of our annual research obligations. There are many other projects with shorter lead time which also will produce definitive information required by OCDM in carrying out its responsibilities. Again, they are of the kind not being done elsewhere in the research community, including other Federal agencies. It is a longstanding policy that OCDM will not implement a research project unless it is certain that the kind of information sought is not available elsewhere.

The fiscal year 1962 request for research and development funds included about \$850,000 for research type studies related to an accelerated fallout shelter program, excluding prototype fallout shelter construction. Investing funds of this order of magnitude will provide additional data upon which to base a sensible and economical program. Substantial knowledge exists but more is needed to achieve maximum economy. The funds would finance projects in such fields as: shelter research, engineering, and testing; habitability and shielding studies of existing structures; economics; and social and other, including training and education.

Some of the research projects previously discussed represent extensions of work now going on. Others, particularly in the operations and economics area are related to developing data for planning for emergency management of resources. It is also planned to further develop the use of scale models in simulated nuclear field testing, including blast, thermal and radiological effects. This type of testing is required to increase our limited knowledge of the actual effects of thermonuclear

detonations. In these endeavors OCDM will work closely with the Defense Atomic Support Agency of the Department of Defense. Additional information is also required with respect to the dissemination of warning, and supplementing, on an emergency basis, existing communications system.

Failure to allow funds in the amount originally requested will further delay and hamper the President's efforts to strengthen the Nation's civil defense structure. Full restoration to the amount of \$3,850,000 included in the budget estimate is strongly recommended.

GENERAL PROVISIONS

REQUESTED AMENDMENT TO H.R. 7445

Page 50, strike out section 303 which begins on line 19 and ends on line 23, deleting this section in its entirety.

JUSTIFICATION

The national shelter policy announced in 1958 at the direction of the President included a key feature providing for Federal leadership and example in the shelter effort by incorporation of fallout shelter in new Federal buildings designed for civilian use. In view of the restrictions set forth in section 303, the 1962 budget proposed elimination of this section, principally to enable Federal agencies which have adequate funds available to include fallout protection in their facilities.

This section, which was first included in the Independent Offices Appropriation Act, 1961, prompted the administration to ask last year for repeal of the section on the grounds that it unnecessarily restricted the activities of the executive branch and effectively nullified the above key program to which the administration was committed.

This view was borne out when the Veterans' Administration and the National Aeronautics and Space Administration, which had funds available in fiscal year 1961 for shelter, were forced to cancel their plans for incorporating this feature in new facilities because funds were not provided specifically for shelter.

Although a similar situation is not expected to occur in fiscal year 1962 (since these agencies are being more specific in their appropriation requests), it is possible that funds would become available for fallout shelter in an agency which would, under the section, be unable to incorporate this protection in its facilities. This possibility could be avoided by elimination of the section.

This restrictive section must be regarded as an expression of negative congressional attitude toward the shelter program. Elimination of the section, on the other hand, would demonstrate a positive congressional attitude toward this program. President Kennedy, in his address to Congress on May 25, 1961, reaffirmed the previous policy concerning the essentiality of shelters in Federal facilities as insurance for the civilian population and stated that this program should not be further delayed. Positive congressional support is indispensable to successfully carrying forward this program.

It is strongly recommended that section 303 be eliminated from the Independent Offices appropriation bill for 1962.

Summary of appropriations

Appropriations	1960 actual	1961 estimate	1962 estimate	1962-61 difference
Salaries and expenses.....	\$20,535,000	¹ 25,346,000	\$30,500,000	+\$5,154,000
Civil defense and defense mobilization functions of Federal agencies.....		¹ 6,567,000	8,700,000	+2,133,000
Federal contributions.....	10,000,000	16,000,000	22,000,000	+6,000,000
Emergency supplies and equipment.....	6,950,000	9,175,000	36,000,000	+26,825,000
Research and development.....	4,000,000	4,000,000	4,500,000	+500,000
Construction of facilities.....	2,400,000		2,500,000	+2,500,000
Subtotal, OCDM.....	52,885,000	¹ 61,088,000	104,200,000	+43,112,000
Disaster relief, Executive Office of the President.....			6,000,000	+6,000,000
Total, all appropriations.....	52,885,000	¹ 61,088,000	110,200,000	+49,112,000

¹ Includes supplementals of \$963,000 due to pay increases.

BUDGET SITUATION

Senator MAGNUSON. We will be glad to hear your statement.

For the purposes of the record, the total amount appropriated for this agency in 1961 was \$61,088,000. The budget estimate for 1962 was raised to \$104,200,000, and the amended budget estimate from the new administration remained the same. The House bill recommended \$79,167,000, which is an increase of \$18,079,000 over the 1961 appropriation but \$25,033,000 under the budget estimate of both administrations.

Mr. ELLIS. Yes, sir.

Senator MAGNUSON. All right, we will be glad to hear from you, Mr. Ellis.

DELEGATE AGENCY STATEMENTS

Mr. ELLIS. Mr. Chairman, might I ask that there be submitted for the record the statements of eight of our delegate agencies in support of the appropriation request.

Senator MAGNUSON. All right, we will put them in the record in full.

(The statements referred to follow:)

U.S. DEPARTMENT OF AGRICULTURE

STATEMENT OF H. LAURENCE MANWARING, DIRECTOR, FOOD AND MATERIALS DIVISION, COMMODITY STABILIZATION SERVICE

Mr. Chairman, there are three items in the budget estimate under consideration which are of concern to the Department of Agriculture. While these items total only \$440,000 for fiscal year 1962, compared with amounts actually available in the fiscal year 1961 of \$298,000, they are of extreme importance to the role we are committed to perform in the nonmilitary defense program.

	Fiscal year 1961	Fiscal year 1962
1. Radiological defense training.....	\$75,000	\$125,000
2. Food management planning.....	31,400	140,000
3. Department regional liaison.....	170,600	175,000
4. Research on food for shelters.....	21,000	.....
Total.....	298,000	440,000

The Department of Agriculture continues to carry out its civil and defense mobilization activities which are directly related to its regular programs as an integral part of the planning and execution of such programs. To the extent feasible, the cost of such work is charged to the Department's appropriations for its regular programs concerned with defense activities. The activities covered by the estimates listed above are of a specialized nature and would not be undertaken unless additional funds are provided.

I should like to comment briefly on each of the major areas of work on which the Department has been asked by OCDM to participate in the fiscal year 1962.

RADIOLOGICAL DEFENSE TRAINING

We recognize the benefits to agriculture in our participation in a coordinated, nationwide radiological monitoring system. For example, it is essential to us for determining the extent of damage from radioactive fallout on agricultural lands, livestock, and commodities.

But more important, this nationwide network of Federal fixed monitoring stations will contribute to the saving of lives all over the country. The Department

of Agriculture is glad to cooperate with OCDM in the manning of these stations along with the Departments of Interior and Commerce, the FAA, and others. We now are manning over 1,000 (1,090) Federal fixed monitoring stations and with these funds plan to train a sufficient number of our personnel to increase this to about 2,000 of these stations. This would complete our part of the network presently planned by OCDM. The \$125,000 requested for 1962 is needed for an orderly and continued series of training courses necessary to provide additional trained personnel for these stations, replace trained monitors, provide refresher courses for current personnel, and keep all monitors informed as to how their work ties in with the total network.

FOOD MANAGEMENT PLANNING

In addition to the defense preparedness activities of the Agricultural Marketing Service, which are an integral part of regular programs and which are financed with regular appropriations, \$140,000 will be needed for the following special defense planning activities:

(1) To develop defense manuals, instructions, and other training and orientation materials for use in employee training and industry orientation.

(2) Utilizing training materials thus developed, to train and otherwise assist AMS field personnel and others to acquire a capability to carry out emergency food management programs and procedures and to guide their individual food management planning efforts to a status of defense readiness.

(3) Utilizing manuals and other orientation aids, to acquaint industry groups with the plans of the USDA for emergency food management operations, and to provide industry representatives with a full understanding of the role the food industry would be called upon to carry out under emergency conditions.

The funds requested for 1962 would permit greater emphasis on training work with field personnel and would permit a start on the industry orientation work. Both of these programs will be concerned with emergency activities to be carried out on such matters as procedures for identifying and analyzing food resources; methods of determining estimated postattack availability of food in the respective States; optimum utilization of surviving food supplies and processing, storage, and distributing facilities; arranging food assistance to the States and regions; formulation, issuance, and administration of emergency food regulatory orders; assistance to food processors and distributors in the acquisition of nonfood requisites to support food processing, storage, and distribution.

Most of the specialists employed would be headquartered at strategic offices in the field. A few would be headquartered in Washington, D.C., in order to develop defense training and orientation materials, conduct training of personnel, and work with food industry.

The emergency work outlined above is necessary now and must be continually adjusted to changing international conditions, to technological progress in weaponry and to general national defense policies.

DEPARTMENT REGIONAL LIAISON

The 1962 estimate of \$175,000 covers costs of eight full-time regional liaison representatives (RLR), their secretaries, travel, and other expenses. These field representatives of the Department of Agriculture are provided for in this year's appropriation and are now working.

The RLR is responsible in the preemergency period for providing liaison between USDA and the OCDM Regional Director, and between USDA and other Federal agencies at the regional level, exchanging information with USDA agency representatives at various levels, maintaining necessary records for emergency use, training Agriculture Department advisory group, responding to special requests from OCDM Regional Directors when workload of USDA permits, and developing plans and data for carrying out assigned defense responsibilities. The RLR makes sure that regional office plans take into account regular program responsibilities of USDA as well as defense responsibilities for food, rural fire defense, and defense against biological, chemical, and radiological fallout.

We appreciate the opportunity to present this statement and will be pleased to answer any questions.

DEPARTMENT OF COMMERCE

STATEMENT BY PAUL A. JOHNSTON, EXECUTIVE ASSISTANT TO THE SECRETARY OF COMMERCE

Mr. Chairman and members of the committee, the OCDM budget request includes \$2,780,000 for assignment to the Department of Commerce, to accomplish its mobilization and nonmilitary defense assignments during fiscal year 1962. This amount includes an increase of \$194,000 over the funds available this year. The House Committee on Appropriations disallowed any increase. My purpose today is to review for you the effects of the disallowance by the House committee and to urge that your committee restore the amount of the cut.

OFFICE OF THE SECRETARY

The increase requested for the Office of the Secretary consists of two items, \$30,000 for two positions and related other expenses in the regional force, and \$3,000 for necessary travel expenses by headquarters personnel.

Five bureaus of the Department of Commerce have assigned to them the execution of important national emergency planning and program responsibilities. In several instances this involves a widespread field organization, which requires coordination, planning, and reporting not only at the departmental headquarters, but also at each of the eight OCDM regional offices. A departmental representative and a secretary were planned for assignment at each of the OCDM regional headquarters locations to serve as the regional counterpart of the emergency planning coordinator provided at the departmental headquarters. These personnel represent the Department on the OCDM Regional Civil and Defense Mobilization Board, and, under the immediate supervision of the departmental coordinator, develop and test all plans for the continuity of essential functions by the five bureaus of the Department, and coordinate all aspects of the programs of these bureaus at the regional level. Because of inadequate funds in fiscal years 1960 and 1961, we were obliged to hold vacant several positions. We urge that sufficient funds be allowed to permit staffing of these positions and their related expenses for a full year in 1962.

A small amount of travel is necessary by the emergency planning coordinator and his assistants at the departmental headquarters to participate in interdepartmental committees and task groups, and in personal consultation and coordination at various field locations of Commerce bureaus and the Office of Civil and Defense Mobilization. It has been necessary to curtail this travel because of inadequate funds. The increase of \$3,000 requested for 1962 would overcome this deficiency.

DEFENSE AIR TRANSPORTATION ADMINISTRATION

One of the responsibilities assigned to DATA is that for planning and allocation of commercial air carrier aircraft to meet the needs for military airlift as outlined in requirements supplied by the Joint Chief of Staff. The planning meetings pertaining to Civil Reserve Air Fleet aircraft necessitate the attendance by DATA representatives at both Atlantic and Pacific operations boards meetings. These meetings were held annually, which was found to be not frequent enough. As a result, it has been necessary to schedule them on a quarterly basis with resultant additional travel expense, and increase in amount of printed materials in aircraft allocations on a quarterly rather than an annual basis. The budget estimate includes a request for an increase of \$3,000 for these items.

BUREAU OF THE CENSUS

The estimate for the census activities provides for continuance of the present statistical program in support of OCDM's National Resource Evaluation Center. However, the processing of a great volume of data required at the Center makes it necessary to provide for an additional full-time statistical assistant. Also, there is additional cost in the program to update the National Location Code. An increase of \$24,000 was requested in the budget estimate to cover these items. A new National Location Code has been established which ties into the geographic boundaries of the 1960 census. The next step, which is included in the budget program for 1962, is the preparation and reproduction of maps showing the geographic boundaries of the 43,000 new standard location areas.

BUSINESS AND DEFENSE SERVICES ADMINISTRATION

The BDSA serves as the nucleus of an emergency production organization and maintains a capability to activate those emergency activities which would be essential for maximum utilization of the Nation's production resources. It is charged with the responsibility for directing and controlling virtually all of the national production effort, for assisting and encouraging industry in the development of plans and programs to insure the continuation of essential production so as to provide for essential human survival needs, urgent military requirements, and potential postattack reconstruction and national rehabilitation. These responsibilities are, therefore, most clearly related to the mission of the Office of Civil and Defense Mobilization.

Postattack planning for emergency operations currently being undertaken by all responsible segments of the Federal Government emphasizes regional operation and direction of the immediate postattack activities at that level and below. Direct guidance from the Federal Government at the national level would be virtually impossible in the event of a national emergency. The BDSA, along with other Federal departments and agencies, is engaged in developing and directing programs designed to minimize the effects of a nuclear attack by concentrating readiness training and assignment of responsibility at other than the national level.

To perform this task effectively, it is necessary to assign a BDSA production director to each of the eight OCDM regions. The increase of \$100,000 included in the budget request is for this purpose. Three important developments make this action essential at the earliest possible time. The first is the absolute necessity for closer collaboration and coordination with State and local governments. Second, is the training of executive reservists which, to be effective and to reduce the demand on reservists' time, must be undertaken at the local level. Third, is the need for indoctrination and training of new State and local civil defense personnel in programs concerned with resources and production.

MARITIME ADMINISTRATION

The budget program is based on continuation of defense mobilization planning for U.S. port systems and facilities. This includes the implementation of emergency plans at the local level at approximately 110 U.S. ocean ports, determination of effect of mobilization shipping requirements upon ports and port capabilities, port supply requirements planning, and planning for emergency port improvisation and restoration of essential port facilities.

An increase of \$8,000 is requested for this program in 1962 for the preparation of inventory and port capacity records, preparation of a Port Improvisation and Rehabilitation Manual, and travel expenses of district office personnel. At this point, it may be well for me to mention that, what appears to be a discrepancy between the figure of \$8,000 and the total of \$8,500 for individual items on page 170 of the budget justifications, is in fact due to a rounding of figures for 1960, 1961, and 1962. The detail on page 170 reflects the actual amount of the increase.

WEATHER BUREAU

The budget estimate for the Weather Bureau provides for continuation of the existing program to prepare and disseminate fallout forecasts across the Nation, and to provide meteorological consultant services at OCDM headquarters and its regional offices. While the 1962 estimate is based on continuation of existing program levels, it does include an increase of \$26,000. This is to cover the full-year cost in 1962 of new positions established during past year in 1961 at the main relocation site, the cost of processing high altitude fallout forecasts on automatic data processing equipment, and miscellaneous items such as cost of pay increases and allowances.

In conclusion, I wish to express my appreciation for this opportunity to tell you of the effects of the House committee action, as we see it, and to urge your sympathetic consideration for restoration of the amount disallowed. Departmental staff and bureau representatives are available to answer any specific questions that you may have with respect to details of our programs. Thank you very much.

FEDERAL AVIATION AGENCY

STATEMENT BY HERMANN P. BRETSCH, CHIEF, EMERGENCY READINESS DIVISION

Mr. Chairman and members of the committee, the OCDDM appropriation request includes \$300,000 to be assigned to the Federal Aviation Agency in fiscal year 1962 for improving the emergency preparedness of the air transportation industry. The funds allowed by the House of Representatives on the OCDDM request would provide \$157,800 for this purpose.

We have carefully reviewed the effect of the House action on the development of the civil aviation industry's emergency preparedness. In view of the important and growing role of civil aviation in our national economy in peacetime, it is obvious that this industry would be an invaluable national asset if war is thrust upon us. If as the President has told the Congress in the special message on the defense budget, we as a nation are committed to a policy that "our arms will not strike the first blow," we must give serious attention to our operating capability after an enemy has struck us. In this light, our splendid civil airlift capability can be effective only if appropriate measures are taken to ensure the survival of these assets. Our aircraft—and the airports, the maintenance bases, and highly skilled people who operate these facilities and equipments—must first of all survive.

The Federal Aviation Agency, with the limited resources thus far made available for this purpose, has in various stages of development guidance material for the air transportation industry on—

- (1) Protective actions to be taken by the management of civil air transport enterprises prior to a national emergency;
- (2) Survival actions to be taken during and immediately after an attack; and
- (3) Recovery actions to be taken during the postattack restoration and rehabilitation period.

The funds allowed by the House will permit this basic planning to continue, but they do not provide the support required to carry this guidance directly to the aeronautical enterprises that must make the actual preparations required for an adequate emergency operating capability in the industry. The additional positions and funds requested for fiscal year 1962 are critically needed for the development in fiscal year 1962 of the emergency operating capabilities of airlines, public airports, and aircraft maintenance facilities. Our experience indicates that this can be accomplished effectively only by working directly with the management of these corporate and private enterprises and the local governments that operate the Nation's public airports.

The enthusiastic response of the various major airlines with which we are already working on the development of emergency operations plans indicates that the industry seeks and urgently needs our assistance in this matter. To provide this technical assistance effectively to all air carriers, to public airports, and others requires as a minimum the additional 13 positions requested for fiscal year 1962. Without these funds to support this effort, civil aviation defense planning will be severely hampered at the place where air transportation is actually provided in peace and war—in the Nation's airlines and at our public airports.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

STATEMENT BY DEPUTY SURGEON GENERAL, PUBLIC HEALTH SERVICE, ON CIVIL DEFENSE AND DEFENSE MOBILIZATION, FUNCTIONS OF FEDERAL AGENCIES

Mr. Chairman and members of the committee, the Department of Health, Education, and Welfare has been made responsible for the development of emergency health and emergency welfare programs and for the provision of operational guidance to our State and local counterparts in their implementation. Although we have the primary assignment in these areas, our own Labor and Health, Education, and Welfare Appropriations Subcommittee has instructed us not to absorb or include any delegated defense preparedness costs in our regular budget.

Since the major portion of the funds requested are for the Public Health Service, the Secretary has requested that I present the total Department program. The Department request for \$2,844,000 provides for the following activities: \$2,131,000 for health services, including stockpile management; \$121,000 for food and drug activities; \$316,000 for emergency welfare services; \$50,000 for

educational activities; and \$226,000 for field planning and executive direction and coordination.

I will now discuss each of the items dealing with the substantive programs.

HEALTH SERVICES

Without an effective emergency health program, it would be impossible for this country to suffer a massive thermonuclear attack and still recover. To develop this emergency health capability, we must direct our attention and efforts to three basic program areas:

1. The development of the capability of the individual to survive and meet his own health needs during the period of time that he may be deprived of a physician's services.

2. The development of the capability of the States and the local communities to implement effectively their operational health survival plans; and

3. The development of the capability of the Federal agencies with emergency health responsibilities to operate during an emergency in an effective and coordinated manner.

The Public Health Service in accomplishing these objectives is concentrating on developing emergency disaster plans, expanding skills of professional and lay individuals through training, providing medical supplies and equipment, and assisting in the establishment of effective community emergency resource management procedures.

A self-help training program has been developed which will prepare the individual and his family to survive and meet his own health needs without the assistance of a physician if this becomes necessary. The Public Health Service, with the active support of the American Medical Association and other professional health organizations, will endeavor to extend medical self-help training to every family in every community in the Nation.

We have assigned field personnel to assist States in planning, organizing, and training activities necessary to develop capability to survive, to reorganize health services to meet emergency conditions, and to recover in the event of disaster. These field personnel are located in DHEW and OCDM regional offices and in some instances are assigned directly to State health departments.

We have assumed the responsibility for prepositioning civil defense emergency hospitals and other health supplies and equipment in local communities to be readily available for emergency use. Community programs for emergency management of health resources and health manpower to assure their most prudent and effective use are being developed.

Safe drinking water is a primary and critical need post-attack. To meet this survival necessity, we are developing emergency water plans for adoption by State and local areas. These will cover methods for maintaining emergency water supply, protecting water reserve, using emergency sources, decontaminating water, and maintaining adequate repair supplies.

Finally, we are developing plans that will insure that Federal health agencies will operate efficiently to provide coordinated health leadership in the event of an emergency. In these efforts the Department is being actively assisted by the Veterans' Administration, Commerce, Housing and Home Finance Agency, Interior, and others.

To accomplish the various health services objectives, technical assistance to States, management of health resources, and research are required. I will discuss each of these in turn.

Technical assistance to States

This budget provides for the maintenance of professional personnel in DHEW and OCDM regional offices to provide guidance and assistance to States in the organization and technical aspects of emergency health programs, the development of operational capabilities, planning training courses, resource management, and coordination of emergency health mobilization with ongoing health activities. An increase of \$106,000 is being requested for fiscal year 1962 to provide for the assignment of a medical officer for emergency health services activities in addition to the program officer to service each DHEW regional office. Technical personnel have also been assigned to eight State health departments to assist in emergency health program implementation, in conducting local training activities, in determining health resource needs, and in coordinating the emergency health program with other civil defense activities in the community. The implementation of health mobilization program plans in the States where personnel have already been assigned has been so effective and progressive, that assignment of technical

personnel to all States is considered to be a high program priority. An increase of \$299,000 is being requested for fiscal year 1962 to fulfill this need.

The mutual selection of specialized health personnel in 50 local communities to assist in emergency health planning and training has been evaluated and has proved to be very effective. The professional community health worker, working 1 day a week, can serve as the nucleus for training to extend and expand the specialized knowledge and capabilities of professional and lay people in the community, as well as being readily available to assume emergency health responsibilities in the event of national disaster. The additional \$70,000 requested will provide for the extension of this specialized program to another 50 communities and establish duty on a day-a-week basis rather than a day a month as is now the case.

Training is of great importance in developing emergency health capability in the States. Training activities will increase and extend the technical skills of personnel in the community to meet disaster health problems as well as orientating them into their roles and coordinating their assignment in the total community plan for emergency health operation. The broad areas that must be covered by health mobilization training are: (1) medical self-help, (2) health manpower utilization, (3) emergency hospital and health facilities, (4) emergency medical supplies and equipment, (5) emergency water supply, and (6) health rehabilitation and restoration.

The Public Health Service will conduct or assist in the direction of these emergency health training courses at National, State, and local levels. Professional groups and voluntary agencies also will be used to assist in expanding the training potential. The Public Health Service will evaluate and recommend training methods, will prepare and distribute training kits, and will develop informational and educational materials.

During fiscal year 1962, these training activities will be expanded as rapidly as possible. An increase of \$90,000 is being requested for this purpose.

Management of health resources

The goal to be sought in the health resource area is the development of the most efficient methods of management of available supplies in each State and local community which would remain following an attack. These health resources include: health manpower, health facilities, and medical supplies and equipment.

Because of the marked disparity of resources that can be anticipated in the event of attack, we must expand the capabilities of medical and allied health personnel as well as develop the ability of every family group to meet their own health needs without the services of a physician if need be.

We must develop and provide emergency administrative and treatment procedures for use in disaster operation, methods to insure maximum protection to hospitals and patients, methods by which hospital relocation can be achieved and methods that will insure coordination of community emergency hospital units.

We must provide information on critical medical supply item identification and emergency planning requirements, local inventory planning, storage and protection methods, pre- and post-attack production potential for additional medical supplies, as well as claimancy and allocation plans. We must refine administrative procedures that will assure that civil defense emergency hospitals prepositioned in local communities are properly maintained and that no outdated or deteriorated items exist in the inventory. We must administer quality-control measures and develop OCDM stockpile dispersal plans that best meet potential disaster situations. In order to accomplish these requirements an increase of \$160,000 is being requested for fiscal year 1962.

Research

There are many areas where research is required. For fiscal year 1962 \$75,000 is being requested to develop rapid identification procedures for biological and chemical warfare agents.

FOOD AND DRUG ACTIVITIES

Under postattack emergency conditions these activities will temporarily become part of the emergency health structure with responsibility for survival measures related to the safety of foods and drugs for human consumption.

In the preemergency period, activities carried on by the civil defense organization of the Food and Drug Administration consist of a biological warfare research program and a training program. The research program is designed to determine

the vulnerability of wholesale packages of foods and drugs to biological agents introduced during overt and covert enemy attacks and the development of simple decontamination procedures. The training program is designed to acquaint the Nation's food and drug officials, as well as members of regulated food and drug industries, with the problems which would confront them as a result of a national emergency—problems involving contamination of our food and drug supplies as a result of chemical, biological, or nuclear attack.

Considerable progress is being made in both these areas and the funds requested will allow us to continue this work in fiscal year 1962.

EMERGENCY WELFARE SERVICES

The Social Security Administration carries major coordinating responsibility for civil defense emergency welfare services. This includes development of a national program to insure that the homeless and others in need of assistance as a result of enemy attack or threat will have essential survival aid and services—lodging; feeding; clothing; services including help in locating and reuniting individuals and families; care of groups needing special services such as children separated from their families, the aged, the handicapped; temporary financial assistance, if required; and all other feasible emergency welfare aid.

Major attention during the current year has been on preparation of national guidance materials for use by States and communities in developing local readiness to provide these emergency welfare services.

Memorandums of understanding with national voluntary welfare agencies describing how their functions can support the planning and carrying out of a nationwide emergency welfare program are being completed.

Programs were initiated in 1961 to assist State public welfare departments in integrating emergency welfare training into their regular training activities.

During fiscal year 1962, stress will be placed on field implementation of the emergency welfare services program which will emphasize technical assistance to the States and their subdivisions in the development of emergency welfare operating procedures to supplement their basic survival plans. The increase of \$58,000 requested for fiscal year 1962 will permit establishment of professional staff services for this purpose in each DHEW regional office.

EDUCATIONAL ACTIVITIES

The Nation's schools and their teaching personnel are a fundamental resource for civil defense preparedness and include nearly one-fourth of our total population. So that nuclear-age preparedness can be taught to young people, the Office of Education has assumed the responsibility, under OCDM delegation, for the development and distribution of educational civil defense materials which will integrate the teaching of survival skills, knowledge, and fundamentals of behavior during emergencies at all educational levels. The program to date has concentrated on development of materials for use at the secondary level which will be published and distributed during fiscal year 1962.

In addition, the estimate for fiscal year 1962 provides \$10,000 (two positions) for staff assistance to the Emergency Planning Committee of the Office of Education in working jointly with the Emergency Welfare Service on the general problem of the postattack use of educational facilities and manpower. In the immediate aftermath of massive attack, it seems obvious that the best use of schools and school personnel is to serve as temporary augmentation of the emergency welfare program in helping to reunite families, utilizing school houses and school equipment to provide temporary lodging and feeding facilities (and in some cases as emergency hospitals), and using school personnel to assist in managing these operations as part of the local emergency welfare organization.

Thank you, Mr. Chairman. I will be glad to attempt to answer any questions that you may have concerning these programs.

HOUSING AND HOME FINANCE AGENCY

STATEMENT OF M. CARTER MCFARLAND

The Housing and Home Finance Agency has been assigned responsibilities for the development of emergency plans and programs covering (1) emergency lodging; (2) guidance to States and localities as to standards and priorities for emergency lodging and housing programs; (3) repair of damaged housing and construction of new housing; (4) repair, restoration, and construction of emergency community facilities; (5) economic stabilization measures pertaining to real estate

credit controls and rent stabilization programs; (6) an Agency emergency organization plan; and (7) assistance to OCDM in the development of a shelter program.

In the fiscal year 1962, the Housing and Home Finance Agency will expand the programs already developed and initiate additional programs as part of the Agency's obligation to attain a state of readiness for a civil defense emergency.

1. Emergency housing programs

During fiscal year 1961, HHFA is preparing a comprehensive planning document outlining a postattack emergency housing program. In fiscal year 1962, it is proposed that HHFA will complete the clearance and dissemination of the planning document and will supplement this plan by preparing detailed operating instructions for the guidance of the headquarters and field personnel who are responsible for the execution of the emergency housing program. These operating instructions are also required by State, county, and municipal officials, and by the housing industry so that they may participate in executing the program.

2. Community facilities programs

In fiscal year 1961, HHFA will complete work on three projects in the community facilities area. These are: (a) preparation of technical guides for the provision of primitive water and sanitary facilities; (b) plotting key components of water systems on large-scale maps; and (c) preparation of an operational handbook for field personnel responsible for community facilities. During fiscal year 1962, HHFA will prepare an overall planning document outlining a comprehensive postattack emergency community facilities program. This will be an appendix to annex 42 of the national plan and will cover such matters as: the major aspects and time phases of the postattack environment; the objectives of the program; the different methods or approaches which can be used to meet the emergency needs for community facilities; how the program is to be financed; and the responsibilities of HHFA headquarters and field offices in the execution of the program.

3. Field organization

During fiscal year 1961, four full-time defense planning representatives at HHFA regional offices are being employed. This estimate provides for the continuation of these field representatives and for the additional employment of four other field people together with the necessary secretarial help. This will provide one GS-14 civil defense specialist and one GS-4 clerk-stenographer for each of the eight regions contemplated in the HHFA emergency field organization plan.

These specialists will serve as the regional counterparts of the Defense Planning Coordinator. Under the technical direction of the Defense Planning Branch in Washington, they will develop and test all plans for HHFA civil and defense mobilization responsibilities at the regional level and will coordinate for the regional administrators all aspects of the civil and defense mobilization programs of the constituent agencies at the regional level. They will serve as liaison officers between HHFA regional offices and the OCDM regional offices. They will also develop the working relationships between State civil defense directors and the HHFA emergency State offices as provided in the Emergency Field Organization Plan.

4. Real estate credit and rent control programs

During fiscal year 1961, HHFA prepared in connection with the development of an interim rent stabilization program, an operating appendix to annex 27. This included the types of guidance materials (forms and documents) which support the above appendix and provide State and local officials with the technical and operational guides.

During fiscal year 1961, HHFA also initiated work on the following:

a. A paper identifying the problems and issues of administration and of program content involved in the transition from State and local interim administration to a nationally administered program of rent stabilization.

b. A separate emergency operating plan outlining the rent stabilization program which the Federal Government would undertake and administer as it became able to absorb interim State and local operations.

During fiscal year 1962 HHFA will complete the corollary guidance materials to be included in the operating appendix to annex 27 and also, the work specified under items (a) and (b) above.

5. Damage assessment representation

HHFA will provide representation at the National Resource Evaluation Center including assistance on special NREC studies. In addition, HHFA will provide

field training for damage assessment specialists at its regional and emergency State offices.

Within the 1962 OCDM appropriation request for "Civil Defense and Defense Mobilization Functions of Federal Agencies", the sum of \$300,000 is included for the Housing and Home Finance Agency to cover the costs in fiscal 1962 of the civil defense and defense mobilization functions which have been assigned to HHFA. The regular appropriations for the Housing and Home Finance Agency do not provide for the specific projects and programs I have outlined.

I shall be glad to answer any questions the committee may wish to interpose.

DEPARTMENT OF THE INTERIOR

STATEMENT OF J. CORDELL MOORE, DIRECTOR, DIVISION OF SECURITY

The mobilization responsibilities of the Department of the Interior encompass the following areas: Electric power, petroleum and gas, solid fuels, metals and minerals, production and processing of fishery products, and continuation of the essential wartime functions of the Department.

Many of these functions involve day-to-day activities of the Department and some of the activities are financed through the regular Interior Department budget. The funds requested here are for specific defense activities over and above those which can be carried with regular Interior funds.

The direct mobilization program financed by transfer of funds from OCDM totals \$436,000 for the current fiscal year. The request for the fiscal year 1962 is \$512,000, an increase of \$76,000. This will permit the increase of two positions in the electric power area, two for fisheries matters, a small amount for annualizing salaries of employees added in 1961 for petroleum and gas, and some increase for radiological defense training of Interior employees and expenses of Interior personnel involved in mobilization activities in the different OCDM regions.

The plans being developed and implemented in the fields cited above are designed to develop a state of readiness to meet the conditions of any national emergency, including direct attack on the United States. With the exception of planning for the continuation of the essential functions of the Department, and coordinating electric power planning with other Federal power agencies, all programs are carried on through the voluntary cooperation of private industry.

In brief, the different programs of the Department are as follows:

OFFICE OF THE SECRETARY

The request for the Office of the Secretary is \$46,000 which is an increase of \$20,000. This request consists of \$19,000 for continuing the Department's representation at the National Resources Evaluation Center, \$10,000 for radiological defense training, and \$17,000 for expenses of Interior-paid mobilization personnel. The representation at the National Resource Evaluation Center is a continuing function and no increase is requested.

Regarding the radiological defense training, the Department has been requested by the Office of Civil and Defense Mobilization to man 325 stations of the Federal Fixed Station Monitoring Network. The sum requested is to pay the traveling, and other expenses of approximately 80 employees to locations where they can receive training.

It has been necessary to designate an Interior employee within each OCDM region to coordinate Interior mobilization activities within that region. This involves considerable travel in attendance at meetings, communications, and preparation of reports which are related specifically to OCDM activities and \$17,000 is requested to cover these expenses.

ELECTRIC POWER

An increase of \$30,000 is requested for electric power activities over the \$21,000 available for 1961. At the present time electric power functions in the Washington office are carried on by regular departmental personnel who spend part of their time in mobilization activities. In addition, one full-time engineer is currently employed and paid from funds transferred from OCDM.

The Office of Civil and Defense Mobilization has delegated to the Department of the Interior responsibility for preparedness measures in the field of electric power. Plans must be developed, and actions which can be carried on now must be taken, for prompt restoration of electric power service as soon as possible after

an attack. To carry this out, Interior has established a Defense Electric Power Administration, on a standby basis, which will be activated as conditions warrant during a national emergency. The main operating part of this standby administration is the field organization consisting of 16 power areas throughout the United States. Each power area is headed by a Director, with alternates, to insure continuous direction. These are employed by the Department on a without-compensation basis and devote part of their time to mobilization planning without cost to the Federal Government except for security clearances. At the present time Interior has approximately 40 WOC employees who devote part of their time to electric power mobilization activities. Mobilization planning is necessary also on regional and State levels, special power studies are required, and it is necessary to train industry personnel in radiological monitoring. The organization, coordinating and training required of the Washington personnel is more than can be provided by the current staff and the increase will permit the addition of one professional engineer with a stenographer, and some increase in funds for travel and other expenses.

OFFICE OF OIL AND GAS

The funds requested in the amount of \$114,000 will permit the Office of Oil and Gas to continue the program for the appointment of individuals to the Petroleum and Gas National Defense Executive Reserve; review and update the special long-range petroleum study; and cooperate with State and local civil defense agencies in the development and testing of emergency operational plans for petroleum and gas. Reservists are assigned to the national headquarters or one of the OCDM regional offices for orientation training. They are kept informed of Government actions effecting mobilization planning in general and receive specific information concerning petroleum and gas emergency operational plans. They participate in OCDM exercises at local, State, and regional levels and serve in liaison capacity between their companies and local, State, and Federal civil defense officials. The Petroleum and Gas Reserve currently numbers 71, and 20 are in the process of appointment. We expect to appoint approximately 50 more in the fiscal year 1962.

A special long-range petroleum study pertaining to the U.S. requirements and the capability of supplying these requirements has been developed during the past 2 fiscal years. Each year the criteria must be reexamined and the oil and gas supply data brought up to date if the usefulness of this study is to be maintained.

To effectively discharge its mobilization planning responsibilities outside Washington, the Office of Oil and Gas must have field personnel to advise regional, State, and local civil defense officials regarding the integration of petroleum and gas in their emergency plans; work closely with industry to assure operations continuity in emergencies; and maintain close contact with members of the Petroleum and Gas Executive Reserve so as to keep them informed regarding mobilization concepts they would need to know if called to duty during a national emergency. The budgets for 1961 and 1962 provide for assigning a petroleum specialist and clerk-stenographer to five of the eight OCDM regional offices in order to carry out these programs. Four of these OCDM regional offices have been staffed and one more is in process.

OFFICE OF MINERALS MOBILIZATION

The Office of Minerals Mobilization is the OCDM delegate agency for metals, minerals, and solid fuels. It is responsible, by delegation to the Secretary of the Interior, for assuring that in a defense emergency there will be adequate supplies of metals, minerals, and solid fuels to meet all military and essential civilian needs. It develops preparedness measures and objectives for the Government as a whole. It is also responsible for planning and directing civil defense activities for solid fuels.

To carry out these responsibilities, the Office is requesting \$283,000 for fiscal year 1962. This is no increase over the 1961 estimate.

The Office of Minerals Mobilization carries out its responsibilities under broad policy guidance from the Office of Civil and Defense Mobilization and the Secretary of the Interior. It has five principal areas of responsibility:

Mobilization supply

(1) In mobilization supply it evaluates the extent to which the domestic minerals, metals, and solid fuels industries, imports, and the Government's stocks will be able to meet anticipated essential civilian and military requirements under

mobilization conditions. These evaluations serve as the main bases for periodic or special recommendations to the Secretary of the Interior and to the Office of Civil and Defense Mobilization on such matters as Government assistance, exploration or procurement programs, support of the domestic production component of the mobilization base, and management and maintenance of Government stocks.

Continuity of industry

(2) In providing for continuity of industrial production under emergency conditions, the Office has developed, and keeps current, standby orders and regulations, prepares programs to go into effect in an emergency, provides detailed data and evaluations for use of OCDM in resources evaluation, prepares product and facility ratings, and assists industry in providing continuity of its production. It also participates in radiological monitoring training courses.

Continuity of Government

(3) In providing for continuity of Government in event of an emergency; the Office participates in test alerts, maintains a relocation center in readiness; and recruits and trains an executive reserve from the key segments of industry.

Solid fuels emergency plan

(4) The Office plans and directs Federal activities designed to procure, store, transport and distribute adequate supplies of solid fuels to attacked areas and reception centers, consistent with the national emergency fuel program.

Technical assistance

(5) It advises and gives assistance to other offices and agencies in planning and implementing programs for protecting and assisting the metals, minerals, and solid fuels industries.

BUREAU OF COMMERCIAL FISHERIES

The Bureau of Commercial Fisheries has responsibilities to maintain the catch and production of fishery food and manufactured fishery products in the event of a national emergency under a redelegation of authority from the Department of Agriculture.

Planning is required for organization of the Bureau's field personnel with reference to their assigned emergency functions, the review and updating of instructions relative to emergency operations, coordination of regional requests pertaining to defense problems and continuous cooperation with Federal, State, and industry organizations. Extensive travel will be necessary to permit contacts with members of the fishery industry at the top company level and to maintain close contact with leaders of fishermen's associations and unions in order to develop basic uniformity in defense planning and to keep them acquainted with changes in defense plans for making full use of the fishery resources in an emergency.

Other activities will include the compilation, placement, and distribution of essential statistical information; the coordinated development of plans for vessel departure from ports in an emergency; fleet tactics and guidance for vessels at sea; the cooperative adoption of proved protective measures against fallout; decontamination procedures as related to vessels, gear, facilities, catches and products; and other emergency measures which require the cooperation of the commercial fishing industry.

The \$18,000 requested will provide for one professional employee, one stenographer, and necessary expenses.

INTERSTATE COMMERCE COMMISSION

In the Report of October 10, 1959, by the Special Subcommittee of the House Armed Service Committee, inquiring into the "Adequacy of Transportation Systems in Support of the National Defense Effort in Event of Mobilization," it was suggested that Government bodies should do more to prepare the transportation industry to support the defense of the country. The January 3, 1961, "Report Prepared for the (Senate) Committee on Interstate and Foreign Commerce" by the Special Study Group on Transportation Policies in the United States, in referring to transportation actions necessary in case of a "sneak" attack, stated:

"It is essential that our transportation losses in that first attack be minimized. It is also essential that what is left be shifted immediately to the grim task at hand with a minimum of delay and confusion. To do either requires thorough prior planning, peacetime testing, and continuing refinement of plans and the implementation thereof. * * *

The Independent Offices Appropriation bill for the fiscal year 1962, H.R. 7445, recently passed by the House, includes under the heading "Civil Defense and Defense Mobilization Functions of Federal Agencies" \$70,000 to finance domestic surface transportation mobilization functions delegated or assigned to the Interstate Commerce Commission. These responsibilities are concerned with the important railroad, motor carrier, and inland water carrier industries. The OCDM appropriation request for fiscal year 1962 includes \$175,000 for the Commission to perform these functions.

In the Commission's appropriation bill for fiscal year 1959, the Congress did not approve funds requested for carrying out defense mobilization functions. Accordingly, the Commission suspended its mobilization activities and, during the fiscal years 1959 and 1960, engaged in no mobilization activities other than certain specific projects for OCDM on a reimbursement basis. For fiscal year 1961, the appropriation for OCDM provided \$70,000 for limited but progressive restoration of mobilization activities by the Commission.

The Commission's responsibility was broadened by OCDM Emergency Preparedness Order No. 15 of January 19, 1961, with respect to coordination of State and local plans relating to domestic surface transportation and its operation under emergency conditions. It further assigns to the Commission the responsibility to supervise or conduct research in areas directly concerned with carrying out emergency preparedness responsibilities in domestic surface transportation.

With the \$175,000 requested in the OCDM appropriation for the fiscal year 1962, the Commission proposes to engage in mobilization projects concerned with assembling mobilization requirements for transportation service; determining the capability of the transport systems to meet such requirements; allocation of available transportation capability; serving as claimant for transportation manpower, fuel, materials, equipment, supplies and services; administering priority systems for the movement of cargoes and passengers; arranging for self-initiating orders and emergency operations; emergency restoration and rehabilitation of equipment, facilities, and so forth; transportation facilities protection; damage assessment; maintaining and training the ICC unit of the National Defense Executive Reserve; and assisting in the development of State and local emergency transportation procedures; \$175,000 is the minimum amount required to advance the nonmilitary readiness of the transportation industry assigned to the Commission. The amount requested is based on an austere level of performing such functions.

The Commission has the expertise to assist in readying the transportation industry for emergency efforts, and provision of these funds would make it possible to do so economically.

DEPARTMENT OF LABOR

STATEMENT OF HARRY WEISS, MOBILIZATION COORDINATOR

Mr. Chairman, the Department of Labor's emergency planning responsibilities may be grouped under three headings: manpower; wage and salary stabilization; and economic data in support of policy and operations.

The assignments given to the Department by the Executive Office of the President and inherent in our regular responsibilities are important in the overall planning of civil and defense mobilization measures. Manpower obviously is a common ingredient of all other emergency planning. It is our responsibility to see that adequate manpower plans exist which will facilitate the carrying out of emergency tasks assigned to other agencies. Manpower, unlike other resources, cannot be stockpiled. But plans for the effective utilization of manpower can be prepared in advance and prepositioned at all levels of government so that we can operate more efficiently in the event of a catastrophe, thus insuring a better chance of survival and a more rapid recovery.

Similarly, the Department's wage and salary stabilization program is an essential ingredient of a general economic stabilization program which is certain to be needed in the event of an attack on this country.

Finally, the Department has the responsibility, in cooperation with other organizations, for a rapid evaluation of our surviving resources and for developing essential data required to guide policy and operations in the postattack period.

Within the past year, the Department has made substantial progress toward the completion of our major planning assignments. But much more needs to be done. The program plan for the fiscal year '62 will move us substantially further on the way toward our goal.

As was true last year, \$588,000, or nearly half of the \$1,275,000 requested for fiscal 1962, would go to State employment security agencies to develop the work of the State Defense Manpower Readiness Units established in each State for planning operations at the State and local level, where the bulk of the manpower management job must be done. Another \$112,450 is needed to cover the costs of personnel assigned to the Department's regional offices, primarily to assist these State agencies in developing and improving their State and local plans. Thus, a total of \$700,450 will be directed primarily to State and local emergency planning.

Of the remaining \$575,000, \$161,300 is required to cover the cost of manpower plans and programs prepared in the national office for use at all levels of government, \$89,200 is for wage and salary stabilization planning, and \$150,650 is for the development of economic data to support policy and operations.

The record will clearly show that the Department of Labor has not had funds available from its regular budget for its assigned tasks in planning for an emergency, and has, in fact been admonished by our regular committee against any use of regular funds for this purpose. The money for this activity has had to come from OCDM or its predecessor agencies. Although we received a nominal sum from FCDA in 1957, it was not until fiscal year 1960 that the Department received sufficient funds to initiate a broad program. We are now in the second year of the intensive development of this activity. We have much to show for this year and a half of planning but much more remains to be done.

Our State employment security organizations have had considerable experience in administering manpower programs in a limited war. Past wars, fortunately, did not involve attacks on this country with devastating damage to our industrial facilities and tremendous casualties among our population. Nor did the past wars result in evacuation of millions from their homes and their workplaces to communities at a substantial distance. The fundamental problem which we must face is to develop a manpower organization and a manpower program which will be able to operate with a reasonable degree of efficiency in such a postattack environment. This is something our country has never before faced.

In order to develop feasible plans at each State and local level, the Department has established small defense readiness planning units in each State employment security agency. With over 50 such agencies, it is obvious that the amount of funds which can be allocated to each agency is very small. The Department has recently issued a comprehensive manual, called the Defense Readiness Handbook, to guide these State agencies in the development of their plans to meet an emergency involving an attack on this country. In order to insure that all agencies involved in postattack activity understand the manpower assignments and programs of the Federal Government, the Department of Labor, and the State employment security agencies participated in a series of regional manpower conferences designed to explain to all concerned the manpower responsibilities of the various agencies of the Federal Government, including the Department of Labor and of the State employment security organizations. In almost all of the States these regional conferences have now been followed up with State and local area conferences to carry this understanding through to all governmental officials in the local communities.

The next major step of the State employment security agencies was to expand the manpower annexes to their State survival plans based on the guidance furnished by the national office. These annexes constitute the basic outline of the manpower plan of the State and are essential prerequisites to further planning by the State agencies and by their local employment offices.

These expanded annexes have now been completed in draft or final form by a majority of the States and work is well underway toward completion in the remaining States. We look forward to the completion of these manpower annexes in all States by the end of this fiscal year, or at the latest, early in fiscal year 1962. These annexes may be described as blueprints to guide State manpower officials in rapidly installing and operating the drastic changes in manpower measures that would be needed in an emergency. During the fiscal year 1962, the State defense readiness units will supplement these manpower annexes with specific guidelines geared to develop postattack survival plans of the individual employment offices within their States. Our objective is to prepare each of these local employment offices to serve as the civilian manpower arm of local government.

In order to accomplish this objective, it is necessary to prepare specific emer-

gency operating procedures for the local employment offices. These operating procedures will cover, in detail, such activities as recruiting and referring workers, operating manpower controls, emergency unemployment benefit operations, and estimating and reporting on the number and characteristics of surviving workers in each community.

One of the most critical problems in the postattack period is to find skilled manpower to handle urgent reconstruction tasks such as the restoration of powerplants, powerlines, railroads, highways, and bridges damaged as the result of attack. It seems essential that skilled workers be recruited in advance of an emergency and trained to carry out these urgent jobs on a task force basis. During the past year we have successfully initiated two pilot projects along this line. In the Allentown area of Pennsylvania, labor and management members of the industry have agreed to work with the local civil defense authorities on certain preassigned tasks with preassigned equipment. After some advance training, these task forces will be able to proceed without any loss of time to respond to disaster in nearby areas where construction work is a compelling postattack need. In Kalamazoo, Mich., we are experimenting with a pilot project involving all of the skills required for the immediate postattack emergency.

We would like to expand these pilot projects to include 12 cities during the next fiscal year. On the basis of the experience developed in these pilot projects we hope to develop a manual which can be used by local authorities to establish such task forces throughout the country.

In order to meet critical postattack manpower needs it seems clear that we are going to have to draw upon millions of individuals who are not now in the labor force, particularly women who are not working in the preattack period. In order to proceed effectively we need to know that kinds of skills these women have, whether they would be willing to undertake civil defense assignments, and the conditions under which they would be able to work in the postattack period. In order to try out a procedure for developing this information we have established pilot projects in Sonoma County, Calif., and Thomasville, Ga. On the basis of a few more pilot projects, we plan to develop a manual for the use of local civil defense authorities to determine the availability of skills of individuals not now in the labor force and how these individuals may be organized in advance of an emergency to meet serious postattack problems.

There are many other things which need to be done. We need to develop control measures which might be required in an emergency in order to direct the surviving labor force into activities in which they are urgently needed and out of activities in which such need is only minimal. Manpower controls of the type used in World War II may be entirely inadequate in an emergency involving an attack on this country.

We need to develop techniques for effective emergency registration of manpower if such should prove to be necessary in some local communities—for getting at the postattack masses of dislocated people and identifying their skills.

We need to develop methods and procedures for translating program urgencies into manpower priorities at the operating level.

We need to develop a plan for requiring personal services in an emergency in the event that voluntary manpower measures should prove to be inadequate.

We need to develop plans for the application of sanctions for noncompliance with manpower control measures, whether under a voluntary system or a compulsory system.

We need to develop a dictionary of civil defense occupations which will show the relationship of these occupations to the peacetime occupations which are contained in our regular dictionary of occupations.

We need to develop simple techniques for estimating surviving manpower resources at the local level.

We also need to develop training materials for use by the States in preparing their personnel on the firing line—in the local employment offices—to swing without interruption into the kind of emergency operations for which there is no precedent or experience in their history.

Finally, we need to develop a plan for providing death and disability benefits for authorized civil defense workers and a plan for adjusting our regular unemployment insurance system to meet the problems of a postattack world.

In the field of wage and salary stabilization we have to be prepared to administer an interim wage and salary stabilization program on a completely decentralized basis. This involves not only the development and prepositioning of regulations and instructions in every field unit of the Department, but also the training of the field force to be assigned this task.

In the statistical area, the Department has been cooperating with the OCDM by providing the National Resources Evaluation Center with manpower information which that center needs in special studies of vulnerability and effects of various attack patterns on the United States. The same techniques would be used in making the first rough estimates of our surviving manpower resources. The Department has already placed in that center labor force data, including details on 50 key occupations, for each of the standard metropolitan areas and for each State. This work must be continued to cover all of the essential mobilization occupations, carefully pinpointed on a geographical basis. Further, the availability of the 1960 census of population requires that work already done be properly updated.

There is an urgent need for improving the manpower resource and requirements data available to NREC for some of the special studies being undertaken by it and by the Department of Defense. Within the past month the Department of Defense has asked the Department of Labor to assist in one of its special studies involving the estimation of manpower requirements and productivity in the postattack environment. These are areas of study which the Department initiated last year on a very minor scale. We have made some little progress in identifying the factors affecting manpower productivity in a postattack environment. More needs to be done. It is essential that this analysis be continued in order that the Department may be able to provide OCDM, NREC and the Department of Defense with quantitative estimates of postattack efficiency loss caused by such factors as shortages of food, housing and transportation, and the effects of radiation following a massive attack.

These are the principal emergency responsibilities which we have been carrying out with the funds made available to us by OCDM. The funds we are requesting for fiscal year 1962 are essential for the translation of national plans to State and local levels where the emergency must be met in the first instance and also to deal with certain facets of our program for which we have not had financial capability up to the present time.

REIMBURSEMENTS TO AGENCIES

Mr. ELLIS. I might mention they are the U.S. Department of Agriculture, U.S. Department of Commerce, the—

Senator MAGNUSON. Now, Mr. Ellis, these are the amounts which are repaid to the other agencies for services rendered to your Department—

Mr. ELLIS. Yes, sir.

Senator MAGNUSON. On projects that have been recommended by your Department, and which these agencies are peculiarly fitted to carry out?

Mr. ELLIS. Correct, sir. That is correct.

FAA is another, the Department of Health, Education, and Welfare—

Senator MAGNUSON. How many do you have, eight?

Mr. ELLIS. Yes, sir, a total of eight statements.

Senator MAGNUSON. All right, we will put them all in the record.

Mr. ELLIS. Housing and Home Finance Agency, Department of Interior—

Senator MAGNUSON. And we will go into those a little later and ask some questions about what they are doing.

Mr. ELLIS. Yes, sir.

Department of Labor—I wish to point out for the record there are four delegate agencies that have not filed statements because the amounts involved are rather small, if the committee please, the FCC, Post Office, Small Business, and Veterans' Administration.

Senator MAGNUSON. But you will cover those?

Mr. ELLIS. We cover that, yes, sir. They relate to the one item, that is the National Resources Evaluation Center, and those amounts are very small.

Senator MAGNUSON. All right.

Mr. ELLIS. I will proceed with the statement, sir.

NEW YORK HERALD TRIBUNE ARTICLE

I do not wish to be out of order but may I call to the committee's attention something that seems to be very current. Perhaps the chairman and Senator Ellender have already seen the statement in the New York Herald Tribune this morning by Roscoe Drummond. It is very short. May I be permitted to read it, sir?

Senator MAGNUSON. All right, go right ahead.

Mr. ELLIS. This appears in this morning's New York Herald Tribune. Mr. Drummond states:

Isn't it about time that we threw off the apathy, indifference and skepticism which have marked our whole approach to civil defense?

As the consequences of nuclear war have become more devastating, our attitude toward self-protection has become more hopeless. There has been confusion in planning, frustration in knowing where to begin and a kind of helpless fatalism that nothing practical could be done. Civil defense plans have usually been so puny as to be futile, or so grandiose as to be unrealistic. And year after year Congress has cut 75 percent from the little which has been asked for the civil defense budget.

This isn't good enough. It is dangerous and irresponsible. It is reckless. Civil defense is not hopeless and we do not have to be helpless. Very practical things can and need to be done.

President Kennedy seems determined not to let matters drift any longer.

He knows that the safety of millions of American lives can be secured against nuclear war. And Mr. Kennedy knows that nothing he learned from Khrushchev at Vienna assures against a Soviet miscalculation.

Mr. Ellis has persuaded the President to go to bat with Congress to approve a meaningful civil defense program. If the American people show that they do not intend to accept 20 to 40 million unnecessary casualties among the civilian population, they should be able to persuade Congress that the time has come to stop pennypinching with human lives.

Before presenting a lengthy column with several tangible and practical steps which can be taken, I want to discuss—and discard—the pernicious theory that effective civil defense is undesirable because it is "provocative."

This intolerable and, I believe, senseless view is advanced by some high advisers in the administration in these words: "The theory of the invulnerable deterrent works only if populations are vulnerable and forces (military) are invulnerable." The proposition is that if either the United States or the Soviet Union undertakes effective civil defense, this would in itself be evidence that the side which did so was going to attack the other—and, therefore civil defense would provoke attack.

Under this theory we must deliberately plan to throw away the lives of 20 to 40 million Americans or more, in order to give assurance to the Soviets that we are not preparing to attack them. The hope would be that this generosity would persuade them not to attack us.

For purpose of argument, let us accept—and I do not believe it—that effective civil defense might be deemed by some in the Kremlin as "provocative." I do not think that this plan is an adequate reason for making millions of American civilians helpless hostages through nuclear attack.

Effective civil defense is desirable and urgent even if it does annoy the Soviet Union.

Furthermore, if there is any sense in the idea that civil defense must be sacrificed because it is "provocative," this argument is destroyed by the fact that the Soviets are already undertaking substantial civil defense measures. There is evidence that some 50 million of the Soviet population have already been trained in civil defense requirements. By the size of investment in civil defense equipment, it is clear that the Soviet Union has for a number of years, and is now, engaged in an extensive civil defense program. Fallout shelters for many millions of Russians are already available and they are mandatory in the construction of every new apartment building throughout the Soviet Union.

It is time we did something ourselves.

Senator MAGNUSON. We will place that in the record.

Now will you proceed with your statement.

Mr. ELLIS. Yes, sir.

GENERAL STATEMENT

I appreciate this opportunity to appear before this committee to discuss the national programs for nonmilitary defense. This hearing is particularly timely, coming as it does within a few days after the President expressed his views on this program in his address to the Congress on May 25, 1961.

Upon my appointment to this position as Director of the Office of Civil and Defense Mobilization, I was instructed by the President to join with the Director of the Bureau of the Budget and the Secretary of Defense in making a thorough study of the organization and functions of nonmilitary defense. The intensive investigations we have made during the course of this study has clearly brought to light the appalling fact that civil defense efforts to date have been completely inadequate and leave a shocking gap in our total national defense. As indicated by the President, this administration plans to meet this problem head on. Proposals will be submitted for the specific actions necessary to eliminate this vulnerable link in the national defense posture.

SOVIET CIVIL DEFENSE EXPENDITURES

The many intelligence studies and reports available for our review are unanimous in their conclusions that the civil defense expenditures of the Soviets outstrip by many times the dollar volume of expenditures being applied by the United States for this effort. Civil defense training is a mandatory requirement in Russia and many public shelters are being built. Our national defenses are built upon the historical American concept of massive capability for retaliation but avoidance of aggressive action—striking the first blow. Therefore, Russia does not need to harden its missile launching sites or take other protective measures to withstand the first blow. This places them further ahead of us with respect to passive defense.

The dizzying pace of military technological developments in the last 15 years has been stunning and bewildering. Many of us have not kept abreast of the awesome, devastating potential of offensive weapons. Certainly civil defense has fallen behind and become an unwanted stepchild in our total national defense planning. If we had been more candid with the people during past years, it is probable that this problem would not exist today.

ELEMENTS VITAL TO AMERICAN INVULNERABILITY

We still have time to prepare ourselves, but we cannot afford to lose another moment. Three vital elements are essential to make America invulnerable to attack:

1. Superior offense, which includes the power of retaliation.
2. Superior defense, the study made of the Nike-Zeus and other affirmative defense actions.
3. The will to survive.

If the offensive and defensive power is equal, the will to survive becomes decisive—that is to say that when the capability to “dish it

out" is equal, then the nation best prepared to "take it" will win. The stronger civil defense may turn the tide.

This brings home the cold, hard fact that a strong civil defense and mobilization program is indispensable to national preparedness. This cannot be attained cheaply and certainly cannot be attained with a Federal effort at past minimum levels. The President expressed this harsh inescapable conclusion to Congress last month in his speech to which I have referred. I quote—

PRESIDENT'S STATEMENT

Senator MAGNUSON. We have heard that. We will put that in the record in full.

(The portion of the statement referred to follows:)

One major element of the national security program which this Nation has never squarely faced up to is civil defense. This problem arises not from present trends but from national inaction in which most of us have participated. In the past decade we have intermittently considered a variety of programs, but we have never adopted a consistent policy. Public considerations have been largely characterized by apathy, indifference, and skepticism, while at the same time many of the civil defense plans have been so far reaching and unrealistic that they have not gained essential support.

This administration has been looking hard at exactly what civil defense can and cannot do. It cannot be obtained cheaply. It cannot give an assurance of blast protection that will be proof against surprise attack or guaranteed against obsolescence or destruction. And it cannot deter a nuclear attack.

We will deter an enemy from making a nuclear attack only if our retaliatory power is so strong and so invulnerable that he knows he would be destroyed by our response. If we have that strength, civil defense is not needed to deter an attack. If we should ever lack it, civil defense would not be an adequate substitute.

But this deterrent concept—

and goes on with the President's statement generally, the history of this planet, and particularly the history of the 20th century—and that is all a part of the President's basic state of the Union message.

Once the validity of this concept is recognized, there is no point in delaying the initiation of a nationwide long-range program of identifying present fallout shelter capacity and providing shelter in new and existing structures. Such a program would protect millions of people against the hazards of radioactive fallout in the event of a large-scale nuclear attack. Effective performance of the entire program not only required new legislative authority and more funds but also sound organizational arrangements.

In view of my firm conviction—

incidentally, there is nothing in the present summation to this committee, or to the committee in the House, which asks for funds for the marking of existing fallout shelter areas. But we did submit to the President the recommendation that this be done. And this is the principal matter that has now been turned over, on the recommendation of the President, or will be turned over under appropriate documentation later on, to the DOD. That will come later.

IDENTIFYING AND MARKING SHELTER AREAS

We consider it of very critical importance because our pilot studies indicate that there are existing public areas and buildings where 47 million shelter spaces could be identified, and marked for usage by the people of this Nation. Based upon an assumption that a Soviet attack upon this country, if it ever came, would be an attack upon

target sites with limited thermonuclear warfare capability, we feel today that you have approximately 70 million American persons at risk from radioactive fallout, and not at risk from death from blast and fire. You could save, by the marking of these shelters already in existence in this country, and by slightly upgrading and perhaps stocking, between 30 and 40 million American lives. Therefore, the President has included that in his state of the Union message, and it will be presented separately to the Congress when the President documents his specific recommendations to the Congress on that matter.

Senator MAGNUSON. But you state to the committee that that particular program is not now included in these particular items?

Mr. ELLIS. That is correct, sir.

Senator MAGNUSON. All right.

Senator ELLENDER. What will be your functions, Mr. Ellis, if that transfer is made?

Mr. ELLIS. Just what we have, I think, recommended to the President, and which are included in the budget now under consideration. The Office of Civil and Defense Mobilization has never been an operational office, and we are not in a position to construct shelters, nor are we in a position to mark and upgrade existing shelter areas—

Senator ELLENDER. You think the military can do that better than the civilians?

Mr. ELLIS. I think they can.

Senator ELLENDER. I do not think so.

Mr. ELLIS. Well, Senator, I am part of the executive arm of the Government and—

Senator ELLENDER. I am just expressing my opinion. I have had a lot of experience with the armed services.

Mr. ELLIS. Yes, sir.

Senator ELLENDER. I just disagree there.

Mr. ELLIS. Yes, sir.

Senator ELLENDER. I was surprised when the President moved to transfer it to the military. They have too much to handle now in my humble judgment.

FUNCTION OF OCDM

Mr. ELLIS. Well, Senator, I would like if I might, with the chairman's permission, to point out that the office of OCDM, under its new name, will be a very closely knit organization working with the President with powers of coordination, research, and planning in all of these various areas, in such a way that the President can keep control over this entire situation. And that is the function that we feel best able to adequately perform. But we know that we do need this marking and upgrading, and the President recognizes the necessity for it in this country today.

Senator ELLENDER. The armed services have had such an experience of wastefulness in the past that I am saying it should not be transferred to them.

Senator MAGNUSON. Mr. Ellis, if you will go to page 7 of your statement, we will get down to the specific items.

Mr. ELLIS. Yes.

SALARIES AND EXPENSES

First, "Salaries and expenses." We urge full restoration of the \$5.5 million reduction. The House made this reduction—

LIMITATION OF POSITIONS IN WASHINGTON

Senator MAGNUSON. I want you to read this very carefully because this committee has long agreed with the House on a limitation of ceilings on positions here in Washington, D.C., and we want to know just what is happening down there.

Mr. ELLIS. Yes, sir.

Senator MAGNUSON. So you start on page 7 of your statement. You have it in full there. Salaries and expenses.

Mr. ELLIS. Yes, sir. I would like to go off the record if I possibly could to explain the very vital reason why there should be no reduction in civilian positions in Washington.

Senator MAGNUSON. Is that the item you want to talk about in executive session?

Mr. ELLIS. I would like to go off the record in discussing this item.

Senator MAGNUSON. All right, but read your statement first.

EFFECT OF HOUSE ACTION

Mr. ELLIS. First, "Salaries and expenses." We urge full restoration of the \$5.5 million reduction of the House committee and recommend that the restrictive language imposing a ceiling of 303 civilian positions in the Washington, D.C., area be eliminated. The House elimination of all increases requested for 1962 has the effect of denying additional funds of \$1.3 million for our communications and warning programs and \$3.7 million for our public information and education programs. It also reduces our personnel staffing by 50 positions, most of which must be eliminated in the Washington area. All of these increases represent either full-year costs of expenses incurred for only part of 1961 or an expansion of current projects which have proven to be sound. The major item which has been denied is the increase of \$2.4 million for the adult education program on weapons effects and countermeasures which the Office of Education is conducting for OCDM. We feel that it is essential that this program be extended to 23 additional States and request restoration of funds for this purpose.

Now there are details on this in a letter submitted to you, sir, which amplifies each particular item which we mention there. Would it be appropriate now—

Senator MAGNUSON. Finish your statement there.

EMPLOYMENT IN THE WASHINGTON, D.C., AREA

Mr. ELLIS. The action of the House committee in inserting appropriation language placing an arbitrary ceiling on employment in the Washington, D.C., area is completely unacceptable. The President is currently studying the functions of nonmilitary defense with a view to reassigning them to the various departments of the Federal Government, thereby assuring that essential protective measures are carried out in the most economical and effective manner. He has indicated that the shelter program will be assigned to the Secretary of Defense. It is possible that other assignments may be made to other Federal agencies at the seat of government. The imposition of this arbitrary employment ceiling would deny the President the flexibility he needs to make the realignment he determines to be necessary for the best interests of the Nation.

Senator MAGNUSON. All right, that is the item of "Salaries and expenses." The reduction of the House is \$5,500,000.

Mr. ELLIS. Yes, sir.

Senator MAGNUSON. On the whole, total item. Now is this the matter you would like to discuss with us in executive session?

Mr. ELLIS. Well, sir, I could. However, sir, this is not the matter. I wanted to make another statement in executive session.

Senator MAGNUSON. All right. Let's stick right with this item. How many people are employed in your shop in Washington, D.C., now?

Mr. ELLIS. 344 at the present time.

Senator MAGNUSON. 344?

Mr. ELLIS. Yes, sir.

Senator MAGNUSON. What would the percentage be of your total employment?

Mr. ELLIS. Well, the total employment is 1,644. The ratio is 344 compared to 1,644, sir. That is a little over one-fifth.

Senator MAGNUSON. So that one-fifth of your people are employed in Washington, D.C.?

Mr. ELLIS. Yes, sir.

BATTLE CREEK PERSONNEL

Senator MAGNUSON. How many are employed in the Battle Creek area?

Mr. ELLIS. 652, and the balance of 648 are employed in the regions and other field activities throughout the Nation.

Senator MAGNUSON. Then how many are in Battle Creek?

Mr. ELLIS. 652, sir.

Senator MAGNUSON. So the spread is about one-fifth here and two-fifths in Battle Creek—

Mr. ELLIS. Right, sir.

Senator MAGNUSON. And I am speaking generally, the rest are spread around the country?

Mr. ELLIS. Yes. About two-fifths in the field, sir, in the various regions and other field activities.

Senator ELLENDER. Are all of those people fully paid by OCDM?

Mr. ELLIS. Yes, sir.

Senator ELLENDER. No part payment?

Mr. ELLIS. We do have participating personnel in the Public Law 85-606 program of matching funds, but that does not come into this area at all, sir. That was allowed in full by the House.

Senator MAGNUSON. Now these are people whom you pay directly?

Mr. ELLIS. Yes, sir; we do.

DELEGATE AGENCY PERSONNEL

Senator MAGNUSON. Now, how many people are employed throughout the Government; and you are paying their salaries in various departments?

Mr. ELLIS. These agency reports that have been submitted to this committee indicate just what their functions are, but in terms of prices—

Senator MAGNUSON. Does anyone have the number?

Mr. QUINDLEN. 364, Senator, for 1961, and a proposed 518 in 1962.

Senator MAGNUSON. These would be in the other departments of Government and you must reimburse these departments for jobs that have been assigned by OCDM.

Mr. QUINDLEN. Yes, sir.

Senator MAGNUSON. So actually you have 600 people working down here, 600 plus.

Mr. ELLIS. Except the other departments do not necessarily employ these people here in the Washington area.

Senator MAGNUSON. There is no breakdown on that?

Mr. ELLIS. I do not think we have it, but a breakdown can be put in the record.

Senator MAGNUSON. Well if there is a breakdown, put it in the record.

Mr. ELLIS. Yes, sir.

(The information referred to follows:)

Civil defense and defense mobilization functions of Federal agencies number of permanent positions

	Washington, D.C. (de- partmental)	Field activities	Total
Agriculture.....	5	23	28
Commerce.....	21	55	76
Federal Aviation Agency.....	12	13	25
Federal Communications Commission.....		1	1
Health, Education, and Welfare.....	134	103	237
Housing and Home Finance Agency.....	17	17	34
Interior.....	28	12	40
Interstate Commerce Commission.....	13		13
Labor.....	50	10	60
Post Office.....	1	1	2
Small Business Administration.....		1	1
Veterans' Administration.....		1	1
Total.....	281	237	518

EMPLOYMENT IN THE WASHINGTON, D.C., AREA

Senator MAGNUSON. And now the House limited you to 303 positions in the District of Columbia area. They did not break them down, but they said, and I quote from the report on page 3:

Such personnel is now over 50 in excess of the 303 specifically allowed by Congress for 1961.

Now, how do those 50 get down there in violation of the directive of the appropriation committee?

Mr. ELLIS. The predecessor organization cut them out, sir, but did not cut them out in the Washington area. They cut them out in the office in Battle Creek and in other field offices and did reduce the gross number of employees. However, they did not reduce the number in Washington.

Senator MAGNUSON. Yes, but the House says that there are 50 more people working here in Washington than authorized last year.

Mr. ELLIS. Although I am not trying to justify what was done by my predecessor, I am trying to say that the reduction was made, and he seemed to feel in conformity with the congressional direction by reducing the overall and not just the Washington area. And that is the part I want to go off the record on.

Senator MAGNUSON. So the House then said you have to limit yourself to 303.

Mr. ELLIS. With the reorganization under consideration, it is very definitely curtailing. We do not know in what particular area we will definitely need to make the cut. The cut could be made.

Senator MAGNUSON. The point we are making, Mr. Ellis, is that the House said you shall not employ over 303 people in the Washington office, and they also say that there are 353 down there now. Now we must respect the judgment of the House in this matter. We may not agree with it, but they, in effect, suggest that you either spread out or that you let go 50 people.

Mr. ELLIS. We may be glad to let the 50 people go, sir, and I think that might be done provided we have the right to let them go either in the field or in the Battle Creek office.

Senator MAGNUSON. I see. In other words, the House language does not give you, as I understand it, flexibility to do a job on the overall employment.

Mr. ELLIS. Yes, sir. I could answer that easily, off the record, if I could.

BUILDUP OF WASHINGTON PERSONNEL

Senator ALLOTT. Let's go into that a little bit further. We have had a running battle with the House on this matter.

Senator MAGNUSON. Oh, yes.

Senator ALLOTT. And I think it has been the attitude of this committee as well. There is great danger this organization is building up a tremendous personnel here in Washington when the job that needs to be done is around the country. Now, I must say that this is generally my view, also.

Mr. ELLIS. I would agree.

Senator ALLOTT. So we have the problem of trying to keep this down and keep the 50 out in the country where they are needed.

Mr. ELLIS. This overall problem of the OCDM organization is a very serious one. Administratively, it has not functioned with the greatest degree of effectiveness it should. At the time the organization was divided it was a time when the danger of attack by man-operated aircraft on the shore of this country made a division of these offices seem essential, and consequently they were split and part put in Battle Creek. Obviously, there are overlapping functions, and probably in a great many instances inefficiency has resulted from that division.

Now I would certainly agree, Senator, and I would like to see the offices in the field—and there are eight regions, roughly, coextensive as to periphery with the Army regions—expanded so that we can get greater contact at the lower echelons of Government in bringing about cooperation in this movement, and pyramiding it from that lower echelon up to the top. We are very much in favor of that.

PUBLIC APATHY TOWARD CIVIL DEFENSE

Senator ALLOTT. Mr. Ellis, I have not noticed anything in your statement, and perhaps it is there later, but so far in your statement you have avoided what is the No. 1 problem in Civil Defense in my opinion, and this No. 1 problem, which we have discussed in the past with your predecessor innumerable times, is that the American people are not in support of the Civil Defense program. Now, no matter what we do, until we can enlist the intelligent coopera-

tion of the American people, your Civil Defense program cannot be superimposed from the top. Now, have you covered this later in your statement?

Mr. ELLIS. I could say I will cover it right now if I may.

Senator ALLOTT. All right.

Mr. ELLIS. I would like to make this oral statement. I would like to say that I could not agree with you more wholly that there has not been general public acceptance. There has been, however, the sum of probably 6½ to 7 million people in America who in one way or another have participated in various activities of Civil Defense. Those people, if they could be stimulated to act, would be probably a more formidable group in times of emergency than we could ever get in any other way. I tried, as I came into this office, to begin to give it a new profile, to give it a great moral effect, to try to do as suggested by Governor Anderson, Governor Rockefeller, and Governor McNichols, who met with the President on these things. What we need to do is strengthen the national will, because our national will is rapidly disintegrating. And it is a very, very dangerous thing for the Nation. It could lead ultimately, not now, but ultimately, to the philosophy that it is better to be "red than dead," a very dangerous philosophy that confronts this country today. Therefore, since I have been in this position, our mail has become four times as great as it was, our telephone volume is six to seven times as great, and we are beginning a revival of national will in this movement.

CIVIL DEFENSE LABELED PROVOCATIVE

But let me say in justification for past administrations, that they tried to help this movement. But the old Dulles philosophy was that it was provocative, and the Eisenhower administration apparently bought that philosophy and consequently there was no Federal leadership—

Senator ALLOTT. Wait a minute. We have fought for these appropriations too long and too hard for me to accept any such statement that the Dulles policy was provocative. I do not want to insert extraneous things here, but I cannot accept that. I cannot accept the proposition that the Eisenhower administration ignored this because Congress has constantly kept these things down.

The reason I inject this matter here at this time, and it is not extraneous to what you are discussing, which is salaries, is this, that you cannot create a civil defense just by creating an organization. You have to solicit and get the intelligent, active cooperation of the people. Now I am not new to this.

Mr. ELLIS. I understand that, sir.

Senator ALLOTT. I was on my own State's civil defense board back in the early 1950's, so it is not a new thing to me. I know how it works at the grassroots. And the reason I raise this in connection with the salaries is, and I think it is a direct thing, it has a direct relationship to what we are talking about. You cannot do this simply by adding salaries and by adding people.

Mr. ELLIS. No, sir; you certainly cannot. But I want to say this to clear the situation completely for once. Had it not been for this committee, had it not been for the thought and consideration this

committee has given to the defense movement in this Nation, I do not know where it would be today, sir.

Senator ALLOTT. Well, it would not be.

COMMITTEE ACTION ON MATCHING FUND

Mr. ELLIS. It would not be, sir; that is absolutely correct. When this committee came forward and went along with the matching fund program, we then began to get a higher type of personnel, and more active interest taken at the State and county levels through that program. And this committee was directly responsible for making that available. And I cannot commend this committee too greatly for the interest that you have taken, sir.

However, there was lack of national leadership, primarily in the executive department. There was no effort, for instance, when a tremendous State Department Building was built here, to place a fallout shelter in that building. Nothing was done in Federal buildings to set an example.

Senator ALLOTT. I do not think that State Department Building was completed under the last administration, was it?

Mr. ELLIS. It is being completed now.

Senator ALLOTT. You mean the new one?

EXAMPLE OF FEDERAL GOVERNMENT

Mr. ELLIS. And frankly, we cannot expect the people at the grass roots of whom we speak, who have to be stimulated, to become interested unless the Federal Government likewise sets the example.

Senator ALLOTT. This question always has been discussed at great length in this committee, and there are some of us who felt that every building in the city of Washington should have protection. And I think the chairman could speak at great length on that.

Mr. ELLIS. We have been meeting with the Washington officials on this transit plan, underground subways, hoping that something could be developed in that area, as was done in the Soviet Union. The subways there are protected both from fallout and from blast, sir.

Senator MAGNUSON. Well now, we have lost our 50 extra people. What are you going to do with them? Are you going to keep them here, or are you going to move them out, or what is the plan?

Mr. ELLIS. Again, since this matter is being considered by the Director of the Budget, with very capable assistance from the McKinsey Co., who are great experts in the field of Government organization, I would like to go off the record and tell you what is going to happen.

Senator MAGNUSON. All right. We will go into executive session.

(Whereupon, at 10:40 a.m., the subcommittee recessed for executive session until 11:05 a.m.)

CIVIL DEFENSE AND DEFENSE MOBILIZATION FUNCTIONS OF FEDERAL AGENCY

Senator MAGNUSON. All right, the next item is "Civil defense and defense mobilization functions for Federal agencies."

Now, maybe I can help simplify this. The OCDM delegates to different departments of the Government certain projects in the field of civilian defense for which OCDM reimburses these agencies.

The agencies have submitted statements and let's take them one by one.

The House cut this appropriation \$2,100,000 and this, as you say, would force the cancellation of plans to expand several key programs being conducted by these agencies. Now, let's take them one by one because this has been a sore spot between the House and the Senate, too, in our conferences.

DEPARTMENT OF AGRICULTURE

I have here first the Department of Agriculture.

Mr. ELLIS. Mr. Quindlen is here and has followed this very closely. Senator MAGNUSON. What is the Department of Agriculture doing in the field of civilian defense?

Mr. QUINDLEN. Sir, the principal function of the Department of Agriculture under the delegation from the Director of the Office of Civil and Defense Mobilization is food planning, the management of food supplies in an emergency, to be prepared, regardless of the nature of the attack, to feed the American people after an attack. And also the Department of Agriculture is performing a function in the Federal monitoring network. Each agency is assigned responsibility in its field offices to have a certain number of trained monitors who will be part of the Federal network for radiological monitoring.

Senator MAGNUSON. What does the Department of Agriculture have to do with monitoring?

Mr. QUINDLEN. Sir, when offices are already established, for example, Federal Aviation, the Weather Bureau, Agriculture, instead of trying to establish new stations you merely put monitoring equipment and train people who are already in the field to work as a part of a Federal network.

Senator ALLOTT. May I ask a question?

Senator MAGNUSON. Yes.

QUESTION OF DUPLICATION

Senator ALLOTT. You sort of lost me. Does this duplicate the monitoring of radiological activity that is carried on in other departments of Mr. Ellis' Department here?

Mr. QUINDLEN. No, sir; we have a Federal plan for a Federal monitoring network and a State and local monitoring network. In the Federal monitoring network we place instruments and train the people, who are already employed by the Federal Government and have other functions, to be able to monitor in an emergency.

Senator MAGNUSON. Monitor what?

Mr. QUINDLEN. Monitor radioactive fallout, sir.

Senator MAGNUSON. Why would the Department of Agriculture do it?

Mr. QUINDLEN. Solely because they have Federal installations in the field.

LOCATION OF AGRICULTURAL INSTALLATIONS

Senator MAGNUSON. But they are not Department of Agriculture installations, are they?

Mr. QUINDLEN. Yes, sir. Just offices, such as the Forest Service, where people are already stationed and it is merely necessary to train

existing Federal employees to know how to monitor fallout. After all, for them to move, for them to know when they can do their work after an attack, they should also be able to monitor. They should also be able to phone reports in of the monitoring situation, or get them in by radio, just as would happen today, for example, under a tornado warning. People who are at a certain place will carry out a Federal function of monitoring.

Senator MAGNUSON. Where are these people? That is what I am trying to figure out.

Mr. QUINDLEN. Sir, in the Department of Agriculture offices throughout the country, at every level—

Senator MAGNUSON. Yes, but there is an FAA office in the same place, there is a Defense Department office in the same place—

Mr. QUINDLEN. Sir, there are various offices which provide this radiological monitoring—the FAA installations at airports, Weather Bureau offices, and so on. These people at FAA installations are trained as monitors for 24-hour-a-day coverage. The Weather Bureau people at the weather observatories are trained also to be monitors as a secondary duty. Places where there is not this coverage, where there are other Federal installations, these people, too, will be trained in order to give nationwide radiological monitoring coverage in a Federal network. The Forestry Service is another example where you would have offices—

Senator MAGNUSON. Where you have shortwave radio frequency?

Mr. QUINDLEN. In most places, landlines and in some cases radio.

Senator MAGNUSON. All right.

RADIOLOGICAL CONTENT OF WHEAT

Senator ALLOTT. May I ask you in this connection, you were instituting a research program on the radiological content of wheat, do you know anything about this? That is the Department of Agriculture.

Mr. GERALD GALLAGHER. The Department of Agriculture, sir, is doing that work currently for their own purposes, too. This is the kind of work that we encourage and associate ourselves with. We use the results of their work.

Senator ALLOTT. Do you know where that research project is?

Mr. GERALD GALLAGHER. I think Beltsville is doing it.

Senator ALLOTT. I mean, where are we? It has been going on for about a year now.

Mr. GERALD GALLAGHER. We have had no late reports. I believe it is agreed significant progress is being made.

Senator ALLOTT. Could you see that I am informed as to the progress that has been made on that?

Mr. GERALD GALLAGHER. Yes, sir.

FOOD MANAGEMENT PLANNING

Senator MAGNUSON. All right, then you have food management planning. Last year you got \$31,000 and this year you want \$140,000. What is the extra amount for?

Mr. QUINDLEN. Primarily to increase the number of food planning-people in the field who will advise our regional offices as well as industry and State offices on regional food planning.

Senator MAGNUSON. Well, let's get this down to a simple example. Let's take the State of Colorado, or the State of Washington or Louisiana. You are going to hire someone for food management planning. Where is he going to be located, what is he going to plan?

Mr. QUINDLEN. Sir, he will plan with respect to our eight regions for the particular region.

Senator MAGNUSON. What does he know that you do not know now? You know how many bushels of wheat you have, how much meat is in the area. What is he going to do that you do not know now?

Mr. QUINDLEN. The information is available in different places. The local planning is a question of determining how you would best meet the needs, for example, of the Southwest, or of the Southeast under different attack conditions. Certainly most of our studies show that there would be enough food, but the problem of the relationship of the food to the people after an attack is one of the principal problems; how you get the food to people, the types of food, how you use the unprocessed food, if you can use it, how you use the Commodity Credit Corporation storage of food and how you get it to where the people would probably need it.

Senator MAGNUSON. You have all that information now?

Mr. QUINDLEN. Sir, not in the form in which it has to be—

Senator MAGNUSON. And if you are talking about transportation, you are going to have to go down to the ICC to do that.

Mr. QUINDLEN. Yes, sir; and Agriculture has to work with the ICC in its food planning.

Senator MAGNUSON. You do not need any extra people to tell the ICC "We have X number of bushels of rice stored in Louisiana." They know where it is, and it is a question of how you get a truck or a train or something there to move it out. Why do you need people here to tell them that?

Mr. QUINDLEN. Sir, you need people in the field to write the plan for the particular region. In our region V, for example, which includes Louisiana, you would need to know what the food problem would be in region V and how specifically to take care of it. Not generally how we would do it, but from the points from which you would move food.

REGIONAL PERSONNEL

Senator MAGNUSON. How many people would you employ in this, one in each region?

Mr. QUINDLEN. Yes, sir. There would be one for each of our eight regional offices.

Senator MAGNUSON. Well now, a man goes down to Louisiana, or Baton Rouge, or Fort Smith, Ark., or some place down there and it takes him about 1 week to figure out where everything is. What does he do the rest of the time?

Mr. QUINDLEN. Senator, I do not have additional detail on this.

Mr. HEFFELFINGER. Senator, Mr. Quindlen is with OCDM. We did not ask the delegate agency representatives to be present. We can ask them to come.

Senator MAGNUSON. You'd better put in the record what these fellows do. I do not know what they can do after they find out where everything is. We know that anyway. We can pick up a

telephone right now and in 5 minutes find out where everything is. The real problem is transportation, how to get it to different places.

Mr. ELLIS. There is constant planning going on between us and the Department of Agriculture, but we feel it is still in the very formative stage. This is necessary. There is planning going on all the time in these areas of food, as to what we are going to do with the existing supplies.

Senator MAGNUSON. What I am saying is, we have all this information now, we know where everything is, we know where it will be a year from now or where it won't be, and the function of the defense transportation group in ICC is, of course, the most important one.

Mr. ELLIS. We could have Agriculture here at 1 o'clock.

Senator MAGNUSON. They have a statement here.

Senator ALLOTT. They have a statement.

Senator MAGNUSON. But it does not give too much detail; it is kind of vague.

TRAINING PROCEDURE

Senator ALLOTT. Mr. Chairman, on page 3 the statement defines three things they are supposed to do, which sounds like so much gobble-dy-gook to me. It is chiefly the use and distribution and training men. And the three are practically the same, as I see it.

Mr. ELLIS. That program, Mr. Allott, I am a little familiar with. I am responsible for taking rural training away from our own organization and giving it to Agriculture. They take these training manuals and agricultural radiological kits and go out in the rural areas. And there has been terrific response among the agriculture people in the rural areas to this training procedure. It is a form of training as to what to do and how to do it. And it is not just done by sending a manual, it is done by personal contact. And we are beginning to get wide distribution on these manuals.

Senator MAGNUSON. Bring the manuals up here and we will take a look at them.

Mr. ELLIS. I would be glad to.

Senator MAGNUSON. But the real problem if something happens with food is the transportation.

Mr. ELLIS. I would say transportation is a vital consideration.

Senator MAGNUSON. We know where all the food is, we know where it will be 5 years from now and where it won't be. Or else the Department of Agriculture is getting too much money to catalog and classify and analyze and evaluate all these things.

MANUAL DISTRIBUTION

Senator ELLENDER. Is the distribution of these manuals made by people, let's say, engaged in the Extension Service?

Mr. QUINDLEN. Yes, sir; by the various parts of the Department of Agriculture to the food industry, for example.

Senator ELLENDER. Well, the personnel that are paid on a reimbursable basis, do they work with the Extension Service and with other people?

Mr. QUINDLEN. Yes, sir. Some of them are in the Extension Service, some are in the Office of the Secretary, some are in the field offices.

Senator ELLENDER. Now, these funds are not used to augment the payment to the Extension Service people, but only to the one who supervises and sees that that is carried out?

Mr. QUINDLEN. Just to those who are working full time in the Civil Defense program.

Senator ELLENDER. How many are there working full time?

Mr. QUINDLEN. In the Department of Agriculture—

Senator ELLENDER. I am talking about altogether now.

Mr. QUINDLEN. Eighteen in the Department of Agriculture.

Senator ELLENDER. Eighteen. An how much are we providing on a reimbursable basis altogether?

Mr. QUINDLEN. These are just those for which we are providing reimbursement, sir—just the 18.

FUNDS REQUESTED

Senator ELLENDER. I see. How much will you be allotted from the funds of the OCDM?

Senator MAGNUSON. \$440,000 they want for this program.

Senator ELLENDER. That is the point I want to make.

Mr. QUINDLEN. Yes, sir. And there will be 28 positions under this \$440,000. And at the present time 18 positions for \$298,000.

Senator ELLENDER. \$440,000.

Senator MAGNUSON. Where are the 18 scattered?

Mr. QUINDLEN. Sixteen in the field and two in Washington.

Senator MAGNUSON. They are analyzing the food problem in Washington?

Mr. QUINDLEN. They also have an assignment, Senator, to include the effect of biological and chemical agents on animals and crops.

Senator MAGNUSON. Well the Department has this big research that they are doing now. Otherwise we have been appropriating them hundreds of thousands of dollars every year for this sort of thing for nothing. I can go in my office and pick up the phone and get anything you want.

AGRICULTURAL RESEARCH

Mr. QUINDLEN. Sir, the purpose of these funds is to assure that specific attention will be given to the Civil Defense aspects of chemical and biological effects on animals and crops.

Senator MAGNUSON. That is just information for them that you can get at your fingertips.

Mr. QUINDLEN. No, sir; it includes some research, it includes planning of what you do; how you decontaminate, if you can, certain types of fields; the effects on given crops; as to whether under certain fallout conditions certain growing crops can be used.

Senator MAGNUSON. The Bureau of Standards does this, the research department of Agriculture does it, the National Science Foundation has grants to do it, and now you have 18 people doing it down at Agriculture.

Mr. QUINDLEN. Sir, with respect to food, this is specifically a function which has been assigned to Agriculture, both with respect to crops and with respect to animals.

Senator MAGNUSON. Well, we will go on now. You have research on food for shelters. Now that is cut out this year. But you have

mainly added to food management planning and to radiological defense training in the Department of Agriculture.

Mr. QUINDLEN. Yes, sir. In their field offices as they exist throughout the country, sir.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

RADIOLOGICAL MONITORING

Mr. QUINDLEN. Senator, I do not think I have made the principle of this clear. New people are not added to be trained. These are people who are in field offices throughout the country. Since they are there, the purpose is to use Federal employees who are already on the payroll to do radiological monitoring, and these costs are the costs of training these people. Now a total of 1,900 stations is planned for the Department of Agriculture. Agriculture is manning at the present time about 1,100 stations. Since the Federal personnel are there, our purpose is to train them in radiological monitoring so that the base, across the country, of the radiological problem can be as broad as possible.

Senator MAGNUSON. Well it is pretty broad right now. We have the same thing in the Weather Bureau, and we have the same in NIH. We have all these duplications. We have 28 in Agriculture, 76 in the Department of Commerce, 25 in the Federal Aviation Agency, 237 in the Department of Health, Education, and Welfare, 36 in Housing and Home Finance. Now they are making all these studies about fallout. There are 40 in the Department of Interior, 13 in Interstate Commerce—and the real problem is transportation when you get in trouble—60 in the Department of Labor, and we even have 1 in the Small Business Administration.

Mr. ELLIS. We hope that some day we will have several million of these monitors throughout the Nation, and we are trying now to resolve mass production techniques and the distribution of instruments to the point they will be available to people all over the country and everyone will know how to use them. I think it is very essential.

DEPARTMENT OF COMMERCE

Mr. QUINDLEN. Senator, to take the Department of Commerce for an example—

Senator MAGNUSON. I am coming to that. Let's get down to that. There is \$2,780,000 for assignment to the Department of Commerce to accomplish its mobilization in nonmilitary defense assignments during fiscal year 1962. This is an increase of \$94,000 over funds available last year. The House committee disallowed any increase. Now \$194,000 was cut out.

Mr. QUINDLEN. Yes, sir.

INCREASE REQUESTED

Senator MAGNUSON. And the increase requested from the office of the Secretary consists of two items, \$30,000 for two positions in related other expenses in the regional force, and \$3,000 for travel expenses.

Five bureaus of the Department of Commerce have assigned to them the execution of important national emergency planning and program responsibilities. A department representative and a secretary were planned for assignment at each of the regional headquarters as a counterpart to the emergency planning coordination provided at the departmental headquarters.

Now what do these people do?

WORK OF PERSONNEL IN COMMERCE

Mr. QUINDLEN. Sir, they represent the Secretary of Commerce in the field in coordinating the defense activities of the Department of Commerce, the Defense Service Administration, the Bureau of the Census, DATA, the Maritime Administration, and the Weather Bureau. And in addition the Weather Bureau provides the entire weather service for civil defense, and have Weather Bureau specialists who are particularly trained assigned to our regional offices to the Battle Creek installation and to our classified location.

CENUS BUREAU

Senator MAGNUSON. What does the Bureau of Census have to do with this? What do they do?

Mr. QUINDLEN. Sir, the Bureau of Census provides statistical reports to the resource evaluation center at our classified location. This is the center which will be the primary source of information after an attack on the effects of enemy attack and the resources of the country, particularly in terms of what is left.

Senator MAGNUSON. Then you have Business and Defense Service Administration. What does that do?

Mr. QUINDLEN. Primarily it is a question of providing a field person for each OCDM region for work with business and industry on the question of preparation for emergency conditions.

Senator MAGNUSON. To go into a plant, for instance?

Mr. QUINDLEN. Yes, sir, and working with the State civil defense director in his relationships with business and industry within his State.

Senator MAGNUSON. Do you have one in each State?

Mr. QUINDLEN. No, sir. There will be one of the BDSA representatives in each region. There are eight throughout the country.

Senator MAGNUSON. Eight regions?

Mr. QUINDLEN. Yes, sir.

Senator MAGNUSON. And the Maritime Administration. I think the committee can understand that. Of course that function is directly important.

Mr. QUINDLEN. Yes, sir.

Senator MAGNUSON. And the Weather Bureau also.

Mr. QUINDLEN. Yes, sir.

FEDERAL AVIATION AGENCY

Senator MAGNUSON. Now you have Federal Aviation Agency. We will put that statement in in full. I think we can understand the importance of that.

HEALTH, EDUCATION, AND WELFARE

Then the Department of Health, Education, and Welfare. They have 237,000. Is there an increase in that particular item?

Mr. QUINDLEN. Yes, sir. There is an increase of \$910,000 in HEW to provide particularly for—

Senator MAGNUSON. By that I mean an increase over last year's budget?

Mr. QUINDLEN. Yes, sir. Dr. Porterfield is here.

Senator MAGNUSON. Do they work with the schools?

Mr. QUINDLEN. Yes, sir. The Office of Education works with the State departments of education and with the schools.

There is an item in here for stockpile management—the medical stockpile has been delegated to the Department of Health, Education, and Welfare. Emergency health training is included. There is an increase of \$160,000. Assignment of medical officers to HEW regional offices for medical planning is specifically included.

Senator MAGNUSON. Now we come to housing and home finance.

FOOD AND DRUG ACTIVITIES

Senator ALLOTT. May I interrupt there?

Here on page 6 of the statement of HEW, we come right down to research program designed to determine the vulnerability of wholesale packages of foods and drugs to biological agents introduced during overt and covert enemy attacks and the development of simple decontamination procedures. So we get down to the end of the paragraph and it says "as a result of chemical, biological or nuclear attack." So we are going right back over the same road we were discussing a while ago.

Mr. ELLIS. Perhaps we should have Dr. Porterfield from HEW say a word on this.

Dr. PORTERFIELD. Senator, I am Dr. Porterfield.

You brought attention to the item in HEW delegation that has to do with food and drug activities in the research on the packaging and its effect in protection against biological, chemical, and radiological warfare, Mr. Shelby Grey is here from the Food and Drug Administration. He has been supervising this work and can explain this.

Mr. GREY. Mr. Chairman, I am Shelby Grey from the Food and Drug Administration.

The difference, Mr. Chairman, between the work the Food and Drug Administration does in this particular field, as compared with Agriculture, is that our work is involved in packaged foods and drugs to determine their vulnerability to the possibility of a contaminating agent being used in our food and drugs, introduced either overtly or covertly. And the purpose of this type of work is to determine the types of agents that the enemy might use, their penetration, their persistence, decontamination procedures of the foods that will reside in a warehouse or in transit, or in the manufacturing establishment as distinguished from crops and animals in the field.

Senator MAGNUSON. What do you mean, enemy agent going in and opening up the cans?

Mr. GREY. Well, several years ago the Food and Drug Administration thought this was an important enough area that we appointed an advisory committee composed of outstanding technologists in the

country operating under the chairmanship of Dr. Roy Newton, with Swift & Co. at that time, and as a result of the study made by this committee we found for all practical purposes the food manufacturing industry is pretty open to the possibility of sabotage by an enemy agent using our food as the weapon rather than bombs and bullets. So this research is a direct recommendation of that committee, and it is designed to determine the ways by which any saboteur might enter our food establishment plants, our distribution channels, our warehouses and covertly introduce biological or chemical agents into our food supply, using the food as the weapon. And this research is to determine the types of agents that might be used, their persistence in the food, their penetration, and decontamination procedures to render that food acceptable in time of emergency for use.

Senator MAGNUSON. How many people do you have doing that now?

Mr. GREY. Two.

Senator MAGNUSON. Two?

Mr. GREY. Yes, sir.

Senator MAGNUSON. Have they found out how to do it?

Mr. GREY. Well, they are making progress on it. It is a rather sizable task for two bacteriologists to determine that.

Senator MAGNUSON. They are working mostly with the FBI, I suppose?

Mr. GREY. No, sir; we are working more closely with Fort Detrick, Army Chemical Service. We work of course, with the FBI which—

Senator MAGNUSON. I was going to say, this is a question of a person going in and doing something in, say, a packaging plant?

Mr. GREY. Yes, sir.

Senator MAGNUSON. Well, do you need to have any research on that? You just keep them out.

Mr. GREY. No, sir; we do not need research on that. We need research on the type of agent he might use.

Senator MAGNUSON. You know the type of agent he might use.

Mr. GREY. We know some of them, yes, but we do not know all of the routes by which he might introduce them. We do not know their persistence, we do not know all of the decontamination that we need to know.

HOUSING AND HOME FINANCE

Senator MAGNUSON. All right. Now Housing and Home Finance. Did the House cut you there? Who can speak there?

Mr. ELLIS. The House cut \$140,000, sir.

Mr. QUINDLEN. It would have to be a reduction. There was not a specific cut, Senator. There would have to be a reduction in the additional amounts requested by Housing and Home Finance, which was to add four field people, additional field people, to assist our OCDM regional offices and to complete eight Housing and Home Finance representatives for the eight regional offices.

Senator MAGNUSON. What are they going to find out?

Mr. QUINDLEN. They are responsible to our regional offices for planning for emergency housing of people after an attack, to work with the State civil defense director, with the different departments in State government, so that plans for emergency housing would be ready.

Senator MAGNUSON. How long does it take them to make those plans? Why is this a continuing thing after they are once made?

Now you go into a given area and know right away what plans you can have for emergency housing. Why do you have to have someone—

Mr. QUINDLEN. Sir, in a small area this takes a relatively small time, but these people have not yet been assigned to do this job. This planning has not been done. The Housing and Home Finance people have not yet been assigned. The request is to provide four people to fill these jobs.

Senator MAGNUSON. Well I am going to recommend to cut them out. Because our local people know exactly where they can put people if something happens. The Chief of the Fire Department knows that. I do not know why they have to have a permanent job for a man to sit there.

FEDERAL PLANNING

Mr. QUINDLEN. Sir, the local people know present day housing problems, but if the housing is destroyed, there needs to be some Federal planning to provide housing.

Senator MAGNUSON. You have a plan. We have a Federal plan. We have been giving them money for 10 years for a plan down at Housing and Home Finance. I do not know why a man has to sit in an office with the plan all made out. What does he do 10 months out of the year?

Mr. QUINDLEN. Sir, I cannot speak in detail to this job.

Senator MAGNUSON. I know it is not yours. Here you have a damage assessment representative.

Mr. QUINDLEN. Yes, sir. Now, this is the person assigned as the expert on housing to the national resource evaluation center which is responsible for being able to analyze now, based on planning, after an attack, the housing situation throughout the country. This is one man who contributes full time to a national resource evaluation center, the only place in the United States where today, on a planning basis, or in an emergency, the specific effects of an attack can be measured.

Senator ALLOTT. There is a duplication of exactly what your State organizations are doing anyway?

Mr. QUINDLEN. No, sir. This is the national function of analyzing the national effects of an attack.

Senator MAGNUSON. What does he do before the attack happens, just sit there?

Mr. QUINDLEN. No, sir. He is employed full time at the center in connection with studies of the effect of various attacks and the plans necessary to meet them.

Senator MAGNUSON. No, he is assessing the damage. This is after the damage happens.

STUDIES OF POSSIBLE DAMAGE

Mr. QUINDLEN. Sir, there are day-to-day studies of the damage which might take place under various attacks. There are planning studies going on right now as to what the effects of an attack, for example, might be in 1965, what it might be the next year, what the increasing—

Senator MAGNUSON. What effects?

Mr. QUINDLEN. The effects on housing, the effects on people, the effects on medical supplies.

Senator MAGNUSON. We know, I think we know, what the effects will be. It depends on how big and where it hits. So we have done that.

Mr. QUINDLEN. But, sir, this is not a static thing. Because of the nature of the defense, and the nature of the offense, this is a changing thing.

Senator MAGNUSON. Then he is going to have to know much more about it than we do up here.

Mr. QUINDLEN. Certainly certain assumptions have to be made.

Senator MAGNUSON. I mean the nature of the offense. We do not know yet the nature of the offense. How can he plan?

Mr. QUINDLEN. Based on the intelligence estimates which are provided to the National Resource Evaluation Center. There are estimates of these things made.

Senator MAGNUSON. Well, I think the county assessor would know what the damage evaluation will be quicker than he would.

Mr. QUINDLEN. Sir, there is no better—

Senator MAGNUSON. You have one man for emergency housing and we understand that.

Mr. QUINDLEN. Yes, sir.

Senator MAGNUSON. Now you have a man who is going to provide field training for damage assessment specialists.

Mr. QUINDLEN. Yes, sir.

Senator MAGNUSON. For the Government?

Mr. QUINDLEN. For the Government, yes, sir.

Senator MAGNUSON. We know what the value of our property is, and when something happens we know how much it is damaged.

Mr. QUINDLEN. Sir, one of the major problems if an attack came today would be trying to determine on a national basis what has happened—what specifically has happened. First of all, there is the question of setting up the provision for reports to come in from all over the country. The question of assessing by computer methods what the effect of a specific attack has been in terms of the medical industry, for example. Has 80 percent of it been destroyed or has 20 percent been destroyed? It makes a big difference in the actions which the Federal Government will take.

Senator MAGNUSON. I will tell you, I think Associated Press and the United Press International will tell you that faster than this man, what was destroyed and what was not.

Mr. QUINDLEN. Sir, they might know that a weapon detonated in some general area, but the specific effects they will not know.

Senator MAGNUSON. What is this man's name?

Mr. QUINDLEN. The HHFA man?

Senator MAGNUSON. Yes.

Mr. QUINDLEN. Do you happen to know, Mr. Gallagher?

Mr. GERALD GALLAGHER. I do not have his name; no, sir.

Senator MAGNUSON. Well, they will be up here this week sometime and we will ask him what he does.

DEPARTMENT OF THE INTERIOR

Now, you have Department of the Interior here. They have 40 people. Were they cut by the House?

Mr. QUINDLEN. Sir, these were not specific cuts. That is, it was a total cut.

Senator MAGNUSON. The House cut was overall?

Mr. QUINDLEN. Yes, sir. And these decreases are based on approximately the present year's—

Senator MAGNUSON. Now, the responsibilities you have assigned to the Department of the Interior include the problem of electric power, petroleum and gas, solid fuels, metals and minerals, and so on and so forth, and the production and processing of fishery products?

Mr. QUINDLEN. Yes, sir.

Senator MAGNUSON. Now I thought the Food and Drug department was in there, and Interior is in the act, too.

Mr. QUINDLEN. Senator, in this emergency planning we take Government organization structure as we find it and there are, of course, many functions spread throughout the Government on all of these various subjects.

Senator MAGNUSON. I can understand the importance of this, but it seems to me a man could go down and do this job and it would be done. Bonneville Power, for instance, knows exactly what they can do in an emergency. Southeastern Power Administration knows what they can do. The private power people hire the association and they know what they can do or what they cannot do. Why do we have to have a man, and what does he do after he decides it?

Mr. QUINDLEN. Sir, there will be a time, if we get these people on the roll to do the job which needs to be done. Many of them have not been on the rolls yet. Someday the job certainly will be a normal, regular part of Government activity. It is not now. The electric power industry is not prepared to meet the effects of an attack, nor the oil industry, nor the gas industry. And it is our purpose through the Government departments which normally do business with them to get them prepared. And that is why this—

PROBLEM OF INTERESTING INDUSTRY

Senator MAGNUSON. I can understand someone down at Interior making an evaluation of, say, the electric power potential for assessment of the program in case of emergency. However, once he has done that, I do not know why you have to have a full-time man sitting there.

Mr. QUINDLEN. Sir, there has to be the selling of this—

Senator MAGNUSON. He can take 1 afternoon a month and bring it up to date?

Mr. QUINDLEN. But there has to be the program of selling to the industry the preparedness measures which are necessary for that industry to meet to the best extent an emergency situation.

Senator MAGNUSON. How does he sell? What does he do, take a trip with the head of City Service or something, and have lunch with the president, and talk about it?

Mr. QUINDLEN. Sir, he develops manuals and training materials; he holds conferences; he advises our OCDM regional offices on their planning with industry in the regions.

Senator ALLOTT. How can a man do this? Let's be practical. Take Bonneville. What you do is going to depend entirely upon what damage is done to Bonneville at the time, and there is no one

who can preplan that better than the people who are presently in charge of Bonneville.

Senator MAGNUSON. Right.

Senator ALLOTT. And the same thing will be applicable to Glen Canyon. I know the electrical system in my own State pretty well, both public and private, and I do not know of anyone who can do it. And it is going to depend entirely on what they do at that time. For example, if you get a disruption of the CIG gaslines coming into Colorado, it is going to take specific things to repair those, and I do not know of anyone who is better qualified than CIG.

Mr. QUINDLEN. No, sir, but at the same time you have the same situation happening in every State. There is a Federal responsibility; the need for a Federal plan; for Federal advice as to what is done nationally.

Senator ALLOTT. How can there be a Federal plan when you do not know whether you are going to get a breaking of a 6-inch gasline here or the disruption of five 20-inch gaslines?

Mr. QUINDLEN. Sir, you have to be ready for a broad range of circumstances. The alternative is that you cannot do specific planning.

Senator MAGNUSON. But this man, whoever he is, he can have that plan there and get it done, I would say, 1 day a week. Why do you have to have a full-time man for this?

Mr. QUINDLEN. Sir, I cannot testify to the details of this job.

Senator MAGNUSON. All right, we will go on and won't belabor this point.

INTERSTATE COMMERCE COMMISSION

You have Interstate Commerce Commission. That is one the committee can understand because transportation is something that has to be looked at every month, as to the new lines, the new methods of transportation, the new number of trucks, the new highways, and everything else. But even there they have had someone down there working a long time. I asked them the other day what the plan was, and it was just the same as 5 years ago. I do not know what he has been doing for 5 years. Now, if he is working, doing some other work and he just does this also, that is one thing and I can understand that.

DEPARTMENT OF LABOR

Then we have the Department of Labor, and we will put that in the record in full.

SMALL BUSINESS ADMINISTRATION

Now, what does the Small Business Administrator do?

Mr. QUINDLEN. There is one position provided there which is the Small Business representative to the National Resource Evaluation Center. Each principal agency which is concerned with a given area of resource or a given area of statistics (as the Small Business Administrator is with respect to small business) has a representative at the National Resource Evaluation Center. This is true also of the Veterans' Administration and of the Post Office.

Senator MAGNUSON. The Post Office has representation there?

Mr. QUINDLEN. At the National Resource Evaluation Center; yes, sir.

Senator MAGNUSON. What does he do, the small businessman, specifically?

Mr. QUINDLEN. Sir, he participates as a member of this resource evaluation staff at the center, represents the Small Business Administrator and provides the up-to-date data regarding small business and the effect of an attack on small business. Sir, this is a way of providing a staff at this National Resource Evaluation Center which has knowledge of the various activities of Government. The staff could be from one segment. As a matter of fact, we felt we got a better cross section of Government agencies by having each agency furnish a representative there.

FUNCTION OF PERSONNEL IN SMALL BUSINESS

Senator MAGNUSON. What do these people do? You can figure out in 5 minutes the effects of an attack on small business.

Mr. QUINDLEN. Sir, he participates also as a member of the resource evaluation staff for many different purposes, in assessing damage, both before and after an attack—the planning concerning the extent of damage in the United States goes on from day to day at this center. They have continuing studies going on regarding the effects of various attacks. The military, for example, will run a series of attacks under given circumstances of offense and defense. These people will participate in this attack in terms of how would the Nation stand after this particular attack. There are special studies done for the National Security Council. There are special studies done for the Department of Defense, and special studies done for OCDM.

Senator MAGNUSON. Well I still do not know what small business has to do with it. The Department of Commerce is going to evaluate the economy of this thing. What is small business, which is a loan agency, going to do?

Mr. QUINDLEN. Sir, they are the principal experts in the Government on the number of small businesses and where they are.

Senator MAGNUSON. You have all of those figures. You do not have to have a man up there 12 months out of the year for that.

Mr. QUINDLEN. We could have this man provided, say, by OCDM, or by some other agency. We felt it was better to have a man who had some specific additional experience to bring to the center, and this was a man from the Small Business Administration.

RESOURCE EVALUATION CENTER

Mr. GERALD GALLAGHER. May I speak to that for a minute?

Mr. QUINDLEN. Yes, sir.

Mr. GERALD GALLAGHER. This Resource Evaluation Center, Senator, comes under the Research Department which I head. It is built around a large computer. The computer has the capacity for estimating quickly the damage to all kinds of resources in this country. The resources are identified by kind, size, what they do, their geographical locations. Against this pattern of resources we run different kinds of attack in war games. On the basis of intelligence we assume different kinds of attacks over a period of years, and we determine what damage results to various resources. So the representative of Small Business brings his resource data in there and participates in these analyses, as Mr. Quindlen was saying.

Senator MAGNUSON. Does he do that 12 months out of the year?

Mr. GERALD GALLAGHER. This is a continuous process; yes, sir.

Senator MAGNUSON. What does he do?

Mr. GERALD GALLAGHER. Resource data development and updating. Things change.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

Mr. GERALD GALLAGHER. The important thing is the data has to be put in a certain form to be used in this computer system.

Senator MAGNUSON. He has done that and his job is through. What does he do the rest of the time?

Mr. GERALD GALLAGHER. I say, the data is changing. We have not yet caught up with the full array of data we ought to have.

Senator MAGNUSON. What data could he get from Small Business except the amount of loans they make on a given day?

Mr. GERALD GALLAGHER. No, sir; this has to do with the number of small plants, the kinds of products they produce, the number—

Senator MAGNUSON. We know where they are.

Mr. GERALD GALLAGHER. He knows where they are.

Senator MAGNUSON. The Department of Commerce is given thousands of dollars to find that out.

Mr. GERALD GALLAGHER. He knows where they are and brings these things into our library there, our computer library.

Senator MAGNUSON. All right, he has done that. How long does that take?

Mr. GERALD GALLAGHER. Well, he does this on a continuing basis. He also participates—

Senator MAGNUSON. He brings one down a day, the new one that has sprung up?

ANALYSIS OF RESULTS OF ATTACK ON RESOURCES

Mr. GERALD GALLAGHER. Well, it does not happen that often. We do not keep our records that currently. But he is responsible for having the resource data up to date. He is responsible for analyzing the results of attack on these resources.

Senator MAGNUSON. But you can have a man down here at Small Business send you that by mail every week.

Mr. GERALD GALLAGHER. No, he has to participate. He has to participate in the team effort. There are 18 agencies who have people out there doing the same sort of thing.

Senator MAGNUSON. Evaluating small business in case of attack. He can find all that information down at the Department of Commerce. You can get it by phone. It does not change very much.

Mr. GERALD GALLAGHER. The facility, a particular facility, has to be identified by coordinates, actual location, so that the effect of a bomb on that particular location can be assessed.

Senator MAGNUSON. But we know all that. It does not take but one afternoon a week to figure that out. The point is, what do these men do 7 days a week, or 6 days a week, or 5 days a week?

Mr. GERALD GALLAGHER. I can assure you, sir, that they are fully occupied with this continuing program.

Senator ELLENDER. I guess the Army feeds them circumstances under which certain work must be done, and they have to go through

certain processes depending on whether a big bomb is dropped or a small bomb is dropped. We have the same thing for the defense. We have today in the armed services a team that attacks, and another defense, and everything is built around what they say. That is why this thing is bogged down and that is why we are spending so much money.

Senator MAGNUSON. And there can only be so many "X" number of possible attacks. You ought to be through with those in 30 days.

DIFFICULTY OF ANALYSIS

Mr. GERALD GALLAGHER. These analyses, Senator, are complicated because of the complexity of our national economy. For example, the small business people have to do with welding rod manufacturing, we will say.

Senator MAGNUSON. What?

Mr. GERALD GALLAGHER. They have to do with welding rod manufacturing. Welding rods are generally a small business production.

Senator MAGNUSON. I can tell you in 2 minutes where all the welding rod factories are in the United States and the possibility for the next 2 years as to whether some are going to quit, or whether a new one is going to come in. I can get all that information for you in 5 minutes. Now what does he do the rest of the time?

Mr. GERALD GALLAGHER. Having the information at hand, as we say, he participates.

Senator MAGNUSON. He sits and thinks about it?

Mr. GERALD GALLAGHER. No, he participates.

Senator MAGNUSON. He pushes it in the machine.

Mr. GERALD GALLAGHER. And he advises on what will be necessary to restore production. Welding rods might be a very important part of a reconstruction program—postattack. So these are all part of coordinated complicated —

Senator MAGNUSON. Well, I do not think they are one-tenth as complicated as you people make them. I can see the importance of having this information, but I do not think this should be a full-time job for someone in Small Business, which primarily was set up by Congress to make loans. He ought to have a representative of the Federal Reserve Bank up there.

PARTICIPANTS IN ANALYSIS

Mr. GERALD GALLAGHER. As a matter of fact, we do, sir. [Laughter.]

There are 18 agencies participating in this analytical work, and all of them, I think, agree that it is very important to do.

Senator MAGNUSON. Where do they meet?

Mr. GERALD GALLAGHER. They are located at our classified location at this National Resource Evaluation Center.

Senator MAGNUSON. That is near here, isn't it?

Mr. GERALD GALLAGHER. It is about 70 miles from here.

Senator MAGNUSON. Yes. They live in Washington?

Mr. GERALD GALLAGHER. Some of them live out there, some of them live in Virginia and drive out there.

Senator MAGNUSON. That Small Business man, if he lives out there, there is a lot of opportunity to make loans in that area. I think this is preposterous, to have someone sitting there with information that you can get in any given afternoon and bring it up to date any time you want to.

All right, let's go down to page 10.

Mr. ELLIS. I wonder if we could just pick one of these men out?

Senator MAGNUSON. We will get them up here and see what they do.

Mr. ELLIS. Let's get this one man in here and see what he does, this man from Small Business. I think it would be very interesting.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

(See additional letters on p. 82.)

EMERGENCY SUPPLIES AND EQUIPMENT

Senator MAGNUSON. All right; No. 3 is "Emergency supplies and equipment." The House committee deleted half of the money requested for the resumption of procurement of medical supplies for the civil defense stockpile and reduced the other items to the 1961 level.

And your request is that you cover the procurement of 1,000 additional 200-bed civil defense emergency hospitals for prepositioning in local communities throughout the Nation for emergency use. It also requested radiological detection and monitoring instruments to provide one set for each of the 100,000 monitoring stations which will be established by June 30, 1963. The entire request is essential to orderly progress in a balanced national program.

CIVIL DEFENSE EMERGENCY HOSPITALS

Now, let's take the 1,000 additional 200-bed civil defense emergency hospitals. These are the mobile units, aren't they?

Mr. ELLIS. Yes, sir. We have about 2,000 today, the bulk of which are distributed throughout the States to be immediately available for emergency use. The requirements have been studied with DHEW and with other agencies of the Government. And I have looked into this pretty carefully and studied these hospitals. They have to be upgraded in certain instances since some of the material and equipment is slightly deteriorating. However, I think they are the most important things you have in this program.

Senator MAGNUSON. And we have 2,000 now?

Mr. ELLIS. Yes, sir; 1,932 to be exact.

Senator MAGNUSON. And this would make a total of 3,000?

Mr. ELLIS. About 3,000, sir. It will give us a better dispersal in the States throughout the Nation.

ADDITIONAL AMOUNT NEEDED

Senator MAGNUSON. How much additional would that account for?

Mr. ELLIS. Well, broken down, it would be \$12,400,000 added to the House allowance.

Senator MAGNUSON. \$12,400,000 additional?

Mr. ELLIS. Yes, sir.

Senator MAGNUSON. That is included in the emergency supplies and equipment, where the House cut you off at \$14,400,000; is that right?

Mr. ELLIS. Yes, sir.

Senator MAGNUSON. And that is the biggest item in the request for restoration, the \$14 million?

Mr. ELLIS. Yes, sir; that is correct.

Senator ELLENDER. What is being done with these 2,000 beds you now have? Are they being used by the hospitals?

Mr. ELLIS. No, sir; they are stored.

Senator MAGNUSON. You say they are deteriorating?

Mr. ELLIS. To some extent. Because the medical supplies are stored with them, and the anesthesia is stored with them and all sorts of allied things that we need and use in establishing an immediate hospital facility. And there is a certain amount of deterioration in some of those items.

Senator ELLENDER. Where are those 2,000 hospitals stored?

Mr. ELLIS. They will be prepositioned at various spots.

Senator ELLENDER. But I say, in various parts of the country?

Mr. ELLIS. Yes, sir.

Senator ELLENDER. They are not connected with any hospital that is now in operation?

Mr. ELLIS. Yes; that is correct.

Senator MAGNUSON. They might be.

Senator ELLENDER. That is why I am saying, are they being used?

Mr. ELLIS. No, sir; they are not being used. If they were being used, they would deteriorate completely, and we want to them ready for any emergency that might take place. But, Senator, they are very important. Where each hospital is located detailed plans have been made out as to who is going to staff it, how it is going to be set up, and where it is going to be set up and all that detail. And we have them right there for immediate setup.

EXPANSION OF PROGRAM

Senator MAGNUSON. When we started the program we envisioned that the mobile unit would be such that you could go into a school house or an auditorium and set up a 200-bed emergency hospital very quickly.

Mr. ELLIS. Right.

Senator MAGNUSON. And this is why we started the program. Of course, they have to be up dated every once in a while, equipmentwise and everything else.

Mr. ELLIS. That is right, sir.

Senator MAGNUSON. And now we have reached a point where we have 2,000, and we would like to have 3,000.

Mr. ELLIS. That is correct, sir. It will give us better distribution.

Senator MAGNUSON. And some of them are located in hospitals where they could be used for additions there, or taken out across the street to a public building, or something of that kind?

Mr. ELLIS. Or even set up under a tent.

DETERIORATION OF MEDICAL SUPPLIES

Senator ALLOTT. Mr. Chairman, on that, there have been some stories recently about a lot of medical supplies deteriorating, having to be discarded or abandoned.

Do you have any information on that? There have been some press stories on this.

Mr. ELLIS. Yes.

Senator ALLOTT. This is in relation to medical supplies.

Mr. HEFFELFINGER. They are generally concerned with antibiotics. Antibiotics have a life expectancy.

Senator ALLOTT. Why couldn't these antibiotics be turned over before their life expectancy expires and used, and then replaced with new antibiotics?

Mr. ELLIS. I would like Dr. Porterfield to answer that. It is a pretty difficult thing to accomplish.

Dr. PORTERFIELD. With respect, sir, to the medical stockpile items which have a definite shelf life, we try to package them and to maintain them under conditions which will give them the longest shelf life that we can manage. In addition, we encourage the medical suppliers, if we can, to provide rotation, as you just suggested, to take out of the stockpile an item which is nearing the end of its life but is still valuable, and to replace it with a brandnew item which has a longer life. This is an extremely complicated problem, and we have not been able to do it across the board.

One of the reasons we cannot is that a number of these items become obsolescent. What we bought in good faith before the end of its shelf life has been replaced with a new model, with an improved drug which has less side reactions, more therapeutic effect, and we cannot then get anyone to use those items which we have stockpiled, and many become obsolescent. This is a loss which we have to endure in the nature of this operation.

DISPOSAL OF OBSOLESCEMENT ITEMS

Senator ALLOTT. The suggestion has just been made—why couldn't they be used in charity hospitals? When I think of all the medical aid and all kinds of aid we are giving throughout the world, why couldn't these be used there? If you have an item that you know you are going to have to take off the shelf in 6 months, you are certainly not losing much if you use it in charity hospitals, and you are certainly not losing much if you give it to our friends around the world.

Dr. PORTERFIELD. I do not know that we are in a position to give this away, sir.

Senator ALLOTT. Well, we should be.

Senator MAGNUSON. Well do you think, Doctor, it would be a fairly good suggestion? If items were becoming obsolete, even if there were a new drug to replace them, they are still good for someone some place. Do you think it would be a good idea if we gave that authority?

Dr. PORTERFIELD. Yes, if we could find ways to utilize this material as it nears the end of its usefulness to us, but still has usefulness for someone else in a worse situation. This would create a larger administrative problem, obviously, but it would be one that would be very worthwhile.

Senator MAGNUSON. Well the administrative problem of disposal would not be any greater than the cost of the items?

Dr. PORTERFIELD. It is to this degree, sir. For example, at the present time we are asking for restoration of around \$12 to \$13

million in our procurement for the medical stockpile at this time, an appropriation for keeping track of this stockpile, where it is, what shape it is in, changing items that have been outdated, and the rest. If we lost our appropriation, we would have no one to do it.

Senator MAGNUSON. I mean, we could act on that, and you people would welcome, as I understand, the authority to do it if and when you can, or where you can, let someone use these things?

Dr. PORTERFIELD. I think we could improve the situation, yes, sir.

Mr. ELLIS. I think it would improve the situation in a lot of ways.

BLOOD BANK

Senator MAGNUSON. What about your blood bank now?

Mr. ELLIS. I do not understand your question, sir.

Dr. PORTERFIELD. We do not have one at the present time. Much of that old material has been reprocessed.

Senator MAGNUSON. Because we appropriated a great deal of money to reconstitute plasma. Have you got it back in shape now?

Dr. PORTERFIELD. Certain fractions of it, yes, sir.

Senator MAGNUSON. And there is nothing in here for that?

Dr. PORTERFIELD. No, sir.

Senator MAGNUSON. Just the regular, orderly contribution into the bank?

Dr. PORTERFIELD. No, we do not even have that.

Senator MAGNUSON. You do not even have that in here?

Dr. PORTERFIELD. No, sir.

Senator MAGNUSON. But you have it reconstituted?

Dr. PORTERFIELD. Yes, sir.

RADIOLOGICAL MONITORING STATIONS

Senator ALLOTT. Mr. Chairman, on this same paragraph I have one other question of Mr. Ellis. This is on page 10. On these 100,000 monitoring stations which are to be established by 1963, and I remember a very good case was made for these in the original instance, how far have we gotten with this program? Where are we today?

Mr. ELLIS. We have these figures right here. It is a good question, Senator, and we are making good progress on establishing these stations.

Senator ALLOTT. My recollection is that we started that 2 years ago.

Mr. ELLIS. I might say I consider this a very important item in the program—monitoring of radioactive fallout.

Senator ALLOTT. In the event of any kind of a nuclear attack, it seems to me this is the key to saving an awful lot of lives.

Mr. ELLIS. Let's see now. On June 30, 1961, there will be 25,000 stations established. By June 30, 1962, 52,000. By December 31, 1963, the total will be 100,000, the objective set for the program.

Senator ALLOTT. Now is the limitation on that at the present time still the facilities of production?

Mr. ELLIS. I understand it is not a question of production capacity, but a question of money for instruments. That is the basis of progress on this program. If we have the money we could buy them all in 1 year.

Senator ALLOTT. I am not trying to trap you, but suppose we had an all-out pretty general nuclear attack. The saving of lives would depend upon this more than any other single item you could name?

Mr. ELLIS. Yes, sir.

Senator ALLOTT. Why isn't it important to move faster with this?

Mr. ELLIS. Well I think it is important. I can agree, and I would like to see it expedited. I frankly believe that our communications system, as it is established over the Nation today, is substantially capable of reporting in to central locations, classified centers, to Battle Creek and other areas, as to the radioactive fallout situation. We ought to have monitoring stations in every area in this Nation so we could know just exactly where we could move in, what we could move in, what food supplies we could move in, without risking contamination. I think this is very important.

Senator ALLOTT. What is the cost per unit of these things?

COST PER UNIT

Senator MAGNUSON. I have them here. The low-range survey meter is \$36, and the medium-range survey meter is \$38, and the high is \$31. Then the dosimeter, that is the radiological one, two of them run \$10 or \$15 total.

Mr. ELLIS. The kit runs about \$100.

Senator MAGNUSON. Do you have to have all of these in one place?

Mr. ELLIS. No, you do not. The dosimeters you mentioned there, consists of a little pencil-like package, and it requires a battery charger. You have to charge it every now and then to bring the pointers back to zero for another reading.

Senator MAGNUSON. But the amount in this budget would provide approximately 48,000.

Mr. ELLIS. It would be very helpful if this quantity could be increased. For example, the manufacturer for the citizens' monitoring instrument kit came to see me the other day. Unless we can work out some way to increase the quantity of orders, they are not going to be able to continue mass production, thereby maintaining the price at its present level. I think it is a matter of bargaining with them, too.

Senator ALLOTT. This is the question I asked you just a few minutes ago and someone said there was not a limitation on this. Now this is a practical production limitation, isn't it?

Mr. ELLIS. Yes, it might be developing into a production problem of cost with respect to these citizens instruments purchased by States and individuals. However, sufficient production capacity exists for the instruments for monitoring stations to be procured with the funds in this budget. I think the manufacturers are highly reputable concerns trying to do what they can to help the country and in addition to make a little money themselves. I would like to see a greater volume of instruments purchased this year in order to reduce the prices.

Senator ALLOTT. How much money do you recommend?

DOUBLING OF FUNDS RECOMMENDED

Mr. ELLIS. Sir, I would recommend double what we have called for in this appropriation. I would like to see it doubled.

Senator ALLOTT. What do we have in this appropriation?

Senator MAGNUSON. \$5,615,000.

Mr. ELLIS. I would like to see it doubled. Then we can save the Government a great deal of money because of volume production.

Senator MAGNUSON. Well when you make that recommendation, advisers, the experts on this down there, tell you there is no question but that we are going to ultimately need and want the 100,000?

Mr. ELLIS. Yes, sir, that is correct.

Senator MAGNUSON. So that there would not be any change in our program, that objective?

Mr. ELLIS. No, sir. We would simply be accelerating the program.

Senator MAGNUSON. We might just as well go ahead and get them as fast as we can.

Mr. ELLIS. Thank you, sir. I think it is a very wise thing to do.

Senator MAGNUSON. As long as we know this is what we are going to do.

Mr. ELLIS. Yes, sir.

RESEARCH AND DEVELOPMENT

Senator MAGNUSON. All right, research and development. The House committee allowance of \$1.5 million represents a 67-percent cut in this appropriation. All funds for surveying and identifying the fallout shelter space afforded by existing structures and for improving shelter features in architect-engineer design have been denied. The on-going research programs to obtain knowledge needed for effective civil defense planning would have to be sharply curtailed. Full restoration is urged.

In that particular case the restoration is \$3 million. You recommended \$4,500,000 and the House gave you \$1,500,000. What does the \$3 million that was cut represent of what you planned to do to the extent of \$4,500,000? If the Senate follows the House what would be cut out, or what wouldn't you do?

Mr. ELLIS. Mr. Gallagher can probably best handle this.

EFFECT OF RETAINING HOUSE CUT

Mr. GALLAGHER. The things that would be cut out clearly, Mr. Chairman, would be the \$500,000 for surveying and identifying existing fallout shelter space and \$150,000 for architect-engineer design, improvement of designs of various kinds as well as grants to schools of architecture, and the \$1,500,000 would require sharp curtailment of some plans for expansion that we have in the contract research field.

As a matter of fact, on-going research at this time, arrangements with existing research organizations, totals almost \$1,500,000 itself apart from other work that we would like to do. I might say that in the President's message to the Congress recently, where he was talking about an expansion of funding for civil defense, the funding would include a substantial increase for research, and I think it is overdue. When we talk about the provision of fallout shelter and protection for the people of this country, no matter who pays the bill, we are talking about a very substantial investment of money, whether it is a private investment or a public investment. And I think that the logic and the argument for spending for research to make sure that that cost is as low as it can be, that the work is done as effectively as possible, that designs of shelters are as good as they can be, warrants a substantial increase in research funding. I view the increase that we have asked for research contractual work here as being quite modest in the light of that argument.

PLANS FOR BROADENING RESEARCH

The military departments, for example, I might say, when they talk about a weapons system, immediately allocate a substantial amount of money for research, maybe 5 percent of the estimated cost of the system. We are not asking for anything like that. But this is a basic argument for an enlargement, sir, and we have plans for enlargement, for broadening our research base. The problems that we address ourselves to are many and complicated. They hit into all parts of the life of the people, the protection of the people, the reconstitution of the economy after attack. This is the basis for the request for enlargement.

Senator MAGNUSON. We have been conducting some research for years on fallout shelters. The plans for public buildings are pretty well known, aren't they, what you can do in a public building, new or old, and the type of thing you want to do?

But we have been conducting research for many years on fallout shelters, I say, for the homeowner, or the private individual. Let's leave out large buildings. Don't we just about know what we can do there? Do we have to have more research on that?

Mr. GALLAGHER. We know a great deal more than we did 3 years ago. The art was very crude in those days. We have done original investigation with the aid of other Government agencies and private contractors, the Bureau of Standards and others, and over time the estimates of cost for providing protection in a particular structure have been sharply reduced. The estimate now would be about one-third of the estimate of 3 years ago.

Senator MAGNUSON. The cost. I understand that.

Mr. GALLAGHER. That is right.

Senator MAGNUSON. But I mean, we know what we want to do.

Mr. GALLAGHER. Well, we have made great strides. And I might say that the research that we have done will make it possible for the military department, if this is the way this thing goes, to go ahead with an effective survey program.

Senator MAGNUSON. I was thinking in terms of architectural research. Isn't it pretty well settled as to the types of fallout? We do not need to do much more about that. Our problem is to get it done now.

Mr. GERALD GALLAGHER. We must do more, sir. We have done a great deal of work in the field of fallout gamma radiation. That is a particular kind of radiation. We do not know nearly enough about direct radiation, about neutrons and other direct radiation effects of weapons.

Senator MAGNUSON. Then I suppose there is always needed research to get the cost down, using new materials and things of that kind.

Mr. GERALD GALLAGHER. This is a very important feature; yes, sir.

Senator MAGNUSON. To get the cost down within the reach of an ordinary person.

Mr. GERALD GALLAGHER. Right.

LIAISON WITH FHA

Senator MAGNUSON. Do you have any liaison with the FHA for loans for repairs, moderation of homes for fallout shelters?

Mr. GERALD GALLAGHER. Well someone else could speak to this more specifically. Title 1 of the FHA authority does permit that.

Senator MAGNUSON. Allows that?

Mr. GERALD GALLAGHER. Yes, sir.

Mr. ELLIS. And in conformity with the President's message to the state of the Union, it would be hoped at some point that package legislation, consolidated legislation, would be introduced in order to stimulate the construction of shelters in any home or structure built with Federal money. For instance, at some future date, in a home costing over a certain amount, financed under FHA planning, it might be mandatory to include a shelter in such a residence.

Senator MAGNUSON. Well I suppose that is a possibility.

Mr. ELLIS. It has never been submitted to the Congress, but it certainly is a possibility.

Senator MAGNUSON. I would think that Congress would move awfully slow on doing a thing like that, though. I am just speaking for myself. However, I am thinking in terms of making the climate such that there would be more encouragement to do it individually, voluntarily, either in the way of loans, or longer terms, or low interest rates, or something of that kind, or a combination.

Mr. ELLIS. Or some tax incentive.

Senator MAGNUSON. You might encourage the States, and there might be some tax depreciation involved which you could work out.

NEW YORK PLAN

Mr. ELLIS. I was astonished to see the magnitude of the plan that has been developed in the State of New York by Governor Rockefeller, which was not resubmitted to his legislature after it failed of approval about 2 years ago, which provides mandatory shelter construction before a permit is granted to build any kind of residence. That is a State matter.

Senator MAGNUSON. Last year we had some figures on Federal buildings, and they are in the record, of the added cost with a fallout shelter as against the cost without a fallout shelter. I think it ran somewhere like 5 to 6 percent of the total cost of the building. But whether that would be the same on a home or not I do not know.

But this is the sort of thing you are talking about when you are talking about research and new materials and new things to use.

Mr. ELLIS. And it is very important in other ways, too, Senator. Because certain matters relating to national security affairs and similar functions require research as well, and we are engaged in doing some research in these fields that are very important to the country. Therefore, I do not like to see this amount eliminated.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

PREPARED STATEMENT

Senator MAGNUSON. All right, if there is nothing further you want to add, we will put in the record your statement in full, and the statements of the departments have already been inserted, and then we have the one item of disaster relief yet, new disaster relief.

(The information referred to follows:)

STATEMENT OF THE DIRECTOR, OFFICE OF CIVIL AND DEFENSE MOBILIZATION

Mr. Chairman and members of the committee, I appreciate this opportunity to appear before this committee to discuss the national programs for nonmilitary defense. This hearing is particularly timely, coming as it does within a few days after the President expressed his views on this program in his address to the Congress on May 25, 1961.

Upon my appointment to this position as Director of the Office of Civil and Defense Mobilization, I was instructed by the President to join with the Director of the Bureau of the Budget and the Secretary of Defense in making a thorough study of the organization and functions of nonmilitary defense. The intensive investigations we have made during the course of this study has clearly brought to light the appalling fact that civil defense efforts to date have been completely inadequate and leave a shocking gap in our total national defense. As indicated by the President, this administration plans to meet this problem head on. Proposals will be submitted for the specific actions necessary to eliminate this vulnerable link in the national defense posture.

The many intelligence studies and reports available for our review are unanimous in their conclusions that the civil defense expenditures of the Soviets outstrip by many times the dollar volume of expenditures being applied by the United States for this effort. Civil defense training is a mandatory requirement in Russia and many public shelters are being built. Our national defenses are built upon the historic American concept of massive capability for retaliation but avoidance of aggressive action—striking the first blow. Therefore, Russia does not need to harden its missile launching sites or take other protective measures to withstand the first blow. This places them further ahead of us with respect to passive defense.

The dizzying pace of military technological developments in the last 15 years has been stunning and bewildering. Many of us have not kept abreast of the awesome, devastating potential of offensive weapons. Certainly civil defense has fallen behind and become an unwanted stepchild in our total national defense planning. If we had been more candid with the people during past years, it is probable that this problem would not exist today.

We still have time to prepare ourselves, but we cannot afford to lose another moment. Three vital elements are essential to make America invulnerable to attack.

- (1) Superior offense.
- (2) Superior defense (active and passive defense).
- (3) Will to survive (civil defense or passive defense).

If the offensive and defensive power is equal, the will to survive becomes decisive—that is to say that when the capability to “dish it out” is equal, then the nation best prepared to “take it” will win. The stronger civil defense may turn the tide.

This brings home the cold, hard fact that a strong civil defense and mobilization program is indispensable to national preparedness. This cannot be attained cheaply and certainly cannot be attained with a Federal effort at past minimum levels. The President expressed this harsh inescapable conclusion to Congress last month in his speech to which I have referred. It quote:

“One major element of the national security program which this Nation has never squarely faced up to is civil defense. This problem arises not from present trends but from national inaction in which most of us have participated. In the past decade we have intermittently considered a variety of programs, but we have never adopted a consistent policy. Public considerations have been largely characterized by apathy, indifference, and skepticism; while at the same time, many of the civil defense plans have been so far reaching and unrealistic that they have not gained essential support.

“This administration has been looking hard at exactly what civil defense can and cannot do. It cannot be obtained cheaply. It cannot give an assurance of blast protection that will be proof against surprise attack or guaranteed against obsolescence or destruction. And it cannot deter a nuclear attack.

“We will deter an enemy from making a nuclear attack only if our retaliatory power is so strong and so invulnerable that he knows he would be destroyed by our response. If we have that strength, civil defense is not needed to deter an attack. If we should ever lack it, civil defense would not be an adequate substitute.

“But this deterrent concept assumes rational calculations by rational men. And the history of this planet, and particularly the history of the 20th century, is sufficient to remind us of the possibilities of an irrational attack, a miscalculation, an accidental war, or a war of escalation in which the stakes by each side gradually

increase to the point of maximum danger which cannot be either foreseen or deterred. It is on this basis that civil defense can be readily justifiable—as insurance for the civilian population in case of an enemy miscalculation. It is insurance we trust will never be needed—but insurance which we could never forgive ourselves for forgoing in the event of catastrophe.

"Once the validity of this concept is recognized, there is no point in delaying the initiation of a nationwide long-range program of identifying present fallout shelter capacity and providing shelter in new and existing structures. Such a program would protect millions of people against the hazards of radioactive fallout in the event of a large-scale nuclear attack. Effective performance of the entire program not only requires new legislative authority and more funds, but also sound organizational arrangements."

In view of my firm conviction that a much-increased Federal program is needed to overcome this obvious weakness in our total defense, I was deeply concerned and disappointed by the House committee action in reducing our request for 1962 appropriations by some \$25 million. I feel that it is essential that these budget cuts be restored.

During my brief tenure in this position, I do not claim that I have found all the answers or uncovered all the problems which must be faced. I do not even claim that the \$104.2 million requested in the budget currently before Congress will provide the resources needed to take positive steps toward overcoming all of the tremendous problems in the nonmilitary defense field. I am convinced, however, that every dollar of this request is needed to provide a sound launching platform to build a program that will definitely complete our total defenses; back up the President as he makes his awesome foreign policy decisions; and spark the will of the American people to resist any rocket-rattling ultimatum.

We have given the committee line item changes and justifications we propose to restore the cuts made by the House committee. Therefore, in this statement I will merely summarize the important restorations requested for each appropriation.

First, "Salaries and expenses". We urge full restoration of the \$5.5 million reduction of the House committee and recommend that the restrictive language imposing a ceiling of 303 civilian positions in the Washington, D.C., area be eliminated. The House elimination of all increases requested for 1962 has the effect of denying additional funds of \$1.3 million for our communications and warning programs and \$3.7 million for our public information and education programs. It also reduces our personnel staffing by 50 positions, most of which must be eliminated in the Washington area. All of these increases represent either full year costs of expenses incurred for only part of 1961 or an expansion of current projects which have proven to be sound. The major item which has been denied is the increase of \$2.4 million for the adult education program on weapons effects and countermeasures which the Office of Education is conducting for OCDM. We feel that it is essential that this program be extended to 23 additional States and request restoration of funds for this purpose.

The action of the House committee in inserting appropriation language placing an arbitrary ceiling on employment in the Washington, D.C., area is completely unacceptable. The President is currently studying the functions of nonmilitary defense with a view to reassigning them to the various departments of the Federal Government, thereby assuring that essential protective measures are carried out in the most economical and effective manner. He has indicated that the shelter program will be assigned to the Secretary of Defense. It is possible that other assignments may be made to other Federal agencies at the seat of government. The imposition of this arbitrary employment ceiling would deny the President the flexibility he needs to make the realignments he determines to be necessary for the best interests of the Nation.

Second, civil defense and defense mobilization functions of Federal agencies. The House committee action in this account reduces the appropriation by \$2.1 million, forcing cancellation of plans for expansion of several key programs being conducted by other agencies. For example, the Public Health Service had planned to expand its program to train individuals to care for their family and neighbors in an emergency. Labor had planned to augment its grants to State employment security agencies for expansion of readiness measures for management of the labor force under attack conditions. The bulk of the increases requested for 1962 relate directly to emergency planning in the field and should be restored.

Third, emergency supplies and equipment. The House committee deleted half of the money requested for resumption of procurement of medical supplies for the civil defense stockpile and reduced the other items to the 1961 level. Our

request covered the procurement of 1,000 additional 200-bed civil defense emergency hospitals for prepositioning in local communities throughout the Nation for emergency use. It also requested radiological detection and monitoring instruments to provide one set for each of the 100,000 monitoring stations which will be established by June 30, 1963. Our entire request is essential to orderly progress in a balanced national program which should proceed without further delay.

Fourth, research and development. House committee allowance of \$1.5 million represents a 67-percent cut in this appropriation. All funds for surveying and identifying the fallout shelter space afforded by existing structures and for improving shelter features in architect-engineer designs have been denied. The ongoing research programs to obtain knowledge needed for effective civil defense planning would have to be sharply curtailed. Full restoration is urged.

Before closing, let me say that the objectives sought in our total budget of \$104.2 million are sound and attainable. The budget may be too modest. However, it has the blessing of two administrations. If we are to survive in times of war we must take positive steps to increase our preparations in times of peace. Your approval of this budget as submitted will provide concrete evidence to the people of congressional intent to take these positive steps.

I urge that you approve this budget as submitted.

DISASTER RELIEF

Senator MAGNUSON. There was nothing appropriated for this in 1961, but both budgets, and the last one was in 1958, recommended \$6 million which the House kept in. Now I understand that is to go to the President to be assigned to you if and when it is needed?

Mr. ELLIS. Yes, sir.

Senator MAGNUSON. But you would have no control over the funds except if they were allocated to you by the President?

Mr. ELLIS. That is right, sir.

Senator MAGNUSON. In case of a disaster.

Mr. ELLIS. We have a balance of about \$5.3 million and we would like to raise it to \$10 million.

Senator MAGNUSON. What we have been trying to do is keep it around \$10 million?

Mr. ELLIS. That is correct.

Senator ALLOTT. This is not to be confused general contingency fund of the President for emergencies?

Senator MAGNUSON. No, this is a separate item.

Senator ALLOTT. This is only in the event of a nuclear attack here?

Mr. ELLIS. No, sir; a natural disaster.

Senator MAGNUSON. Floods, fires, explosions, cyclones.

Senator ALLOTT. Have we appropriated for that?

Senator MAGNUSON. Yes. We have always tried to keep the fund around \$10 million. And I must say it has never been used unless it has been really a disaster and absolutely necessary.

Senator ELLENDER. An emergency; yes.

Senator ALLOTT. But that is the same fund I am talking about—

Senator MAGNUSON. No; the President has an emergency fund of his own, which he can use himself for disaster. He is using part of the fund right now for the Peace Corps, because we have not passed on it. And he has had \$10 million.

Mr. ELLIS. In fact, I had to turn down a request from my own State, Senator Ellender's home State. We only act in these matters where we find they are really of national import and cover a wide area. But if we find a request for disaster assistance is a very essential thing to the American economy, and the President proclaims it a natural

disaster area, then it unloosens all of the various aid elements of the Federal Government—the Department of Agriculture can move in with free food, and free animal feed—

Senator ALLOTT. When you broaden the extent of this thing, what you are doing is adding \$10 million or \$6 million to the President's general emergency relief.

ADDITION TO PRESIDENT'S FUND

Mr. ELLIS. We are adding \$6 million, because we have a balance already, sir.

Senator MAGNUSON. \$6 million.

Mr. ELLIS. \$6 million. Public law 875 controls its use.

Senator ALLOTT. This would come under Public Law 875?

Mr. ELLIS. That is right, sir.

Senator ALLOTT. All right.

Senator MAGNUSON. All right; if there are no further questions, we thank you all for coming.

Mr. ELLIS. Are we finished?

Senator MAGNUSON. We are finished the public hearing. Do you want to talk to us about something?

Mr. ELLIS. No, sir; I have a public matter that is very important. I can make it in 3 minutes.

Senator MAGNUSON. Go ahead.

REGIONAL UNDERGROUND CONTROL CENTER, DENTON, TEX.

Mr. ELLIS. After the submission of our request for appropriations to the House committee, the counterpart of this committee, there arose a situation in Denton, Tex., where our first underground control center had been advertised for bids from construction contractors. We had available a substantial amount of money, and we hoped that the bids that came in would be within the available funds. There were 23 bids received on this underground control center which provide for Federal control during periods of emergency and also provide for day-to-day usage during peacetime. Space is provided for 500 persons during an emergency and 200 persons during peacetime operation. It is the first control center in our system of regional construction.

It is critically important, I think, that construction proceed now. We came to Congressman Thomas, chairman of the House subcommittee, telling him that the low bid on this structure left us \$335,000 short of the amount of money necessary to make up the bid price. Out of 23 bids, the low bid left \$335,000 unfunded. The differential between the low bid and the high bid was close to \$1 million. We felt that the low bid was one of the finest bids that had ever been obtained on this type of structure. We felt that it should be accepted, and we could accept it only by eliminating a lot of alternatives and only partially completing the building. Of course, we cannot accept the full bid without the available money.

HOUSE ALLOWANCE

We went to Congressman Thomas and explained the situation to him, and he gave us authority to use \$100,000 of 1962 funds budgeted

for another purpose in lieu of the \$335,000 which we needed. We need the \$335,000. We all feel it is an exceptionally good bid. And we feel we could never get such a bid again if we readvertised. The contractors are eminently qualified. They are accustomed to building underground. And this will be built to withstand blast as well as fallout.

We would respectfully request the committee to give us the \$335,000 needed to complete that center.

Senator ALLOTT. Why would he only give you \$100,000 when that would not permit you to take up the contract?

Mr. ELLIS. Sir, I would be glad to answer that question.

Senator ALLOTT. If you could?

Mr. ELLIS. I think I could.

Senator MAGNUSON. They thought you could find \$235,000 someplace else.

Mr. ELLIS. This is a matter that is of vital interest to the region and of vital interest to many of us.

CONSTRUCTION FUNDS

Senator MAGNUSON. Now, that would come under "Construction of facilities"?

Mr. ELLIS. Yes, sir.

Senator MAGNUSON. You have \$2,500,000. Is that for this building or is that for other things?

Mr. ELLIS. No, sir; that is the second underground control center which has not even been started.

Senator MAGNUSON. Well give us a breakdown on what you are going to use the \$2,500,000 for.

Mr. ELLIS. Yes, sir; we will file that in the record.

(The information referred to follows:)

Construction project included in the fiscal year 1962 budgt is:

PROSPECTUS FOR PROPOSED CONSTRUCTION UNDER THE PUBLIC BUILDINGS ACT OF 1959

OCDM Region 1. Emergency Operations Center—Area of Harvard, Mass.

1. *Description of proposed project.*—The project contemplates the construction of an underground facility on a Government-owned site, or on a site to be acquired. The facility will house the regional personnel of the Office of Civil and Defense Mobilization and at the same time provide for a regional emergency operations center. Approximate area, gross, 54,486 square feet; net assignable, 40,165 square feet.

2. *Estimated maximum cost of project:*

(a) Site, design, etc.....	\$326,000
(b) Improvements.....	2,674,000

Total estimated maximum cost.....	3,000,000
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Financing:

Provided in OCDM budget for 1962.....	2,500,000
Balance required from OCDM to complete.....	500,000

3. *Justification.*—To equip the Federal Government to conduct essential operations after a major nuclear attack, it is necessary to provide protected emergency operations centers for the direction of civil and defense mobilization. To this

end the OCDM has divided the United States into eight regions, each of which should eventually have a protected underground facility with a capacity to coordinate mobilization planning and to serve as a hub of operations in an emergency. Each center will also be prepared to operate independently of the others and to assume the role of national headquarters should the situation dictate.

In fiscal year 1960, Congress appropriated funds for the first of these centers to be located at Denton, Tex. Construction is now expected to start in June 1961, with occupancy scheduled in 1962. The second of these centers is now proposed for construction in the area of Harvard, Mass. The center is planned to house up to 200 employees normally with expansion to 200 OCDM personnel and 300 other agency personnel in an emergency.

The center will be designed for protection against blast, thermal radiation, initial nuclear radiation, and fallout. An effective filter system will provide protection against chemical, bacteriological, and radiological agents. Such protection can only be provided through new construction.

4. *Current housing cost.*—Rent and other costs: Area (square feet), 12,455; annual cost, \$35,200.

5. *Proposed space plan.*—The nature of the facility is such that it would not form a part of a comprehensive plan for providing space for other Government agencies in the locality.

The regional office for OCDM region 1 is now located at Harvard, Mass., in leased space that lacks protection from nuclear attack. The center has 56 employees at present. This leased space will be vacated upon completion of the proposed underground facility.

6. *Statement of need.*—It has been determined that (1) the needs for space of the Federal Government in this area cannot be satisfied by utilization of existing property now owned by the Government, and (2) suitable rental space that would afford adequate protection is not available.

Submitted at Washington, D.C., on June 7, 1961.

Recommended:

KARL E. WALLACE,
Commissioner of Public Buildings Service.

Approved:

JOHN L. MOORE,
Administrator of General Services.

ADDITIONAL FUNDS FOR TEXAS

Senator MAGNUSON. And then a statement such as you have made for the additional, the request for the additional \$235,000 for the one that is now in process down there in Texas.

Mr. ELLIS. We will do that immediately. Please understand that this will be a fiscal year 1962 supplemental request which has been approved but not yet presented.

(The information referred to follows:)

OCDM Region 5. Emergency Operations Center—Area of Denton, Tex.

1. *Discussion of project.*—This project represents the first underground facility constructed as a hub for Federal Government emergency operations over a specific regional area of the United States. The center will house the peacetime staff of OCDM region 5 and be capable of expansion for emergency operations to accommodate 500 personnel from key Federal agencies having primary command and control missions in a wartime situation. The underground portion of the facility consists of 49,840 gross square feet of operationally equipped space with blast and fallout protection. The design also includes an above-ground structure consisting of 4,200 square feet of frangible nonprotected space.

2. *Financing.*—The Congress appropriated \$2,400,000 for this first underground center in fiscal year 1960. Of this sum, \$100,000 was used by GSA for a design contract. Based on this design, bids were solicited, 23 contractors submitted proposals, and the bids were opened by GSA on May 2, 1961. The low bid of \$2,435,695 was \$206,505 lower than the next low bidder, and \$821,285 lower

than the highest bid. However, this low bid exceeds the funds available by \$335,000 as indicated by the following tabulation:

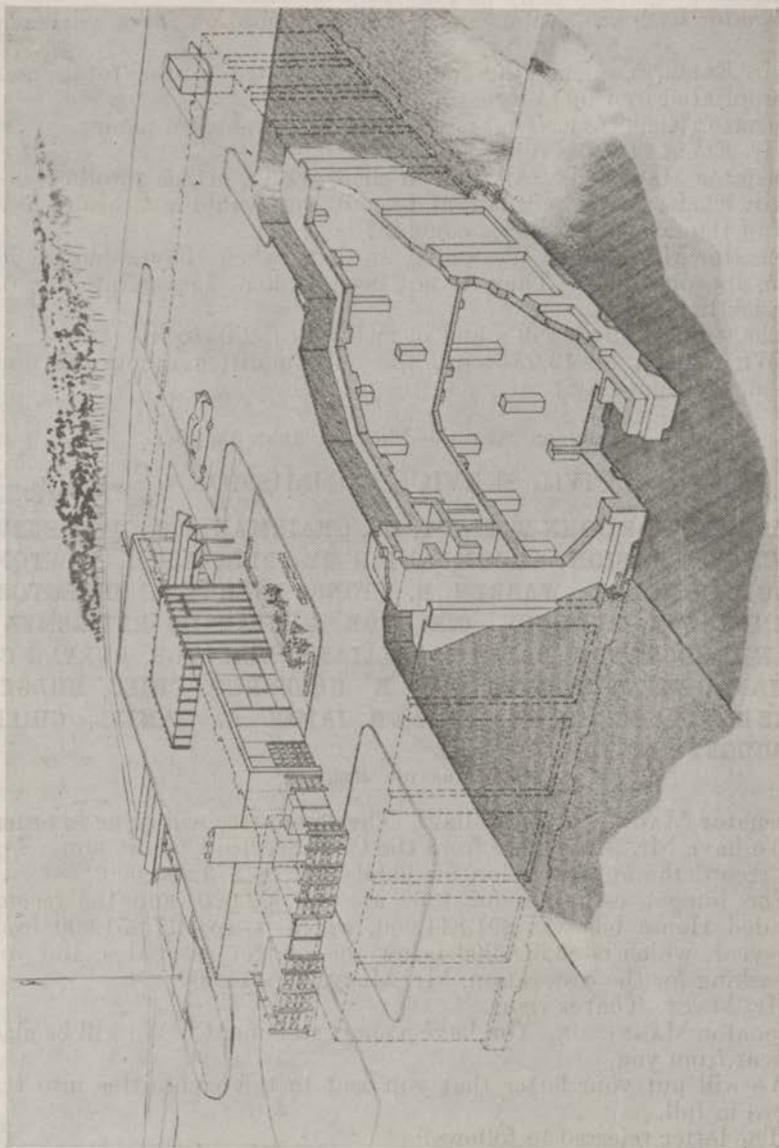
Total funds appropriated-----	\$2, 400, 000
Deduct:	
Architect-engineer design and construction supervision-----	142, 000
GSA expenses for bid preparation and staff services-----	54, 700
Government-furnished equipment (blast valves and filters)-----	45, 000
Total -----	241, 700
Funds available for construction-----	2, 158, 300
Base bid from construction contractor-----	2, 435, 695
Deduct nonessential items (sprinkler system and alternate shock mounts)-----	50, 100
Revised base bid-----	2, 385, 595
Entrance sign-----	1, 000
Contingencies of 5 percent required by GSA-----	106, 705
Construction funds required for complete facility-----	2, 493, 300
Requirements in excess of fund availability-----	335, 000

Bids for this project were requested from the market at an auspicious time resulting in the greatest benefit to the Government from the standpoint of cost and contractor capability. In order to take advantage of these favorable circumstances, the President on June 8, 1961, authorized award of the construction contract. However, to remain within funds available, the project is being awarded omitting several critical features of the facility. These eliminated features of work jeopardize the capability of the facility to serve the purpose for which it was designed. The omissions include such items as a standby generator for emergency power, security guard towers, reception center, food service equipment, landscaping, paving, metal partitions, etc.

In view of the essentiality of these omitted items, the President has also approved the submission of a 1962 supplemental request for \$335,000 under the heading of "Construction of Facilities." This supplemental will be transmitted shortly in the consolidated "cleanup" supplemental proposal for 1962. Expeditious action on this supplemental request is important since the construction contractor has given the Government 60 days to take up options for additional features of work without any change in price.

In Report No. 449 covering 1962 appropriations, the House committee has authorized use of \$100,000 budgeted for 1962 to complete this first center. However, the amount of \$2,500,000 budgeted for the second center in Massachusetts is already less than the estimated cost determined by GSA and the amount of \$100,000 will not complete the Denton center. Therefore, it is recommended that supplemental funds of \$335,000 be made available in lieu of diverting 1962 funds budgeted for another purpose.

An architect-engineer drawing of the Denton facility is attached,



QUESTION OF LIMITATION

Senator ELLENDER. Did you have a limitation on the one in Texas and the other?

Mr. ELLIS. Yes, sir; we had a total available.

Senator ELLENDER. I mean, a specific limitation for a particular job?

Mr. ELLIS. Yes, sir; the limitation consisted of the total funds appropriated by Congress.

Senator ELLENDER. That is why you need the extra money.

Mr. ELLIS. That is right, sir.

Senator MAGNUSON. All right, if there are no further questions—

Mr. ELLIS. Mr. Chairman, as I see it, you would not care to have any of the delegate agencies come in?

Senator MAGNUSON. We will hear them when they come up for their appropriation. They do not need to come in separately. We can ask them then.

The subcommittee will stand in recess until 2 o'clock.

(Whereupon, at 12:25 p.m., the subcommittee adjourned until 2 p.m. the same day.)

AFTERNOON SESSION—MONDAY, JUNE 12, 1961

CIVIL SERVICE COMMISSION

STATEMENT OF JOHN W. MACY, JR., CHAIRMAN, U.S. CIVIL SERVICE COMMISSION, ACCOMPANIED BY FREDERICK J. LAWTON, COMMISSIONER; WARREN B. IRONS, EXECUTIVE DIRECTOR; ANDREW E. RUDDOCK, DIRECTOR, BUREAU OF RETIREMENT AND INSURANCE; DAVID F. WILLIAMS, DIRECTOR, BUREAU OF MANAGEMENT SERVICES; W. B. UHLENHOP, CHIEF, BUDGET AND FINANCE DIVISION; AND JAMES A. HAMILL, CHIEF, BUDGET SECTION.

RESTORATION REQUEST

Senator MAGNUSON (presiding). The committee will come to order.

We have Mr. Macy here from the Civil Service Commission. For the record the appropriation for fiscal 1961, is \$73,993,000.

The budget estimates for 1962 are \$95,502,000, and the recommended House bill was \$91,844,000, which is up \$17,851,000 from last year, which is \$3,658,000 below the budget estimates, and you are asking for the restoration, Mr. Macy, of \$414,000.

Mr. MACY. That is right.

Senator MAGNUSON. You have a short statement. We will be glad to hear from you.

We will put your letter that you sent to this committee into the record in full.

(The letter referred to follows:)

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., June 6, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of the Independent Offices Appropriation Bill
for 1962, U.S. Senate.

DEAR SENATOR MAGNUSON. This is in reply to your letter of June 2, 1961. We appreciate the opportunity to provide your subcommittee with information regarding the effects of the action taken by the Committee on Appropriations of the House on the several appropriations and funds of the Commission as provided in H.R. 7445, the Independent Offices appropriation bill, 1962.

The Commission has made a careful review of H.R. 7445 and Report No. 449 accompanying the bill and has given attention to each item in the light of the recommendations of the committee. We appreciate the consideration given to our budget requests by the House committee and have determined that their action is acceptable to the Commission except for two items, (1) "Salaries and expenses" and (2) "Limitation on administrative expenses, employees health benefits fund."

SALARIES AND EXPENSES APPROPRIATION

Page 6, line 21: \$21,029,000—Request change to \$21,443,000

The amount provided by the House for the salaries and expenses appropriation represents a reduction of \$800,000 from the budget request and an increase of \$268,000 above the 1961 appropriation. The budget requested increases of \$301,300 to provide for eliminating backlogs and processing current receipts in the Commission's investigations and retirement programs. Based upon a careful analysis of the current status of workloads and trends in receipts in these activities, it appears that the \$268,000 increase proposed by the House committee would just about cover the increased personnel required to keep the investigations and retirement work current in fiscal year 1962. There are, however, three items which the Commission believes warrant a restoration of funds by your committee. These are (1) the establishment of a Federal employment statistical program, \$212,500; (2) the upgrading of furniture in the Commission's regional and branch offices, \$175,000; and (3) funds to cover personnel benefits (contributions for retirement, group life insurance, and health benefits) for the additional employees above the 1961 level, \$26,500.

The budget requested funds to establish a new Federal employment statistical program which would meet the needs of both the executive and legislative branches for personnel statistics of the Federal service. The request of \$212,500 includes \$82,500 for personnel compensation and \$130,000 for machine rentals, contractual services, and equipment in connection with the establishment of the program. The Commission is convinced that this program is needed now and that the benefits to be derived will be well worth the cost. The budget request of \$175,000 to refinish and/or replace furniture in our field offices is necessary in order to bring the physical appearance of our offices up to an acceptable level.

The Commission requests your committee to restore \$414,000 of the \$800,000 cut made by the House committee to provide for the three items discussed above.

LIMITATION ON ADMINISTRATIVE EXPENSES, EMPLOYEES HEALTH BENEFITS FUND

Page 9, line 19: \$1,000,000—Request change to \$1,148,000

The House committee provided an expense limitation of \$1 million for administering the Federal employees health benefits program, a reduction of \$148,000 from the amount requested. After a careful review of the operation of the employees health benefits program this year and expected developments in fiscal year 1962, the Commission believes that the full amount requested for administrative expenses in 1962 will be required to adequately carry on the program. This amount for administrative expense is far less than the established ceiling of 1 percent of all contributions provided by the Employees Health Benefits Act. The Commission requests that your committee restore the full amount of the reduction made in this item by the House committee.

I am advised that a hearing has been scheduled for the Commission before your committee on June 12. We shall be happy to discuss these matters at that time in as much detail as you may desire.

By direction of the Commission.

Sincerely yours,

JOHN W. MACY, Jr., Chairman.

PREPARED STATEMENT

Mr. MACY. I have a statement which I have provided to the clerk. However, in the interest of time perhaps it will be helpful if I summarize that statement for you at this time.

(The statement referred to follows:)

STATEMENT OF JOHN W. MACY, JR., CHAIRMAN, U.S. CIVIL SERVICE COMMISSION

Mr. Chairman and members of the committee, we are glad to appear before this committee to discuss the budget request of the Civil Service Commission for fiscal year 1962. On my part, I welcome the opportunity to appear once again in behalf of the Commission where I served as Executive Director from 1953 to 1958.

As stated in my letter to Senator Magnuson a few days ago, we have made a careful study of the recommendations of the House in relation to the programs of the Commission. We appreciate the consideration given to our budget requests by the House Appropriations Committee and accept their action on all but two items. These are the salaries and expenses appropriation and the limitation on administrative expenses, employees health benefit fund. I shall direct my remarks to these two items.

First, for salaries and expenses the House allowed \$21,029,000, a decrease of \$800,000 from the budget request—an increase of \$268,000 from the appropriation for the current fiscal year.

Certain workloads of the Civil Service Commission are not internally controllable but are generated, as in the investigation activity, by the rate of new hires in the Federal civil service; or, as in the retirement activity, by the exercise of legal rights by employees, retirees, and other beneficiaries under the retirement laws. The budget requested increased funds of \$301,300 for the investigations and retirement activities in order to reduce workloads to a normal level and process current receipts in 1962. The House bill provides a total increase of \$268,000 for salaries and expenses. In view of the uncontrollable nature of the investigations and retirement workloads, we have no choice except to utilize the increase in funds for these activities. As a matter of fact, the workload situation is somewhat more favorable than we expected, and our best estimate today is that the \$268,000 will provide the personnel increase needed to keep workloads in the investigations and retirement activities reasonably current in 1962.

However, there are three other items which the Commission believes warrant additional funds in 1962; and for this purpose we urge the committee to recommend the restoration of \$414,000 of the \$800,000 reduction made by the House. The items I refer to are: (1) The establishment of a Federal employment statistical program, \$212,500; (2) the upgrading of furniture in the Commission's field offices, \$175,000; and (3) the employer contributions for retirement, group life insurance, and health benefits for the employees to be added to the salaries and expenses activities in fiscal year 1962, \$26,500.

Federal employment statistical program.—Reliable, up-to-date, and comprehensive statistical data concerning the Federal civil service is required on a continuous basis for decisionmaking in both the Congress and the executive branch. The Commission's present system for collecting personnel statistics is cumbersome and costly in terms of results and provides only a small part of the information needed. With the assistance of the Bureau of the Budget and other agencies, the Commission has developed a new program utilizing automatic data-processing equipment and statistical sampling techniques which will economically meet the needs of the Congress and the departments and agencies for this type of information now and in the future. This new program will trace individual employment histories of a representative sample of Federal employees, will be readily adaptable to changing requirements, and will reduce reporting costs of the agencies.

The data produced will continue to meet legal requirements for periodic reports to the Congress and the President on personnel programs but with a capacity to provide a variety of information useful to the Commission and the agencies for personnel management. For example, information on turnover, separations, provide a variety of information useful to the Commission and the agencies for promotions, and so forth by occupation, geographical area, sex, grade, and salary will provide a better basis for planning the recruiting and examining program for the Federal service. The program will provide data for continuous evaluation of the civil service retirement fund, eliminating the need for a special census every 5 years. Information on matters of interest to the Congress such as the cost of changes in pay systems, the utilization of women in higher level positions, escala-

tion of grade levels, and effects of automation on Federal employees will be obtainable rapidly without costly "crash" studies.

The costs for establishing the Federal employment statistics program are \$212,500. These consist of the salaries for 19 positions at a cost of \$82,500; rental of data-processing machines, \$31,000; services to be obtained from other Federal agencies in initially establishing the work-history sample file, \$84,000; and filing and other equipment, \$15,000. The information to be gained from this program is sorely needed. The plans and procedures have been completed, and the Commission is ready to begin operations as soon as funds are available.

Upgrading furniture in Commission's field offices.—Since fiscal year 1960, agencies occupying space in Government-owned buildings outside the Washington area have been required to budget for furniture and furnishings formerly provided by the General Services Administration without cost to the agencies. The Commission has been concerned about the condition of much of the furniture in its regional and branch offices, a large part of it in the examination rooms and offices visited by prospective Federal employees and the general public. Although we have endeavored to provide funds for the upgrading of furniture out of current resources, the demands of the operating programs have precluded such expenditures in sufficient amounts.

The Commission has made a thorough survey of the furniture in its regional and branch offices. Much of it is in such poor condition that rehabilitation is impractical. A substantial portion was provided by Federal building custodians at the time the Commission's field offices were established many years ago. Out of an inventory of over 10,000 items, 3,300 are in such poor condition that replacement is necessary and 2,200 items can be restored to a suitable condition by repair and refinishing. The replacements will cost \$149,000 and the repair and refinishing, \$26,000, for a total of \$175,000. We are convinced that these funds should be provided to bring the appearance of our field offices up to an acceptable standard.

Contributions for retirement, group life insurance, and health benefits.—Assuming utilization of the \$268,000 increase in the House bill for payment of salaries plus the \$82,500 we are requesting be restored for salary payments, will provide an increase of \$350,500 for staff above the 1961 authorized level. The cost to the Commission for contributions based upon salary payments to employees to be added in 1962 above the current year's level is \$26,500. This amount should be restored to the bill to provide for carrying out all programs at desirable levels.

The second item for which we request restoration of a reduction made by the House is the Limitation on Administrative Expenses, Employees Health Benefits Fund. The budget requested \$1,148,000 for this item. The House allowed \$1 million, a decrease of \$148,000. The Federal Employees Health Benefits Act authorized the Commission to pay administrative expenses of the employees health benefits program for fiscal years 1960 and 1961 from the Employees Life Insurance Fund without regard to limitation and provided that beginning in fiscal year 1962 administrative expenses should be incurred within such limitations as may be specified annually by the Congress. The act further provides that not more than 1 percent of all contributions to the Employees Health Benefits Fund will be available for administrative expenses.

This current fiscal year, 1961, is the first year of actual operation of the employees health benefits program. Administrative expenses this year will total approximately \$1,158,000 as contrasted to the previous estimate of \$896,000 in the document furnished the committee and the request for 1962 of \$1,148,000. The increase in cost this year is primarily due to printing requirements in connection with the "open season" in October 1961. We found it necessary to place orders for printing before the end of this fiscal year in order to meet the necessary deadlines.

Based upon our experience this year and expected developments in 1962, we cannot foresee any substantial decrease in administrative expenses next year. The continued rapid rise in the cost of hospital and medical care seems certain to require an adjustment in rates for the contract year beginning in October 1962. This will mean another open season with a cost comparable to this fiscal year for reprinting brochures and forms. Also, the number of participants will continually increase as employee and survivor annuitants come under the program. It is estimated that the 1,800,000 active employees in the program will be joined by approximately 100,000 annuitants by the end of fiscal year 1962. Administrative expenses for 1962 will average about 60 cents per covered employee and annuitant. The request of \$1,148,000 is far below the ceiling for administration of \$3,178,000 representing 1 percent of total contributions to the fund expected in 1962.

To enable the Commission to administer this program properly and promptly for the benefit of all participants, we strongly urge the committee to restore the full amount of the expense limitation requested.

This concludes my statement. Commissioner Lawton is here with me, and we shall be glad to answer any questions the committee may have.

"SALARIES AND EXPENSES" APPROPRIATION

Mr. MACY. The Commission is requesting consideration by your committee of the restoration of \$414,000 in the "Salaries and expenses" appropriation for the Civil Service Commission as against the \$800,000 that was cut from the original budget request by action of the House in H.R. 7445. The request for restoration is based primarily on the needs of the Commission for three specific programs.

STATISTICAL PROGRAM

The first of these programs is the inauguration of a statistical program for the entire Federal service. This is a program that would involve the use of automatic data processing equipment and sample employment histories of Federal employees for a sample of 5 percent of total employment—about 120,000 employees.

Senator ALLOTT. What do you mean by that?

Mr. MACY. This would mean that the Civil Service Commission would obtain from the employing departments and agencies detailed information concerning appointments, promotions, and other personnel actions with respect to a random sample of 5 percent of the total Federal employment population. From this sample, it would be possible to meet the needs of a number of recurring reports that the Commission makes for the entire executive branch, to Congress, and to the President. It would also permit the Commission to do a better job of planning its recruitment and examining activities than is possible with the information that we have at the present time. We would have data with respect to employment of such a nature that we would be able to answer special requests without a crash program of statistical gathering in order to produce the answers.

RETIREMENT FUND DATA

Another very important need it would serve would be that of the periodic evaluation of the retirement fund. This evaluation is required every 5 years and in the past it has been necessary to secure additional funds to take care of this. It would be possible under this system to have information available that would facilitate the evaluation at any particular time.

Senator MAGNUSON. Sometimes you have to make an estimate on some of these items, and this would give you a more accurate way to do it?

Mr. MACY. This would give us much more accurate information in response to congressional inquiries on the impact of pay proposals and other benefit legislation with respect to Federal employees.

Mr. Chairman, I have a supplementary statement with respect to this plan.

Senator MAGNUSON. We will put that in the record.

(The supplementary statement follows:)

STATEMENT ON THE IMPROVED PERSONNEL STATISTICS PROGRAM

We are requesting funds this year for a greatly improved program of developing statistics on Federal employment.

I am sure you are all aware of our need for comprehensive, accurate, and timely data. The data are essential to the development of effective measures for the management of a work force of more than 2 million employees.

The improved program has three striking advantages over our current statistics system:

1. It will provide data we greatly need and do not have.
2. It will provide us continuous, constantly up-to-date information.
3. It will reduce agency reporting costs.

I should like to discuss each of these briefly.

Following are some of the kinds of new data the program will produce:

(a) Data on separations, promotions, and other actions by grade, job series, age, sex, and length of service.

(b) Distribution of employees by occupation, area, sex, geographic location, grade, and salary.

(c) Retirement coverage of employees by age, sex, length of service, and by other classifications needed for annual valuations of the civil service retirement system.

(d) Lifetime earning pattern and earning potential under both civil service and OASI coverage.

(e) Working lifespan in the labor market.

(f) Mortality rates among Federal employees by occupation.

(g) Comparison of employment patterns of Federal and non-Federal workers.

(h) Information which could be used in computing cost of salary increases.

These kinds of information, if available now, would be used in many fields in which the Congress has in recent months expressed interest. I will mention some of these:

1. *Employment of retired military personnel*

The work history sample program, if desired, could provide up-to-date information on such matters as the number of retired military personnel employed in the Federal service, broken down by agency, type of job, grade level, geographic location, nature of appointment, length of civilian service, and reduction-in-force tenure group.

2. *Cost of changes in pay systems*

The Congress is currently considering a bill which would require that an employee who is promoted must receive an increase in pay of at least the equivalent of two within-grade step increases. The work history sample program could provide data on the percentage of promotions which would be affected by such a bill, and, therefore, permit accurate estimates of additional costs involved. Similar data would be useful in considering general pay changes.

3. *Escalation of Classification Act grade levels*

The work history sample program could provide data on increases in average grade level by agency, occupation, time period, etc.

4. *Utilization of women in higher level positions in the Federal service*

The work history sample program could provide information on the utilization of women in the Federal service in technical, professional, and administrative jobs. The pattern of promotions for women could be compared to the pattern for men.

5. *Discrimination on the basis of race or religion*

If it is considered desirable, the work history sample program could be designed to provide data on such things as the number of Federal employees of a particular race, their level of education and training, and the occupations and grade levels in which they were employed.

6. *Manpower utilization and manpower planning*

In addition to the above-mentioned problems of utilizing women and members of minority groups at their highest skills, up-to-date information would be available on the number of Federal scientists and engineers by subject matter specialty, employing agency, location, age, etc. Turnover rates could be computed for each such group. The number and date of retirements could be projected. When coupled with agency estimates of future needs, the data would provide a basis for planning recruiting and training programs for scientists and engineers.

7. *Mobilization in the event of an emergency*

The CSC has certain emergency responsibilities assigned to it by OCDM. One such responsibility is that of reporting the estimated numbers and kinds of Federal employees who survive any enemy attack. This requires the current maintenance of data on Federal employees by occupation and location; such data is not now available.

The occupational and employment surveys now conducted by the Commission provide data on the (1) number of Federal employees by States, city, and county, and (2) the total number of Federal employees by occupation in the United States.

The improved personnel statistics program will provide continuously current data on the distribution of Federal employees by major occupation groups in the States, cities, and counties. With this information known beforehand, the Commission will be able to estimate rapidly the number of Federal survivors by major occupational categories. This information is essential to the effective mobilization and utilization of the Federal work force.

8. *Effects of automation*

Information could be obtained on the effects of automation on particular categories of employees. The pattern of promotion, demotion, reassignment, and reduction in force actions resulting from major conversions to automation could be described.

9. *Lowering the retirement age*

Information from the work history sample program would reveal how many employees would meet the proposed new retirement criteria of age.

10. *The dynamics of the work force*

The work history sample program would enable management to get a much better picture of the work force than is currently available. For example, by following the patterns of recruitment, promotion, reassignment, and transfer a useful description of the dynamics of the Federal service could be compiled. Career patterns in the Federal service could be compared with career patterns in private industry. The extent to which employees move back and forth between the Government and private industry and the effect of such movement on their careers could be analyzed. Occupations in which turnover was excessively high, or was moving toward such a level could be identified. All such analyses could be broken down by sex, age, grade level, occupation, agency, time period, etc.

Let me add a few specific instances in which we could not furnish information. We could not give Congressman Beckworth information on turnover of Federal employees by age groups.

We could not give Senator Bennett information on turnover of employees in his State (Utah).

We could not furnish the CIA with data on promotion rates, grades GS-9 through GS-15.

I can site many more specific examples of this kind if you would like me to. (See attachment A, p. 78.)

The proposed statistics program will be especially helpful in providing data on the employment of physically handicapped persons. The placement of handicapped persons has long been of concern to the Commission.

Whereas we now receive monthly reports from the agencies showing only the number of handicapped persons appointed, under the new system we will receive continuous data on persons appointed to the service broken down into 14 types of handicaps.

While the data will be received only on appointment, since that is normally the only time the employee receives a medical examination, it will be much more detailed than data now obtained. As a result, we will be able to manage the physically handicapped program much more effectively.

Still another area in which we lack data concerns the employment of veterans. We simply do not have current data on this subject.

We have received inquiries, official and otherwise, from the major veteran organizations in which they have requested specific information concerning veterans in Federal employment. The most recent request was from the American Legion when their public relation headquarters in Indianapolis, Ind., wanted to know the total number of veterans employed by the Federal Government. The only figures that we had were probably 3 years old and we told them we had no current figures available.

I think it is important as a minimum responsibility of the Commission, which agency is charged with administration of the Veterans Preference Act, to be in a position to furnish not only to veteran organizations, but to other Federal agencies, and to the public statistical data concerning veterans. At the very least, this office should be in a position to give a report to the veteran organizations on such matters as the number of veterans appointed, separated, either for cause or by reduction-in-force, the number of veterans who resign, etc., either on a calendar or fiscal year basis. In addition we should be able to point out the number of veterans who have career tenure, career-conditional tenure, or temporary appointees, as well as being in a position to say how many veterans are appointed from a particular register. Also I think it is important to know whether or not the proportion of veterans are in blue-collar jobs, white-collar jobs, post office jobs, etc., and at what grade or level.

Certain preferential considerations are extended to veterans by law. Ever since the enactment of the Preference Act, the Commission has not been in a position to determine whether or not the act itself, or any particular part of the act, has been a deterrent to our merit system, has been an advantage to our merit system or what changes would be appropriate in light of the factual situation. I think that after 16 years or more, that it is time that the Commission be in a position to fully evaluate the effects of veteran preference in Federal employment.

The second advantage of the improved personnel statistics program is that it would provide more timely data. The primary source of statistical data under the proposed program would be from the continuous work-history sample rather than reports submitted by agencies, the current major source of personnel statistics. Thus, required data would be easily accessible and produced more quickly in whatever form is required. This is true for special or "crash" studies as well as for regular tabulations from the work-history sample. It is expected that the work-history program would provide data which could be tabulated quickly to meet many of the requirements for special statistical reports and frequently would eliminate the present requirement for special reports from agencies which are costly and require considerable amounts of time to prepare.

Finally, the program is expected to reduce agency reporting costs. For example, the number of data items which agencies are now required to report to the Commission monthly would be reduced to about two-thirds as a result of the proposed program. (This would result in significant savings only if agencies do not continue to compile these data for their own purposes.) Also, the majority of reports which are now required annually (e.g., reports on salary distribution, geographic distribution, and occupational surveys) would be submitted only every 3, 4, or possibly 5 years. The quinquennial retirement system valuation reports from agencies would be completely eliminated and replaced by an annual valuation from the work-history program. Finally, the need for "crash" surveys would be eliminated substantially.

Attachment A

Requestor	Date of request	Information requested	Disposition of request
Congressmen Lindley Beckworth and John E. Fogarty.	Apr. 13, 1960 etc.	Turnover by age: Age of former and present employees, etc.	No information available.
Sun Oil Co., Philadelphia, Pa.	Apr. 28, 1961 Feb. 8, 1961	Cross-classification by occupation and State of duty station.	Do.
Personnel, Labor Department.	Feb. 25, 1960	Age and length of service of people who retire from GS-15 and above jobs.	No statistics available. (Retirement survey conducted every 5 years.)
Library of Congress, Congressional inquiry.	May 4, 1960	Number of Federal employees over 45 years of age.	Gave percent over 45 from retirement survey.
		Number hired over 45 years of age for 1950, 1952, 1955, 1959.	Not available.
Leon Mapes, House Post Office and Civil Service Committee.	June 15, 1960	Promotion in classified service.	No statistics available since February 1954.
GSA, Ola Hazel.	.....do.....	Salary reports by installation (Chicago).	Selected metropolitan areas only.
Helen Uhrin for Mr. Brayer.	July 26, 1960	Federal employees by residence. Number of employees who work in Washington and live in Montgomery County, Md.	No information available.
Senator Thomas J. Dodd and by PIO for a publication in Texas.	Dec. 29, 1959	Requested competitive and excepted employment by State.	Gave percent for total United States.
		Payrolls by State.	Gave estimates based on employment and average salaries.
Senator Wallace F. Bennett.	Mar. 7, 1961	Turnover by State (Utah).	No statistics available.
Julius W. Boykin for Mr. McKinley (Retirement Division).	Aug. 18, 1959	Separate location figures by citizenship.	No information available.
Senator Clair Engle of California.	Oct. 15, 1959	Federal employment and payrolls by county (Shasta) and agency.	Do.
Jack Becker, executive secretary, National Committee, National Health Agencies.	Aug. 4, 1959	Employment by agency and State as of March or April.	Collected only in December.
Mr. David I. Vernay, research assistant for Michigan State University (through director 7th region).	Aug. 11, 1959	Federal employment by agency and average salaries for specific counties.	Gave 1950 employment by county and salaries based on full-time employees in the 48 States.
Mr. Charles Libera, research department, Federal Reserve Bank, Minneapolis.	July 31, 1959	Payrolls for individual States each month.	Payrolls are collected for the combined States only.
Congressman Glenn Cunningham.	June 11, 1959	Number of retirements other than under Civil Service retirement—such as TVA and Foreign Service, etc.	Retirements under Civil Service only available.
Capt. Thomas W. Walker, USAF, AF Institute of Technology, Wright-Patterson AFB.	Apr. 8, 1959	Cross-classification of grades by sex and age.	CSC retirement every 5 years evaluates to indicate such statistics.
Congressman Thomas D. Curtis.	Mar. 23, 1959	Appointments of doctors, scientists, engineers, and professional persons.	No statistics on appointments by occupations. Only numbers on rolls as of survey date.
Margaret Thal-Larsen, area analyst, Department of Employment, San Francisco.	Mar. 13, 1959	Women in San Francisco-Oakland area.	No county date available for 1958.

COST OF PROGRAM

Senator MAGNUSON. The total cost there would be \$212,500?

Mr. MACY. That is right, and that is broken down into four items:

(1) \$82,500 for 19 additional positions that would be necessary to man this function;

(2) \$31,000 for machine rental to establish the necessary equipment for it;

(3) \$84,000 would be necessary to obtain social security account numbers for those Federal employees who do not have a number, because these account numbers would form the basis for the random sample that we select;

(4) Then the final item, \$15,000 for filing and other equipment that would be a part of this system.

I emphasize this as a very important part of the Commission's budget needs because it would fulfill not only an operating, but a planning requirement that the Commission has needed for some time.

HOUSE ACTION

The work on this statistical proposal was generated by the Commission, the Budget Bureau, and the White House, and has the support of all organizations.

Senator MAGNUSON. Was this brought up in the House?

Mr. MACY. This was brought up in the House.

Senator MAGNUSON. And turned down?

Mr. MACY. It was not turned down specifically. The request for increased funds was reduced to the extent that funds are not sufficient to finance this additional activity. It should be pointed out that a large portion of this cost is a first-year installation cost and that after this program is operating, the annual cost will be substantially less, around \$100,000 a year.

Senator MAGNUSON. I see the House makes no comment.

Mr. MACY. They make no reference to it at all, but the funds that the House did make available for salaries and expenses would be consumed by the Commission's normal operating workload in examining, investigations, and in retirement, so that there would not be sufficient funds to inaugurate this new program.

Senator MAGNUSON. Because you were cut, this being a new program, this would be the one thing that you would not take up?

Mr. MACY. This would have to be supplied. That is the reason for stressing this.

Senator MAGNUSON. All right.

Mr. MACY. Now, the second item—

COMMISSION FIELD OFFICE FURNITURE

Senator MAGNUSON. Furniture in the Commission's field office; tell us about that.

Mr. MACY. The need for this is pointed up by the fact that the Commission is using furniture that in many cases is over 20 years old, furniture that was made available by the public buildings custodians at the time that the Commission established its offices in many of these work locations in the field. Much of the furniture is in areas that are used for public contact purposes. The Commission has examined its inventory, and there is need for replacements totaling about \$149,000. Some of the equipment can be repaired and refinished at a cost of \$26,000. This item totals \$175,000 and is listed in other objects under salaries and expenses.

Senator MAGNUSON. And this is the result, as I understand it, of a survey that was made?

Mr. MACY. That is correct, a detailed survey of all Commission equipment.

Senator ALLOTT. You are not going out and buying a bunch of these \$500 and \$600 desks, are you?

Mr. MACY. No, this would be handled through the normal GSA procurement channels and would be in keeping with Government standards.

Senator ALLOTT. The reason I asked is, as I visit the offices of some of these Federal agencies around the Government, I find that even out in the field people are sitting in sumptuous offices with furniture the like of which I could not get in my own office here if I tried, nor could I afford them in my own law office back home. I just want to be sure that this is not going into the purchase of \$1,000 desks and expensive equipment.

Mr. MACY. We can assure you of that. This is really to provide us with equipment that is sufficiently modern to overcome a serious deficiency that we now have.

Mr. WILLIAMS. The desks we buy cost under \$100.

Senator ALLOTT. I do not have any objection to that.

Mr. WILLIAMS. These average about \$80 to \$85 a desk.

BENEFITS FOR INCREASED PERSONNEL

Mr. MACY. Then the third item, Mr. Chairman, relates to the familiar matter of benefits for the increased personnel, and that totals for the items that are covered here, \$26,500. These three items total \$414,000, and it is that restoration out of the \$800,000 cut that we are requesting.

Senator MAGNUSON. What is the reason for the additional amount for contributions? Is this because you did not estimate the number of employees, or are these new employees?

Mr. MACY. This is to cover the additional employees that result from the increase in positions.

Senator MAGNUSON. Anticipated positions?

Mr. MACY. That is correct.

Senator MAGNUSON. That you will have if the budget amount—

Mr. MACY. If our request before your committee is authorized.

LIMITATION ON ADMINISTRATIVE EXPENSES

Now, the only other item on which we are requesting your consideration for restoration is a separate fund that constitutes a limitation on administrative expenses under the employees' health benefits fund, and there the Commission requested \$1,148,000. The House has authorized \$1 million, and we are requesting the restoration of the balance of \$148,000.

A word of background on this might be helpful. This is the first year the Commission has requested a congressional limitation for administrative expenses. Under the law that was passed in 1959, there was no limit established for fiscal years 1960 and 1961. The Commission was permitted to meet these expenses out of the Federal group life insurance fund, and the limitation on administrative expenses was to start running in fiscal year 1962. A guide was placed in the act for administrative expenses of 1 percent of the total contributions to the fund.

If that 1 percent were applied this fiscal year—1961, the ceiling would be \$3,178,000.

Senator MAGNUSON. So you are under the limitation?

Mr. MACY. Yes. We are less than 50 percent of the limitation that is indicated in the basic law. This additional money is needed primarily because of the prospect of upward rate adjustments in the various health plans in 1962, which will necessitate the publication of new plans for distribution to Federal employees for their consideration, probably in October of 1962. In October of 1961 we are going through somewhat the same process, and most of the publications for that so-called open season had to be developed with administrative expenses during the current fiscal year. Using our current fiscal year experience, it is our belief that in fiscal year 1962 that we will need roughly the same administrative expenses to carry forward this program. In actual fact, the amount of money requested is about \$10,000 less than what we anticipate we will be obliged to expend for this purpose in the current fiscal year.

RETIREMENT FUND

Senator MAGNUSON. Now, Mr. Macy, I see the House mentioned the retirement fund again.

Mr. MACY. Yes, sir.

Senator MAGNUSON. There is nothing in this budget for that at all is there, except the \$44 million which they put in to reimburse the fund for the 1962 cost of annuity increases?

Mr. MACY. The cost-of-living increase, yes.

Senator MAGNUSON. They added a proviso that the Civil Service Commission shall include annually in its estimate to the Budget Bureau estimates of the appropriations necessary to reimburse the civil service retirement disability fund for the amounts paid out of the fund by reason of the enactment of Public Law 5465, and the Bureau of the Budget shall submit annually to Congress estimates for the appropriation necessary to reimburse the fund for such amounts. What do they mean by that?

Mr. MACY. That language was apparently inserted in the House in anticipation of pending legislation (H.R. 5432) that would eliminate the requirement of the Commission making such a recommendation on an annual basis. This legislation would provide permanent authorization for the cost-of-living increase that has been authorized on a year-to-year basis for the last 4 years, and would also eliminate the requirement of making this estimate each year. The House apparently felt that they needed to anticipate the passage of that legislation, and prescribed that the Commission make such an estimate on an annual basis and report it to the Bureau of the Budget.

Senator MAGNUSON. It should not be done until the passage of what they are anticipating?

Mr. MACY. That would be my judgment.

Senator MAGNUSON. All right, any further questions?

ALLOCATION OF INCREASE

Senator ALLOTT. Of this \$17 million increase, almost \$18 million from the 1961 budget, \$17,375,000 is on the Government contribution to retired employees health benefits fund; is that correct?

Mr. MACY. That is correct, Senator. That is the first year of the Government's contribution to that program, which was enacted in the last session of the last Congress.

Senator ALLOTT. We had some talks last year, also, in the Civil Service Commission about the backload of cases. I believe it was not as bad as some others that we have. What is your situation on the workloads?

Mr. MACY. Was this an inquiry concerning the backlog of retirement cases?

Senator ALLOTT. No, your general work.

Mr. MACY. On the general work, the current condition is one of being up to what we consider to be the normal standard in most cases. The proposed financing in this request would sustain our workload at the anticipated level.

Senator ALLOTT. That is all I have.

Senator MAGNUSON. All right; thank you, Mr. Macy.

Mr. MACY. Thank you, sir.

Senator MAGNUSON. I appreciate your coming.

Mr. MACY. I appreciate the opportunity to tell our story.
(The following letters were later received:)

OFFICE OF CIVIL AND DEFENSE MOBILIZATION

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF CIVIL AND DEFENSE MOBILIZATION,
OFFICE OF THE DIRECTOR,
Washington, D.C.

Hon. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of the Independent Offices Appropriation Bill for 1962, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In further response to certain questions raised during the June 12 hearing on our 1962 appropriation requests, I am submitting herewith information concerning the National Resource Evaluation Center and the Small Business Administration representative with the center.

The basic mission of NREC is to develop and provide data and analysis for use in selecting, planning, implementing, and testing national strategies and programs in the nonmilitary defense field. An enclosure outlines more specifically the NREC functions responsive to this mission.

Most of the executive departments and agencies who have important emergency assignments support NREC by providing both data and personnel. In turn, NREC provides these and other departments and agencies with information on vulnerability of resources and on probable attack effects, as a basis for their work in mobilization planning and in preparations for performance of their operational responsibilities in a national emergency.

For these purposes the NREC operates a large electronic computer facility and has developed a magnetic tape library of information which includes technical and economic details on almost every important type of resource, including manpower, facilities, installations, and other resources. For the most part, NREC has relied on the normal statistical collection programs of the various departments and agencies. Agency representatives to NREC have in most cases been able to have these programs extended where necessary to obtain special types of information needed for vulnerability and damage estimates—for example, information on the precise location of resources and on their physical vulnerability characteristics.

The NREC agency representatives are responsible for getting the appropriate data extracted from agency records and inserted in a standard format into the NREC resource library. In addition, the agency representatives participate in resource evaluation studies based on various attack assumptions. They interpret results of these studies for officials of their agencies. They ascertain the types of information, computation, and analysis products required by their agencies for emergency planning. They participate in the development of analytical procedures and help conduct training workshops and orientation programs in damage assessment and resource evaluation techniques for personnel from all agencies.

The Small Business Administration representative to NREC is Mr. Curtis E. Anderson who, as an economist and industrial specialist, is a very effective NREC participant. He has been particularly active in organizing useful data on selected types of small business establishments for the NREC resource library. He has also made important contributions to the NREC study and training programs and is now carrying a sizable load in preparations for simulation exercises in postattack resource management. These exercises will involve development of feasible production programs, within the limitations of surviving resources, and to accomplish stipulated priorities for end-item production. The NREC computer will perform the data manipulation and recordkeeping on input requirements and resource availabilities, while resource specialists will devise and test various solutions to bottlenecks and other problems and feed associated input and production decisions into the exercise.

Like other agency representatives with NREC, Mr. Anderson is engaged in a combination at senior level of policy, liaison, analytical, and management tasks. Thus, his working days do not fall into a routine basis. Nevertheless, it may be helpful to you to have a brief description of his activities expressed in terms of a "composite day" which will reflect the particular emphasis of his work over the last 6-month period. For this period, approximately 50 percent of Mr. Anderson's effort has been devoted to the organization of production data on small plant categories of particular interest to the Small Business Administration. With the help of personnel in his agency, he has been adapting for computer input its statistical information on plant capacity, employment, and product experience in the field of metalworking and precision equipment, and has been compiling additional data for each facility on its exact location, and physical characteristics from the standpoint of weapon vulnerability. He has also been working up appropriate classification codes for this resource category to facilitate use of computers in the summarizing and analysis of individual plant data.

Twenty percent of Mr. Anderson's time is committed to his participation in the development of NREC mathematical models and computer instructions to support the resource management activities outlined above. His role is primarily concerned with developing data requirements, data coefficients, and analysis procedures for use by computer programming and formulation specialists. The balance of Mr. Anderson's activity is divided about equally (10 percent each) between NREC study projects, training activity, and program liaison with his own agency.

Mr. Anderson participates in the regular study programs of NREC with particular emphasis on analysis of small business capability and maintains appropriate liaison within his agency on the application of such studies to SBA problems. With participation of SBA production and procurement specialists, Mr. Anderson has developed analysis procedures and instructions on various aspects of attack analysis and damage assessment for use on a manual basis and with computer assistance. From time to time, he is also called upon to participate in training programs. Like other NREC representatives, he must also keep in touch with policy and program developments within his agency as these relate to future demands upon the NREC data and analysis capability.

The participation of agency representatives in the various phases of NREC activity has been a major ingredient in the success and efficiency of this inter-agency effort.

Sincerely,

FRANK B. ELLIS, *Director.*

Enclosure.

MISSION OF THE NATIONAL RESOURCE EVALUATION CENTER

The general aim in the National Resource Evaluation Center is to develop data and analysis for selection, planning, implementing, and testing nonmilitary defense strategies and programs.

More specifically, the NREC is endeavoring to:

1. Provide estimates for preattack planning for—
 - (a) survival operations following nuclear attack on United States;
 - (b) resource management following nuclear attack;
 - (c) mobilization support for limited wars; and
 - (d) resource allocations for—
 - (1) U.S. civilian requirements;
 - (2) U.S. military requirements; and
 - (3) allied requirements.

2. Maintain a capability for postattack estimates of resource status to support these same activities.
3. Perform resource evaluation studies relating to development of a stronger nonmilitary defense position; specifically for—
 - (a) reductions in vulnerability;
 - (b) training and test exercises to insure operational readiness;
 - (c) economic warfare and other cold-war plans and operations; and
 - (d) assessing resource implications of national objectives, strategies, plans, and readiness capabilities.
4. Participate with Department of Defense in symmetrical analyses of United States and allied versus Soviet bloc positions.
5. Provide estimates of economic and industrial impacts of major public works programs, and major economic, industrial, or technological changes.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
PUBLIC HEALTH SERVICE,
Washington, D.C.

HON. WARREN G. MAGNUSON,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MAGNUSON: At the hearing before your committee on June 12, 1961, with respect to the 1962 budget for the Office of Civil and Defense Mobilization, particularly the portion dealing with delegate agency requirements, two questions arose which I believe are entitled to some further elaboration.

I believe the material presented in the budget justification and the appeal from House action on the budget give to you and your committee a clear picture of the responsibilities delegated to the Department of Health, Education, and Welfare in the field of emergency health and welfare—the work which we are now doing and our plans for the future.

There is, however, a technical problem in connection with the House action which I am not sure was made clear to you that relates to the funds designated for the management of the emergency medical stockpile.

The Department of Health, Education, and Welfare is gravely concerned that no funds were provided by the House of Representatives to administer and maintain the present emergency medical stockpile program and to cover the additional administrative cost of acquiring 500 additional civil defense emergency hospitals. In the House committee report it is recommended that \$6,567,000 be appropriated for civil defense and defense mobilization functions of Federal agencies, “* * * the same amount as was provided for this purpose in 1961.” Actually, the amount provided for Federal agencies in 1961 was \$6,822,000 since \$255,000 for the management of the medical stockpile, now delegated to this Department, was applied from “Salaries and expenses, OCDM.” Since it was the apparent intent of the House committee to appropriate the same amount as last year, this \$255,000 should be restored.

Although the fiscal year 1961 base for this activity was \$255,000, the Department believes that the \$415,000 request for 1962 is essential not only to overcome obsolescence and deficiencies in the existing prepositioned hospitals but also to provide for the additional administrative costs that will be required for the new procurement and distribution of emergency hospitals proposed in the House report.

At the hearing, a question was raised as to the desirability of disposing by gift of supplies and equipment in the stockpile, such as drugs which become or are about to become outdated. We have further explored this problem since the hearing. We find that the provisions of Public Law 152 dealing with the disposition of surplus property do not cover property which must be replaced. Therefore, if the Congress wanted to make such donations possible, it would be necessary to provide the authority in the language of the appropriation or other act. If the Congress decided to enact such authority it would be our intent to administer it by utilizing a competent and authoritative advisory committee to assist in determining the most effective and practical distribution of items which will require replacement.

Sincerely yours,

JOHN D. PORTERFIELD,
Deputy Surgeon General.

Senator MAGNUSON. We will recess until 10 o'clock to hear the Civil Aeronautics Board.

(Whereupon, at 2:30 p.m., Monday, June 12, 1961, the committee recessed, to reconvene at 10 a.m., Tuesday, June 13, 1961.)

INDEPENDENT OFFICES APPROPRIATIONS FOR 1962

TUESDAY, JUNE 13, 1961

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:05 a.m., subject to call, in room F-37, U.S. Capitol Building, Hon. Warren G. Magnuson (chairman) presiding.

Present: Senators Magnuson, Allott, and Schoeppel.

CIVIL AERONAUTICS BOARD

STATEMENT OF ALAN S. BOYD, CHAIRMAN, CIVIL AERONAUTICS BOARD, ACCOMPANIED BY ROBERT T. MURPHY, VICE CHAIRMAN; G. JOSEPH MINETTI, MEMBER OF THE BOARD; MORRIS CHERTKOV, EXECUTIVE DIRECTOR; JOHN B. RUSSELL, CHIEF, OFFICE OF ADMINISTRATION; IRVING ROTH, DIRECTOR, BUREAU OF ECONOMIC REGULATION; JOSEPH C. WATSON, DIRECTOR, BUREAU OF INTERNATIONAL AFFAIRS; WARNER H. HORD, CHIEF, OFFICE OF CARRIER ACCOUNTS AND STATISTICS; JOHN H. WANNER, GENERAL COUNSEL; LEON H. TANGUAY, ASSOCIATE DIRECTOR, BUREAU OF SAFETY; ROBERT L. FROMAN, ASSISTANT DIRECTOR BUREAU OF SAFETY; JOHN G. ADAMS, DIRECTOR, BUREAU OF ENFORCEMENT; AND FRANCIS W. BROWN, CHIEF HEARING EXAMINER

AMENDMENTS AND JUSTIFICATIONS

Senator MAGNUSON. The committee will come to order.

We will hear this morning from the Civil Aeronautics Board and Mr. Boyd, the chairman, is here.

We will place your letter to the committee, in full, in the record.

(The letter referred to follows:)

CIVIL AERONAUTICS BOARD,
Washington, D.C., June 12, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of the Independent Offices Appropriation Bill for 1962, Committee on Appropriations, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In response to your letter of June 2, 1961, the Board believes that the public interest does require changes in H.R. 7445, the independent offices appropriation bill for 1962, as passed by the House.

The Board requests that the bill be amended in three respects: (1) to restore the reduction of \$150,000 for "Salaries and expenses"; (2) to delete the language from the bill which limits payment of subsidy for helicopter operations; and (3) to restore the reduction of \$6,900,000 for "Payments to air carriers."

These changes are set forth and briefly explained in the separate statements attached covering each of the Board's two appropriation accounts.

We appreciate the opportunity afforded the Board to appear before your committee to explain more fully the changes requested in the House bill and to answer any questions which you or other members of the committee may have.

Sincerely yours,

ALAN S. BOYD, *Chairman.*

CIVIL AERONAUTICS BOARD

"SALARIES AND EXPENSES"

(House hearings, pp. 706 to 837)

Page 5, line 14 of H.R. 7445 as reported to the House:

1961 appropriation.....	\$7,852,500
1962 budget estimate.....	9,050,000
1962 House allowance.....	8,900,000
Increase (+) or decrease (-) 1962 estimate over 1961 appropriation.....	+1,197,500
Increase (+) or decrease (-) House allowance from 1962 estimate.....	+1,047,500
Restoration requested.....	150,000

AMENDMENTS REQUESTED

The Board requests the following amendments:

Page 5, line 21, strike out "\$8,900,000", and insert "\$9,050,000".

HOUSE REPORT

"The budget estimate for salaries and expenses of the Board, including a \$100,000 increase in a revised estimate to conduct special policy studies for the most urgent needs of the Board, is \$9,050,000. The bill recommended by the committee provides \$8,900,000, including \$50,000 for the special studies. This is an increase of \$1,047,500 over 1961 and a reduction of \$150,000 in the budget requests, and will give the Board approximately 70 additional positions to handle its increasing workloads. The committee has not allowed funds to increase statistical reporting and is of the opinion that 20 positions allocated to international activities are too many and can be reduced."

STATEMENT

The House report indicates that the \$150,000 reduction made by the House in the appropriation request for "Salaries and expenses" consists of \$50,000 from eliminating one of the two special studies for which the Board sought a total of \$100,000; and a reduction of \$100,000 for the Board's statistical and research activities.

The Board is charged by law with the responsibility for encouragement and development of air transportation and to foster sound economic conditions in the industry. The airline industry as a service industry is responsive to business conditions generally. It is faced with many problems. It is not solely within the Board's power to find solutions. However, the Board cannot cross its fingers and hope for improvement. Neither can the Board solve its problems simply by processing the cases on its docket, although the cases must be processed.

In carrying out its economic regulatory mission, there continues to be an increasing and urgent need for the collection and evaluation of data to formulate policy determinations. In this connection, the Board requested funds for the conduct of two special studies under contract with outside persons or firms. Specifically, for 1962 the Board requested \$100,000 for the conduct of studies concerned with the establishment of "Adequacy of Service Standards" and "The Role of Supplemental Air Carriers." A brief explanation of each of these proposed studies follows:

1. *Establishment of standards for adequacy of service.*—Problems in this area are becoming more numerous and of increasing importance with a resultant need for the early development of definitive standards for handling adequacy of service cases. Such cases normally involve issues concerned with quantity of service (number of flights, equipment capacity, and class of service) and/or quality of service (scheduling, equipment types, performance, connecting versus single plane service, passenger service, and other service facilities). A study is needed to determine the facts relating to the basic problems and information as

to passenger traveling habits, requirements for service in varied types of markets, and the economics of providing such adequate service. The scope of the proposed study might extend into several categories, including, among others, trunkline services, local carrier services, long-haul markets, short-haul markets, competitive markets, and airline scheduling practices. In addition, the results of this study should prove valuable in carrying out the Board's use-it-or-lose-it policy.

2. *The role of supplemental air carriers.*—Immediately following World War II, the Board, by exemption, granted certain limited authorities to carry passengers and cargo to certain carriers who became known as irregular carriers. These operations continued in varying degrees through the period when the Board had before it for consideration a case involving these carriers and known as the large irregular case. This case was partially decided in 1955, and finally in 1958. As a result of this decision, certain of the irregular carriers were certificated for certain types of operations and became known as supplemental carriers.

In 1959, the U.S. Circuit Court of Appeals decided that in granting these certificates the Board had exceeded its authority. This decision had the effect of invalidating the supplemental certificates.

In 1960, for the purpose of neutralizing the effects of the court decision, the Congress passed short-term legislation whose purpose was to continue these carriers in status quo as supplemental carriers in spite of the court for a sufficient time to permit the Board to reexamine the entire problem.

During all the period from 1945 to this date, there has been a consistent effort by these carriers to expand their authorizations to carry passengers, mail, and cargo, both domestically and internationally. Concurrently, there has been a concerted effort by the operators holding trunkline certificates to force back the operations of the supplementals on the ground that their operations are duplications of the franchises granted to the trunk operators.

The competitive dispute between both classes of carriers has been extremely difficult to solve, and economic data in support of both points of view has been assembled and submitted to the Board in tremendous volume.

Thus, after nearly 16 years of struggling with this problem, the Board still has before it a complex series of disputes relating to what should be the proper status for a class of carriers whose existence will terminate when the short-term legislation enacted in 1960 expires in March 1962.

For these reasons, the Board proposes to undertake a study to aid it in developing policies, procedures, and standards to guide it in acting upon matters relating to the role of these carriers. The examination would include a study of the role of these carriers in the field of charter carriage of private business, carriage of individually ticketed shipments and passengers, contract carriage for the Defense Department during peacetime and also during emergency mobilization, and of the impact on scheduled as well as supplemental carriers of marking out a segment of business for carriage by supplementals and of related issues.

The 1962 budget estimates also request \$100,000 and 10 positions for Statistical and Research activities. This increase is necessary in support of the Board's work program for 1962 as follows:

Three additional positions are requested to provide analytical assistance in formal route and rate proceedings to Board members and their assistants, hearing examiners, and opinion writers—which must be performed by staff free of prior involvement in such cases. The Board's program for 1962 provides for an increase in the number of route cases placed into process as well as expediting rate cases and other matters. This will increase materially the need for technical assistance.

Two additional positions are requested to assist in improving the quality and timeliness of periodic and special purpose statistical reports essential in the day-to-day operations of the Board and its staff.

Two additional positions are requested in 1962 to process more adequately the existing passenger origination-destination and traffic-flow surveys and to provide for the anticipated increase in passenger survey work.

Three additional positions are requested in 1962 for planning domestic and international air cargo surveys.

There are clear indications that striking and unprecedented developments will occur in air cargo during the next few years. These are expected to result, first, from a great increase in the capacity offered by the airlines for the carriage of cargo—which has already started; second, from the hoped-for reduction in shipping rates to be made possible by the substantially lower unit operating cost promised by new "giant" all-cargo aircraft types now in production (and actually on order) or in the planning stages; and, third, from the potentially significant

reductions that are believed can be made in total distribution costs (arising from reduced inventory or pipeline costs, warehousing costs, crating costs, spoilage costs, damage insurance costs, losses in transit, and transshipping costs).

Faced with the prospect of a potentially enormous increase in air cargo volume, it must be anticipated that air cargo O. & D. data for both domestic and international operations will become as essential in the route and bilateral negotiation work of the Board as air passenger O. & D. data now are. The absence of O. & D. information on commodity shipments by air was recently identified as a major gap in transportation statistics in a statement prepared in the Bureau of the Budget for the Lesinski Committee on Census and Government Statistics.

An air cargo O. & D. survey cannot be brought into being overnight. From the start of serious planning, at least a full year would be necessary, working in cooperation with the airlines, to develop and test the collection and processing procedures (including electronic data processing). If planning started with the beginning of fiscal year 1962, the first survey data would not be available until January 1963 or later. It is proposed, therefore, that the three additional positions be provided in 1962 for planning domestic and international air cargo O. & D. surveys to be implemented in fiscal year 1963. For actual performance of the surveys beginning in 1963, a further increase in staff for that year would be necessary. However, the actual total staff needed for the air cargo O. & D. surveys will have to be determined after more detailed planning has been completed.

The House report states that the committee "is of the opinion that 20 positions allocated to international activities are too many and can be reduced." The actual situation is that we are having difficulty keeping up with the work with 20 positions.

Work in the field of international operations is steadily increasing in volume, complexity, and importance. The foreign-flag carriers are providing a very substantial and constantly increasing degree of competition with U.S. carriers on all principal international routes. A growing number of foreign governments have shown a tendency to curb U.S. carrier operations in order to protect their own airlines and in a desire to achieve more extensive and deeper penetration of the U.S. market. This situation is becoming more acute with the introduction of jets and affects not only international trunk operations of U.S. carriers but their domestic operations as well.

In recognition of the increased importance and emphasis the Board is placing on its activities for meeting the operating problems arising in the international civil aviation field, the Board recently elevated its international staff to the level of a Bureau.

Since U.S. bilateral agreements and reciprocal or unilateral air rights govern the international air operations of our U.S.-flag carriers almost entirely, the Civil Aeronautics Board must be prepared at all times to advise the Department of State on their negotiation and interpretation. Objectives for 1962 are (a) to negotiate bilateral agreements with countries where heretofore none have existed, (b) to renegotiate expired or denounced agreements to a mutually satisfactory conclusion, (c) to consult with the Department of State on matters of interpretation and operating problems arising in connection with existing agreements to the end that U.S.-flag carriers receive route grants and operating rights which are economically sound and consistent with reciprocal rights requested by foreign countries. The workload in this area is expected to continue to increase significantly and any reduction in this staff would seriously affect the Board's work in this important area of activity.

In addition the Board has the primary responsibility for the preparation of U.S. positions for meetings of international bodies such as the International Civil Aviation Organization (ICAO), the European Civil Aviation Conference (ECAC), and NATO Civil Aviation Planning Committee (CAPC). It also provides members for U.S. delegations to such meetings. The Bureau of International Affairs is the focal point in the Board for this work.

The Board believes that funds for both studies and the 10 positions for the Research and Statistical activities are essential to effectively carry out the Board's 1962 program and requests that full restoration of the House reduction be made.

CIVIL AERONAUTICS BOARD

PAYMENTS TO AIR CARRIERS

(House hearings, pp. 706 to 837)

Page 5, line 22, of H.R. 7445 as reported to the House:

1961 appropriation.....	\$82,500,000
1962 budget estimate.....	81,700,000
1962 House allowance.....	74,800,000
Increase (+) or decrease (-) 1962 estimate over 1961 appropriation.....	-7,700,000
Increase (+) or decrease (-) House allowance from 1962 estimate.....	-6,900,000
Restoration requested.....	+6,900,000

AMENDMENTS REQUESTED

The Board requests the following amendments:

On page 6, line 2, strike out "\$74,800,000", and insert "\$81,700,000", and on page 6, lines 2, 3, and 4, strike out "of which not to exceed \$5 million shall be available for subsidy for helicopter operations during the fiscal year,".

HOUSE REPORT

"The bill includes \$74,800,000 for payment of subsidies to local service, Alaskan and helicopter air carriers, which provides \$7,700,000 less than 1961 and \$6,900,000 below the budget estimate. The Committee cautions the Board about certifying more carriers in Alaska where the number should be consolidated instead of creating a new subsidy every time an additional one is certified. This is also the last year the Committee plans to recommend funds for subsidy for helicopter operations and the amount in 1962 for this purpose has been reduced from the \$6,900,000 budget estimate to \$5,000,000 and earmarked in the bill at not to exceed this amount. The total amount of subsidy paid out since 1953 to the three helicopter carriers receiving subsidy will be more than \$36,000,000 including the reduced amount included in the bill for 1962."

The appropriation requested for "Payments to air carriers" in 1962 is in the total amount of \$81,700,000 and reflects the Board's estimate of the funds that will be required to pay the carriers' bills as they become due under rate orders now in effect or expected to be in effect during the fiscal year 1962.

Review of these estimates indicates that they are as accurate as we can reasonably project at this time, taking into account the many variables involved. Our review does not indicate any basis for downward adjustment of the estimated appropriation requirements of \$81,700,000.

With respect to helicopter operations, the provision in the House bill limiting to \$5 million the portion of the appropriation which is to be available for paying subsidy for helicopter operations during 1962, the Board is faced with a dilemma.

The Board was faced with a somewhat similar situation in 1955 when in the course of consideration by the Congress of the estimate for "Payments to air carriers" for 1955, question was raised as to the legal effect upon the Board's authority under section 406 of the act to fix and determine rates of compensation for the transportation of mail, including need, of a limitation of the amount appropriated by the Congress for the payment of subsidy included in such rates. As a consequence, the Board submitted the matter to the Acting Comptroller General, posing the following questions:

"(1) Under the existing provisions of section 406 of the Civil Aeronautics Act of 1938, as amended, does the Civil Aeronautics Board have authority to determine the fair and reasonable rates of compensation for the transportation of mail by aircraft for each carrier certified to carry mail, including the need of each such carrier where such need is determined to exist within the meaning of section 406(b) without regard to whether there are, at the time of such determination, appropriations available sufficient to cover the amounts which may become due under the rates so fixed?

"(2) Under the existing provisions of section 406, does the amount of a carrier's need, i.e., subsidy, determined by the Board pursuant to section 406(b) and in accordance with the standards therein set forth, constitute a valid legal claim against the United States, regardless of whether there are, at the time of determination, appropriations available sufficient to cover the amounts which may become due the carrier pursuant to such determination?"

In reply, the Acting Comptroller General in opinion B-103841, dated October 6, 1954, advised in pertinent part as follows:

"The statutory direction that the Board fix and determine fair and reasonable rates is independent of the direction that the Postmaster General pay such rates for the transportation of mail by aircraft. The rates are not earned, and neither the Postmaster General nor the Board incurs an obligation to pay them, until mail has been transported. In other words, determination of rates is disassociated not only from the function of payment but even from the incurrence of obligation. Hence, I am of the view that the existence or nonexistence of appropriations does not in any way restrict or interfere with the ratemaking duties of the Board.

"With respect to your second question, you express no doubt as to your authority to satisfy proper claims for the subsidy portion of the fixed compensation, * * * where appropriations have been made available. Whether, in the absence of appropriations to satisfy them, those claims constitute valid legal obligations of the United States is a hypothetical question, which involves a supposition that the Congress will not appropriate funds adequate to cover the objects in question. This office has consistently declined to render decisions in such cases."

The Board is not now prepared to say what action it will take under the limitation imposed by the House bill. Notwithstanding the Acting Comptroller General's opinion that the ratemaking duties of the Board are not restricted, the limitation would require serious study and consideration by the Board. Obviously, however, the Board will not make payments to the helicopter carriers in excess of whatever limitation the Congress may establish.

The Board believes that the helicopter operations it has certificated and the subsidies expended for operations under those certificates have been in the public interest. In this connection, there is attached a statement on helicopter operations in support of the current subsidy level for such operations.

The Board urges the Senate to delete the limiting language from the bill.

STATEMENT RE HELICOPTER OPERATIONS

At the present time there are three carriers operating with helicopter (rotary wing) aircraft which provide services in three major metropolitan areas, Los Angeles, Chicago, and New York. These carriers have been in operation since October 1, 1947, August 20, 1949, and October 15, 1952, respectively.

The helicopter carriers were certificated for three specific purposes: (1) To expedite metropolitan mail deliveries to the central post office; (2) to assist in the development of rotary-wing aircraft for national defense purposes; and (3) to determine the feasibility of transportation of passengers, in addition to mail and property, between the centers of cities or their airports to suburban and outlying areas.

The services of these carriers have been utilized continuously by the Post Office Department. The Department of Defense has recognized their contributions to the development and operation of the military helicopter aircraft. Recently, it has been estimated that the cash savings to military operators resulting from the service experience of the scheduled helicopter carriers exceeds substantially the entire subsidy already paid these operators. Whether or not the dollar estimate is accurate, it is clear that the minimum savings to the military are substantial in relation to the subsidy cost for the service. Apart from the military support for the service, civil defense authorities have also testified in helicopter renewal cases of the value of their services to civil defense, especially in the event of an emergency.

In the *New York Airways Renewal* case, docket 8569, which was decided by the Board on March 17, 1960, the Honorable F. H. Higgins, then Assistant Secretary of the Army (Logistics), authorized putting into the record the following statement:

"1. New York Airways, along with other commercial helicopter operations employing aircraft incorporating components common with those utilized by the Army (engines, clutches, transmissions, drive shafting, rotor hubs, blades, etc.), has contributed materially to the overall development of these items in terms of service life. The scheduled helicopter operation, with attendant high aircraft utilization rate accumulates operating experience at a far greater rate than is possible through normal Army peacetime operating experience.

"2. New York Airways has participated with the Army in providing training to Army personnel under the industrial mobilization training program (phase B). In addition to actual flight operations, these trainees are acquainted with other aspects of helicopter service such as traffic management, accounting procedures, ground handling methods, helicopter maintenance, etc."

In the *Chicago Helicopter* case, docket 6600, in which the Helicopter Air Service, Inc., certificate was renewed, decided June 7, 1956, the Civil Defense Administration is quoted in the opinion as stating:

"The Civil Defense Administration supports generally the helicopter service in this area (Chicago) and maintains that the Board should give appropriate weight to the value of such service for civil defense."

All three helicopter carriers are now carrying passengers as well as property and mail. New York Airways, Inc., commenced transportation of passengers in July 1953; Los Angeles Airways inaugurated passenger service in November 1954; Chicago started passenger service in November of 1956. In calendar year 1960, these 3 helicopter carriers transported a total of 490,000 passengers, an increase of 113 percent over calendar year 1958.

With the advent of jet service, transcontinental flights taking approximately 4½ hours have little meaning if from 1 to 2 hours is required for the surface transportation upon departure or arrival of destination. There is increased use of helicopters by all classes of traffic for transfer between airports in the three communities now serviced as well as transfer of passengers from the airports to the outlying suburban communities.

The subsidy of these carriers stems from the facts:

(1) They had limited revenue from passenger operations due, in part, to equipment limitations.

(2) They are still in an early stage of development and present aircraft have high cost characteristics.

(3) The airlift type itself is in a highly transitional state.

An ultimate increase in revenue from the transportation of passengers is anticipated through the development of helicopter aircraft capable of carrying a greater number of passengers at lower operating cost. The new twin turbine-powered helicopters which will be introduced in 1961 will provide a seat increase of approximately 100 percent over the largest piston-engine types. It is projected that these turbine-powered helicopters, carrying about 25 passengers, will have a direct seat-mile operating cost of approximately 12 cents compared to the approximately 29 cents per seat-mile direct operating cost of reciprocating engine transport helicopters now in use commercially, the largest of which are within the 10- to 15-passenger configuration. The Board announced in a press release, dated January 31, 1961, approval in principle of an application for Government guarantee of a loan for five Boeing V-107 aircraft for New York Airways. Applications for Government guarantee of loans to purchase Sikorsky S-61 aircraft by Chicago Helicopter Airways and Los Angeles Airways are being processed.

On the basis of the forecasts and estimates submitted in the loan application cases, it appears that for a full year of operations by all three carriers with turbine-powered equipment, the subsidy bill would approximate the following:

Chicago.....	Million
Los Angeles.....	\$3.0
New York Airways.....	2.6
	3.5
Total.....	9.1

Assuming that the three carriers place the turbine equipment into service on or about the dates indicated in their loan guarantee applications, it appears that the subsidy bill for the fiscal year 1962 would approximate the \$6,941,000 figure budgeted by the Board for the fiscal year. However, as indicated in the total mentioned above, for a full year of operations by all three carriers with turbine-powered equipment, the bill is forecast at about \$9,100,000.

While it is hoped that the subsidy bill would decline from the \$9,100,000 amount as experienced was gained by the three operators with the new type of aircraft, particularly in view of the fact that these aircraft are capable of transporting as much as 25 passengers at this time, it is impossible to predict with certainty what the actual trend in the subsidy requirements may be. Only the actual operating experience will prove the capabilities and the economies of turbine-powered helicopters in commercial service. In any event, the reequipment program is essential to permit continuation of the helicopter experiment with the realizable public benefits heretofore described.

Over and above the limited certificate authorizations, the Board has retained jurisdiction over the carriage of passengers by authorizing these services on an area basis. If the carrier desires to make a flight pattern change, it must be obtained under the area exemption authority with express Board approval. In this way the Board has been able to screen any requests for additional service and to avoid excessive service which might result in unwarranted subsidy.

Summary of budget estimates, fiscal year 1962

Appropriation and activity	1961			1962			Difference, increase (+) or decrease (-)		
	Maximum number of permanent positions	Average number of all positions	Dollar cost	Maximum number of permanent positions	Average number of all positions	Dollar cost	Maximum number of permanent positions	Average number of all positions	Dollar cost
Salaries and expenses:									
Economic regulation:									
Personnel compensation and benefits.....	462	448	\$3,964,500	493	474	\$4,257,300	+31	+26	+\$292,800
Other objects.....			486,500			883,000			+97,100
Total.....			4,451,000			4,840,900			+389,900
Safety activities:									
Personnel compensation and benefits.....	139	135	1,288,900	184	175	1,882,500	+45	+40	+413,600
Other objects.....			301,500			537,500			+236,000
Total.....			1,570,400			2,220,000			+649,600
Board adjudication, executive and legal staff activities:									
Personnel compensation and benefits.....	112	111	1,102,300	115	114	1,137,900	+3	+3	+35,600
Other objects.....			67,800			64,100			-3,700
Total.....			1,170,100			1,202,000			+31,900
Administrative activities:									
Personnel compensation and benefits.....	87	85	373,100	89	87	583,700	+2	+2	+10,600
Other objects.....			87,900			103,400			+15,500
Total.....			661,000			687,100			+26,100
Recapitulation:									
Personnel compensation and benefits.....	800	779	6,008,800	881	850	7,661,400	+81	+71	+752,600
Other objects.....			943,700			1,288,000			+344,900
Total.....			7,852,500			8,950,000			+1,097,500
Net adjustment to base (see "Summary of Requirements" for detail)			-460,000						+460,000
Total appropriation.....	800	779	7,392,500	881	850	8,950,000	+81	+71	+1,557,500
Payments to air carriers.....			86,944,000			81,700,000			-5,244,000
Net adjustment to base.....			-21,944,000						-21,944,000
Total appropriation.....			65,000,000			81,700,000			16,700,000
Grand total, all appropriations.....	800	779	72,392,500	881	850	90,650,000	+81	+71	18,257,500

Should the Congress conclude that public benefits from the current helicopter operations do not warrant any increase in present subsidy levels, the Board could take appropriate steps to so curtail operations as to keep subsidy required within these limits. However, this would preclude any extension of current service by the three carriers and would require certain service and equipment contractions. It would, of course, also inhibit the establishment of any new services such as those for which applications are now being heard in the *Washington, D.C., Helicopter* case, docket No. 11941.

The technical development of the helicopter is continuing, as noted above in the discussion of the new turbine-powered helicopter. Prototypes are now flying of the so-called STOL (short takeoff and landing) and the VTOL (vertical takeoff and landing) which may play an important part in air transportation in the future.

The Board believes that the certification of these three helicopter operations in Los Angeles, Chicago, and New York has amply fulfilled their role in fostering the development of air transportation, and that their operations have been and will continue to be in the public interest.

GENERAL STATEMENT

Senator MAGNUSON. We welcome all the other members of the Board.

For the purpose of the record, your 1961 appropriation was \$90,352,500. The first budget sent up in January was \$90,650,000. Then the amended budget added \$100,000 to that, making it \$90,750,000. And the House allowed you \$83,700,000, or minus \$6,652,500 from the year 1961 appropriation and minus \$7,050,000 from the 1962 amended budget. And the restoration that you are suggesting is \$7,050,000.

You have a statement, Mr. Boyd, you would like to present to the committee?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. All right; we will be glad to hear it.

Mr. BOYD. With your permission, I will read the statement.

Senator MAGNUSON. Yes.

RESTORATION REQUEST

Mr. BOYD. We appreciate very much this opportunity to appear before the subcommittee today, Mr. Chairman and Senator Allott, in support of the Board's two separate appropriation requests for the 1962 fiscal year.

SALARIES AND EXPENSES

The first is a request for \$9,050,000 for salaries and expenses. The House of Representatives approved \$8,900,000, a reduction of \$150,000 from the estimate. We are requesting that this amount be restored.

DELETION OF LIMITATION ON HELICOPTER SUBSIDY

The second is a request for \$81,700,000 for payments to air carriers for subsidies. The House of Representatives approved \$74,800,000, a reduction of \$6,900,000 from the estimate. We are also asking that this reduction be restored. Also in connection with the appropriation for payments to air carriers, the House has inserted language in the bill limiting the amount of the appropriation available for subsidy for helicopter operations during the fiscal year 1962 to \$5 million. We are requesting that this language be deleted from the bill.

We are gratified that the House approved funds for salaries and expenses of the Board to support most of the Board's programs for the 1962 fiscal year. However, we believe that ours is an austere budget, in that the funds we have requested are required to handle our current workload and to begin a reduction of the gap between our present workload and staff.

The Board has frequently been alluded to as the "smallest of the regulatory agencies." While this may be true in terms of staff, I want to emphasize that neither the size nor importance of the commercial air transportation industry with which the Board is concerned, nor the magnitude of the Board's responsibilities and workload is small by any manner of measurement.

Unless you care for me to do so, I will not relate the number and developments of carriers, but just submit that for the record.

Senator MAGNUSON. All right, submit that for the record.

Mr. BOYD. And the growth of the carriers will also be submitted for the record.

I would like to point out that the supersonic transport age is now staring us in the face.

OPERATING STATISTICS FOR 1960

A look at the operating statistics for the 52 certificated carriers—other than supplementals—shows that during the year ended December 31, 1960, they:

- Carried traffic totaling 5 billion revenue ton-miles;
- Transported 58.6 million passengers for a total of 40 billion revenue passenger-miles;
- Transported cargo to the extent of 860 million ton-miles;
- Provided regularly scheduled air transportation service to 969 communities, including about 250 in Alaska;
- Operated a total of 2,036 aircraft to the extent of providing capacity approximating 67 billion available seat-miles;
- Had \$2.3 billion invested, and employment totaling 164 thousand;
- Conducted operations involving a total of \$2,884 million in revenue and \$2,807 million in expenses;
- Paid taxes totaling \$104 million, of which \$79 million went to the Federal Government;
- Collected \$163 million in passenger transportation taxes which were also turned over to the Federal Government.

The certificated industry with a \$2.3 billion investment earned, for the year ended December 31, 1960, an estimated \$75,041,000 before interest, but after special items and taxes, or 3.22 percent on investment, and only 0.31 percent on operating revenue. Net income after interest is estimated at \$8,807,000. This is a problem—and a great problem. It is the Board's problem, since we are charged by law with the responsibility for the encouragement and development of air transportation, and to foster sound economic conditions in the industry.

SOLUTIONS TO INDUSTRY PROBLEMS

It is not solely within the Board's power to find solutions. The airline industry, as a service industry, is responsive to business conditions generally. However, the Board cannot cross its fingers and hope

for improvement. It has an affirmative responsibility. The industry will not and cannot wait. The Board cannot solve its problems simply by processing the cases on its docket, although the cases must be processed. It must not only meet the problems of today, but it must look ahead and plan to meet the problems of tomorrow.

BACKLOG OF UNCOMPLETED WORK

Although planning is one of the most urgent needs in the Board today, the Board is at the same time faced with large accumulations of uncompleted work. While the Board has been criticized for shuffling too many papers and for delays in its case processing, virtually everything the Board does is required by statute as are also the basic procedures involved. Under the statutes, the Board must process the applications and equivalent matters presented to it. It cannot rid itself of these matters by not taking action. Even dismissal of matters itself takes staff time and must adhere to statutory procedures.

EXPEDITING WORK OF THE BOARD

Our estimates reflect a very optimistic forecast of expediting the work of the Board through improved techniques and procedures, many of which are in the planning stage and not yet fully defined.

In this connection, the Board is intensely involved in studies designed to find work elements which, in whole or in part, can be eliminated, suspended, or delayed without seriously impairing the effectiveness of its programs and the carrying out of its responsibilities to the Congress and to the public. Our efforts in this direction have been on a continuing basis and have already produced improvements including statutory changes, policy changes, additional delegations of authority to the staff and procedural shortcuts.

ORGANIZATIONAL CHANGES

On March 3 of this year, the Board announced several organizational changes for improving procedures and expediting the Board's ever-increasing workload, and realigning the functions of the economic staff for more effective operation. The changes include:

The establishment of an overall planning office to aid the Board in developing policies, both substantive and procedural, for meeting the problems in the fast-changing air transportation field.

A realignment of economic functions, under a Bureau of Economic Regulation, into a Rates Division for commercial rates and service mail rates to recognize the growing importance of commercial rate matters; a Subsidy Division responsible for subsidy rates and guaranteed loans and to concentrate on the promotional functions of the Board in administering financial aids to local service and helicopter carriers; and a Routes and Agreements Division to meet the urgent need for more realistic and effective administration of all licensing and carrier agreement activities.

The establishment of a new Bureau of International Affairs in line with the increased importance and emphasis the Board is placing on its activities for meeting the operating problems arising in the international civil aviation field. We must make every effort to assure

that U.S.-flag carriers receive route grants and operating rights which are economically sound and consistent with reciprocal rights requested by foreign countries.

In addition, we have provided for a Special Assistant for Community Relations to concentrate on such matters as adequacy of service problems.

IMPROVING STATISTICAL TOOLS AND DATA PROCESSING

Because of the great masses of statistical, economic, and operating facts which the Board must process in connection with the economic regulatory cases, a substantial effort is being directed toward improving the statistical tools and methods of processing this data.

Recent studies by a staff committee indicate that a substantial amount of employee time is currently being used in the manual processing of factual material. In large part, the nature of the work performed lends itself, ultimately to much more adequate and efficient processing through modern electronic installations now available at a price the Board can afford to pay.

In this connection, the estimates include an increase of \$50,000 for the performance of feasibility studies, systems development, additional programing, and outside technical assistance to provide for conversion from present IBM punchcard equipment to an electronic facility. Once this conversion has been accomplished, its ultimate effect on overall Board productivity should be equivalent to a substantial increase in staff. We expect this program to begin paying dividends commencing during the fiscal year 1963.

HOUSE COMMITTEE REPORT

At this point, I would like to address myself to the House disallowance of \$100,000 for the Board's statistical and research activities.

Senator MAGNUSON. Mr. Chairman, right there, the House committee in their report said, and I quote from page 4:

The Committee has not allowed funds to increase statistical reporting and is of the opinion that 20 positions allocated to international activities are too many and can be reduced.

I am not quite clear whether there were 20 people in international activities or in the statistical division; or are they separate?

Mr. BOYD. These are separate.

Senator MAGNUSON. Separate?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. In other words, the House is talking about two things there?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. One, statistical reporting, and the other, the 20 people in international activities?

Mr. BOYD. That is correct.

RESTORATION OF DISALLOWANCE FOR STATISTICAL AND RESEARCH ACTIVITIES

The Board's 1962 budget estimates presented its requirements in terms of its most urgent needs for accomplishment of priority programs demanded by the Congress, the public and the industry. In

this connection, it is important to understand that the interrelationship of virtually every phase of the Board's work is such that an inadequacy in one part of the Board's organizational structure will create a bottleneck and adversely affect other parts. It is essential that balance in staff assignments must be maintained at all times and be frequently adjusted. This is the premise on which the estimates for 1962 were constructed.

Senator MAGNUSON. Now, before we leave this \$100,000, so that we are clear, the first budget, the January budget, was \$90,650,000 and the amended budget was \$90,750,000. Is that the \$100,000 you are talking about?

Mr. BOYD. No, sir.

Senator MAGNUSON. It is not. All right.

WORK UNDER STATISTICAL AND RESEARCH ACTIVITIES

Mr. BOYD. The work performed under the "Statistical and research" activity includes providing basic statistical data needed to carry out the Board's regulatory functions, providing technical and analytical assistance to the Board and its staff in rate and route proceedings, especially in decisional phases of those cases in which the Administrative Procedure Act prohibits assistance by parties to proceedings, making economic studies and forecasts needed by the Board for daily operations and for anticipating the impact of future developments, conducting an economic research program to improve the understanding of economic characteristics of the air transport industry, and evaluation of air transport and other economic trends to keep the Board and staff informed of significant industry developments.

Our program for 1962 provides for a higher level of accomplishment in the routes, rates, and other economic areas which, in turn, will require meeting the increased need for statistics and technical assistance by the Board's hearing examiners, opinion writers and other Board staff. The Board, therefore, urges the committee to restore the \$100,000 House reduction.

Senator MAGNUSON. Now, the \$100,000 you are talking about there is purely for the statistical work which you have been discussing?

Mr. BOYD. That is correct, sir.

Senator MAGNUSON. All right.

STUDIES PERFORMED ON CONTRACTUAL BASIS

Mr. BOYD. In carrying out its economic regulatory mission, there continues to be an increasing and urgent need for the collection and evaluation of data required to formulate policy determinations. In this connection, the Board's estimates include provision for establishing a small planning staff and to augment the limited capabilities of this small staff in accomplishing high priority studies by entering into contracts with outside persons or firms. Specifically, for 1962 the Board requested \$100,000 for the conduct of two such studies, namely "Adequacy of Service Standards" and "Role of Supplemental Air Carriers."

Senator ALLOTT. At that point, Mr. Chairman, I would like to inquire. We have steadily increased the personnel of CAB, I believe, over the last few years. We have done this primarily for one reason, in order to facilitate the handling of the caseload over there.

Now, with this situation, why is it necessary to farm out on a contractual basis these studies with consultants? I would like to add, before you answer this, that you and all the members of the Board are sworn in, as well as your employees, and take an oath of office to perform the duties of that office in conformity with the law.

You farm out a contractual study to people who are under no such obligation and under no such compulsion. And neither you nor us nor anyone else can determine what influences may come to bear on the results which those people turn up with.

Now this is not limited to you alone, but the results of some of the studies made on a contractual basis ought to cause any of us to start looking at these things with a light and jaundiced eye.

Now I ask you, why is it necessary, with the increase in the personnel, to contract \$50,000 or \$100,000 worth of these projects out to non-Government consultants?

INCREASES IN PERSONNEL

Mr. BOYD. Yes, sir. I can answer it very quickly this way, Senator. The increases in personnel that have been authorized by the Congress have been in the past purely and simply to enable the Board to do the day-to-day work of the Board.

We have not had a planning function, as such, in the past. The increases have been required because of the increased activity in the field of our endeavor, which is in civil aviation.

I should point out in this connection that for many years the Board was bled white because of an inability to get authorization for the required number of auditors, on the one hand. I would also like to point out that on the other hand, we have been "behind the eight ball" from the word "go" on the number of safety people that we should have, and the Congress has felt we should have, but has never appropriated the money for.

AMOUNTS APPROPRIATED

In the last 2 or 3 years, Congress has evidenced——

Senator MAGNUSON. Let's stop right there.

I read the other day in the paper some private safety group talking about air accidents and the conduct of the airlines, and they ended up by saying that Congress had never appropriated enough money for these people to operate.

Now, I have been on this committee a long, long time, and I do not know of any time that we have not given you the amount of money for your work that the budget has asked for.

Now, let's not throw the ball at Congress in this respect because I do not say that we have given you more, but it has been pretty close to the budget amount in every case in all the years I have been here.

Mr. BOYD. Now let me say this——

Senator MAGNUSON. Now, this is not our problem, what you fellows do down at the Budget.

Mr. BOYD. Well, that is very true.

Senator MAGNUSON. And on many occasions, and you can look back into these hearings, you will find I have always asked the question, "Do you need any more?" when we get into this lag that we have had—and I must say this Board has been picking up that quite a bit—and they would not answer.

Well, we are not about to give money that the Board does not want, and we are not about to go over to the Budget, if they have not made their case down there.

INVESTIGATION OF ACCIDENTS

Mr. BOYD. I should make a distinction, Mr. Chairman. The point I had in mind was the fact that the Congress has placed the responsibility for accident investigation on the Board, and the Board has never been able to acquire the funds to fulfill that responsibility. And certainly I was not here, and I have not looked into the background of this public notice No. 13, which has placed the responsibility for investigating the bulk of the accidents in general aviation in the hands of the FAA.

Senator MAGNUSON. I just use that as an example. I understand that problem because we did have that duplication and somewhat of a conflict there between the FAA and the Board, which I hope is working out, and we will get into that later.

Mr. BOYD. Yes, sir.

BACKLOGS

Senator MAGNUSON. But if Congress has been conscious of one thing, it is that we do not think it saves money to have a lot of backlog of work in these independent agencies.

This is one of the basic things. The amount of money is small compared to the effect upon the economy, say in the transport industry or any other industry of all these independent agencies. And we have always tried to measure up to what we thought would be reasonable progress in the public's business down there.

But I think, right or wrong, sometimes the problem has been with the agencies themselves, who either have not convinced the Budget or were not good enough advocates in front of the Budget.

Mr. BOYD. I think that is a very good point.

Senator MAGNUSON. I am not speaking of any Republican or Democratic budget. I have gone through them all and it is the same story all the time.

Senator ALLOTT. Just to continue, as long as we are off on this diversionary thing, I have not had the experience of the chairman of this subcommittee. I have served just 2½ years on the Budget, but in that time I think both the chairman and myself, as ranking minority member, have placed a great deal of emphasis in every hearing of which I have been a part upon providing the CAB with the personnel to do the job, and have tried to appropriate the money that would enable them to do it.

Now I would be very happy to get the answer to my question.

STUDIES PERFORMED ON CONTRACTUAL BASIS

Mr. BOYD. Well, I was trying to point out, for whatever reason the Board has for a number of years been "behind the eight ball," the number and the complexity, which is even more important, of the matters before the Board has increased at a faster rate than the personnel. The people that we have been able to get, that we have sought, have been in the operating area rather than in the planning area. Now we are more and more conscious of the need for overall

planning and have, therefore, set up this small planning group which will be comprised of three people. These people are going to have to devote their time, Senator, to developing the outlines of studies to be made by either outside sources or by other staff personnel.

Now on the two studies that we requested funds for, we do not have the personnel available to undertake those studies and to get them done within a reasonable period of time. Now this time is critical to us in both of these fields.

Senator ALLOTT. Mr. Chairman, let me ask you this question. How do you figure that you can get a group of so-called consultants—and I use this term advisedly “so-called consultants”—to do a job the intricacies of which are known only by your own staff?

Mr. BOYD. Well, of course, sir, the way do do that is we set forth a very comprehensive statement in the outline of the study. And I should say that there are a number of able research groups operating in this country. We would be highly selective in the groups who would be permitted to discuss contracting with us. And certainly the Board would supervise the making of the study.

Senator ALLOTT. Now you arrive at the gist of what I am talking about. For this group of consultants to make such a study, no matter who they are—and I do not know who you have in mind, and I could not put my finger on one so this is a wholly impersonal thing and objective—whoever makes such a study would have to come back to the Board in the original instance. You would first have to give a great deal of thought to telling them what you wanted done. Then the information upon which they would make the study would have to be obtained from the Board, or its staff, the very people who know more about it. Then they could learn in maybe 2 or 3 years' study, and by the time you get through all you have done is had a consultant or a group of consultants doing a job that could probably be done better and with less effort within your own organization. And, more than this, would have the advantage of having the people who know about the problems doing the job.

Mr. BOYD. Well, sir, I am afraid we have a difference of opinion on this subject.

Senator ALLOTT. I am afraid we do.

ADEQUACY OF SERVICE STUDY

Mr. BOYD. Because in the first place I cannot agree with your premise that all the information the people would deal with is available at the Board. For example, this study on adequacy of service is dealing in an area that is really virgin territory. In the past, as a general proposition, the Board has handled questions of adequacy of service through additional competitive authorizations. And I think that we can take note of the fact that we have passed that stage of development in the industry. Now we are dealing with adequacy of service from a different point of view. That is, the requirement under the statute that the service provided be reasonably adequate for the needs of the public. And we cannot add competitive service where a community is not getting adequate service today. So we have to go at it from another side. And the problem we have here is one of trying to develop objective standards so that the public, the industry, and the Board will be able to ascertain what is

"adequate service". Up to the present we have been unable to develop such objective standards. And I do not think that the Board is the sole repository of information that would lead to some conclusions on this subject.

Senator ALLOTT. You have selected one thing, the adequacy of service. If you were really going to make a survey of adequacy of service, and you had to make a survey of each and every town or city which is now receiving air service, I do not think there would be any end to such a study. Because the Chairman and myself have just completed a project on the Alaskan Highway Rail Commission, which took 3 years and covered a very limited, very limited, comparative field. And I just cannot see how you could do this with \$50,000 or \$100,000 or \$1 million if you actually conducted a survey.

Mr. BOYD. We are not trying to conduct a survey. If I gave you that impression I am very sorry.

Senator ALLOTT. Well, not you, but—

Mr. BOYD. Nor anyone we would contract with. We are not interested in a survey. We are interested in a study that would develop, or attempt to develop, some factors that could be applied objectively when the question of adequacy of service arises.

Senator ALLOTT. How could you do this without actually basing it on a survey, which would be an essential ingredient of such a study?

Mr. BOYD. Certainly I think it would. But certainly an accepted procedure is to use a sampling process, Senator.

Senator ALLOTT. I just want to say the answer is responsive all right, but it fails to convince me that this method should be employed by the CAB.

Mr. BOYD. Well our feeling very simply is that on the bulk of matters we feel studies need to be undertaken, we can undertake them on our own, but we cannot undertake all of them. To undertake all of the things that we feel are important and in the public interest we either have to (a) enlarge our planning group, or (b) contract out some of these things.

ORGANIZATIONAL CHANGES

Senator ALLOTT. While we are on that same subject, just a couple pages back in your testimony, on page 5 and going over onto page 6, you name several groups that you were talking about establishing and realining the function of your staff. You start out with the establishment of an overall planning office and so forth. Now what would be the exact relationship of these groups to the Board itself?

Mr. BOYD. Of these groups mentioned on page 5 and page 6?

Senator ALLOTT. Yes, sir.

Mr. BOYD. They are all part of the staff of the Civil Aeronautics Board.

Senator ALLOTT. So it is a regrouping and reshuffling of the staff in an advisory capacity to the Board?

Mr. BOYD. Well, not only advisory, but in the operating aspect. On the basis of our own experience and on the basis of a report of a study, made by McKinsey & Co. last year, and we concluded we could operate more efficiently with a different, somewhat different, organizational structure than had obtained in the past.

Senator ALLOTT. This is essentially a reorganization within your staff, within your own—

Mr. BOYD. That is absolutely correct, and with the addition of the planning office and with the addition of the special assistant for community relations.

DISCRIMINATION AGAINST CANADIAN LINES

Senator ALLOTT. Now with respect with the next to the last item in this category on page 6, on international affairs, twice in discussions with the Canadian parliamentary groups in the last 4 months, in which I have participated, the question of discrimination against Canadian lines has been brought up. I do not have the material here to discuss it specifically, but it arises in this way, that it is often impossible for those people to take one flight from Canada to here, and yet one of the foreign lines can pick up and, for example, take someone from Edmundston or Vancouver down to Los Angeles. But they cannot take either an American or a Canadian flight direct from Canada into cities in this country; they have to transfer. Has this question ever been considered by this Board?

Mr. BOYD. Yes, sir. We have devoted a good deal of time, of our 20 people in the International Affairs Division, working on this Canadian problem. We are anticipating negotiations with the Canadian aviation group of the Canadian Government very shortly. I am not up to date on this matter, personally, but I can tell you, sir, that a great deal of the discrimination that the Canadians talk about depends altogether on the point of view.

When we start balancing economic rights between the two countries, I do not believe that we have been unfair to the Canadians. And I would say, furthermore, that we are willing to trade routes and traffic rights with the Canadians on any equitable basis. We have been in the past and will continue to be so in the future.

Senator ALLOTT. You say that it is not unfair economically. Now there are many factors, and I think you are confining this to the air transportation field—your statement—are you not?

Mr. BOYD. Absolutely. Yes, sir.

Senator ALLOTT. Well, this matter has come up, and it is a very important point with some members. I am sorry that I do not recall the specific routes which were mentioned. However, several were mentioned in talks and rather intensive sessions with them. And I would hope that the Board would study this matter with the idea that they feel very frankly that there are certain foreign lines which, as the development has come along, have an unfair competitive advantage with them, and perhaps with us.

And since Canada is, I believe, our biggest importer of U.S. goods, and probably the strongest right arm, one of the strongest right arms, we have in the world, I am very interested in this personally.

Mr. BOYD. I can assure you, Senator, that we have at the Civil Aeronautics Board a great deal of respect and affection for the Canadian aviation people and for Canadian aviation interest. We are conscious of their friendship.

I would like to point out just one little factor, however, to show you that the shoe can pinch on the other foot, too. We have had considerable difficulty with one of the Canadian carriers recently because we had awarded a route to a Canadian carrier which we thought ran from

Cleveland, Ohio, to Toronto, Canada. The first thing we knew this route was from Cleveland, Ohio, to London, England. And the Canadians did not want to change this. It has been straightened out. And I just want to point out that this thing works both ways.

Senator ALLOTT. I am sure of that.

Mr. BOYD. We have been in for some unpleasant surprises ourselves. But we feel a great deal of friendship and sympathy for the Canadian Government and the Canadian people.

Senator MAGNUSON. I think maybe we all ought to go across the hall to the State Department appropriations hearing and ask them about it.

HOUSE STATEMENT

Mr. BOYD. Senator, all I can say is this at the Board we were amazed, astounded, and anguished to see the statement in the House committee report, that 20 people in the International Division seem to be too many. We do not recall anything coming up in the hearing, and I think we are prepared to show at any time the amount of work these people turn out.

INTERNATIONAL APPLICATIONS

Senator MAGNUSON. Now for the record let's clear up here the matter of international applications.

Mr. BOYD. Yes, sir.

Senator MAGNUSON. First of all, they are in the hands of the President?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. Are you still called upon to make recommendations to the President in the case of applications for international routes?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. Who makes that study for you, these 20 people?

BUREAU OF INTERNATIONAL AFFAIRS

Mr. BOYD. Well actually at that stage of the game the work of the Bureau of International Affairs has been long since done. Because the recommendation we make in connection with route awards, in connection with licenses, comes through a formal hearing proceeding subsequent to the creation of a bilateral agreement. Now the bulk of the work—

Senator MAGNUSON. Well to what extent do you participate—let's take an application of a foreign carrier to, say, land now in Chicago—use that as an example—or Los Angeles, or Houston. The application is filed through the normal, regular channels, that is, the State Department. It is first given to the State Department, is it not?

Mr. BOYD. Excuse me, sir, but is this a case where the foreign country has been awarded traffic rights to this point?

Senator MAGNUSON. No, it is a case where a foreign country working under an agreement that we have with a foreign country, an air agreement, asking for a certain route.

Mr. BOYD. They do not have this route?

Senator MAGNUSON. They do not have this route. Then they go through the channels of the State Department and make application. Then does it come to you?

Mr. BOYD. Well, in that case what they do is apply for consultations. They have to have consultation.

Senator MAGNUSON. Yes, apply for consultation. Do you sit in on those consultations?

Mr. BOYD. Not only do we sit in, but at the time the notification comes the consultations will be held—and this is a matter where there is really no leverage under our bilateral agreements. If either we or the other country requests a consultation, then such must be held within 60 days. So when we get the notice, which we get from the State Department, if consultations are sought, within the framework of the consultation we state a position of the Board, which we do after having made our own studies, after having consulted with the industry and having a staff presentation to the Board.

COOPERATION OF STATE DEPARTMENT

Senator MAGNUSON. Now you present that to the State Department in the consultations?

Mr. BOYD. Prior to the consultations.

Senator MAGNUSON. Prior to the consultations?

Mr. BOYD. Yes. And a U.S. Government position is developed after we present these positions.

Senator MAGNUSON. Yes. But the U.S. Government need not necessarily be your position?

Mr. BOYD. That is quite true; yes, sir.

Senator MAGNUSON. But the State Department then goes ahead with the consultations—

Mr. BOYD. With the Civil Aeronautics Board.

Senator MAGNUSON (continuing). With the Civil Aeronautics Board.

Mr. BOYD. Yes, sir.

Senator MAGNUSON. And then ultimately the matter is all sent to the President's desk where the decision is made?

Mr. BOYD. That is correct.

Senator MAGNUSON. And that decision need not necessarily be the position of the Board?

Mr. BOYD. That is correct. All negotiations are on referendum.

Senator MAGNUSON. Yes. So that liaison you have with the State Department is still in operation?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. Have you been caught short, with the State Department making a decision before you have a chance to present your position?

Mr. BOYD. Well, Senator, I do not want to say that the situation has happened where the State Department has made a decision without us being aware of it, but I can say that decisions have been made without the Board being consulted. I would not say that this was done in the State Department.

Senator MAGNUSON. And our Senate committee has had an experience where the State Department has come up and told us they are going to recommend a certain route, or certain right, and asked us about it but they have already made up their minds before coming up. In other words, they are just telling us about it later on.

INFLUENCE OF BOARD

Now what I am trying to get at is whether or not you feel, and the members of the Board, that the door has not been closed, or that the CAB, which has the responsibility for the economics of our domestic carriers and our international carriers, is in on the act so that their influence is felt and their recommendation is given some authority.

Mr. BOYD. In the vast bulk of the cases the answer is "Yes, sir, we are."

Senator MAGNUSON. Because we have been trading some horses for rabbits in the past.

Mr. BOYD. Occasionally we are not. Now I do not mean to infer that all the good trades have been the result of the Board's activities and the bad ones we do not take any blame for.

Senator MAGNUSON. I think if the Board had not been in on some of them there would have been more bad ones than there are. But there were some the Board was not in on in the past.

Mr. BOYD. That is right.

Senator MAGNUSON. I mean, there might have been a pro forma presentation by the Board, but their minds were all made up before the Board got in there. But you feel that that sort of liaison is existing now?

Mr. BOYD. Yes, sir. I know of no situation at the present time where this is not in existence.

But I would like to just elaborate 1 more minute, sir, on our 20 people.

Senator MAGNUSON. I was going to ask you about that. Now those 20 people, their jobs are not in this particular field that we are talking about, are they?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. You call upon those 20 people to gather information for you so that you can make a presentation?

Mr. BOYD. That is right. They did this work that we utilized in connection with a very recent major negotiation. This is the whole ball of wax that went into the negotiations. In addition to which, at each of the negotiations we have one or more members of the staff from this section present.

Now since the beginning of January 1 of this year we have had 11 negotiations. We have two going on at the moment. We have three more coming up this month.

Senator MAGNUSON. What are the two about?

Mr. BOYD. Well, we have one with the United Kingdom involving rates in the Caribbean area, and we have one with the Netherlands Government involving traffic rights on the west coast, and questions of interpretations, passengers, and frequencies.

Senator MAGNUSON. What are the three coming up?

Mr. BOYD. We have Peru, Canada—I am sorry, we have one with Japan going on right now, too. I had forgotten about that one.

Senator MAGNUSON. On the North Pacific route?

Mr. BOYD. Well the Japanese have a number of requests, Senator. There is one more coming up, but I am sorry, I cannot relate it to you at the moment, that we anticipate during the latter part of this month.

PRESSURE FROM GROWTH IN AIR TRANSPORTATION

Senator MAGNUSON. The point is with the growth, particularly technological growth, in the field of air transport, and all the countries getting into it, the pressure on this country, which is the prime source of passenger revenue in the world, coming and going, becomes greater and greater on the Board, and the responsibilities of the Board to advise in this case?

Mr. BOYD. That is correct.

Senator MAGNUSON. And they are not getting less; they are getting more and more. And the ability to evaluate it is becoming much more difficult.

Mr. BOYD. In addition to which, whereas in the past we were dealing primarily on a bilateral basis, now we find that for lack of a better term we are having to deal with blocks of countries, particularly in the development of restrictive practices.

We are having several countries grouping together, in concert, to restrict our carriers, and this creates enormous problems for the Board in trying to figure out how we shake these things loose.

Senator MAGNUSON. And in most cases you are dealing with government-operated lines, rather than private?

Mr. BOYD. To a considerable extent; yes, sir.

Senator MAGNUSON. Not all of them, but to a considerable extent. Which makes the economics of the situation a little more difficult.

Mr. BOYD. That is correct, sir.

POLICING AGREEMENTS

Senator MAGNUSON. How does the Board police an agreement that has been made as to whether it has been violated? I see this morning in the paper that Pan American made some statement that the Dutch had violated the agreement. How does that procedure work in the Board? Does that go to these 20 people?

Mr. BOYD. Yes, sir. All of the spadework and a good deal of the actual participation in negotiations is done through these 20 people.

And I must point out also that when we talk about 20 people, we include all of the secretaries in the office, as well as the people who are our primary specialists in foreign aviation affairs.

Senator MAGNUSON. Suppose country A makes application. Whereas you have a big backlog on information down there on the economy of domestic and foreign lines, American lines, you will have to go into a new field on the economies involved in country A?

Mr. BOYD. Well, we do not have to really go into a new field, because this is part of the work of the International Division, to collate figures which are obtained through Board surveys, O. & D. surveys, and IATA O. & D. surveys, or origin and destination surveys, as well as traffic flow surveys, which we either make or we obtain.

Then we tally and analyse these figures.

RATE STRUCTURES

Senator MAGNUSON. What is the general situation as between American and foreign international carriers on the ground rules on rates?

Mr. BOYD. Well, the vast bulk of the carriers in the world today are members of IATA, International Air Transport Association, and they have similar rates on each of three sections of the world.

The world is divided up into three tariff sections, and rates are set—we call these conferences—to be equal within each of these conferences. Now, we have also a number of carriers who are not members of the IATA and who do not comply or subscribe to the tariff structures which the IATA machinery has developed.

Senator MAGNUSON. And isn't it true that some of those countries who are not members are making applications for routes in the United States?

Mr. BOYD. Oh; yes, sir. And some of them have routes already. They have had them since immediately after World War II.

I do want to just add one more thing, and I do not want you to think that the International Division is the only one we have at the Board. But they also handle a good bit of our relations with ICAO, International Civil Aviation Organization, and the civil aspects of aviation in regard to NATO, and other civil aviation regional organizations such as an outfit known as ECAC, European Civil Aviation Conference, and CRAC, in South America, the Civil Regional Aviation Conference of South America.

COMPARABLE PERSONNEL IN STATE DEPARTMENT

So I want to say on the record, Mr. Chairman, that 20 people are not too many, in our judgment, and we do not think there is anything in anyone's record to indicate that 20 people are too many.

Senator MAGNUSON. Do you know how many people the State Department have working on this?

Mr. BOYD. No, sir, I do not.

Senator MAGNUSON. Would you say there would be 20?

Mr. BOYD. Honestly, I do not have any idea.

Senator MAGNUSON. I think there would be more than that.

Mr. BOYD. But I think the Government, the public, gets a day's work for a day's pay out of our International Division.

STATEMENT OF FUNCTIONS

Senator ALLOTT. Mr. Boyd, I was looking at your functional organization chart presented to us, and on international aviation agreements, which comes here under "Bureau of Air Operations," it says—

Mr. BOYD. That has been changed. We made that separate. This is one of the things that we changed.

Senator ALLOTT. But the functional part of that recommends that position be taken by the United States in negotiation and administration of bilateral agreements concerning international aviation activities, drafts and negotiation agreements, and consultation with foreign governments with respect to the interpretation and application of agreements.

Now, is this statement of functions of this section substantially correct?

Mr. BOYD. That is essentially correct.

Senator ALLOTT. Now, I asked you about this other because I think we do have to take a very hard look at those people who are trying

to help us. Not that I am anxious to give away anything we have, but this matter has come up twice in 4 months, and I personally may be calling on you sometime within the next few months for some help in drafting a factual statement to present to these people which will support our position.

Unfortunately, we had no one in our group who had any basis for being acquainted with this particular problem. I simply state to you what they have stated.

Mr. BOYD. Yes, sir.

Senator ALLOTT. I have no factual knowledge of the circumstances, myself.

Mr. BOYD. We will be delighted to provide you with a factual statement of the situation at any time you should seek it.

Senator ALLOTT. All right; thank you.

SUPPLEMENTAL AIR CARRIERS STUDY

Senator MAGNUSON. Mr. Boyd, one of the studies suggested here in your statement is the role of supplemental air carriers.

Mr. BOYD. Yes, sir.

Senator MAGNUSON. And the Board has requested \$50,000 to study this.

I note on page 724 of the House appropriation hearings you made this statement, and I quote:

I do not think any of us can give you an answer today on what we think—

That is the role of supplemental—

it should be. I think we all perhaps have different ideas. We have to get some legislation into the Congress very shortly on where we think these carriers should wind up.

Now, the Board requested, and I introduced by request in May a bill to amend the Federal Aviation Act of 1958 to provide for a class of supplemental air carriers.

Now, I think we ought to clear up by questioning the introduction of what is now S. 1969.

Have you decided where supplementals should wind up?

PROVISIONS OF LEGISLATION PROPOSED

Mr. BOYD. No, sir. This legislation would give the Board general powers for the granting of certificates to a class of air carriers to be designated supplemental air carriers. We have a great many unknown quantities involved, as to what their role should be.

For example, with relation to domestic and international charter, with relation to individually ticketed service, with relation to the possibility of involving themselves in air freight to any extent, with the question of what is in the public interest in the utilization of a class of supplemental air carriers in terms of defense, how do these people fit into the craft program, civil reserve air fleet, and what type of operations are needed to support the type of aircraft that the Defense Department feels it would need to utilize in the event of an emergency?

Senator MAGNUSON. Well, I appreciate that there are many unknowns and many, many complex problems involved, but I was

trying to get some light on whether or not we should go ahead with this bill before you complete this study, if you get the money to do it—

Mr. BOYD. Yes, sir.

Senator MAGNUSON (continuing). Or wait until we get a little more bearing on this whole situation?

Mr. BOYD. We think if this bill becomes law, Senator, it will give us the flexibility to certificate these carriers in such a way as to—

Senator MAGNUSON. Despite the fact you have not come to some permanent conclusions about some phases of the problem?

Mr. BOYD. That is right. What we would anticipate is that a study would be developed, and I can tell you, sir, that we have already done some work on the frame of reference that such a study should take.

My anticipation is that we would have the study, and it would not be conclusive, but would be recommendations of conclusions which would go into the docket of the case, which would lead to—

Senator MAGNUSON. So passage of the bill won't affect this?

Mr. BOYD. That is right.

Senator MAGNUSON. That is what I am trying to get at, because it takes a little doing around here to pass bills, and we did not want to devote time to pass the bill if we are going to change it after you have had a study.

Mr. BOYD. No, sir; we see the bill and study as complementary to each other.

REORGANIZATION PLAN NO. 3

Senator MAGNUSON. Now you mentioned also here your reorganization. There is a Reorganization Plan No. 3 submitted to the Congress, on which Senator Monroney has held some hearings, and I see that you testified, made a statement on this before the committee.

Is that correct?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. And generally speaking, the statement is in favor of the plan?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. Now, does that in any way affect some of the things you talked about here, or, again, does that complement the things you talked about here?

Mr. BOYD. It complements. It affects only in the sense that, assuming the plan becomes effective, we do feel that the Board will be enabled to handle a number of matters, which now require the time of Board members, with more dispatch because of delegated authority. And I want to make it very clear what I am talking about.

DELEGATION OF AUTHORITY

What the Board has approved in principle is the delegating of authority to act on matters where policy has been clear cut, is clear cut, and has been made by the Board. It is not a question of passing out responsibility to people who are employed by the Board but who are not appointed by the President or confirmed by the Senate.

Senator MAGNUSON. Can you do that now?

STATUTORY AUTHORITY

Mr. BOYD. We have no statutory authority expressly for that.

Senator MAGNUSON. You were—you would need a reorganization plan to do this?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. Am I to understand that?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. And you are very clear, the Board is, that you are merely delegating some workloads here rather than delegating a policy?

Mr. BOYD. That is absolutely correct, Senator. And there is no question in our mind about this. I do not think there need be any concern about the possibility of the Board delegating its responsibilities.

I should say, sir, that the five Board members are more and more conscious of the need to devote time to general policy questions, rather than dealing with single-shot routine cases.

Now, at the present, approximately two-thirds of our time, at the Board level, is taken up in dealing with litigated cases. A good many of these cases have factual problems only in them. The policies are clear cut in many of these cases.

Now, I do not mean in all these cases they are, and I do not mean the Board would delegate authority to handle all these cases, but cases, for example, foreign air carrier cases where a bilateral agreement has been executed—

Senator MAGNUSON. Where the policy has been stated, then you get down to some questions of fact.

Mr. BOYD. That is right, sir.

Senator MAGNUSON. And where you can delegate that to the examiner, or whatever you want to call him, to make recommendations to you based upon some questions of fact, this would relieve your workload a great deal, wouldn't it?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. I am talking about the Board members' workload.

Mr. BOYD. That is right.

Senator MAGNUSON. Not the people. You are going to have more of that.

Mr. BOYD. That is right.

Senator MAGNUSON. But it would relieve that.

EXAMINER PERSONNEL

Now, again let me ask the question, do you have enough examiners?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. You do?

Mr. BOYD. Yes, sir.

Our limitations, our personnel limitations, are not in the class of examiner; they are in the Bureau of Economic Regulation and in the Office of Carrier Accounts and Statistics.

NEED FOR STATISTICS

Senator MAGNUSON. You do not want to get too bogged down with too many statistics.

Mr. BOYD. No, sir; we do not want to get bogged down with too many statistics, but I will have to say that these are the tools we work with.

Senator MAGNUSON. It gets down to this: If every Member of the Senate had to read everything that is printed, or even the Congressional Record every day, you just would not have time to do anything else. And yet there are facts and statistics and things that need to be put together. And this is the sort of thing you are talking about.

Mr. BOYD. That is right. And this is the limiting factor on the speed with which we can move the cases through.

ELAPSED TIME FROM HEARING TO EXAMINER'S DECISION

Senator MAGNUSON. Now, what is the average time it takes an examiner to write a recommendation to the Board after he has heard the case. Have you those figures?

Mr. BOYD. Let me ask our chief examiner.

This is our Chief Examiner, Mr. Brown, who can give you these figures.

The averages are not very important, Mr. Chairman, because when you take the *Southern Line-Continental* case on the one hand and a case involving suspension of service at Peoria on another—

Senator MAGNUSON. I understand there are some cases more involved and bigger, but what is the average? This is what we would like to know. We know the average of some of the other agencies. I hope the CAB is not that far behind.

Mr. BOYD. I have a statement here, sir, which was prepared in May. In enforcement cases, the average time is 6 months. In agreements on interlocking relationships, 40 days. On merger cases, 3 months. On foreign air permit cases, 1 month. On adequacy-of-service investigations, 9 months. On area investigations and major route cases, 15 months.

Other route cases, those that involve renewals, extensions, amendments, et cetera, 6 months. Commercial rate investigations, 4 months.

Senator MAGNUSON. What do you mean? That is not passenger rates, commercial rates, is it?

Mr. BOYD. Commercial rate investigations. Well, that would comprehend passenger rates.

Senator MAGNUSON. Four months?

Mr. BOYD. I think it would.

Well, you see, sir, we have a great many cargo rates that would tend to bring the average down, and specialized rates such as—

Senator MAGNUSON. But a passenger rate case is not going to take much longer?

Mr. BOYD. But general industrywide rate cases; yes, sir. But when you are dealing with single-shot cases such as excursion fares, for example—

IMPROVEMENT IN TIME ELEMENT

Senator MAGNUSON. Are these figures better than they were last year, or the year before, or the year before that as to the time element?

Mr. BOYD. Yes, sir; they are improving. The general time is improving.

Now, whether in each category we have an improvement, I do not know.

Senator MAGNUSON. Because there is no use in us talking about people and reorganization plans and more money and studies or anything else unless we are making some improvement in this network down here, this spider web of individual agencies, what I like to call regulatory legs.

Mr. BOYD. In the last calendar year, Mr. Chairman, I believe we brought the total time from application to final Board order in major route cases down by 4 months.

Senator MAGNUSON. So you say we are making some progress?

Mr. BOYD. Absolutely.

Senator MAGNUSON. And this reorganization will help.

Mr. BOYD. Yes, sir.

Senator MAGNUSON. Your own voluntary reorganization, of which you have stated some phases here, will help.

So that we will try to get somewhere close up to date.

COMPLEXITY OF CASES

Mr. BOYD. Yes, sir. I do want to add this caveat, though, that we are never going to be able to handle the cases the way you can buy a package of cigarettes out of a vending machine.

The matters with which we deal are highly complex, and we have grave questions of due process of law involved in many of them.

Senator MAGNUSON. I understand the CAB lawyers take care of a lot of that for you.

Mr. BOYD. I think the industry lawyers are very helpful in that, too, Senator.

Senator MAGNUSON. Both the CAB and industry lawyers are very helpful in that procedure. But the judge has to make a decision sooner or later, and I always find the quicker you make it, the better.

Mr. BOYD. I think I can assure you, if you will just watch our dust, you will see we are making decisions pretty fast when the cases get to us.

Senator MAGNUSON. All right.

Senator Allott.

SUPPLEMENTAL AIR CARRIER LEGISLATION

Senator ALLOTT. I would like to get one thing cleared up in my mind.

Now, as I understand it, the CAB is supporting 1969 to settle the supplemental carrier question?

Mr. BOYD. Yes, sir.

Well, we do not say that will settle the question.

Senator ALLOTT. Well, to attempt to settle it.

Mr. BOYD. Yes, sir. It will give the supplemental a lease on life, and we can figure out where they fit within the family later on.

Senator ALLOTT. Now, I understand that you have a docket over there—I think the number is 5132—

Mr. BOYD. Yes, sir.

Senator ALLOTT. Now, is the position that the Board has taken the result of information gained in this docket, a study of this docket over several years' time?

Mr. BOYD. Well, I frankly do not know how to answer that question, Senator. That docket started years ago and was over at the White House for several years, and then was sent back to the Board last January, I believe. I have not been involved in it, and I do not know whether that is the case.

But I would say probably that is, that the domestic phase of it was as a result of the testimony and exhibits and findings in the domestic phase of that case.

Senator ALLOTT. You are going to go to subsidies later?

REORGANIZATION PLAN NO. 3

Senator MAGNUSON. Yes. I think maybe we ought to proceed with the rest of your statement here, Mr. Boyd.

I did want to ask one question:

In your testimony on the reorganization plan, I had difficulty with part of your statement—delegations to employee boards would be used with caution.

Mr. BOYD. Yes, sir.

Senator MAGNUSON. That is what you were speaking about, generally?

Mr. BOYD. Yes, sir. But the point I was making there, Senator—

Senator MAGNUSON. What do you mean by "boards"?

Mr. BOYD. Under the reorganization plan, it would be possible to set up a board.

Senator MAGNUSON. I see what you mean. Composed of, say, sworn employees—

Mr. BOYD. That is right.

Senator MAGNUSON. To go into a certain case?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. You can delegate that?

Mr. BOYD. That is right.

Senator MAGNUSON. But they would technically be constituted as a board?

Mr. BOYD. That is correct.

Senator MAGNUSON. I see.

Mr. BOYD. And the point I was making is that we would be very slow in moving into that area, because constituting top staff employees in the Board might have an adverse effect, rather than a good one.

Senator MAGNUSON. All right; go ahead with the rest of your statement here.

Mr. BOYD. All right, sir.

I think we have covered the international section pretty well. If it is all right with you, I will start over at the bottom of page 10 on safety.

Senator MAGNUSON. All right. We will place the statement in the record in full.

(The statement referred to follows:)

Mr. Chairman and members of the committee, I appreciate this opportunity to appear before you today in support of the Civil Aeronautics Board's two separate appropriation requests for the 1962 fiscal year.

The first is a request for \$9,050,000 for salaries and expenses. The House of Representatives approved \$8,900,000, a reduction of \$150,000 from the estimate. We are requesting that this amount be restored.

The second is a request for \$81,700,000 for payments to air carriers for subsidies. The House of Representatives approved \$74,800,000, a reduction of \$6,900,000 from the estimate. We are also asking that this reduction be restored. Also in connection with the appropriation for payments to air carriers, the House has inserted language in the bill limiting the amount of the appropriation available for subsidy for helicopter operations during the fiscal year 1962 to \$5 million. We are requesting that this language be deleted from the bill.

We are gratified that the House-approved funds for salaries and expenses of the Board to support most of the Board's programs for the 1962 fiscal year. However, we believe that ours is an austere budget, in that the funds we have requested are required to handle our current workload and to begin a reduction of the gap between our present workload and staff.

The Board has frequently been alluded to as the "smallest of the regulatory agencies." While this may be true in terms of size of staff, I want to emphasize that neither the size nor importance of the commercial air transportation industry with which the Board is concerned, nor the magnitude of the Board's responsibilities and workload, is small by any manner of measurement.

The present system of certificated air carriers, operating on regular schedules over regular routes, consists of—

- Eleven domestic trunk carriers;
- Thirteen local service carriers in the continental United States;
- Two local service carriers in Hawaii;
- Ten Alaskan carriers;
- Three helicopter carriers;
- Four all-cargo carriers;
- One carrier that operates primarily between the United States and Puerto Rico; and
- Two other small carriers.

In addition, there are five American flag carriers which operate internationally but which fly no routes within the United States (except Alaska and Hawaii). There are also 35 supplemental carriers.

Until about 10 years ago virtually the entire industry was subsidized, piston equipment set the pace, railroads and buses each carried more intercity passenger traffic than air in this country. Ships carried as much of the transoceanic traffic as air. At the same time, U.S. flag carriers carried an overwhelming percentage of international traffic touching this country. Airfreight was a gleam in the dreamer's eyes. Local-service carriers were still a new and temporary experiment working on a shoestring.

It is a gross understatement to say that things have changed. The growth of the air transport industry has been phenomenal. By way of illustration, at the end of the Second World War—28 years after the start of scheduled airmail service in 1918—the commercial air transport industry had progressed to a point where in 1945 it was operating 2-engine, 20 to 25 passenger aircraft at speeds approaching 175 miles per hour.

During the next 12 years—1946 through 1957—the carriers made further tremendous progress. In 1957, they were operating 4-engine, 60 to 100 passenger aircraft at speeds slightly over 350 miles per hour. Also, during this period all but two of the domestic trunkline and international carriers became self-sufficient and no longer requires subsidy.

Now, in the short period of about 5 years—1958 through 1962—the industry will have converted to the radically different turbine-engine aircraft, carrying 150 or more passengers at speeds in the area of 600 miles per hour.

Already, the supersonic transport age is staring us in the face.

A look at the operating statistics for the 52 certificated carriers (other than supplementals) shows that during the year ended December 31, 1960, they—

- Carried traffic totaling 5 billion revenue ton-miles;
- Transported 58.6 million passengers for a total of 40 billion revenue passenger miles;
- Transported cargo to the extent of 860 million ton-miles;
- Provided regularly scheduled air transportation service to 969 communities, including about 250 in Alaska;
- Operated a total of 2,036 aircraft to the extent of providing capacity approximating 67 billion available seat miles;
- Had \$2.3 billion invested, and employment totaling 164,000;
- Conducted operations involving a total of \$2,884 million in revenue and \$2,807 million in expenses;
- Paid taxes totaling \$104 million, of which \$79 million went to the Federal Government; and

Collected \$163 million in passenger transportation taxes which were also turned over to the Federal Government.

The certificated industry with a \$2.3 billion investment, earned for the year ended December 31, 1960, an estimated \$75,041,000 before interest, but after special items and taxes, or 3.22 percent on investment, and only 0.31 percent on operating revenue. Net income after interest is estimated at \$8,807,000. This is a problem—and a great problem. It is the Board's problem, since we are charged by law with the responsibility for the encouragement and development of air transportation, and to foster sound economic conditions in the industry.

It is not solely within the Board's power to find solutions. The airline industry as a "service industry" is responsive to business conditions generally. However, the Board cannot cross its fingers and hope for improvement. It has an affirmative responsibility. The industry will not and cannot wait. The Board cannot solve its problems simply by processing the cases on its docket, although the cases must be processed. It must not only meet the problems of today, but it must look ahead and plan to meet the problems of tomorrow.

Although planning is one of the most urgent needs in the Board today, the Board is at the same time faced with large accumulations of uncompleted work. While the Board has been criticized for shuffling too many papers and for delays in its case processing, virtually everything the Board does is required by statute as are also the basic procedures involved. Under the statutes the Board must process the applications and equivalent matters presented to it. It cannot rid itself of these matters by not taking action. Even dismissal of matters takes staff time and must adhere to statutory procedures.

Our estimates reflect a very optimistic forecast of expediting the work of the Board through improved techniques and procedures, many of which are in the planning stage and not yet fully defined.

In this connection, the Board is intensely involved in studies designed to find work elements which, in whole or in part, can be eliminated, suspended, or delayed without seriously impairing the effectiveness of its programs and the carrying out of its responsibilities to the Congress and to the public. Our efforts in this direction have been on a continuing basis and have already produced improvements including statutory changes, policy changes, additional delegations of authority to the staff and procedural shortcuts.

On March 3, 1961, the Board announced several organizational changes for improving procedures and expediting the Board's ever increasing workload, and realines the functions of the economic staff for more effective operation. The changes include:

The establishment of an overall planning office to aid the Board in developing policies, both substantive and procedural, for meeting the problems in the fast-changing air transportation field.

A realignment of economic functions, under a Bureau of Economic Regulation, into a Rates Division for commercial rates and service mail rates to recognize the growing importance of commercial rate matters; a Subsidy Division responsible for subsidy rates and guaranteed loans and to concentrate on the promotional functions of the Board in administering financial aids to local service and helicopter carriers; and a Routes and Agreements Division to meet the urgent need for more realistic and effective administration of all licensing and carrier agreement activities.

The establishment of a new Bureau of International Affairs in line with the increased importance and emphasis the Board is placing on its activities for meeting the operating problems arising in the international civil aviation field. We must make every effort to assure that U.S.-flag carriers receive route grants and operating rights which are economically sound and consistent with reciprocal rights requested by foreign countries.

In addition, we have provided for a Special Assistant for Community Relations to concentrate on such matters as adequacy of service problems.

Because of the great masses of statistical, economic, and operating facts which the Board must process in connection with the economic regulatory cases, a substantial effort is being directed toward improving the statistical tools and methods of processing this data.

Recent studies by a staff committee indicate that a substantial amount of employee time is currently being used in the manual processing of factual material. In large part, the nature of the work performed lends itself, ultimately to much more adequate and efficient processing through modern electronic installations now available at a price the Board can afford to pay. In this connection, the estimates include an increase of \$50,000 for the performance of feasibility

studies, systems development, additional programing and outside technical assistance to prepare for conversion from present IBM punchcard equipment to an electronic facility. Once this conversion has been accomplished, its ultimate effect on overall Board productivity should be equivalent to a substantial increase in staff. We expect this program to begin paying dividends commencing during the fiscal year 1963.

At this point I would like to address myself to the House disallowance of \$100,000 for the Board's statistical and research activities. The Board's 1962 budget estimates presented its requirements in terms of its most urgent needs for accomplishment of priority programs demanded by the Congress, the public and the industry. In this connection, it is important to understand that the interrelationship of virtually every phase of the Board's work is such that an inadequacy in one part of the Board's organizational structure will create a "bottle-neck" and adversely affect other parts. It is essential that balance in staff assignments must be maintained at all times and be frequently adjusted. This is the premise on which the estimates for 1962 were constructed.

The work performed under the "Statistical and research" activity includes providing basic statistical data needed to carry out the Board's regulatory functions, providing technical and analytical assistance to the Board and its staff in rate and route proceedings, especially in decisional phases of those cases in which the Administrative Procedure Act prohibits assistance by parties to proceedings, making economic studies and forecasts needed by the Board for daily operations and for anticipating the impact of future developments, conducting an economic research program to improve the understanding of economic characteristics of the air transport industry, and evaluation of air transport and other economic trends to keep the Board and staff informed of significant industry developments.

Our program for 1962 provides for a higher level of accomplishment in the routes, rates, and other economic areas which, in turn, will require meeting the increased need for statistics and technical assistance by the Board's hearing examiners, opinion writers, and other Board staff. The Board, therefore, urges the committee to restore the \$100,000 House reduction.

In carrying out its economic regulatory mission, there continues to be an increasing and urgent need for the collection and evaluation of data required to formulate policy determinations. In this connection, the Board's estimates include provision for establishing a small planning staff and to augment the limited capabilities of this small staff in accomplishing high priority studies by entering into contracts with outside persons or firms. Specifically, for 1962 the Board requested \$100,000 for the conduct of two such studies, namely, "Adequacy of Service Standards" and "Role of Supplemental Air Carriers."

The changing character of the equipment used in the air today is causing marked dislocation in traveling patterns and habits, both in local and trunk markets. Cities accustomed to the best in trunk and local air transportation yesterday suddenly find themselves being abandoned by the trunks. Adequacy of service investigations—and experimental efforts to improve service that appear to be the only logical remedy available out of those investigations—are hardly a palatable remedy when load factors are low and declining. Thus, we must find a way to work with cities and carriers in some forum other than the adversary hearing, to develop standards for adequacy—standards that will provide service that is truly needed at reasonable costs to the airlines.

Immediately following World War II, the Board, by exemption, granted certain limited authorizations to carry passengers and cargo to certain carriers who became known as irregular carriers. A case, known as the *Large Irregular* case, involving these carriers was partially decided in 1955 and, finally, in 1958. Certain of the irregular carriers were certificated for certain types of operations and became known as supplemental carriers. In 1959, the U.S. Circuit Court of Appeals decided that in granting these certificates the Board had exceeded its authority and had the effect of invalidating the supplemental certificates. In 1960, the Congress passed short-term legislation to continue these carriers in status quo for a sufficient time to permit the Board to reexamine the entire problem. Thus, after nearly 16 years of struggling with this problem the Board still has before it a series of disputes relating to what should be the proper status for a class of carriers whose existence will terminate with the short-term legislation enacted in 1960 which expires on March 14, 1962. The Board is sponsoring legislation to clarify its authority to issue certificates for supplemental air services. For these reasons, the Board proposes to undertake a study to aid it in developing policies, procedures, and standards to guide it in acting upon matters relating to the role of these carriers.

In its report, the House Appropriations Committee indicated that it was of the opinion that the 20 positions allocated to international activities could be reduced. Work in the field of international operations is steadily increasing in volume, complexity, and importance. The foreign-flag carriers are providing a very substantial and constantly increasing degree of competition with U.S. carriers on all principal international routes. A growing number of foreign governments have shown a tendency to curb U.S. carrier operations in order to protect their own airlines and in a desire to achieve more extensive and deeper penetration of the U.S. market. This situation is becoming more acute with the introduction of jets and affects not only international trunk operations of U.S. carriers but their domestic operations as well.

More and more foreign airlines are planning expanded operations, not just for next summer's competition, but for 1962, for 1963, and even beyond that. U.S. carriers, their employees and our Government are concerned about U.S. carrier earnings and their declining share of the world market. We must begin now to rethink U.S. policy toward route exchanges and capacity and to rethink it in terms of all the economic and foreign relations problems that bear on aviation policy, or the succeeding years will bring more acute, more difficult clashes between U.S. and foreign interests. In recognition of the extreme importance of our responsibilities in international air-operation activities, the Board elevated its international staff to the Bureau level. The workload in this area is expected to increase substantially and any reduction in the international staff would seriously hamper the Board's activities.

The Board's safety program for 1962 anticipates an increase in the number of field investigations coincident with a projected 5-percent increase in the number of aircraft accidents; a substantial increase in expenditure of staff effort required to investigate accidents involving late series of commercial jet aircraft, reduction in the accumulation of incomplete accident reports, and expansion of accident prevention activities.

During the past several years, the demands upon the Board and its staff in the field of accident investigation have been greater than at any time in the Board's history. We are constantly striving to improve our organization and procedures. However, we find ourselves in a position of wanting to do more to enhance safety than our resources will permit us to accomplish. During 1960 alone, Board personnel assigned to accident investigation work contributed approximately 20,000 hours of uncompensated overtime. The budget estimates provide for 45 new safety positions for fiscal 1962, of which 36 would be technical positions. The increase approved by the House for safety activities will help to reduce the backlog of accident reports and greatly assist the Board in its safety functions.

With respect to "Payments to Air Carriers," the Board requested an appropriation of \$81,700,000 for 1962. Review of these estimates indicate that they are still as accurate as we can reasonably project at this time, taking into account the many variables involved. Our review does not indicate any basis for downward adjustment in the \$81,700,000 requested.

With respect to the limitation which the House bill would impose on subsidy payments for helicopter operations, we have submitted a statement covering the helicopter operations in considerable detail. I would like to mention a few of the high points here.

The helicopter carriers were certificated for three specific purposes: (1) To expedite metropolitan mail deliveries to the central post office; (2) to assist in the development of rotary wing aircraft for national defense purposes, and (3) to determine the feasibility of transportation of passengers, in addition to mail and property, between the centers of cities or their airports to suburban and outlying areas.

The services of these carriers have been utilized continuously by the Post Office Department. The Department of Defense has recognized their contributions to the development of the military helicopter aircraft. Civil Defense authorities have testified in helicopter renewal cases of the value of their services to civil defense, especially in the event of an emergency.

The subsidy of these carriers stems from the facts:

1. They had limited revenue from passenger operations due largely to equipment limitations.
2. They are still in a relatively early stage of development and present aircraft have high cost characteristics.
3. The aircraft type itself is in a highly transitional state.

Our estimate of subsidy for the helicopter carriers represents a judgment. It is based on the concept that the twin-turbine equipment now on order by the

existing carriers will initially bring about an increase in subsidy due to the maintenance "learning curve," the relatively high cost of such equipment, and the drop in load factors which would accompany the introduction of equipment of greatly increased capacity. However, the increase in load factors in subsequent periods and familiarization with equipment will bring about a gradual reduction in subsidy. The subsidy estimate does not contemplate the certification of any new carriers, although there are some 80-odd applications for certificate authority on the Board's docket.

The Board believes that the helicopter operations it has certificated and the subsidies expended for operations under those certificates have been in the public interest. It urges the Senate to delete the limiting language from the bill.

That completes my statement, and I will attempt to answer any questions you may have.

SAFETY PROGRAM

Mr. BOYD. The Board's safety program for 1962 anticipates an increase in the number of field investigations coincident with a projected 5-percent increase in the number of aircraft accidents; a substantial increase in expenditure of staff effort required to investigate accidents involving late series of commercial jet aircraft; reduction in the accumulation of incomplete accident reports; and expansion of accident-prevention activities.

During the past several years, the demands upon the Board and its staff in the field of accident investigation have been much greater than at any time in the Board's history. We are constantly striving to improve our organization and procedures.

However, we find ourselves in a position of wanting to do more to enhance safety than our resources will permit us to accomplish. During 1960 alone, Board personnel assigned to accident-investigation work contributed approximately 20,000 hours of uncompensated overtime. The budget estimates provide for 45 new safety positions for fiscal 1962, of which 36 would be technical positions. The increase approved by the House for safety activities will help to reduce the backlog of accident reports and greatly assist the Board in its safety functions.

Senator MAGNUSON. So on that item, you are satisfied with the amount in the bill?

Mr. BOYD. Yes, sir.

DUPLICATION OF ACCIDENT INVESTIGATION

Senator MAGNUSON. The FAA will be up here, and we always ask how much duplication is involved between you and FAA in a given accident case. Are you still making two separate investigations? Is that a fair way to put it?

Mr. BOYD. I do not know what the FAA is doing, Senator, in the sense of whether they are making a separate investigation.

Now, the FAA, along with ALPA and the flight engineers and the carriers and manufacturers, participate with the Board under Board supervision in the investigation of accidents.

Senator MAGNUSON. So you are saying, in effect, despite the fact the FAA has responsibility in this matter and the Board has responsibility, we have eliminated what they call small accident cases?

Mr. MURPHY. Nonfatal. Of a nonfatal character. We have eliminated that by delegation of authority.

Senator MAGNUSON. Are you still in that field?

Mr. BOYD. Yes, sir; we are still in that field.

Senator MAGNUSON. I thought you fellows agreed that one of you was going to take it over?

Mr. BOYD. The FAA is handling under PN-13 the investigation of nonfatal small aircraft accidents. The Board is handling the investigations of fatal small aircraft accidents. The reason for PN-13 is that the Board has not been able to convince the Bureau of the Budget, I presume, that we should fulfill our statutory obligations.

Senator MAGNUSON. But generally speaking, the accident investigations are not a duplicated operation. That is two separate investigations, the FAA and CAB and industry all work together? Is that a fair statement?

Mr. BOYD. That is absolutely correct.

Senator MAGNUSON. Now, they may come to different conclusions?

Mr. BOYD. I do not think so.

Senator MAGNUSON. Well, they might. We have had some. We have had different conclusions. But the investigation is pretty well a joint effort; let's put it that way.

Mr. BOYD. Well, the investigation is the Board function. It is accomplished, however, with the aid of personnel from the FAA and the manufacturers of aircraft and component parts.

DIFFERENT CONCLUSIONS ON ACCIDENTS

Senator MAGNUSON. But it is still possible to come to two different conclusions.

Mr. BOYD. As a legal matter, it is only possible to come to one conclusion, and that is the one the Board reaches. Now, individuals differ.

Senator MAGNUSON. Does Halaby think that?

Mr. BOYD. Yes, sir.

We have no disagreement on this point, no disagreement whatsoever.

Senator MAGNUSON. Because our committee has had some occasions, not too many, but two or three times I know of, and some of them quite important, and the Senator from Kansas will remember, and I am sure your new member, Mr. Murphy will remember part of it, where we did have two conclusions, and then the problem was whether the public should get the information that one group thought one thing and another thought another thing, and then have them wondering whether there was any air safety or not.

Now, technically, of course, you make the final conclusion—legally. I understand that.

RESPONSIBILITY WITH CAB

Mr. BOYD. I would say, sir, that as a result of the confirmation hearing of Mr. Halaby, he stated at that time this was our problem and our function and responsibility.

Senator MAGNUSON. But that they would participate and be as helpful as they could in these matters, because they have responsibilities, too.

Mr. BOYD. Sure, they have very great responsibilities in this area. But I do not—

Senator MAGNUSON. Because if you have a serious airplane accident, and the people look to the CAB and FAA, and they have some disagreement as to what happened or what to do for preventing it from happening in the future, it gets a little confusing for the traveling public.

Mr. BOYD. I do not anticipate any problem there, Senator. I do anticipate possible problems in the case of future accidents, or possibly even in the case of ones we're working on now where the Board's conclusions as to the cause of the accident will be accepted as final, but there will be differences of opinion as to what should be done to remedy the situation.

AREAS OF DISAGREEMENT

Now, here we do have occasional deep cleavages because the Board can recommend something and FAA may have a completely different idea and different approach as to how you rectify whatever caused the accident.

Senator MAGNUSON. Or the Board may recommend drastic action and the FAA not agree with it.

Mr. BOYD. That is right, sir.

Senator MAGNUSON. Or the FAA may recommend or suggest something, too. It could work both ways.

Mr. BOYD. Not really, because we have no function other than recommendation. The FAA has to carry it out.

Senator MAGNUSON. That is right.

Mr. BOYD. And this is where we do get differences of opinion.

Senator MAGNUSON. But again the liaison between the two as far as you can say generally is very good?

Mr. BOYD. Yes, sir. We have been having a "love feast."

Senator MAGNUSON. Are there any questions on this accident thing? Senator Allott?

Senator ALLOTT. No questions.

Senator MAGNUSON. Senator Schoeppel?

Senator SCHOEPPEL. No. I am sorry I was not here earlier.

PAYMENTS TO AIR CARRIERS

Senator MAGNUSON. Now we get down to payment to air carriers in your statement on page 11.

Mr. BOYD. With respect to "Payments to air carriers," the Board requested an appropriation of \$81,700,000 for 1962. Review of these estimates indicate that they are still as accurate as we can reasonably project at this time, taking into account the many variables involved. Our review does not indicate any basis for downward adjustment in the \$81,700,000 requested.

Senator MAGNUSON. You will recall, Mr. Chairman, that in the supplemental you gave us, the 1962 figures. Are these the same figures as you gave us, do you remember, in the testimony?

Mr. BOYD. Yes, sir. My recollection is that they are the same.

Senator MAGNUSON. As I recall, you said in the neighborhood of \$81 million.

LIMITATION ON SUBSIDY PAYMENTS FOR HELICOPTER OPERATIONS

Mr. BOYD. That is correct, sir.

With respect to the limitation which the House bill would impose on subsidy payments for helicopter operations, we have submitted a statement covering the helicopter operations in considerable detail. I would like to mention a few of the high points here.

The helicopter carriers were certificated for three specific purposes:

- (1) To expedite metropolitan mail deliveries to the central post office;
- (2) To assist in the development of rotary-wing aircraft for national defense purposes; and
- (3) To determine the feasibility of transportation of passengers, in addition to mail and property, between the centers of cities or their airports to suburban and outlying areas.

The services of these carriers have been utilized continuously by the Post Office Department. The Department of Defense has recognized their contributions to the development of the military helicopter aircraft. Civil defense authorities have testified in helicopter renewal cases of the value of their services to civil defense, especially in the event of an emergency.

REASONS FOR HELICOPTER SUBSIDY

The subsidy of these carriers stems from the facts:

- (1) They had limited revenue from passenger operations due largely to equipment limitations.
- (2) They are still in a relatively early stage of development and present aircraft have high cost characteristics.
- (3) The aircraft type itself is in a highly transitional state.

Our estimates of subsidy for the helicopter carriers represents a judgment. It is based on the concept that the twin-turbine equipment now on order by the existing carriers will initially bring about an increase in subsidy due to the maintenance "learning curve," the relatively high cost of such equipment, and the drop in load factors which would accompany the introduction of equipment of greatly increased capacity. However, the increase in load factors in subsequent periods and familiarization with equipment will bring about a gradual reduction in subsidy. The subsidy estimate does not contemplate the certification of any new carriers, although there are some 80-odd applications for certificate authority on the Board's docket.

The Board believes that the helicopter operations it has certificated and the subsidies expended for operations under those certificates have been in the public interest. It urges the Senate to delete the limiting language from the bill.

This concludes my statement, Mr. Chairman.

SUBSIDY PAYMENTS TO HELICOPTERS IN 1961

Senator MAGNUSON. All right.

Now let's get into this helicopter thing.

First, what is the figure that we paid in subsidies for helicopters this last year—will have paid as of July 1?

Mr. BOYD. Roughly \$5 million.

Senator MAGNUSON. \$5 million. What was asked for?

Mr. BOYD. For 1962?

Senator MAGNUSON. Yes.

Mr. BOYD. \$6,900,000.

INCREASE IN SUBSIDY FOR HELICOPTERS

Senator MAGNUSON. \$6,900,000. Approximately \$7 million. Why did you ask for that extra \$2 million?

Mr. BOYD. Because three carriers are buying new equipment. Presently all three carriers are utilizing piston-engine equipment which has an average capacity of 10 to 13 passengers. The new equipment—incidentally, these existing craft are all single engine—will be twin jet turbines with average capacity of 25 passengers.

These new pieces of equipment are going to cost a lot more money. They are also going to be more economical to operate.

Senator MAGNUSON. And will carry more people.

Mr. BOYD. And carry a great deal more people.

Actually, they will be able to carry more than twice as many people, because the existing generation of helicopter equipment is such that, for example, on a very hot day, they cannot take off with a full load. And with the jets, this won't affect them.

In addition to that, they will be able to operate different route patterns than those to which they are now restricted because of their twin-engine characteristics. With the single engine, they cannot operate over many congested areas.

Senator MAGNUSON. All right. But this extra \$2 million was contemplated for the three existing carriers, estimated, for fiscal 1962.

Mr. BOYD. That is right, sir.

Senator MAGNUSON. And mainly because they have given you letters of intention, or so stated, where they are going to try to phase into this new equipment.

Are they actually on order?

GUARANTEED LOAN APPLICATIONS FOR TWIN TURBINE-POWERED HELICOPTERS

Mr. BOYD. Not only do they have them on order, they have guaranteed loan applications before the Board which we have approved in principle as to part of them.

Senator ALLOTT. All of them?

Mr. BOYD. I believe all three of them.

Mr. ROTH. We have approved in principle one of the three. We have not acted upon the other two.

Mr. BOYD. But the other two have applications before us.

Senator MAGNUSON. And this does not contemplate, if an extra \$2 million is added, granting a single new application. This is going to take care of the three fellows that now have them?

Mr. BOYD. That is correct; yes, sir.

Senator MAGNUSON. And the 80 applicants can just sit and wait.

HELICOPTER OPERATION IN WASHINGTON-DULLES-BALTIMORE AREA

Mr. BOYD. That is correct, to this extent: We have currently an investigation going on the question of whether public convenience and necessity requires a helicopter operation in the Washington-Dulles-Baltimore area, and whether or not such operation must be or should be subsidized.

HELICOPTER OPERATION IN ATLANTA

Senator MAGNUSON. And I have here a communication from the people in Atlanta which we will put in the record. It is a letter to Senator Russell, in which they are thinking in terms of the new Atlanta Airport. I think it is a brandnew one, just put in operation.

Mr. BOYD. Yes, sir.

Senator MAGNUSON. With respect to operating helicopters there.

Mr. BOYD. We have no money for that.

Senator MAGNUSON. All right.

(The letter referred to follows:)

ATLANTA, GA., February 20, 1961.

Re Atlanta Helicopter Airways, Inc.

Senator RICHARD B. RUSSELL,
Senate Office Building,
Washington, D.C.

DEAR SENATOR RUSSELL: The budget submitted by the Eisenhower administration requested a Federal subsidy of \$7,100,000 for helicopter operators. This is an increase of \$2,335,000 over the subsidy of \$4,765,000 granted to three helicopter operators during the fiscal year ending June 1960.

If the new subsidy for helicopters is approved, would it be possible to allocate the increase of \$2,335,000 for the benefit of other helicopter operators who might be approved for operation and for subsidy during the next fiscal year? If you approve of this idea, I earnestly solicit your support.

We have estimated that it will take approximately \$600,000 in subsidy to operate a sufficient number of helicopters of the proper size in order to make a scheduled helicopter service in Atlanta as profitable as possible.

Thank you very much for your past advice and help.

Sincerely yours,

MORETON ROLLESTON, Jr.,
Attorney at Law.

EFFECT OF LIMITATION

Senator MAGNUSON. All these things could not be considered by the Board because if the House figure stays, and you can correct me if I am wrong, it will mean that one of these three you would not be able to take care of, with respect to this new equipment.

Mr. BOYD. I do not know, Mr. Chairman. You raise a very interesting question, and we do not know actually what would result.

Now, clearly, if this limitation stays in, the Board is not going to award more money than is available as a result of this restriction. However, under the Federal Aviation Act, the carrier who has the need for subsidy based on honest, efficient, and economical operation has what we deem to be a valid claim against the U.S. Government.

Senator MAGNUSON. And you would probably have to come to Congress and ask for money anyway.

Mr. BOYD. Yes, sir.

TREND OF HELICOPTER SUBSIDY

Senator MAGNUSON. The subsidy for all these three has constantly gone up every year, hasn't it, rather than going down?

Mr. BOYD. Yes, sir; that is correct.

Senator ALLOTT. Does anyone have the subsidy on these for the last 5 years, just to give us an orientation?

Senator MAGNUSON. Make him put that in the record.

Senator ALLOTT. I would like to know.

Senator MAGNUSON. I think it has gone up.

Senator ALLOTT. We have had it before, but what is it?

Mr. BOYD. I can give you the figures right here, sir.

Senator ALLOTT. All right.

Mr. BOYD. Starting with 1960—

Senator MAGNUSON. Put in the record when we started subsidizing helicopters, and how much it cost us, and the year-to-year figures?

Mr. BOYD. I can give you the figures here. Going back to 1954—well, let me do it this way. For 1960, \$4,960,000; for 1959, \$4,860,000; 1958, \$4,419,000; 1957, \$3,771,000; 1956, \$2,735,000.

Senator MAGNUSON. In other words, it has gone up all the time?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. Now, I think we ought to have this clear, too, because we are asked this question in the Senate. Was the first figure for three or only two?

Mr. BOYD. That was for three.

Senator MAGNUSON. And this was for all three?

Mr. BOYD. That is right.

Senator MAGNUSON. Has constantly gone up.

Mr. BOYD. Yes, sir. That is due primarily, Mr. Chairman, to expanded operation.

Senator MAGNUSON. I suppose there is some of that, too. They have expanded the operation?

Mr. BOYD. That is correct, sir.

Senator ALLOTT. But this still reflects an almost tripling of the subsidy since 1956 from 2.7 to 6.9 now, which is only \$2,000 off of the tripling.

Mr. BOYD. Yes, sir; that is true. But I do want to point out, Senator, that we are dealing in an experimental area. Now, the Board has great faith in the future of helicopters, and we feel that this operation has been entirely in the public interest. We are confident that the subsidy curve will shift and start downward after the carriers get this new equipment.

TURBINE-POWERED HELICOPTERS IN SERVICE

Senator ALLOTT. Now, I ask this question: How many of these three operators actually have gone ahead and placed turbine-powered helicopters into service?

Mr. BOYD. Los Angeles Airways is the only one that has actually put one in service, because the ones they are buying now are not yet, or had not been, certificated for delivery. Los Angeles Airways was able to lease a single-turbine helicopter from Sikorsky last fall, which they put into operation about the first of the year, in order to get operating experience with jet equipment prior to receiving delivery of the twin jet turbines which they will get late this summer.

TWIN TURBINE-POWERED HELICOPTERS IN SERVICE NEXT YEAR

Senator ALLOTT. Well, now, with the plans that are on the board now for orders, assuming that your financing plans are approved, and so forth, how many of these twin-turbine aircraft helicopters will be in service a year from now?

Mr. BOYD. Fifteen.

Senator ALLOTT. Will these be fairly equally distributed between the three?

Mr. BOYD. Yes, sir. Five apiece.

Senator ALLOTT. Five apiece. The reason I ask these questions, every year—

Mr. BOYD. I am sorry, sir, there will be 13.

APPROXIMATION OF HELICOPTER SUBSIDY TO 1966

Senator ALLOTT. Every year we have had this same question come up, and each year we see the subsidy increased, as I have pointed out here, and yet we have been told each year, "Well, we are just turning the corner, and next year there is going to be a more favorable picture." And yet since 1956 we have tripled the subsidy. Now, according to your own statement then, as I interpret it, we now have a subsidy being asked for 1962 of \$7 million, \$6.9 million to be exact. Now, you say in your statement that the picture is going to get worse because of the learning and experience table, and also because they will result in a low load factor, at least in the initial stages. Now, do you have any way of estimating, leaving out the question of Washington, how much you are going to have to come to Congress for and ask for in addition in the next 1, 2, 3, or 4 years before we can see a curve going down on this?

Mr. BOYD. Yes, sir; I can give you some rough approximations.

Senator ALLOTT. I know you cannot foresee the future.

Mr. BOYD. I would estimate for fiscal 1963, \$8 million; estimate for fiscal 1964, \$7,400,000 or \$7,500,000; for fiscal 1965, \$6,900,000; for fiscal 1966, \$5 million.

Senator ALLOTT. I will assure you I will never hold you to these figures. In other words, it is your opinion now that it will be at least fiscal year 1965 before we will get back down to where we are now, and we will have raised about \$2.5 million, the total subsidy before we get back down to that in 1965?

Mr. BOYD. I think that is about correct, yes, sir.

HELICOPTER OPERATIONS IN OTHER AREAS

Senator MAGNUSON. Of course this is not considering they might want to put in more service.

Senator ALLOTT. That is the trouble. And this raises that question, Mr. Chairman. I think we are all aware that when the Dulles Airport is concluded, and I personally do not have very great hopes for the present transportation system to and from it with respect to convenience, that it will be almost impossible to resist additional service here. Then you have such other great metropolitan areas around the country which are reflected in your 80 applications here. We have one from Atlanta. And I am sure that the Chairman's area, Seattle, is another one that would undoubtedly come under that. And San Francisco, maybe Pittsburgh, maybe Philadelphia, Cleveland, and just go on ad infinitum. I can think of many others that are almost certain to come in here. I know my own people in Colorado have shown a very great interest in this. And the future policies of the Board in this matter are going to be rather sensitive to say the least.

Mr. BOYD. Senator, I should tell you gentlemen that the industry is quite a bit more optimistic about this than is the Board as to the amount of subsidy that is going to be involved in the next 5 years. We are trying to be conservative in this and not give you figures that would just sound good to you.

As far as these other communities are concerned, it seems to us—and one of the things we are trying to do here with these three operations which were established in various locations because of the different type of operation that would be required so we could get some pretty good experience from the various types of operation that would be comprehended in almost any metropolitan area in this country—that we will eventually, through the operation of these carriers, be able to get the costs down to such an extent that a profitable, economic operation can then be established in all the other areas of the country.

PRIVATE UNCERTIFICATED HELICOPTER OPERATIONS

Senator MAGNUSON. Are some organizations trying it privately?

Mr. BOYD. Yes, sir. You mentioned San Francisco. There is a private organization there.

Senator MAGNUSON. I know there is one that was going to start in Seattle and go over the sound, which makes some sense.

Mr. BOYD. It might be. In San Francisco a private nonsubsidized operation began the first of June utilizing the single engine, single jet helicopter. The San Francisco operation is a rather unique situation, though, because there is a great deal of traffic between the airport at San Francisco and downtown Oakland and the airport at San Francisco and downtown San Francisco. The people who set up this operation feel they can charge taxi fares and be competitive with taxis and come out because of the rather high taxi charge involved in both these areas. And this is not the case in so many other cities in the country.

Senator ALLOTT. Now this is certificated, of course?

Mr. BOYD. No, sir.

Senator ALLOTT. It is not certificated?

Mr. BOYD. No, sir.

Senator ALLOTT. Are they certificated under whatever State authority has charge of this in California?

Mr. BOYD. Either the San Francisco Public Service Commission or the California Public Utilities Commission have granted them some authority; yes, sir.

Senator ALLOTT. But none of these others that are operating on their own have certificates of any kind from the Board?

Mr. BOYD. No, sir. They are operating in a weight category if I am not mistaken, below that for which the Board would require certification.

Senator ALLOTT. Do you have any idea how many operations similar to that in San Francisco, that is by "similar" I mean uncertificated by the Board, unsubsidized, are in operation? I do not mean individual contractors or people who own helicopters and contract them out to oil companies and exploration companies.

Mr. BOYD. I would guess, Senator, 35 or 40. Atlanta has one, for example, an outfit known as Pioneer. There are two or three here at Baltimore.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

Senator MAGNUSON. We have letters from two Senators on this subject that we will place in the record.

(The letters referred to follow:)

U.S. SENATE,
June 13, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Subcommittee on Independent Offices, Senate Appropriations Committee,
Washington, D.C.*

DEAR MR. CHAIRMAN: I am writing to express my concern over the recent action taken by the House Appropriations Committee in cutting subsidy payments for helicopter operations for fiscal year 1962 from the budget request of \$6.9 million to \$5 million. I hope that the Senate committee will make every effort to have this cut restored. Furthermore, I hope that the Senate committee will not subscribe to the House committee's expressed intention to make this "the last time it would recommend funds for subsidy payments for helicopter operations."

The three helicopter carriers which have provided services in Los Angeles, Chicago, and New York have been in operation since October 1, 1947, August 20, 1949, and October 15, 1952, respectively. While it is true that these three carriers have been paid subsidies by the Federal Government throughout their existence, it must be kept in mind that the contributions they have made in developing the art of helicopter operation have been in the national interest.

These three carriers have made tremendous progress—to the point where in 1960 they carried over 500,000 passengers. But perhaps more important is the fact that their operations have contributed materially to the overall development of the helicopter. They have been of infinite value to the Department of Defense in improving helicopters used by the armed services and in developing new equipment which promises to reduce the cost of helicopter operations in the future.

The three presently certificated helicopter operators are planning this year to introduce into service the twin turbine-powered helicopter. This turbine-powered helicopter, carrying about 25 passengers, would cut in half or more the direct seat mile operating cost of the reciprocating engine transport helicopter now in use. This is a real breakthrough and one which will eventually lead to more economical operation and to reduced subsidies.

The contribution which the helicopter carriers have made to the national defense and to the postal service should not be underestimated. Nor should it be measured in terms of dollars. At a time when real progress is being made, I think it is not in our national interest to discourage the operations of our helicopter carriers.

Sincerely yours,

CLAIR ENGLE, *U.S. Senator.*

U.S. SENATE,
Washington, D.C., June 13, 1961.

HON. CARL HAYDEN,
*Chairman, Senate Appropriations Committee,
Room 1235, Senate Office Building.*

DEAR MR. CHAIRMAN: I enclose for your consideration in connection with H.R. 7445, the Independent Offices Appropriations bill, copies of telegrams I have received from Mayor Frank X. Graves, Jr., of Paterson, N.J., and Mr. Edwin J. MacEwan, vice president of the Paterson Greater Chamber of Commerce, with regard to their concern about the reduction in subsidy appropriations for New York Airways.

I would be grateful for any comments you might have about this matter.

Sincerely,

CLIFFORD P. CASE,
U.S. Senator.

PATERSON, N.J., June 7, 1961.

Senator CLIFFORD P. CASE,
Senate Office Building, Washington, D.C.:

UPI dispatch and the Paterson News today states CAB will shortly inform me that because of House cutting \$1.9 million, New York Airways will be unable to serve Paterson and perhaps the entire metropolitan area with scheduled helicopter service.

Thus, Paterson and Federal Government investment of \$155,000 in our new heliport will go down the drain and CAB and Paterson will be the laughing stock of every city in the country.

We believe that every effort should be made to amend this bill in the Senate but only after you receive assurances that the New York Airways have been given or will be given approval to serve city with regular schedule.

EDWIN J. MAC EWAN,
Executive Vice President, Greater Chamber of Commerce.

PATERSON, N.J., June 8, 1961.

Senator CLIFFORD P. CASE,
Senate Office Building, Washington, D.C.:

MacEwan's telegram to you Wednesday expresses my sentiment. General survey indicates manufacturing plants in area would have approximately 1,000 passengers monthly to major airports. Independent passenger travel should at least double this potential. Helicopter service to our heliport represents only opportunity Paterson will ever have to service our great industries and citizens with direct air travel. Area which heliport will service represents one of the greatest exploding population areas in country. Utterly ridiculous Federal Government should not have reimbursed us for our share of the cost of Paterson heliport according to agreement. Believe we should receive assurance from CAB that sufficient subsidy would be provided to make it mandatory that New York Airways provide service to Paterson. A modern city servicing in area containing a million and a quarter population must be provided with modern air travel. Need all the assistance you can give us to expedite this service from Paterson heliport.

Sincerely yours,

FRANK X. GRAVES, Jr., Mayor.

PAYMENTS TO AIR CARRIERS

Senator MAGNUSON. Now the whole subsidy program is, again, \$81,700,000. We will place in the record how it is divided.

(The information referred to follows:)

PAYMENTS TO AIR CARRIERS

Summary of requirements

[In thousands]

Appropriation, 1961.....	\$65,000
Add proposed supplemental appropriation, 1961.....	21,944
Total requirements, 1961.....	86,944
Net payments, 1961.....	86,944
Base for 1962.....	0
Requirements for 1962 (by activity):	
Domestic trunklines.....	
Local service operations.....	66,933
Helicopter operations.....	6,959
Alaskan operations.....	9,246
Hawaiian operations.....	465
International operations.....	
Gross payments, 1962.....	83,603
Less estimated refunds from carriers.....	1,903
Net payments, 1962.....	81,700
Total estimate of appropriation, 1962.....	81,700

LOCAL SERVICE OPERATIONS

Senator MAGNUSON. The domestic trunklines are all off subsidy, is that correct?

Mr. BOYD. Yes, sir.

Senator MAGNUSON. The local service operators, the \$66,933,000, is that higher than last year? I think it is.

Mr. BOYD. I believe it is a little. We get back into this question of payment and accruals. Payments in 1961, during this current year, are higher than will be the case in 1962.

Senator MAGNUSON. Of course we understand the reason for that. There is more service, there are more towns—

Mr. BOYD. Plus which we were catching up from the past.

Senator MAGNUSON. And you testified in a supplemental that you were getting up to date on the payments in this particular thing.

Mr. BOYD. That is correct, sir.

Senator MAGNUSON. And that you had, with the exception I think of one local service carrier, brought them up to date.

Mr. BOYD. That is right, sir. I believe we have only one left. We got bogged down on one, so we may have two.

Senator MAGNUSON. Because it is very important to these local service carriers that, when they are entitled to payment under the law, they get prompt payment because some of them are running on financial situations where they have to meet demands from month to month.

Mr. BOYD. Most of these carriers have very little working capital.

SUBSIDY REDUCTION

Senator MAGNUSON. Now, you have also testified, and many members of the Board over the years, that they hope, again, that there we start to reduce that subsidy, and there have been some suggestions made as to how we might do that.

It has been pretty hard to do it in the past 5 years because of the number of new communities that have come in. And, then, the abandonment of some of the smaller communities by the major lines, in which the local service carrier had to pick it up, whether it was profitable or not. Now, what has the Board done, or what do they intend to do, in that situation?

For instance, the use it or lose it policy, the transfer of trunkline points to local service airlines, and the question of using a single airport where there are two airports in a community—have you any statement to make on that?

DEVELOPMENT OF REGIONAL AIRPORTS

Mr. BOYD. Yes, sir. The Administrator of the FAA and I, as Chairman of the Civil Aeronautics Board, with the concurrence of the Board members, issued a statement recently, a joint statement, in which we encouraged the development and utilization of regional airports whenever possible. At the Board, we feel that over a period of time we can save a considerable amount of money and provide better service through using regional airports.

Senator MAGNUSON. I will put that release in the record in full, and also the letter from the chairman of the Appropriations Committee, Mr. Hayden, who wrote to you about this matter, as well as your reply.

Mr. BOYD. Yes, sir.

(The information referred to follows:)

CIVIL AERONAUTICS BOARD,
Washington, D.C., May 2, 1961.

The Federal Aviation Agency and the Civil Aeronautics Board today jointly issued the following statement of policy with respect to the use and development of air carrier airports:

The Federal Aviation Agency and the Civil Aeronautics Board have become increasingly concerned over the establishment of separate air carrier airports in cities sufficiently close to be served through one airport. The use of two or more airports by the scheduled airlines in serving an area in many instances tends to diminish the services to each airport and increase the cost of air transportation. The concentration of the services provided to an area through the use of one airport will often improve the service offered by both scheduled airlines and general aviation. However, this would never be accomplished in such a way as to compromise the safety of either scheduled air transport or general aviation.

From the point of view of the Civil Aeronautics Board, scheduled airline service into two separate airports that are reasonably adjacent often results in a deterioration of the quality of airline schedules to the area. In many cases, without substantial inconvenience to the air passengers, they could be served through a single airport, resulting in improved scheduling, better quality of service through the use of larger equipment, and an overall improvement in air service to the area.

The Federal Aviation Agency and the Civil Aeronautics Board agree that the use of a single airport serving adjacent communities, where such action may result in a saving both to the Federal Government and the locality served, as well as improving the air service to the area, should be an increasingly important factor in considering applications for Federal funds for airport construction purposes and applications for certificated airline service.

N. E. HALABY,
Administrator, Federal Aviation Agency.
ALAN S. BOYD,
Chairman, Civil Aeronautics Board.

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
May 8, 1961.

HON. ALAN S. BOYD,
Chairman, Civil Aeronautics Board,
Washington, D.C.

DEAR MR. BOYD: I am writing to you and enclosing a copy of a policy statement that has been presented to me as being a new and constructive contribution on the part of subsidized scheduled airlines of the United States on the subject of their annual increase in appropriations needs.

You have appeared before the Senate Committee on Appropriations in support of payments for air carriers and are aware of the direct interest expressed by the committee members on the occasion for requests for both supplementary deficiency appropriations and fiscal year requirements. The committee has consistently accepted the CAB presentations and in all recent cases acceded to the requests of your agency.

This policy statement seems to present the most constructive program I have seen that offers a promise of subsidy reduction, particularly in reference to route strengthening. It is suggested that your comments on the practicability and the appropriateness of the policy direction signified in the ALTA news release might be communicated to the committee.

This request is made, believing that it offers no conflict in the present relationship between the legislative branch and one of its agencies, and that there is no specific Board hearing case or decision implied referred to in the request.

Yours very sincerely,

CARL HAYDEN, Chairman.

CIVIL AERONAUTICS BOARD,
Washington, D.C., May 24, 1961.

HON. CARL HAYDEN,
Chairman, Committee on Appropriations,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your letter of May 8, 1961, enclosing a copy of a policy statement issued on April 28 by ALTA, the Association of Local Transport Airlines. The association's news release enumerated four steps it believes must be implemented to accomplish the objective of reducing the local service carriers' dependence on Federal subsidy.

We are gratified to have the opportunity to comment on the statement released by the association. The four steps comprising the program recommended by ALTA represent essentially, we believe, an endorsement of the Board's program to strengthen the local carriers.

First, ALTA supports the Board's use-it-or-lose-it policy to the end that this policy will be strengthened and enforced. For your information, we are enclosing a copy of that policy which was enunciated in the Board's decision issued on December 8, 1958, in the seven states area investigation. This proceeding was the first of the series of 12 area investigations designed to review local air transportation needs throughout the country. All route awards in subsequent area proceedings have also been granted subject to the use-it-or-lose-it policy. Under the terms of that policy continuous review is maintained of the traffic results experienced from the new services authorized in the area proceedings. As a result, six formal investigations have recently been set down to consider whether certain of the service authorizations should be terminated because of low traffic. Further proceedings to implement the policy will be instituted on a timely basis.

Second, ALTA urges the continued transfer of trunkline points to local service airlines. This proposal is also in line with the Board's program being considered in the area proceedings and other consolidated or individual cases. Since December 1958, the Board has authorized the suspension or deletion of more than 100 trunkline authorizations and replacement by local service carriers. Numerous further issues of the possible substitution of local for trunkline carriers are being considered in current proceedings, some of which have not yet reached the Board for decision.

Access by local service carriers to profitable dense short-haul markets, and the elimination of all local service operating restrictions, are urged by ALTA as the third and fourth steps of the association's programs. Over the past 2½ years the Board has greatly increased the operating flexibility of the local carriers' route authorizations although at the same time requiring a minimum volume of service at intermediate points. Thus, the elimination of many, although not all, operating restrictions permits the local carriers to schedule more advantageously in dense short-haul markets available to them than was previously permitted. As a general rule the Board's decisions provide that the local carriers may schedule nonstop service between noncompetitive terminal cities, and one-stop service between competitive terminals. In specific instances the carriers hold even more flexible operating authority in markets found to require additional unrestricted service. As stated in the enclosed excerpt taken from the discussion of skip-stop authority in the Board's decision in the *Seven States Investigation*, the Board's "reasons for liberalizing the restrictions * * * are to be found in two basic objectives: (1) the desire to minimize the subsidy requirement for the new routes, and (2) to permit the local service carriers to improve their services to the public where the traffic demands at intermediate points will support the service."

In addition to the basic issue of skip-stop authority considered in route proceedings, specific carrier proposals for authority to operate in competitive short-haul markets are at issue in current proceedings. These proposals will of course receive the Board's careful consideration before decisions are reached.

In connection with the overall objective to reduce the local carriers' dependence on subsidy, we also wish to bring to your attention the Board's program for placing all local service carriers on a class subsidy rate. The current class subsidy rate covering the majority of these carriers has been in effect only a short time and is under continuous review by the Board and its staff. The Board's approach is to formulate the class subsidy rate as one of the means designed to maximize carrier incentive and ultimately accomplish a favorable impact on the subsidy bill. In developing the class subsidy rate the Board and its staff have worked closely with the local carriers and with ALTA.

We appreciate the opportunity to comment on the practicability and the appropriateness of the policy direction signified in the ALTA statement. The news release is returned herewith in accordance with your request.

Sincerely yours,

ALAN S. BOYD, *Chairman.*

SKIP-STOP AUTHORITY

We turn now to the question of what restrictions should be applied to the new services we are awarding in the *Seven States* area. The examiner recommended that after each intermediate point on a new segment has received two daily round trips, the carrier should be permitted to provide skip-stop service on that segment, except that at least two intermediate points should be served on terminal-to-terminal flights where a trunkline carrier also provides service between such terminals. In general, we agree with the examiner's recommendation, except that generally we will only require one-stop rather than two-stops between competitive terminals.

Our reasons for liberalizing the restrictions which the examiner would impose are to be found in two basic objectives: (1) The desire to minimize the subsidy requirements for the new routes, and (2) to permit the local service carriers to improve their services to the public where the traffic demands at intermediate points will support the service. After all, the authorizations we are granting herein will entail an estimated subsidy of approximately \$5 million annually. It is manifestly incumbent upon this Board to hold subsidy requirements to a minimum consistent with the overall objectives of the act. To the extent that operating restrictions are placed upon a route, they pro tanto impair the freedom of management to operate the routes in the most economical fashion possible, and necessarily inhibit the opportunity to tailor schedules and services to the needs of traffic as they arise from time to time. Notwithstanding these considerations, we have always found it necessary to impose some restrictions on local service routes to insure that the intermediate points will obtain sufficient service and to protect the trunkline carriers from undesirable competition. The character of the restrictions imposed has varied from time to time, and in a general sense has tended to be less restrictive as the local air carrier route system has developed and as the trunkline carriers have grown and expanded their services. In the course of evolving appropriate local service restrictions, we have seen the development of various skip-stop authorizations in different markets. In some cases, local service carriers have been given nonstop rights, even between terminals. In other cases, carriers have been granted one-stop authorizations in markets also served by trunklines, whereas in other situations two stops have been required. While no uniformity of restriction exists in the local service field, the "Ozark type" restriction has recently appeared in a number of local service certificates.

Under the "Ozark type" certificate, it is noteworthy that local service carriers have been granted skip-stop authority between pairs of points served by trunkline carriers, except that on terminal-to-terminal flights, a minimum of two intermediate points are required to be served. The action we are taking herein further liberalizes the "Ozark type" restriction in that it only requires one stop between competitive terminals and permits nonstops between noncompetitive terminals.

As to nonstops between noncompetitive terminals, the only question that arises is whether the local air carriers will thereby neglect the services required at the intermediate points on the segment. We think the answer to this question is clearly in the negative, since nonstop service will not be permitted until each intermediate point is scheduled to receive at least two round trips a day. In addition—and this is highly significant—the authority to operate nonstops by no means imports any assurance that nonstop flights will be assured subsidy support. By not prohibiting nonstop services, we leave with management the basic responsibility which it always has to operate the routes awarded on an economical basis; and if nonstops are operated, it will be incumbent upon management to show that these services were warranted by economical and efficient management in conformance with the requirements of section 406, if any claims for subsidy are to be advanced. What we are doing in the present proceeding is refraining from imposing certificate restrictions which rigidly tie the hands of management and which should never be imposed unless absolutely necessary.

So too, in the case of one stop between competitive terminals, we are leaving to the initial judgment of management the determination of whether the available traffic warrants such operations. Since (with minor exceptions) two daily round

trips to the intermediate points are required before one-stop flights can be operated, we are satisfied that the intermediate points will receive the necessary minimum pattern of service to the terminal points. And, insofar as the protection of the trunklines is concerned, we are fully convinced that they are not entitled to any more protection from the local service carriers than we are providing. The simple fact is that the trunkline carriers have, in a real sense, come of age, and they are fully capable, in an economic sense, of coping with the limited amount of competition from the local service carriers which we are authorizing. To begin with, the trunkline carriers are, for all practical purposes, no longer dependent upon Government subsidy. They operate with larger, faster, and more comfortable equipment than the local air carriers and are able, whenever they are willing to make the effort, to dwarf the service of local service carriers in any given market where they compete. The mere fact that a trunkline carrier has preceded a local carrier in a given market does not ipso facto entitle the trunkline carrier to immunity from competition by a local service carrier in that market. Our main objective in placing a one-stop restriction on flights between competitive terminals is not so much for the protection of the trunkline carriers, as it is to exclude the local service carriers from participation in markets where the need for direct competitive service has not been shown and where the likelihood is that the effort by the local carrier to compete would jeopardize the soundness of the local carrier's operations. In contrast, the one-stop authorization is intended to permit the local air carriers to give improved local service between stronger intermediate points and those terminal points where the public wishes to travel. Without skip-stop authority, the local carrier may be forced to provide excessive service to weak intermediate points in order to meet the service requirements at stronger intermediate points. In those cases where one-stop local service operations will be economically feasible, management will be in a position to improve the service to the public and at the same time conduct more economical operations, since it is manifest that longer hops and the elimination of unnecessary stops minimize operating costs.

In assessing the impact of the one-stop authority we are granting, it must be borne in mind that the local service carriers will not be in a position to even consider operating such service until the segment in question is sufficiently strong to warrant service in addition to the required two daily round trips to each intermediate point. It is apparent from the revenue forecasts for many of the routes we are awarding, that in the immediate future at least, no more than two daily round-trip frequencies will be feasible on many of the segments awarded. This underscores the fact that we are leaving the carriers with the freedom to develop their routes as traffic develops, rather than imposing at the outset inflexible restrictions upon their operations.

With regard to the interest of the trunkline carriers in preventing diversion by the local service carriers, we think it is important to point out that the trunkline carriers have to a large extent a common interest with the Board in developing a sound local air service system, since that system is responsible for feeding into the trunkline system millions of dollars of revenue. It is also significant to point out the many advantages that the trunkline carriers have enjoyed through the elimination of weak points from their trunkline systems and the transfer of such points to local service carriers which assume the obligation of serving these points on a subsidy basis. Having discarded many of these local points in this manner, we believe that the trunkline carriers should take this fact into account in considering whether the limited amount of competition they may face from liberalized local carrier restrictions is warranted.

Source: Opinion of Civil Aeronautics Board, *Seven States Area Investigation*, Docket No. 7454, et al. Order E-13254, December 8, 1958. Pages 143-148, inclusive.

STRENGTHENING ROUTES OF LOCAL SERVICE CARRIERS

Senator MAGNUSON. Mr. Hayden says, and I quote:

This policy statement seems to present the most constructive program I have seen that offers a promise of subsidy reduction, particularly in reference to route strengthening.

And I think, just speaking for myself, this is a matter the Board has to go into.

Mr. Boyd. That is right, sir, and we are working very diligently in that direction. We are trying wherever possible to strengthen the routes of the local service carriers.

Senator MAGNUSON. I cannot see, for the life of me, how the major domestic lines can complain about that, because they have been relieved in many cases of a nonprofitable stop, and they can say, "We are off subsidies," because their routes have been strengthened. And it seems to me sometimes they are not very fair, as it were, about opposing some of these route strengthening suggestions made by the local service areas.

Mr. BOYD. Well, Mr. Chairman, I think that the trunk carriers are indicating an enlightened view in this area. We have seen a number of evidences of it recently.

I should say that we can understand the reluctance on the part of a number of these trunk carriers because of this transition into jet equipment and with the new short-range equipment coming in which actually no one knows how it can be best utilized. I can understand very clearly the reluctance in this area. But they are seeking more and more suspensions of short-haul markets which can be transferred to the local service carriers and thereby strengthen both the local service and the trunk carriers. I think that you will see a good deal more of this, and the Board is trying to encourage it.

Senator MAGNUSON. Would it be fair to say—we did have this phasing out of the trunk carriers and the building up of the local service carriers—that we now really come to a point, generally speaking, where we can accomplish the strengthening of the local service carriers?

Mr. BOYD. I think that is correct to a considerable extent. Now, I do not want to leave—

Senator MAGNUSON. Of course, you run into trouble with the communities. I understand that. This is not the fault sometimes of the trunklines only opposing this, but some communities.

Mr. BOYD. That is very true, and that is one of the reasons why the Board established our special assistant for community relations. We have to do an educational program. There have been several instances where the communities have just fought tooth and nail to keep trunk service in there, when actually all they were talking about was the name of an airline. Because they got better service when the local service carriers were finally put in, a much better system of flights than they had with the trunk carrier going through on one or two flights a day.

LOCAL SERVICE AND TRUNKLINE SCHEDULING

Senator MAGNUSON. Then I think the Board has to look, and I am just expressing my own opinion, at when you establish a route of a local service transport line and allow them to give better service, say, to the community, that the trunkline is doing less service—well, let's put it this way: that you have to take a close look at their scheduling so they are not flying on top of one another.

The trunks have had a tendency, if the local service carrier goes in, to give better service and put in more schedules for them to go ahead and fly on top of them. And sometimes it does not work for either one.

Mr. BOYD. I think, really, Senator Magnuson, that you will find there is gradually developing a concept in civil aviation today where the local service carriers and the trunks are partners, rather than competitors. And this seems to me to be a very heartening sign.

LOCAL SERVICE CARRIERS PHASING IN NEW EQUIPMENT

Senator MAGNUSON. I think we have reached that general point.

How many of the local service carriers to date—and you can put this in the record if you do not have it—have phased into new equipment?

Mr. BOYD. I believe all of them have. Trans-Texas, I think, was the last one. I beg your pardon—yes, all of them. They all have either Martins, Convairs, or F-27's—

Senator ALLOTT. You do not mean they are completely phased?

Mr. BOYD. Not completely.

Senator MAGNUSON. There are some DC-3's going around, because I rode on one last week.

Mr. BOYD. DC-3's are still the predominant type of equipment, but by the end of fiscal 1962 the vast bulk of the mileage will be transported in modern equipment, pressurized equipment, and two of the carriers are operating all jet now.

Bonanza is all F-27's, and Aloha Airlines in Hawaii is all F-27's except for an occasional charter flight in DC-3's.

Senator MAGNUSON. It was our hope when we passed the bill giving them permit certificates, and we passed this further bill on guaranteed loans, that they could then get in a financial position where they could buy new equipment for more economical operation, so that we could get away from this subsidy.

I must say they have gone right ahead, I think as fast as they probably could, to do that, and I am glad to get the report that most of them now—

Mr. BOYD. I understand that possibly Southern Airlines may not yet be in operation with its Martin equipment, but it has purchased equipment.

Senator ALLOTT. Is Central phasing into this, too?

Mr. BOYD. Yes, sir. Central is purchasing Convairs. They have them in operation now. They have several in operation now, and they have ordered more.

USE OF GOVERNMENT GUARANTEED LOANS FOR PURCHASE OF AIRCRAFT

Senator ALLOTT. Now could I ask you a question?

To what extent have these airlines, these local airlines, used the Government guarantee provision that we passed 2 years ago, I believe?

Mr. BOYD. The latest figures are \$28 million, of which the Board has guaranteed \$26.75 million. I beg your pardon, it is \$29.7 million, and the Board has guaranteed \$26.7 million.

Senator ALLOTT. But we have come up now and the F-27 is out of production.

Mr. BOYD. I believe that is correct.

TYPES OF AIRCRAFT AVAILABLE FOR PURCHASE

Senator ALLOTT. This is correct; the F-27 is out of production, as I understand it, and the only substitute that we have available for replacement for the DC-3 is the Martin, which is, I believe, also out of production, is it not?

Mr. BOYD. I believe that is correct.

Senator ALLOTT. And the Convair?

Mr. BOYD. Yes, sir.

Senator ALLOTT. Is there anything—

Mr. BOYD. That is the only domestic aircraft, I believe. Mr. Tanguay?

PRODUCTION OF F-27's

Mr. TANGUAY. The F-27 is out of production, as far as the United States is concerned, but they are still manufacturing them in Europe.

Senator ALLOTT. Are they?

Mr. TANGUAY. Yes, sir.

Senator ALLOTT. I am happy to be corrected on that.

Mr. BOYD. Yes; the Dutch, who produce the F-27, and Fairchild took it over under licensing for U.S. sales, have a very substantial backlog of orders. So their production line will be operating for quite a while.

The British also have an aircraft they call the Dart Herald, which is quite similar to the F-27, that they are now trying to sell, and the French have some pure jet aircraft that are in the small commuter-type sort of category.

Senator ALLOTT. But none of the pure jets have been picked up by any of our local airlines yet that you know of?

Mr. BOYD. No, although I do believe that Ozark Airlines has publicly indicated an interest in another British aircraft known as the BAC-111, which is an all jet, about a 45-passenger plane.

IMPROVEMENT OF SUBSIDY WITH RESPECT TO AIRCRAFT

Senator ALLOTT. Well, then, in general, as the picture is today, the only opportunity for improving the subsidy with respect to aircraft lies in continued purchases of F-27's, Convairs, and Martins?

Mr. BOYD. In the sense of aircraft—

Senator ALLOTT. As it now exists?

Mr. BOYD. In the sense of aircraft purchases as a means of assisting in subsidy, yes, sir.

PURCHASE OF F-27'S BY LOCAL AIRLINES

Senator ALLOTT. That is what I am talking about.

Now, are these local airlines purchasing the F-27 still, in local areas?

Mr. BOYD. Bonanza just took delivery of its ninth F-27 about 2 weeks ago, so I would say up to that time, yes, sir.

Whether there are any now on order, I do not know.

Senator ALLOTT. Can anyone answer this for me?

I know Bonanza is using F-27's. Are there any other local airlines that are now purchasing F-27's?

Mr. BOYD. We have no applications for loan guarantee for additional F-27's, so we would have no knowledge of that, sir.

Senator ALLOTT. I am simply trying to get this picture straight in my mind. So eliminating Bonanza, as of the present, the only improvement, by way of improvement of aircraft, lies in Martins and Convairs?

I mean, it is crystallized and jelled now?

Mr. BOYD. Well, subject to purchases from the Dutch of the F-27, the—

Senator ALLOTT. Yes. Well, let me ask my question again:

You have indicated already that Bonanza has just taken delivery on one F-27 from the Dutch—

Mr. BOYD. No, they got this from Fairchild.

Senator ALLOTT. All right. Bonanza uses F-27's; we all know this.

Mr. BOYD. Exclusively.

Senator ALLOTT. Now, I asked a few moments ago if there were any other local service carriers who were purchasing F-27's?

Mr. BOYD. I am sorry that I am not answering you very well, Senator, apparently.

Piedmont Airlines has purchased F-27 aircraft; Ozark Airlines has purchased F-27 aircraft; Aloha has purchased F-27 aircraft.

Mr. ROTH. West Coast and Pacific have purchased, each of them, a number of F-27 aircraft. Now, in the sense of whether they are purchasing, that is, buying today, I do not know. We have no knowledge.

Senator ALLOTT. All right. Then the picture is, by way of improvement of the subsidy picture as far as aircraft are concerned, as of today the improvement would have to come from one of these three sources, F-27, Martin, or Convairs?

Mr. BOYD. Of aircraft operating today; that is correct. However, I should point out that the British have two, pure jet and turboprop, and the French have one or more aircraft in this category.

USE-IT-OR-LOSE-IT POLICY

Senator ALLOTT. Yes; I am acquainted with those. Now, the chairman asked a few moments ago—and I would like to pursue this—with respect to subsidies, what has been the experience of the Board, and what is the present picture as to the use-it-or-lose-it policy which was instituted?

Mr. BOYD. Well, the experience to date is that the actual use-it-or-lose-it policy did not come into fruition until last fall, and the Board immediately after that instituted proceedings which are required by statute looking toward the suspension of a number of points. Those cases are still before the examiners and have not gotten to the Board.

We have utilized the formula of the use-it-or-lose-it policy in a number of cases that were outside of the specific area in which this doctrine was established in the renewal cases, and as I recall, of the first 46 or 47 cases the Board suspended service in about 23 communities.

Senator ALLOTT. So that you are implementing this policy?

Mr. BOYD. Absolutely.

Senator ALLOTT. And it should cut down, to some extent, the subsidy to the local carriers?

Mr. BOYD. That is correct.

INCREASE IN LOCAL SERVICE SUBSIDY

Senator ALLOTT. Do you anticipate that with this policy, and with the improvement in the types of aircraft that your request for subsidies, leaving out the helicopter situation, would be larger or smaller next year?

Mr. BYRD. We have a calculation on that. Just one moment, sir. We have made an estimate.

It will be larger for the local service industry next year as we estimate it now.

Senator ALLOTT. What is the basis for this? If they are getting better aircraft and you are eliminating some of the more uneconomical stops by the use-it-or-lose-it policy, why would the subsidy be larger?

Mr. BOYD. Well, one thing, the depreciation will be higher because of the greater cost of the new equipment. For another, the carriers will still be running in some of their new aircraft. And this is always an uneconomical proposition in the first instance, when you try to integrate a new type of equipment on a route, even though you are operating that type of equipment on other routes.

I frankly do not know how to explain this, but it seems to be true.

Another factor is that while we are eliminating points, we are also adding points through certification proceedings in route cases that are currently before the Board. And most of them are not profitable points. Now, we may have also framed in there, Senator, a percentage point or two for increasing operations costs, wages, parts, general overhead.

Senator ALLOTT. Well, this is getting under more constant pressure all the time. I know that I receive a great deal of mail in the course of a year about it. Much of my own State, of course, is served by local carriers, but also the pressure is getting greater against the subsidy, and I think we have to do everything we can to try and hold this down. We have also had hope held out to this committee that this figure was going to go down, and it is a little disheartening, I might say, at this point to receive the news that it is going to be larger next year, probably.

Mr. BOYD. Now, I was not here before last year. But last year we represented to the Congress that fiscal 1963 would be the peak year, and I am willing to adhere to that belief.

Chairman Durfee last year, I know, stated for the record that he anticipated a gradual decline from 1963.

Senator MAGNUSON. And, of course, we will be running out of cities by that time to serve.

Are there any further questions?

Senator SCHOEPEL. I would like to ask some questions.

Senator MAGNUSON. The Senator from Kansas.

TARGET DATE FOR REDUCTION OF SUBSIDY

Senator SCHOEPEL. I am disturbed with the subsidy picture that has developed here. You have a definite warning from the House, and we might just as well face the facts on the helicopter situation.

I do not know how adamant they are, but in their report they said this is the last year the committee plans to recommend funds for subsidy for helicopter operations. And the amount for 1962 for this purpose has been reduced from \$6.9 to \$5 million.

What I want to ask is this:

I recognize the need for local service carriers as the trunkline carriers recede from a lot of their operations. Service has been given and there is much clamor and demand for it. In view of the legisla-

tion that we passed, in view of the certification of a lot of these carriers, taking them out from under the questionable status, the loan guarantees, and everything else, has the Board really established a target date, say 3 years from now or 5 years from now, when this subsidizing is going to be cut down? Because if you are going to hold out the impression to the local lines, or the helicopter operations, that they can come in here for subsidies, you are not going to get the degree of businesslike approach needed.

I am just wondering if you men have been thinking in terms of a target date. I know you have told the chairman and the distinguished Senator from Colorado, that you are shifting the emphasis and you think you can cut it down but, since 1954, the local service in the helicopter subsidy was \$2 million—as was pointed out by the Senator from Colorado—and now you are close to \$7 million in 1962, and you have testified it will go up and maybe ease off 3 years from now.

Have you established a target date that the operators in this industry had better envision when this is not going to be continued? I just wonder if you have really done that?

VALUE OF HELICOPTERS TO OTHER DEPARTMENTS

Mr. BOYD. No, sir; we have not. We are in a situation, Senator, where we think the thing is going our way, but here you have new equipment in the field, a completely new type of equipment that will operate differently, will carry a vast larger number of people than in the past assuming it does what the manufacturers say it will. Now we have, as I related earlier, a great many statements from the Department of Defense that they find this commercial operation valuable in the interest of public defense. The Post Office Department finds this valuable, the civil defense organization finds it valuable. For us to say, particularly after the Board came up here before the Congress and opposed the inclusion of helicopters in the guaranteed-loan legislation, and the Congress then, over the Board's objections, included the helicopter operators in the guaranteed-loan legislation, for us to now say to the helicopter operators, "Despite the fact that we have to pass on your loan, and you are included in this, and it is going to take you 7 or 8 years, whatever the time is, to pay off these loans, we are going to cut you off at such and such a date"—I do not think we can do it.

Senator SCHOEPEL. I do not recommend that. But I also do not recommend the situation where these operators, and some of these groups operating in these capacities are, can say, "well, we can look for continued subsidy down the line." And I do not think you will get economies that way. So if the Board will examine or look at it and say, starting with a certain target date, "we are going to cut this thing down," because certainly it is justifying itself in operations dollarwise—as far as the military is concerned, I know the military is always doing a lot of experimenting and goodness knows they have not lacked for appropriations on that. I do not think that is a very good reason for expecting the subsidy operations to continue for years down the line here without a definite warning from constituted authority.

COSTS OF SERVICES

We are moving in here, local and service lines, 13 of them, with \$66,933,000. The total net is \$81,700,000. Checking the proceedings in the House, in 1939 the first year of subsidy on the trunklines was \$12 million. From 1939 to date it figures about \$191 million. When you stop and look at this, with \$81,700,000 this year, someone has to start looking for some reasonable plan of production. But you are not going to get it done, in my humble opinion, if you are going to continue to look for subsidies. I just do not believe you are going to get economy of operation that way. I know the Senator from Colorado has pointed out that with some of this new and modernized craft they are in a hard way financially, and what the answer is I do not know. But I am certainly convinced of one thing, and for one, I am interested in aviation, but I am not going to sit by on this subcommittee, and this committee, and continually see these people held out the opportunity to get more subsidy when I know they are increasing their carrying capacity, increasing their carrying loads, and always looking for some justification to get more subsidy to carry it. Maybe I am too critical, but that is the way it looks to me.

NEED FOR DECLINE IN SUBSIDY COSTS

Mr. BOYD. I think we are all headed in the same direction, Senator. We would like to see this subsidy decline as rapidly as possible. However, we feel it is only through the operation of these three carriers, and maybe it should have been two or maybe five, on a subsidized basis that we are going to be able to develop the helicopter operation to where it can be made economical and thereby utilized nationwide. This is a manifest impossibility today.

Now for the Congress to say that \$5 million is all you can spend for helicopters in 1962, very frankly, seems to me to be a rather dogmatic attitude because it is not based on any study of what they are doing. This strikes me as a very arbitrary statement that the House made. And certainly they have the authority to do it, as you gentlemen do here. But if it is in the public interest to try and develop these things until we get something such as we finally have in the trunk industry with the DC-3, which was an airplane that could operate economically, we cannot be dogmatic about it and say, "Well, you have to do this within the framework of \$5 million," because this is not really within the control of the helicopter operators.

Senator SCHOEPEL. I do not know what the justification is for the House, but, I think the reason for that has been that they see, just as we do over here, the subsidies climbing with the added improvements requested by legislation, and even with the promises made, the amount still goes up, and up, and up. I do not think that would be the case if they had a feeling that there comes a time when you are going to expect them to phase this thing down. Maybe you have not been able to do it.

Mr. BOYD. We have not been. And Senator, I can assure you we go over the operations with a fine tooth comb. And I will say it is my honest belief that the vast majority of these operators in the subsidized area would love to get out from under subsidy if they could stay in existence. But if we say to the helicopter carrier, particularly, and they are not as well advanced at the moment as some of the local service carriers, "We are going to cut you down this year or next year to x dollars" we in effect, I think, will have put them out of business.

I can state, sir, that from the standpoint of the Board, nothing would please us more than if we could have an operation of helicopters and local service carriers that serve the communities in this country requiring service for which we did not have to come up here and ask subsidy. It would make our life a lot easier.

Senator ALLOTT. Would you yield, Senator Schoepfel?

Senator SCHOEPFEL. Yes.

NONSTOP ROUTES FOR LOCAL SERVICE CARRIERS

Senator ALLOTT. Along that line, what policy does the Board have with respect to trying to ease the burden on the local carriers with respect to the granting of routes that would tend to put them in a more favorable operating light? I ask this question because certain decisions of the Board have seemed to me to indicate that the Board had made up its mind that there were certain carriers who were going to remain local and subsidized carriers and have not been given routes for which they applied, which were nonstop routes over the same area, and which might have had the advantage of placing them in a somewhat better picture as far as their subsidies are concerned.

Mr. BOYD. I think your statement is absolutely correct, Senator, that the Board did make a conscious judgment that these 13 carriers we have been referring to this morning would be categorized as local service carriers, and they would not engage in direct competition with the trunk carriers to any substantial extent. I do not know that the Board has any stated policy on the purpose, but my own personal feeling is simply this, that I would not, except under the most unusual circumstances, vote to award nonstop rights to a local service carrier in competition with a trunk carrier this day and time.

Senator ALLOTT. Even though they were operating over the same routes?

Mr. BOYD. That is right, absolutely.

FRONTIER-BONANZA SITUATION

Senator ALLOTT. Suppose you had a situation where a local service carrier is operating over a route which is not covered by a trunk carrier, and makes application for nonstop?

Mr. BOYD. That is an altogether different proposition.

Senator ALLOTT. Well I am going to use this one thing. I might get in trouble with it with some friends because I have friends on

both sides. But I will give you a couple of examples to illustrate what I mean.

The Board, for example, gave to Bonanza the nonstop route and one-stop route between Salt Lake City and Phoenix, despite the fact that Frontier had operated between these points with stops at Grand Junction, Cortez, Gallup, Williams, I believe, and on down. But three or four stops in between Salt Lake and Phoenix.

In other instances, a situation where you had Frontier serving Denver, Pueblo, San Luis Valley, Gallup, and on down to Phoenix, this was given to a trunk airline.

Now it seems to me, and I realize this is a very complicated question and there are a lot of things I do not know about it, that the policy as you have enunciated it in response to Senator Schoeppel's questioning means that these people are doomed to be subsidized airlines forever.

CONTINUED SUBSIDIZATION OF LOCAL SERVICE CARRIERS

Mr. BOYD. Well, I think it is fair to say that these people are doomed to have operations forever that will require subsidies. There are any number of communities in this Nation requiring public transportation, which is coming to mean more and more air transportation, where the operation cannot be made profitable.

AWARD TO LAKE CENTRAL AIRLINES

However, I should like to point out also that recently the Board awarded to Lake Central Airlines a route from Dayton, Columbus, to Toledo, into Detroit, which had formerly been operated by TWA, and TWA was willing to suspend its operation on that route. Now, this should be a very profitable route for Lake Central Airlines and should help to cut down on the amount of subsidy it will need to serve other portions of its territory. And while I do not have any personal knowledge of the situation you have alluded to out in the West, I am sure you realize that in setting out the local service carriers, the Board divided the Nation into roughly 13 geographical areas, and this may have something to do with why some of these awards went the way they did.

I frankly do not know. This is always going to cause us some trouble, because the boundaries have to be to some extent arbitrary. But I think you will find that, as time goes on, and as the trunk carriers are willing to pull out of the short haul dense markets, we will put the local service carriers in immediately.

But my point was simply this, earlier, that when the industry in a year such as 1960, on revenues of over \$2 billion, has an income that amounts to 3.2 percent on its investment, I cannot see putting subsidized competition in on top of it.

Senator ALLOTT. I was not putting subsidized competition on top of them. But on the other hand, I felt there had been some instances that had been called to my attention where they were not given an opportunity to take certain routes which had not theretofore existed, which would improve their chances of reducing their subsidy.

I realize they are probably never going to get off the subsidy, but there may be opportunities there where they could reduce their subsidy.

CASE ON SUBSIDY FOR ALL CARGO AIRLINES

But what is the situation with respect to the examiner's report for a subsidy for an all-cargo airline? I am interested in this.

Mr. Boyd. That is in the bosom of the Board at the present, Senator, and I do not think we could discuss that with you.

ALTA SUGGESTIONS FOR REDUCING SUBSIDY

Senator MAGNUSON. I want to say, on this point, there was an ALTA meeting here in April in which they made some very good suggestions on how they could get themselves off subsidy, and I want to put that in the record.

(The information referred to follows:)

ASSOCIATION OF LOCAL TRANSPORT AIRLINES,
Washington, D.C., April 28, 1961.

The presidents of a majority of the scheduled airlines receiving subsidy support met in Washington on April 27, 1961, and issued the following statement:

We are concerned that the amount of subsidy supporting scheduled airline service to nearly 600 communities is increasing and believe that firm steps must be taken to reduce substantially these communities' dependence on subsidy.

We recognize that no single step will accomplish this objective, and that the steps recommended here to reduce dependence on subsidy may well affect some airlines more than others; but we are clear in our belief that the effect of this program will be to strengthen the industry as a whole, will improve services to these communities, and will substantially reduce their dependence on subsidy.

Therefore, we will direct our energies and efforts to the early implementation of at least the following:

1. Support of the Civil Aeronautics Board's use-it-or-lose-it policy to the end that this policy will be strengthened and enforced.
2. The continued transfer of trunkline points to local service airlines.
3. Access to profitable dense short-haul markets.
4. The elimination of all operating restrictions.

We believe these objectives to be the most constructive method of reducing dependence on subsidy consistent with the public interest.

We are determined to render continuing appropriate and adequate service to those smaller cities requiring subsidy support; but having provided such services, we are convinced we should be able to operate our systems in the most productive and economical manner possible.

We will devote ourselves to the development and early adoption of these objectives.

The Board of Directors of ALTA met on April 28. At this meeting the Board by unanimous action:

Ratified the program developed at the presidents' meeting and pledged its full support to this program.

ROUTES AND AGREEMENTS SECTION

Senator MAGNUSON. You are familiar with that?

Mr. Boyd. Yes, sir.

Senator MAGNUSON. The Board is familiar.

Senator ALLOTT. In 1960 you had a carrier service section, and in 1961 it was called special authorities. And I think this year it has gone into an agreement section and a carrier service section; is that right?

Mr. Boyd. No, sir; it is called routes and agreements.

Now, the section you referred to was melded into the route section and called routes and agreements.

Senator ALLOTT. Why is this particular section constantly being changed in category and name?

Mr. BOYD. I do not know, Senator, why it is constantly being changed. I can tell you about why.

Senator ALLOTT. It has been changed three times in 3 years.

Senator ALLOTT. In 1960 you had a carrier service section, and in Senator ALLOTT. All right, sir.

Mr. BOYD. I had had the good fortune to be a member of the Board for a little over a year before I became chairman, and had an opportunity to observe the work of these various staff sections, and reached the conclusion that the work of routes and what was called special authorities were so closely related that they should be in one division.

Consequently, I put them in one division.

Senator ALLOTT. And they will now remain in the routes and agreements division?

Mr. BOYD. Well, I won't guarantee that. We might have another management study, but it is my expectation that they will stay there.

Senator ALLOTT. All right, thank you.

OBJECTION TO ACTIVITIES OF SPECIAL AUTHORITIES

Senator MAGNUSON. Well, we told you to cut them out, didn't we, last year, so you just moved them?

Mr. BOYD. I got the impression that you were opposed to some alleged peripheral activities of the group and that you took some exception to the title.

Senator MAGNUSON. And the activities.

Senator ALLOTT. And the activities, too.

Senator MAGNUSON. We did not think the whole thing should be eliminated, but we thought it should be cut pretty substantially.

Mr. BOYD. Well, I will tell you, sir, we would be happy to go over each individual function with you, with the committee or with you individually, and would appreciate very much any advice and counsel as to what particular items, whether it be in this division or any other involved, which are not felt to be appropriate.

FUNCTIONS OF ROUTES AND AGREEMENTS DIVISION

Senator ALLOTT. Now, while we are on this, what functions will this Routes and Agreements Division be performing now? Will they be performing the same functions they originally performed?

Mr. BOYD. Yes, sir. Well, it has been established for all matters dealing with routes, with licensing, with exemptions, with mergers, with interlocks, interlocking directorships and ownerships, with the supplemental carriers, the air taxi operators, the air freight forwarders. I think that generally covers it.

INCREASE IN AIR FREIGHT

Senator MAGNUSON. Is air freight on the increase?

Mr. BOYD. Yes, sir. We expect to see a very substantial increase in the immediate future. Last month Flying Tigers Line received the first of several CL-44 aircraft which it had ordered. Slick is getting some CL-44's this summer. Seaboard World Airlines is acquiring CL-44 aircraft which will have substantially increased capacity over the existing cargo aircraft, and integrated loading and unloading systems, utilizing pallets, turboprop engines.

The manufacturer represents there will be substantial savings which will permit very great reduction.

Senator ALLOTT. Who makes that?

Mr. BOYD. Canada Air, which is a subsidiary of General Dynamics.

Senator ALLOTT. Oh, yes; that is the one that has the swing tail section.

Mr. BOYD. Yes, sir.

Senator MAGNUSON. If there are no further questions, we will stand in recess until 2 o'clock.

(Whereupon, at 12:35 p.m., the subcommittee recessed, to reconvene at 2 p.m., the same day.)

AFTERNOON SESSION—TUESDAY, JUNE 13, 1961

SELECTIVE SERVICE SYSTEM

STATEMENT OF COL. WILLIAM S. ILIFF, JR., ASSISTANT TO THE DIRECTOR OF SELECTIVE SERVICE, ACCOMPANIED BY COL. BERNARD T. FRANCK III, CHIEF LEGISLATIVE AND LIAISON OFFICER

LETTER FROM AGENCY

Senator MAGNUSON (presiding). You got \$33,169,400 in 1961, and the amended budget, the January budget for 1962, is \$34,475,000, and the House gave you \$33,670,000, which is \$500,600 over 1961, but minus \$805,000 from the 1962 estimates, both budget.

Colonel ILIFF. Yes, sir.

Senator MAGNUSON. You have a letter here which we will place in the record in full.

(The letter referred to is as follows:)

NATIONAL HEADQUARTERS, SELECTIVE SERVICE SYSTEM,
Washington, D.C., June 9, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of the Independent Offices Appropriation Bill for 1962, Committee on Appropriations, U.S. Senate.

DEAR MR. CHAIRMAN: I appreciate very much the opportunity afforded me in your letter of June 2, 1961, to appear before your committee to request any changes in the House bill which I might deem required in the public interest.

The functions and responsibilities of the Selective Service System are all required by statute and full amount of the funds requested are, in my opinion, necessary to adequately carry out these functions and responsibilities.

The reduction of \$805,000 in this amount made by the House will necessarily result in some curtailment of the selective service operation. However, I am willing to attempt to undertake the operation of the System on the House figure instituting all possible economies and curtailing activity in areas which would appear to least affect the public interest.

If, as a result of the curtailment, it develops that the public interest is adversely affected, I would have no alternative but to later request additional funds.

In view of this I will not request of your committee restoration of the reduction in the budget estimate made by the House and, therefore, suggest no change in the House bill.

Sincerely yours,

LEWIS B. HERSHEY, *Director.*

GENERAL STATEMENT

Senator MAGNUSON. If you have any further statement to make, we will be glad to hear from you.

Colonel ILIFF. No, sir.

We present that as our statement and if there are any questions anybody wants to ask, we will welcome the opportunity to try to answer them.

Senator MAGNUSON. We might ask this: You have got \$500,000 approximately over 1961. What is the reason for that?

Colonel ILIFF. That is in the local board area, sir.

Senator MAGNUSON. Yes?

Colonel ILIFF. And it is based upon a work measurement study we prepared which is in our justification which showed that our funds in this past year were inadequate to service the local boards without some service of uncompensated time by compensated people.

LOCAL BOARDS

Senator MAGNUSON. Did you have to close any local boards up last year?

Colonel ILIFF. No, sir.

Senator MAGNUSON. Or run them part time?

Colonel ILIFF. No, sir; not more than the previous year.

Anything that was done was done by these people working for nothing, because we did not have funds with which to pay them.

Senator MAGNUSON. So the program is approximately the same as it was last year?

Colonel ILIFF. Yes, sir; that is correct.

Senator MAGNUSON. Does that apply to numbers, too, of people that you are going to process?

I wonder, what will be the estimated draft?

Colonel ILIFF. \$100,000 is what we have in the estimate for 1962. We had an estimate originally of \$110,000 for 1961, but it did not develop into that size.

Senator MAGNUSON. And, as far as you know, that is about what it will be projected into 1962?

Colonel ILIFF. In 1962, yes, sir.

Senator MAGNUSON. I have no further questions.

Senator ALLOTT. I have no further questions. We gave you additional funds last year, did we not?

Colonel ILIFF. Yes, sir.

Senator ALLOTT. Over the preceding year?

Colonel ILIFF. Yes.

Senator ALLOTT. In order to take up part of this local workload?

Colonel ILIFF. That is correct.

Senator ALLOTT. Were you able to do that with those funds?

Colonel ILIFF. We have not completely met the objective and that is why we are having more funds given to us by the House this year.

Senator ALLOTT. But you were able to pick up part of it?

Colonel ILIFF. It is very hard to judge exactly what the workload is going to be in the local boards without knowing exactly what our activity is going to be, but on the basis of projection, this will take care of that part of the situation.

Senator MAGNUSON. All right, Colonel, thank you very much. Sorry to keep you waiting.

(Whereupon, at 2:30 p.m., Tuesday, June 13, 1961, the committee recessed, to reconvene at 10 a.m., Wednesday, June 14, 1961.)

INDEPENDENT OFFICES APPROPRIATIONS FOR 1962

WEDNESDAY, JUNE 14, 1961

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:25 a.m., subject to call in room F-37, U.S. Capitol Building, Hon. Warren G. Magnuson (chairman) presiding.

Present: Senators Magnuson, Robertson, Allott, Saltonstall, Bridges, and Young.

FEDERAL COMMUNICATIONS COMMISSION

STATEMENT OF NEWTON N. MINOW, CHAIRMAN; ACCOMPANIED BY ROSEL H. HYDE, COMMISSIONER; ROBERT T. BARTLEY, COMMISSIONER; ROBERT E. LEE, COMMISSIONER; T. A. M. CRAVEN, COMMISSIONER; FREDERICK W. FORD, COMMISSIONER; JOHN S. CROSS, COMMISSIONER; RALPH J. RENTON, ASSOCIATE CHIEF ENGINEER; MAX D. PAGLIN, GENERAL COUNSEL; KENNETH A. COX, CHIEF, BROADCAST BUREAU; CURTIS B. PLUMMER, CHIEF, SAFETY AND SPECIAL RADIO SERVICES BUREAU; JOHN J. NORDBERG, CHIEF, COMMON CARRIER BUREAU; GEORGE S. TURNER, CHIEF, FIELD ENGINEERING AND MONITORING BUREAU; ROBERT W. COX, EXECUTIVE OFFICER; RICHARD F. SOLAN, ASSISTANT EXECUTIVE OFFICER; TEDSON J. MEYERS, ADMINISTRATIVE ASSISTANT TO CHAIRMAN; BEN WAPLE, ACTING SECRETARY; JAMES D. CUNNINGHAM, CHIEF HEARING EXAMINER; DONALD BERKEMEYER, CHIEF, OFFICE OF OPINIONS AND REVIEW; AND JAMES SHERIDAN, SPECIAL ASSISTANT TO CHAIRMAN

AMOUNT REQUESTED AND HOUSE ALLOWANCE

Senator MAGNUSON. The committee will come to order.

We have appearing before us this morning the Federal Communications Commission, and we are involved with the single matter of salaries and expenses. For the record, appropriations in 1961 were \$13,789,000. The January budget estimate was \$12,525,000 and the amended budget was exactly the same amount. The House allowed \$12,400,000, which is \$1,389,000 under the 1961 fiscal year and \$125,000 under the budget estimate.

We have the chairman and other members of the Commission here. We are glad to have you, and I apologize for being late. I have been with General Schriever up in the wild blue yonder making a good television show.

Mr. Chairman, we will put your letter in full in the record, and if you have a short statement we will be glad to hear from you.

(The information referred to follows:)

FEDERAL COMMUNICATIONS COMMISSION,
Washington, D.C.

Senator WARREN G. MAGNUSON,
Chairman, Independent Offices Subcommittee, Senate Appropriations Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: The Federal Communications Commission hereby appeals to the Senate to restore the \$125,000 by which the House of Representatives has reduced the 1962 appropriation request for the Commission. Attached is a statement, prepared in accordance with committee instructions, setting forth the detailed request and justification therefor.

It is my understanding that our appeal will be heard by your committee at 10 o'clock on Wednesday, June 14. We look forward to this opportunity to discuss our problems with you.

Sincerely yours,

NEWTON N. MINOW, *Chairman.*

SALARIES AND EXPENSES

(1) Page 14, line 12, strike "\$12,400,000" and insert in lieu thereof: "\$12,525,000".

(2) Page 14, line 12, add "*Provided*, That the limitation until June 30, 1962, on the availability of the appropriation for a special ultrahigh frequency television study, contained in the Independent Offices Appropriation Act, 1961, under the head 'Federal Communications Commission,' is hereby extended until December 31, 1962."

HOUSE REPORT

"The committee recommends \$12,400,000 for salaries and expenses of the Commission in 1962, which will provide about 50 additional employees. This is an increase of \$611,000 over the comparable figure for 1961 after excluding the funds provided for a special study, and is a reduction of \$125,000 in the request. The committee has allocated 7 of the staff increases to the Common Carrier Bureau, 20 to Safety and Special Radio Services, and 20 to the Broadcast Bureau including 10 to the Rules and Standards Division. The committee also strongly urges the Commission to add three hearing examiners and to use all the power and authority it presently has to make delegations and reduce the number of matters awaiting decision."

JUSTIFICATION

As Chairman of the Federal Communications Commission, I consider it my duty to appeal to the Senate of the United States to restore the reduction in our budget made by the House of Representatives. While the cut of \$125,000 in our budget may not appear large as Federal budgetary figures go, to our small agency it is a very important sum indeed.

When I became Chairman of the Federal Communications Commission 3 months ago, I knew that this Commission faced numerous and difficult problems. I knew, too, that it was a relatively small agency with a small budget. I want to report to this committee, however, that one of the things I have learned in these 3 months is the fact that the problems and workloads confronting the Federal Communications Commission are not only colorful and controversial, but there are many of them and the volume of work involved in meeting these problems and administering these programs is tremendous. I want to say, too, that I have been impressed at the quality of the hard-working staff of the Commission. This relatively small number of Federal employees handles problems, performs work, and meets responsibilities far out of proportion to their numbers.

When I became chairman, one of my first problems was to decide whether we should seek a larger budget than had been approved for our Commission by the previous administration. I was advised by my staff and by my colleagues and I learned for myself that this proposed budget was a tight one. We decided, however, to do our utmost to solve our problems and handle our work with the modest increases provided in that budget. It is my emphatic opinion that we could very effectively and in the public interest use funds far in excess of the amounts provided in our budget but, as I say, we were and are anxious to do our job well at minimum cost.

When the House of Representatives decided to reduce our request by \$125,000, I immediately instructed staff to prepare a proposed administrative plan to accomplish this reduction. I have reviewed these proposals and the problems

which we can anticipate in carrying them out. It is my opinion that sufficient harm will result in the form of unsolved problems and continuing backlogs that I must request the Senate of the United States to restore this admittedly small amount of money.

Let me be specific about the kinds of things I have in mind. Under the allowance of the House we will not be able to add one single job to the Office of the General Counsel; we are, however, faced with the fact that the workloads of this office are increasing and most certainly will continue to increase in both complexity and volume, at least over the next year and one-half.

Take the Office of Chief Engineer. Not one additional job was allowed for this top technical staff. Basic to the solution to many of our problems is more extensive technical work. The House allowance gives us no additional help at all in this critical area.

Our field staff, which makes investigations, inspections, studies, and related work, faces constantly increasing problems and workloads. The numbers of transmitters of radio energy are increasing dramatically every year. This single fact in itself increases almost in geometric proportion the problems and workloads facing our field staff. Under the House allowance we will be hard put to finance even our present staff.

The House committee report, indicated that it was allowing 20 additional jobs for our Broadcast Bureau. This, of course, will be helpful. As a matter of fact, the President's budget called for just 24 additional jobs, but I am convinced that a reduction of even four in this request will have its effect upon our program of operations in the broadcast field.

The House allowance provided everything we asked for in the administration of Safety and Special Radio Services. Obviously with this I can find no fault. Let me just note for information the fact that the numbers of different uses and individual users of radio frequencies in these nonbroadcast areas continue to grow by leaps and bounds and how far this will go is impossible to foretell.

The House committee allowed a few more jobs for our Common Carrier work than provided in the budget. This I find most helpful. The simple truth is that major problems have arisen in this field since our original budget was prepared. If I were preparing 1962's budget today, I would be asking the Bureau of the Budget and the President for substantial staff increases to enable us to handle some of these problems.

GENERAL STATEMENT

Mr. MINOW. Thank you, Mr. Chairman and members of the committee.

We are very grateful we are here today. This is my first experience before this committee and I appreciate the concern of the committee about our problems which we regard as very serious.

What we are talking about this morning, actually in dollars, I think, to you, as compared with your usual hearings on other agencies, is rather small. However, we regard it, in our small agency, as a very important sum indeed.

JUSTIFICATION FOR REQUESTED CHANGES IN HOUSE BILL

As Chairman of the Federal Communications Commission, I consider it my duty to appeal to the Senate to restore the reduction in our budget made by the House of \$125,000.

When I became Chairman of the FCC 3 months ago, I knew that this Commission faced numerous and difficult problems. I knew, too, that it was a relatively small agency with a small budget. I want to report to this committee, however, that one of the things I have learned is the fact that the problems and workloads confronting the FCC are not only colorful and controversial, but are many of them, and the volume of work involved in meeting these problems and administering these programs is tremendous. I want to say, too, that I have been impressed at the quality of the hard-working staff of our Commission. This relatively small number of Federal employees handles problems, performs work, and meets responsibilities far out of proportion to their numbers.

When I became chairman one of my first problems was to decide whether we should seek a larger budget than had been approved for our Commission by the previous administration. I was advised by my staff and by my colleagues and I learned for myself that this proposed budget was a tight one. We decided, however, to do our utmost to solve our problems and handle our work with the modest increases provided in that budget. It is my emphatic opinion that we could very effectively and in the public interest use funds far in excess of the amounts provided in our budget but, as I say, we were and are anxious to do our job well at minimum cost.

PLAN TO ACCOMPLISH REDUCTION

When the House of Representatives decided to reduce our request by \$125,000 I immediately instructed staff to prepare a proposed administrative plan to accomplish this reduction. I have reviewed these proposals and the problems which we can anticipate in carrying them out. It is my opinion that sufficient harm will result in the form of unsolved problems and continuing backlogs that I must request the Senate to restore this admittedly small amount of money.

EFFECTS OF HOUSE CUT

Let me be specific about the kinds of things I have in mind. Under the allowance of the House we will not be able to add one single job to the Office of the General Counsel; we are, however, faced with

the fact that the workloads of this office are increasing and most certainly will continue to increase in both complexity and volume, at least over the next year and one-half.

Take the Office of Chief Engineer. Not one additional job was allowed for this top technical staff. Basic to the solution of many of our problems is more extensive technical work. But, the House allowance gives us no additional help at all in this critical area.

Our field staff, which makes investigations, inspections, studies, and related work, faces constantly increasing problems and workloads. The numbers of transmitters of radio energy are increasing dramatically every year. This single fact in itself increases almost in geometric proportion the problems and workloads facing our field staff. Under the House allowance we will be hard put to finance even our present staff.

DETAILS OF HOUSE ALLOWANCE

The House committee report indicated that it was allowing 20 additional jobs for our broadcast bureau. This, of course, will be helpful. As a matter of fact, the President's budget called for just 24 additional jobs, but I am convinced that a reduction of even 4 in this request will have its effect upon our program of operations in the broadcast field.

The House allowance provided everything we asked for in the administration of safety and special radio services. Obviously with this we can find no fault. Let me just note for information the fact that the numbers of different uses and individual users of radio frequencies in these nonbroadcast areas continue to grow by leaps and bounds and how far this will go is impossible to foretell.

The House committee allowed a few more jobs for our common carrier work than provided in the budget. This I find most helpful. The simple truth is that major problems have arisen in this field since our original budget was prepared. This is the main point I should like to emphasize today. If we were preparing 1962's budget today, we would be asking the Bureau of the Budget and the President for substantial staff increases to enable us to handle some of these problems.

APPEALS ON SATELLITE COMMUNICATIONS

For instance, the amount of time and effort devoted to proposals and studies on satellite communications is increasing constantly. We regard this field as requiring our top priority attention and yet we have an exceedingly limited number of staff personnel who are able to devote their time to these far ranging problems. With the staff budgeted and allowed we will, of course, do the best we can—but we could do much better.

Now if the committee has time, I would be very happy, on behalf of the Commission, to have Mr. Craven, who is our Commissioner especially delegated to handle most of our space problems, answer a few questions about our activities.

Senator MAGNUSON. Well if you will finish your statement, I am going to ask you questions about that.

Mr. MINOW. That about sums it up, Mr. Chairman. While the reduction of \$125,000 may not appear large, to our small agency with its very conservative budget and its ever more difficult problems, its rapidly increasing workloads, its oppressive backlogs, and its desire to

get on with the job the public and the Congress expect it to do, this reduction is serious. We most earnestly request the Senate of the United States to restore this \$125,000 cut in our budget.

ADDITIONAL REQUEST FOR UHF STUDY

We have one additional request to make. We are now in the middle, as you know, of a special study of ultra-high frequency television. The funds for this special study were made available last year for the 2-year period ending June 30, 1962. Present indications are that we will complete the study substantially on schedule. However, it now appears probable that we will not be able to complete dismantling the test equipment and restoring the rented space to its original condition by the end of next year. We are, therefore, requesting new language in the appropriation bill extending the availability of balances in this special fund into fiscal year 1963 in order to enable us to obligate funds after June 30, 1962, for these miscellaneous "cleanup" operations.

That is my statement, Mr. Chairman.

Senator MAGNUSON. All right, Mr. Chairman, we will get right into that satellite thing.

SATELLITE COMMUNICATIONS

Of course we are all aware of the very substantial and rapid advances being made scientifically in this field, and these developments of course have important application for telephones, telegraph in the communications field, and I wanted to ask the question first, so we will get a background of this, and then we will discuss what we think should be done: What are the Commissions' principal activities in this area now?

Mr. MINOW. Since 1957 the Commission has been active in one or another phase of the space program. Currently, in collaboration with the OCDM, we have devised and published a proposed Government-wide recommendation for a frequency allocation plan to support a global satellite system.

Now in addition to that, we have before us, in one of our dockets, I think it fair to say, perhaps one of the most important matters we have ever had in the history of the Commission. We are considering how best to encourage private enterprise to enter the space satellite communications field.

PRIVATE AGENCIES IN FIELD

Senator MAGNUSON. Well, now, just so we will get the record clear, as I understand it there are four or five private people in the private field that have been working on the space satellite plan.

Mr. MINOW. Right. Actually, I think, Senator, there are even more than that.

Senator MAGNUSON. Well, there are quite a few.

Mr. MINOW. Right.

Senator MAGNUSON. There is the American Telephone & Telegraph—

Mr. MINOW. ICA?

Senator MAGNUSON. ICA.

Mr. MINOW. General Tel.

Senator MAGNUSON. General Tel. Anyway, these people, and also Lockheed—

Mr. MINOW. And GE. There are a number of them. You mentioned American Telephone & Telegraph, I think.

Senator MAGNUSON. Yes.

LIMITED TO ONE SYSTEM

Mr. MINOW. Now the problem is, our experts all tell us, and Commissioner Craven can expand on this, the nature of the technical problem is that there can only be one system. Therefore, what we have asked when we had all the companies in just last week, is how do they feel they can best combine forces through a joint venture, or otherwise, so that private enterprise could play its part in this most important development of communications in the future.

Senator MAGNUSON. In other words, to make this simple for us, you cannot put up all kinds of communications satellites in the air?

Mr. MINOW. Well, the frequencies are limited.

Senator MAGNUSON. The frequencies are limited and there would be utter confusion. And everyone is working on this, and it has gone beyond the theoretical stage, hasn't it?

Mr. MINOW. There is no question about it.

PROBLEM OF REGULATION

Senator MAGNUSON. What do we do about it in a regulatory way?

Mr. MINOW. We have to be sure that whatever system is developed is consistent with the Communications Act, that it be a nondiscriminatory one, and that all who want to use it can use it on a fair basis, that no one will get a monopoly, and that no one will get any unfair advantage. That is the effort we are making.

We are working, incidentally, in close cooperation with other agencies of the Government, with NASA, with the OCDM, with the State Department, and others. And I would welcome a chance for Commissioner Craven to outline very briefly the—

Senator MAGNUSON. I want to get this basic background. Now I know there has been some confusion between the agencies on this matter.

Mr. MINOW. Well, my understanding is that it is pretty well resolved at this point, Mr. Chairman.

ROLE OF FCC

Our role, as we see it, is to encourage the development of a private system which will be subject to regulation by the FCC, and which will play its part in this great event in the future, because we are going to have a revolution in communications through the advent of satellites.

Senator MAGNUSON. And we have to think in terms of regulation because it is going to be—I cannot see any other way—in the nature of a public utility.

Mr. MINOW. Right.

Senator MAGNUSON. I mean the use of it.

Mr. MINOW. It has to be. This is the only way it can be.

Senator MAGNUSON. Now I just want to add this, Commissioner Craven, and then I will let you explain it.

Of course we know this will have some international aspects.

PROBLEMS BEFORE COMMISSION

Mr. MINOW. Exceedingly so. The first problem will be at the 1963 Convention of the International Telecommunications Union with respect to negotiation of frequency arrangement. This is No. 1. And No. 2, the idea is to achieve a global system which will have communications to all countries, if possible, and the international implications are tremendous.

Senator MAGNUSON. Because you can bounce this stuff all over the world I suppose.

Mr. MINOW. Right.

Senator MAGNUSON. I had the experience 3 months ago of talking to Seattle via the moon. They heard it just as well as if I was there.

All right, Commissioner Craven, you have been involved in this.

HISTORY OF PROJECT

Mr. CRAVEN. I have been involved in this ever since 1957, Mr. Chairman. And as you will recall, this Government began preparation of proposals for the 1959 Geneva Conference involving the allocation of frequencies for space communications, and at that Conference our delegation was able to persuade the other nations to at least allocate portions of the radio spectrum for space communications research. At the same time we impressed upon the other nations of the world the absolute necessity for having a more permanent radio frequency allocation for operative space communication systems in the future.

1963 TELECOMMUNICATION CONFERENCE

So they agreed then to call an extraordinary radio administrative conference for 1963, where the sole agenda is to be limited to the allocation of frequencies for space, including ordinary operating communications systems as well as to determine the technical characteristics which will be agreed upon by all the nations of the world in the global space communications system. We have already prepared a proposal on a tentative basis which we have published for industry comment, and we hope, since these are tentative, to secure the views of other nations. And after giving consideration to those, we will make definite formal proposals to the International Telecommunications Union for consideration at the Conference.

At the same time we are collaborating with other nations of the world and with industry in this country in the preparation of the technical specifications for space satellites. We are making definite progress. I can say at this time that it appears to us, and I think to all of industry as well as to the Government, that there is no reason why there would be any difficulty, from a technical or an economic standpoint, in establishing international global space satellite communications systems.

U.S. PROBLEMS

Now we have had some difficulties in this country in establishing an organization which will operate this end of the line and will help put space satellites into the air. As you well know, there are several differences of opinion as to what type of orbiting they should have, there are several differences of opinion with respect to the technical characteristics, and we have made great progress in beginning to solve those problems.

JOINT VENTURE OF INTERNATIONAL COMMON CARRIERS

Just recently the Commission, as a result of an inquiry, issued a report in which it said at this time we feel there should be a joint venture, consisting of the international common carriers which the Commission has already licensed. This will be open to any new common carriers which may come in.

Senator ALLOTT. Will you repeat that again; I did not understand that.

Mr. CRAVEN. We have indicated that a joint venture by international common carriers should be formed. And at this time it is limited to the present international common carriers, but it is open to future international common carriers. In doing this we have been in very close cooperation with the Department of Justice and we have put certain limitations upon the requirements that they have to meet. We require that all international carriers shall have access, on a fair and equitable basis, to the use of the satellites. We are requiring competitive bids for all the hardware, major items of hardware. And we may have other parameters which we would require in order to avoid any implications of violations of our antitrust policies.

We expect that, insofar as the satellites themselves are concerned, traffic arrangements will have to be made, and we suspect that many governments will wish to own part of a satellite, and at least we will have to give equitable access to all nations to the use of the satellite.

COOPERATION WITH OTHER AGENCIES

We have been, as the Chairman has indicated, cooperating with all the other Government departments interested, such as the Department of Justice, OCDM, and NASA, with whom we have a written memorandum of understanding particularly as to our respective jurisdictions and cooperative efforts. It seems to be working out very well. We are resolving somewhat different policy considerations with the Department of Defense, and there may be some details yet to be worked out with the Department of State. I think we are making progress on those matters and we are well ahead of the game as compared to many other nations.

TENTATIVE AGREEMENTS

Senator MAGNUSON. Are those memorandums of tentative agreements available to be put in the record?

Mr. CRAVEN. I think they can be.

Senator MAGNUSON. All right. Because you see, we will have NASA up here next week, and we want to know that they understand what you folks understand.

Mr. MINOW. Yes. We are on a day-to-day basis of communication with NASA, Mr. Chairman.

Senator MAGNUSON. All right.

Senator ALLOTT. I think these tentative agreements, if they are such, the things you have been reading from, or at least talking from, Mr. Craven, should be a part of the record.

Mr. MINOW. Fine. We would also like to put in our recent order, which Commissioner Craven described, about the joint venture.

Senator MAGNUSON. Yes.

(The information referred to follows:)

FEDERAL COMMUNICATIONS COMMISSION
Washington 25, D. C.

PUBLIC NOTICE - G
1271

February 28, 1961

MEMORANDUM OF UNDERSTANDING BETWEEN FCC AND NASA
ON RESPECTIVE CIVIL SPACE COMMUNICATIONS ACTIVITIES

Chairman Frederick W. Ford of the Federal Communications Commission and Deputy Director Hugh L. Dryden of the National Aeronautics and Space Administration have signed the following "Memorandum of Understanding" between those agencies for delineating and coordinating their respective responsibilities in the field of civil communications space activities:

"The purpose of this memorandum is to provide a basis for coordinating the activities of the National Aeronautics and Space Administration and the Federal Communications Commission in the application of space technology to civil communications in order that their respective statutory responsibilities may be carried out in the national interest. It is mutually recognized that future Presidential or Congressional actions may necessitate some modification of this memorandum.

"Following full and complete discussions of the present situation and future objectives, certain conditions of fact and policy guidelines were agreed upon. Both NASA and the FCC recognize as conditions of fact -

- "(1) that the present state of the technology of communication satellites strongly suggests the feasibility of utilizing such satellites to expand and improve existing facilities for world-wide communications services;
- "(2) that a substantial amount of further research and development is necessary to demonstrate both the technical and economic feasibility of utilizing communication satellites on a commercial basis;
- "(3) that in accordance with traditional communications policy in this country, overseas public communications are provided by private enterprise, subject to Government regulation, and that at the present time overseas voice communications are provided primarily by a single company and overseas record communications are provided by several companies;
- "(4) that the FCC and NASA are concerned with the nation's total communications capability from the points of view, respectively, of civil communications policy and the commercial utilization of space technology; and that existing common carriers and others are interested in participating in the development of space telecommunications technology to expand and improve world-wide channels of communication through private expenditures; and

- "(5) that the congestion and technical limitations of the radio spectrum presently useful for world-wide communications are such that without communication satellite technology the spectrum probably cannot support the very substantial increases in capacity necessary to satisfy new services, such as transoceanic TV and wide-band data transmission, or to satisfy the anticipated expansion of ordinary types of services.

"On the basis of the foregoing observations, both NASA and the FCC affirm the following propositions as guidelines for the coordinated conduct of their respective activities:

- "(1) The earliest practicable realization of a commercially operable communication satellite system is a national objective.
- "(2) The attainment of this urgent national objective in the field of communications may be accomplished through concerted action by existing agencies of Government and private enterprise.
- "(3) The statutory authority of NASA and the FCC appears adequate to enable each agency to proceed expeditiously with the research and development activities necessary to achieve a commercially operable communication satellite system. Special problems which may arise in connection with the regulation of a commercially operable system are being explored by both agencies, and may result in legislative recommendations at a later date.
- "(4) In accordance with the traditional policy of conducting international communications services through private enterprise subject to Governmental regulation, private enterprise should be encouraged to undertake development and utilization of satellite systems for public communication services.
- "(5) Both NASA and the FCC will conduct their respective activities with a full exchange of information so as to accelerate necessary research and development and to coordinate Governmental actions necessary to attain the national objective.
- "(6) NASA, in appropriate cooperation with other Government agencies, will continue to direct its activities in this field toward the advancement of space technology and its application to civil communications.

- "(7) The FCC, in appropriate cooperation with other Government agencies, will continue to direct its activities in this field toward the development of communications policy and the implementation and utilization of space telecommunications technology through the licensing and regulation of United States common carriers. In this connection, the FCC will take into account the total Government needs for communication services where such needs normally are provided by privately owned facilities.
- "(8) Both NASA and the FCC, consistent with the policies of the Department of State, will facilitate international cooperative activities in the field of space telecommunications within the framework of this nation's international obligations and aims.
- "(9) Existing inter-agency organizations and procedures for coordination will be employed with respect to the allocation and assignment of frequencies necessary to support both the research and development and the operational phases of a civil communication satellite system."

international communication common carriers and others can best be effectuated on an equitable, non-discriminatory, and lawful basis.

4. In instituting this proceeding the Commission wishes to make it perfectly clear that it is mindful of the scope and complexity of the international problems inherent in the field of space communications. It is recognized that international cooperation and agreement on frequency allocations and other essential matters are required if a truly useful and efficient satellite communication system is to be realized. The Commission is also fully cognizant that before a fully operational commercial satellite communication system can be established a substantial amount of research and development remains to be completed. However, it is the Commission's opinion that consideration of the questions involved in this proceeding in advance of the resolution of these other related problems will hasten the establishment of international communication via space satellites.

5. Accordingly, there is instituted herewith pursuant to the provisions of Section 403 of the Communications Act of 1934, as amended, an inquiry into the following questions:

1. Assuming the authorization of a single or limited number of satellite communication systems will best serve the public interest, what plan of participation is best designed to provide equitable access to, and non-discriminatory use of, satellite communication facilities, by existing and future international communication common carriers and others? Should such a plan include participation of manufacturers of satellite communication and launching equipment? Specify in detail the features of the plan including the financial and operational arrangements related to the ownership and use of the system.
2. Specify in detail, with supporting briefs, how such plan would comply with existing laws and policies (particular attention being given to Sections 313 and 314 of the Communications Act and pertinent anti-trust statutes).
3. Specify in detail, with supporting briefs, the provisions of the Communications Act and Commission Rules and policies which are relied upon as authority for the Commission to prescribe such plan to the exclusion of other plans and to require licenses or other authorizations to be obtained thereunder; or, in the absence of such authority, specify in detail the changes recommended in the laws and policies in order to implement such plan.
4. Specify in detail the extent to which each of the various parties involved in the systems covered by such plan would be subject to regulation by this Commission as common carriers or otherwise.
5. State whether you intend to participate in such plan and the nature and extent of such participation.
6. All interested parties are invited to respond in writing to the questions herein. In view of the vital nature and widespread interest in this subject it is requested that 40 copies of each such response be filed in this

proceeding rather than 15 copies ordinarily required by Section 1.54 of the Commission's Rules and Regulations. Parties responding to this inquiry shall furnish their responses on or before the 1st day of May, 1961, and replies to such responses should be filed on or before the 15th day of May, 1961. Any further filings or other proceedings herein shall be announced by subsequent orders of the Commission.

FEDERAL COMMUNICATIONS COMMISSION

Ben F. Waple
Acting Secretary

Adopted: March 29, 1961

Released: April 3, 1961

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington 25, D. C.

FCC 61-676
4774

In the Matter of)

An Inquiry Into the Administrative and)
Regulatory Problems Relating to the)
Authorization of Commercially Operable)
Space Communications Systems)

Docket No: 14024

FIRST REPORT

By the Commission:

1. On March 29, 1961, the Commission adopted a Notice of Inquiry (released on April 3, 1961) designed to facilitate an early solution to the administrative and regulatory problems relating to the future authorization of commercially operable space communication systems. It was stated in the Notice that it may not be feasible to have more than one or a limited number of commercial satellite communication systems due to the substantial capital investment required and limitation of radio spectrum space; and that this raises a problem as to the manner in which such a system or limited number of systems could be accommodated within the Commission's policy of fostering beneficial competition in the international communication field and within the anti-trust laws. Accordingly, the Notice solicited views from all interested parties as to the best plan of insuring that international communications common carriers, and others, participate on an equitable and non-discriminatory basis in a single or limited number of satellite systems. Views were also solicited as to the legality of the suggested plan; the Commission's authority to prescribe such plan; and the extent to which participants in the plan would be subject to the Commission's jurisdiction. The Notice directed that responses thereto be filed on or before May 1, 1961 and that replies to such responses be filed on or before May 15, 1961.

2. Responses have been filed by twelve parties, viz., American Rocket Society; American Securities Corporation (for the future Western Union International, Inc.); American Telephone and Telegraph Company; General Electric Company; General Telephone & Electronics Corporation; Hawaiian Telephone Company; International Telephone & Telegraph Corporation (and American Cable & Radio Corporation); Lockheed Aircraft Corporation; Press Wireless, Inc.; Radio Corporation of America (and RCA Communications, Inc.); The Western Union Telegraph Company; and the Department of Justice (commenting only on anti-trust matters).

3. Replies to such responses were filed by American Telephone and Telegraph Company, General Electric Company, and Lockheed Aircraft

Corporation.

4. In general, the respondents were in agreement that for economic and other reasons a single satellite communications system or a limited number of systems, financed and owned by private enterprise, would best serve the public interest. To the extent that the respondents addressed themselves to a specific type of plan, they generally favor a joint venture for the ownership and operation of a system. The principal difference among respondents in this respect related to the composition of such a joint venture. Thus, American Telephone and Telegraph Company and International Telephone and Telegraph Corporation favor ownership in such a system being limited to international communications common carriers, such entities participating in ownership to a degree consistent with their relative use of the system; General Telephone & Electronics Corporation would limit the ownership to both domestic and international communications common carriers; while Lockheed Aircraft Corporation,^{1/} General Electric Company, and The Western Union Telegraph Company favor ownership by common carriers, the manufacturing companies, and possibly the public.

5. Upon consideration of the responses and replies filed herein the Commission has arrived at certain conclusions, the application of which will serve to foster and accelerate the ultimate establishment of a commercially operable space satellite communication system in the public interest.

6. We have concluded that the recommendations made herein with respect to the formation or arrangement of a joint venture (or joint undertaking) composed only of existing common carriers engaged in international telephone and telegraph communication is deserving of consideration and exploration as an effective means of promoting the orderly development and effectuation of such a system. We believe that, under Commission regulatory jurisdiction and subject to the conditions and safeguards hereinafter set forth, some form of joint venture by the international common carriers is clearly indicated as best serving the public interest for the following reasons:

(a) It appears to be generally accepted that because of considerations of practical economic and technical limitations, it will not be feasible for some time to come to accommodate more than one commercial satellite system.

(b) Communication via satellite will be a supplement to, rather than a substitute for, existing communication systems operated by the international common carriers, thereby becoming an integral part of the total communication system of each such carrier.

^{1/} Lockheed in its reply comments withdrew its proposal that ownership in a satellite system include private interests other than the international carriers.

(c) The responses filed by the international carriers express a willingness and indicate a capability to marshal their respective resources for the purposes of developing a satellite communication facility.

(d) By reason of their experience in and responsibility for furnishing international communications service, the international carriers themselves are logically the ones best qualified to determine the nature and extent of the facilities best suited to their needs and those of their foreign correspondents, with whom they have long standing and effective commercial relationships and who necessarily will have a substantial interest in the operations of any satellite system.

(e) Under the Communications Act, the international carriers are obligated to furnish the public with adequate, efficient service at reasonable charges, and this obligation can best be discharged by those carriers maintaining, as far as possible, the greatest degree of direct control and responsibility over the facilities employed in this service.^{1/}

7. These considerations, in our opinion, demonstrate the desirability of exploring at this time the means whereby the international common carriers may, collectively, but subject to appropriate regulation and safeguards, take such steps as are necessary to plan and effect the ultimate integration of satellite communication techniques into the fabric of international common carrier service. At the same time these considerations would appear to militate against the suggestions which have been made by certain of the respondents that any joint venture with respect to the ownership of satellite communication systems should include participation by the public or by companies in the aerospace and communications equipment manufacturing industries.

8. We are not unmindful of the substantial interests that these industries have in the field of space science and the important contributions they have to make to this field. Nor are we unmindful of the potential market that satellite systems represent for the sale of communications and related equipment. However, it appears that the adaptation and integration of satellite communication techniques to international common carrier operations is within the economic means of the existing carriers, although

^{1/} It is recognized that this new technology of communication may present numerous, unique and difficult problems which may involve several approaches and solutions of a type and nature different from those which have been used heretofore in the field of international communications. However, we are satisfied that any such new problems can best be resolved by working within the existing framework of our international common carrier industry.

requiring cooperative arrangements among them. We fail to see why ownership participation by the aerospace and communications equipment industries will be beneficial or necessary to the establishment of a satellite communication system to be used by the common carrier industry. On the other hand, such participation may well result in encumbering the system with complicated and costly corporate relationships, disrupting operational patterns that have been established in the international common carrier industry, and impeding effective regulation of the rates and services of the industry.

9. Insofar as the proposal for such participation may have been motivated by concern that without participation the manufacturers of communications equipment will be excluded from this market by the manufacturing companies affiliated with the participating common carriers, the Commission is well aware of this danger. Accordingly, it is the Commission's intention to require that any joint venture that may evolve shall make adequate and effective provision, such as competitive bidding, to insure that there will be no favoritism in the procurement of communications equipment required for the construction, operation and maintenance of the satellite system. We want to stress that we shall also take all necessary measures and establish regularized procedures to insure that such a policy is faithfully and conscientiously administered. In this connection, and also to promote the maximum degree of standardization, the Commission will also require that its approval be obtained with respect to the specifications for all equipment used by the common carriers in the satellite system, including the ground terminals. At the same time, before approving any specifications, we shall examine closely into the relevant patent situation to insure that an undesirable or dominant patent position will not hamper or frustrate the Commission's objectives in this regard.

10. It is neither possible nor feasible for the Commission here to indicate all the specific features which it believes should be incorporated in any joint venture of international common carriers. These matters will, of course, require careful, extended study and formulation by the interested carriers acting under the aegis of the Commission and in accordance with the procedures and policies hereafter to be provided for. However, regardless of the plan of organization or type of entity that may subsequently evolve, it must contain clear and definite provisions which will insure that existing and future international common carriers, whether or not any such carrier participates through ownership in the joint venture, shall have equitable access to, and non-discriminatory use of, the satellite system, under fair and reasonable terms, so as to obtain communication facilities in the system to serve overseas points with the types of services for which they are licensed or authorized by this Commission. The Commission, in issuing licenses or other authorizations that may be required to effectuate such joint venture, will take all appropriate measures to implement this policy and to effect such other safeguards as may be required in the public interest.

11. We are making no determination at this time as to the desirability or need for participation in any such joint venture by domestic common carriers.

12. In view of the foregoing, the Commission hereby announces that it will invite all United States international common carriers and certain United States government agencies to attend a conference with the Commission at an early date to explore plans and procedures whereunder consideration of the matters dealt with herein may go forward. A further order will be issued upon conclusion of such consideration.

FEDERAL COMMUNICATIONS COMMISSION

Ben F. Weple
Acting Secretary

Adopted: May 24, 1961

Released: May 24, 1961

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington 25, D. C.

FCC 61-652
4642

In the Matter of

an Inquiry into the Allocation
of Frequency Bands for Space
Communications

DOCKET NO. 13522

SECOND NOTICE OF INQUIRY

1. The first Notice of Inquiry in this proceeding, adopted by the Commission on May 18, 1960, called for initial comments to be filed with the Commission on or before March 1, 1961. Having reviewed those comments, and having consulted with the Office of Civil and Defense Mobilization (OCDM) and the Interdepartment Radio Advisory Committee (IRAC), the Commission now offers for public comment a draft statement entitled "Preliminary Views of the United States of America - Frequency Allocations for Space Radiocommunication". It is not intended to be a recommended United States position for the proposed 1963 space conference of the International Telecommunication Union. Rather, its purpose is to serve as a vehicle by which the ideas and reactions of other countries can be obtained and taken into account.

Following study of the comments received in response to this Second Notice, the Commission, in consultation with the OCDM, expects to make such modifications in the attached statement in the light of comments received as appear to be appropriate and practicable. The resultant statement then is expected to be transmitted to the Department of State with a recommendation that it be used by U. S. representatives as the basis of discussion with other countries.

2. Inasmuch as the attached statement has been prepared for international study, it is premature to indicate at this time the ultimate national distribution of spectrum space as between government and non-government users in the space program. Additionally, since this document represents only preliminary views, it is reasonable to expect that it will be changed before it reaches the status of a U. S. proposal to an international conference empowered to allocate frequency space for space programs. Following such a conference, and depending upon the results thereof, it then will be appropriate to perfect domestic arrangements for implementation of the new allocations.

3. The Commission recognizes that, from a purely technical viewpoint, the attached preliminary views with respect to frequency support for space radiocommunication are based on projected as well as present technology and also on comparatively limited operational experience. They therefore represent a present best estimate of new requirements deserving international recognition, and are subject to

modification in the light of future developments in the space programs of the United States and of other countries.

4. The attached statement is intended to be as complete and understandable as possible without being overly long or ultra-scientific. In this context, and taking into account its intended future use, not only comments directed to the substance of the statement but also editorial suggestions, are invited.

5. The Commission recognizes that if the frequency allocations discussed in the attached statement eventually should achieve treaty status, it will be important to present and prospective users of the bands for non-space purposes to know where the earth terminals of the space system(s) will be located. This general problem of early identification of earth terminal site locations was raised by Issue 9* in this proceeding. Issue 9 was contained in a supplement to the First Notice of Inquiry. Although the parties responding to Issue 9 were not entirely in agreement, a majority of comments favored the idea. In any event, the Commission presently believes that such action would be in the best interests of its licensees. Accordingly, a separate rule-making proceeding will be initiated as soon as possible, looking toward the designation of a minimum number of such sites and establishment of the protection criteria to be observed by the sharing services concerned. These criteria will be based upon the filings already received in this proceeding.

6. Any interested person is invited to file comments with the Commission concerning this matter on or before June 23, 1961. No provision is made for filing of reply comments. The urgency attaching to this matter from a national point of view makes it imperative that every effort be made to submit comments by the date set forth herein. Due to the interest expressed in the subject of space communication and the extensive intra-governmental coordination necessary to formulate a national position on this subject, it is requested that an original and 39 copies of each comment be furnished to the Commission.

FEDERAL COMMUNICATIONS COMMISSION

Attachment

Ben F. Waple
Acting Secretary

Adopted: May 17, 1961

Released: May 19, 1961

* Issue "9. Assuming, at least initially, (1) that existing surface communications must continue to function, and (2) that geographical separation is the key to successful sharing of frequency bands, it appears that earth terminals should be located in sparsely settled areas, away from concentrations of communication installations. Therefore, should the Commission, on the basis of criteria developed pursuant to the new issue three, give consideration to amending its Rules at an early date to establish protected geographical areas to be held in reserve for the installation of future earth terminals for civil communication systems via space relays?.."

Attachment to
Second Notice of Inquiry
Docket 13522

DRAFT

PRELIMINARY VIEWS
OF THE
UNITED STATES OF AMERICA

FREQUENCY ALLOCATIONS
FOR
SPACE RADIOCOMMUNICATION

May 17, 1961

PRELIMINARY VIEWS OF THE U.S.A. FOR FREQUENCY ALLOCATIONS FOR
SPACE RADIOCOMMUNICATION

1. INTRODUCTION - Studies of the world trend in telecommunication requirements and the known plans for expansion of existing telecommunication facilities throughout the world have repeatedly indicated that beginning about 1965 the loading of these facilities will approach saturation in many areas. This is particularly true of such facilities as submarine cables and high-frequency radio circuits. With regard to cables, economic factors will govern the number of cables which will be installed and the location of the terminals which they will serve. The matter of congestion in the high-frequency spectrum has concerned Members of the International Telecommunication Union (ITU) for many years. There is no foreseeable reduction in the use of high frequencies for global communication. On the other hand, expansion of service in the high frequency bands will become increasingly impracticable. Accordingly, it becomes necessary to seek alternative means to satisfy growing telecommunication needs of the peoples of the world, particularly of new or developing countries. These alternative means are needed for growth. Global communication via earth-satellite relays promises to afford such an alternative which will be required beginning about 1965. It is the purpose of this paper to set forth in broad outline certain initial conclusions with regard to frequency allocations for this promising new telecommunication development, and other space radio-communication needs.

1.1 Since the first demonstration of the practicability of transmitting intelligence from one part of the earth to another by the use of radio waves relayed by artificial satellites, the U.S.A. has been studying the technical parameters which appear to be relevant to eventual frequency allocations for all categories of space radiocommunication, in the context of Recommendation No. 36 of the Ordinary Administrative Radio Conference (OARC), Geneva, 1959.

1.2 The uses of space radiocommunication may be grouped as follows:

- a. Aeronautical Mobile.
- b. Broadcasting.
- c. Meteorological.
- d. Navigation.
- e. Space Research - guidance, control and associated communications, including tracking and telemetering.
- f. Communication relay (both active and passive).

1.3 While radio astronomy is not classified by the ITU as a space service, nevertheless, because of its scientific importance, the matter of radio astronomy allocations is under study.

1.4 An operating world-wide communication satellite space service is probably one of the first areas in which a practical use may be made of satellites, involving high-capacity, reliable information exchange

between points on the earth's surface, including ships, aircraft and aerospacecraft. Relay may be effected by several means --e.g., low or intermediate altitude satellites in random or controlled orbit, high altitude satellites in synchronous orbit, natural or man-made passive reflectors, etc. International standardization of frequency allocations is a prerequisite to the introduction of world-wide operational communication satellite systems.

1.5 Certain relevant radio wave propagation data were made known at the Plenary Assembly of the CCIR at Los Angeles in 1959. Subsequently, the 1959 OARC at Geneva established certain allocations for space research. These allocations, however, were not intended to accommodate the larger bands of frequencies required by satellite communication systems equipped for high-capacity, multi-channel transmission.

2. AERONAUTICAL MOBILE - The advances in the field of air transportation in recent years point to the approaching need to accommodate communications for aircraft and aerospacecraft operating at extremely high speeds and altitudes. Present indications are that the speeds and altitudes of aeronautical operations will increase on an evolutionary basis to speeds many times in excess of that of sound and altitudes beyond 160 kilometers. Further, these operations are unique in that the aircraft or aerospacecraft must operate in the earth's atmosphere during the departure and re-entry phase of the flight and in space or near space during the middle portion of the flight.

2.1 Such flights, when operating in the atmosphere and traveling at high speeds, are expected to require frequency bands much higher than those aviation bands presently allocated due to ion shielding created by thermal friction. For example, present indications are that 5 Gc/s frequencies are the lowest usable order of the spectrum which will satisfy radio communication with vehicles traveling in the atmosphere at 17 times the speed of sound. Until substantially more research and development has been accomplished in this field, however, it is not possible to set forth the entire space radiocommunication needs for the aeronautical mobile services.

2.2 On the other hand, during the earlier stages of aeronautical evolution toward space operations, space radiocommunication techniques will be required. That is to say, aircraft operating at speeds of 2 - 7 times the speed of sound and at altitudes beyond 80 - 100 thousand feet will probably require a constant communication link with ground stations. Flights of this nature can be controlled by a computer and automatic data communications throughout the entire flight. Since constant radiocommunications of this type would be incompatible with the present aviation system of common user frequency deployment, additional spectrum space is required. Accordingly, the U.S. proposes to provide for aeronautical mobile (R) service operation in the band 1540-1660 Mc/s on a shared basis with radionavigation for this mode of aeronautical communications.

3. BROADCASTING - "Broadcasting" as the term is used in the Radio Regulations means transmissions intended for direct reception by the general public. It is probable that communication satellites will be used to relay aural and television broadcast programs. However, the likelihood that the general public will be receiving such transmissions directly from satellites in the near future seems remote. Special receiving stations on the earth's surface may be established to relay programs over conventional communications systems to the broadcasting stations which already serve the general public. The relaying of broadcast programs by means of satellites would not be an operation in the broadcasting service.

4. METEOROLOGICAL - A "universal" meteorological satellite has been the subject of international study in the World Meteorological Organization (WMO). The United States has participated in this planning and is anticipating the ultimate use of meteorological satellites on an operational basis.

4.1 Two types of satellites are under consideration for the operational meteorological satellite system - polar or quasi-polar orbiting satellites and the so-called synchronous orbiting satellites. Three types of transmissions are planned with each of these systems:

- a. From Command Data Acquisition station (CDA) to the satellite(s) during periods when the satellite is within line-of-sight of the CDA station.
- b. From the satellite to the CDA station on command during the time the satellite is within line-of-sight of the CDA station.
- c. Continuous transmission from the satellite.

4.2 Several frequency channels with various bandwidths will be needed to meet these requirements, as follows:

4.2.1 The command frequency requirements can be met in the manner proposed in paragraph 8 below.

4.2.2 Two channels of 90 kc/s bandwidth each will be required for digital and slowed down video transmission from the satellite to the ground. It is proposed to satisfy this requirement in the band 137-138 Mc/s. These transmitters will have up to a possible maximum of 50 watts power output and may operate continuously or on command.

4.2.3 Four channels of 5 Mc/s bandwidth each (includes guard band) will be required for broad-band video transmission from the satellite to the ground. Power output of these transmitters will be up to a possible maximum of 50 watts, and initially will operate only on command and in the vicinity of the CDA stations. The bands 1660-1670 and 1690-1700 Mc/s are proposed for the satisfaction of this requirement.

4.2.4 A 100 Mc/s band is required for satellite weather radar. It is proposed that this requirement for suitable precipitation detection, be met in the radiolocation band 9.8-10.0 Gc/s in the manner indicated in paragraph 8.

4.2.5 A channel of approximately 100 Mc/s bandwidth is required to transmit a large volume of high resolution picture data from the satellite to the CDA station on each orbital pass. It is proposed that this requirement be met in the band 7.2-7.65 Gc/s in the manner indicated in paragraph 8.

4.2.6 One channel of 100 Mc/s bandwidth is required for cloud detection radar. These pulsed radars will have power output as high as 100 kW peak power and operate throughout the orbit. It is proposed that this requirement be met in the band 33.4-36.0 Gc/s.

5. NAVIGATION - At such time as there is available an operational space satellite navigational aid of widespread interest to aviation and shipping, appropriate frequency allocation provision for such a navigational system may be derived from bands available to the radionavigation service. The roles of the International Civil Aviation Organization (ICAO) and the Inter-governmental Maritime Consultative Organization (IMCO) with respect to such aids are recognized in this regard.

6. SPACE RESEARCH - The experience of the U.S.A., to date, with the "space research" bands allocated at the 1959 OARC at Geneva, together with present planning estimates, indicate these should be augmented. At this writing (April 1961) there have been 54 earth satellites launched, all with transmitters on board. There has never been any report of interference to other services from the space service although the space vehicles have experienced interference from these other services. Consequently, the U.S.A. suggests more protection to the space bands as well as some deletions and augmentations. Command frequencies are mentioned for the first time, and these can be accommodated on an area basis, but should be noted in the table. Present use of the 1959 OARC space research bands is summarized in Appendix 1. Recommendations for their augmentation are set forth in Appendix 2.

7. COMMUNICATION SATELLITES - The establishment of frequency allocations for communication satellites requires evaluation of various types of information. The principal factors to be considered can be grouped under the following main headings:

- a. Radio wave propagation characteristics.
- b. State of the art.
- c. Amount of spectrum space required.
- d. Feasibility of sharing.
- e. Selection of bands.

7.1 The conclusions which can be drawn after evaluation of these five factors are not in all respect mutually consistent. For example, analysis of some of the parameters involved will lead to a conclusion that the allocation for communication satellites should be established in one part of the spectrum, while analysis of other parameters will indicate a need for a quite different part of the spectrum. The following paragraphs sum up presently available information on each of the factors which appear to be relevant.

7.2 RADIO WAVE PROPAGATION CHARACTERISTICS - Radio wave propagation data now available indicate there are several "windows" in different parts of the radio spectrum through which radio signals may be transmitted from the surface of the earth to points outside the earth's atmosphere, and vice versa. The most significant of these "windows" from the standpoint of the present state of development of the radio art and the limitations presently imposed by space technology, appears to lie roughly between 100 Mc/s and 20 Gc/s. Appendix 3 contains 20 curves depicting the various relevant parameters and their variations under different stated conditions. It is apparent from evaluation of this Appendix that within the general range of frequencies between about 100 Mc/s and 20 Gc/s there are varying degrees of attenuation affecting radio signals transmitted from the earth's surface to a satellite in space, or vice versa. The choice of frequency bands within the broad area represented by the "window" between and about 100 Mc/s and 20 Gc/s must necessarily take into account considerations other than the absorption and attenuation factors set forth in Appendix 3. Consideration of bandwidth and state of the art indicate the desirability of employing bands above 4 Gc/s. Satellite-to-satellite relaying can be performed above 20 Gc/s without interference to or from earthbound radio services.

7.3 STATE OF THE ART - Provision of spectrum space by the ITU for communication satellites, when effected, should serve to guide Administrations for some years to come. It therefore appears necessary to take into account both the present state of the radio art and the anticipated developments for the next several years. From available information it would appear that the present state of the art lends itself to the inauguration of the communication satellite space service only in those frequency bands below about 10 Gc/s. This is because the available receiver input power, with practical systems which can be built at the present time, will not overcome the various absorption and attenuation factors sufficiently to provide continuous, reliable communication, under practical operating conditions, at frequencies much above 10 Gc/s. This situation may be seen from Figures 17 through 20 in Appendix 3, when account is taken of the fact that satellite powers of the order of only a few watts are presently available. The intensive research and development programs now under way will, however, lead to various improvements in the state of the art, including much greater satellite transmitter power and supporting energy sources therefor, and it may be expected that frequencies up to about 16 Gc/s may become usable for practical satellite systems.

7.4 AMOUNT OF SPECTRUM SPACE REQUIRED - An appreciation of the amount of spectrum space required for allocation to communication satellite systems of the future requires taking into account the present and foreseeable capacities of other communication systems and the anticipated growth and demand for service, at least until about 1970. The existing systems include transoceanic cables, conventional microwave radio relay systems, tropospheric scatter systems, ionospheric scatter systems, land line circuits and high-frequency fixed radio circuits.

7.4.1 The requirements of the peoples of the world to communicate are not susceptible to exact mathematical prediction. It has been well established over the years, however, that given a new communication facility, the requirements to use it are seldom lacking. If a large number of new international communication facilities of any type could be made available at once, there is little doubt that they would soon be in regular use.

7.4.2 An important consideration is that the financial costs involved in building and launching communication satellites are such that a large number of communication channels will have to be provided if the satellites are to prove economically feasible.

7.4.3 Compared with conventional communication techniques, a relatively small number of communication satellite channels can presently be derived from a given amount of spectrum space. This is due to modulation techniques presently employed which are chosen because of the relatively low orders of power presently realizable in satellite transmitters. As advances in the state of the art are made it can be expected that the number of actual communication satellite channels that can be derived from a given amount of spectrum space will progressively increase. Nevertheless, the efficiency (ratio of intelligence bandwidth to radio frequency bandwidth), at the present time, is of the order of 10-15%. This consideration is influential in estimates of the amount of spectrum space to be allocated initially for communication satellites. Moreover, the expected increase in channel efficiency should serve to offset future growth requirements as communication satellite uses expand and the demands placed on them increase. A further consideration is that the available channels in a given satellite must, in effect, be divided among the various (earth) satellite terminal stations in simultaneous communication with that satellite.

7.5 FEASIBILITY OF SHARING - On the basis of information currently available, there is little doubt that it is feasible for a communication satellite space service to share frequency bands with fixed and mobile services to which these bands are now allocated, provided reasonable engineering care is exercised by each of the sharing services. Because of the low transmitting power capability of satellites expected to be used during the next several years, it appears necessary to employ wideband modulation techniques on board the satellites to improve the signal-to-noise ratios to a usable level at the earth receiving terminal, even when using high gain antennas and parametric or maser amplifier techniques. As a result, the satellites' signals at the earth's surface will not be detectable by receivers in the fixed and mobile services. Satellite-to-earth

signals can thus be discounted as potential interference sources for several years to come, despite probable improvements in both microwave and satellite techniques, within reasonable limits. Conversely, the likelihood of harmful interference to the reception on board satellites which might be caused by terrestrial fixed and mobile stations also appears to be negligible. The problem remaining then becomes one of preventing mutual interference between the receiving and transmitting earth terminals of the space system and stations of the services with which sharing is desired. Factors to be considered in preventing this interference are: geographical separation, minimum permissible antenna elevation angles for earth terminals, transmitter powers, antenna orientation, local terrain, and receiver noise figures. However, mobile requirements are foreseen which dictate the need for minimal allocation provisions on an exclusive basis.

7.5.1 Sharing criteria applicable to the above problem are currently under study in U.S. CCIR Study Group IV. Based on information currently under development for introduction into that Study Group, it appears that 75 miles separation between earth stations will provide adequate protection from mutual interference. This assumes that earth station antennas will not be depressed below $7\frac{1}{2}^\circ$ and a mean power of 1 kW into the earth station antennas. This also assumes a smooth earth condition, and that the antennas are separated in azimuth by at least 10° . The separation criteria, of course, will vary with powers and topography.

7.6 SELECTION OF BANDS - The U.S.A. estimates that a total of about 3000 Mc/s of spectrum space should be allocated at this time to meet foreseeable requirements until about 1970. Between 3700 and 8400 Mc/s, the existing fixed and mobile space should be designated in the Table of Frequency Allocations as follows:

3.7-4.2	Gc/s	COMMUNICATION SATELLITE SPACE (Space stations) FIXED MOBILE
5.925-6.425	Gc/s	COMMUNICATION SATELLITE SPACE (Earth stations) FIXED MOBILE
6.425-7.2	Gc/s	COMMUNICATION SATELLITE SPACE (Earth and FIXED Space stations) MOBILE
7.2-7.65	Gc/s	COMMUNICATION SATELLITE SPACE (Space stations) FIXED METEOROLOGICAL SATELLITE SPACE (100 Mc/s) Mobile
7.65-7.7	Gc/s	COMMUNICATION SATELLITE SPACE (Space stations)

7.7-7.9	Gc/s	COMMUNICATION SATELLITE SPACE (Earth and FIXED MOBILE	Space stations)
7.9-8.35	Gc/s	COMMUNICATION SATELLITE SPACE (Earth stations) FIXED MOBILE	
8.35-8.4	Gc/s	COMMUNICATION SATELLITE SPACE (Earth stations)	

This arrangement of bands provides:

- a) A total of 1000 Mc/s for satellite-to-earth transmissions of which 50 Mc/s (7.65-7.7 Gc/s) is exclusively for that purpose and the remaining 950 Mc/s shared with the fixed and mobile services.
- b) A total of 1000 Mc/s for earth-to-satellite transmissions of which 50 Mc/s (8.35-8.4 Gc/s) is exclusively for that purpose, and the remaining 950 Mc/s shared with the fixed and mobile services.
- c) Two bands, shared with fixed and mobile services, not designated at this time, either for earth stations only or satellite stations only. These two bands (6.425-7.2 and 7.7-7.9 Gc/s) are so placed as to permit later adjustment as needed dependent upon the nature and magnitude of requirements and advancements in the state of the radio art.
- d) A total of 2975 Mc/s for the communication satellite space service.

8. CONCLUSIONS - The U.S.A. has concluded that, in order to:

- a. Accommodate aerospacecraft,
- b. Accommodate meteorological satellites,
- c. Augment the Space and Earth-Space (space research) bands contained in the Geneva Radio Regulations, and
- d. Provide frequency allocations in the immediate future for the reliable exchange, via communication satellite relay, of high-capacity information between points on the earth's surface, including ships, aircraft and aerospacecraft,

the Table of Frequency Allocations should be amended as follows:

BAND (Mc/s)	ALLOCATION	FOOTNOTES
136-137	SPACE RESEARCH	
137-138	METEOROLOGICAL SATELLITE SPACE SPACE RESEARCH SPACE (tracking)	
138-144	FIXED MOBILE Radiolocation*	The frequencies 144.0 and 148.0 Mc/s, with a maximum bandwidth of 20 kc/s, may be used for satellite command purposes subject to agreement between administrations concerned and those whose services, operating in accordance with the Table, may be affected.
144-148	AMATEUR	
148-174	FIXED MOBILE	
400-401	METEOROLOGICAL AIDS SPACE RESEARCH	
406-420	FIXED MOBILE except acro- nautical mobile	The frequencies 420.0 and 450.0 Mc/s, with a maximum bandwidth of 25 kc/s, may be used for satellite command purposes subject to agreement between administrations concerned and those whose services, operating in accordance with the Table, may be affected.
420-450	RADIOLOCATION Amateur	
		317** 318**
450-470	FIXED MOBILE	
1487-1525	FIXED MOBILE	
1525-1540	SPACE	In the band 1525-1535 Mc/s, telemetry only; in the band 1535-1540 Mc/s, command only.

* Permitted service.

** Footnote as contained in Geneva Radio Regulations.

BAND (Mc/s)	ALLOCATION	FOOTNOTES
1540-1660	AERONAUTICAL MOBILE (R) AERONAUTICAL RADIONAVI- GATION	The use of the band 1540-1660 Mc/s by the aeronautical mobile (R) service is limited to radiocommunications along civil routes for flights utilizing space radio-communication techniques and which may be operating in the space environment. In the band 1600-1660 Mc/s the aeronautical radionavigation service will be protected from harmful interference from the aeronautical mobile (R) service for an unspecified period of time. 341**
1660-1670	METEOROLOGICAL SATELLITE SPACE Radio Astronomy	The radio astronomy service is authorized to use the band 1664.4-1668.4 Mc/s.
1670-1690	METEOROLOGICAL AIDS (Radiosonde)	The radio astronomy service shall be protected from harmful interference from services operating in other bands only to the extent that these services are protected from each other.
1690-1700	METEOROLOGICAL SATELLITE SPACE	
1700-1710	SPACE RESEARCH	
1710-2290	FIXED MOBILE	The band 2110-2120 Mc/s may be used for command of spacecraft engaged in deep space research, subject to agreement between administrations concerned and those whose services, operating in accordance with the Table, may be affected.
2290-2300	SPACE RESEARCH	For deep space research only.

** Footnote as contained in Geneva Radio Regulations, but with the limits of the appropriate band changed to read: 1540-1660 Mc/s.

BAND (Gc/s)	ALLOCATION	FOOTNOTES
3-7-4.2	COMMUNICATION SATELLITE SPACE FIXED MOBILE	For transmission only by communication satellite stations whose field strength at the earth's surface is below that detectable by receivers in the fixed and mobile services.
5.925-6.425	COMMUNICATION SATELLITE SPACE FIXED MOBILE	For transmission only by earth stations, subject to agreement between administrations affected.
6.425-7.2	COMMUNICATION SATELLITE SPACE FIXED MOBILE	<p>Transmission by earth stations in this band is subject to agreement between administrations affected. When used for communication satellite stations, the field strength at the earth's surface shall be below that detectable by receivers in the fixed and mobile services.</p> <p>The band 7.12-7.13 Gc/s may be used for command of spacecraft subject to agreement between administrations affected.</p>
7.2-7.65	COMMUNICATION SATELLITE SPACE FIXED METEOROLOGICAL SATELLITE SPACE MOBILE	<p>For transmission only by communication satellite and meteorological satellite stations whose field strength at the earth's surface is below that detectable by receivers in the fixed and mobile services.</p> <p>Meteorological satellite stations share 100 Mc/s of this band.</p>
7.65-7.7	COMMUNICATION SATELLITE SPACE	For transmission only by communication satellite stations.
7.7-7.9	COMMUNICATION SATELLITE SPACE FIXED MOBILE	<p>Transmission by earth stations in this band is subject to agreement between the administrations affected.</p> <p>When used for communication satellite stations, the field strength at the earth's surface shall be below that detectable by receivers in the fixed and mobile services.</p>

BAND (Gc/s)	ALLOCATION	FOOTNOTES
7.9-8.35	COMMUNICATION SATELLITE SPACE FIXED MOBILE	For transmission only by earth stations and subject to agreement between administrations affected.
8.35-8.4	COMMUNICATION SATELLITE SPACE	For transmission only by earth stations.
8.4-8.5	SPACE RESEARCH	
9.8-10.0	RADIOLOCATION	The band 9.9-10.0 Gc/s may be used for satellite weather radar for precipitation detection.
15.15-15.25	SPACE RESEARCH	
31.5-31.8	SPACE RESEARCH	
33.4-36.0	RADIOLOCATION	Satellite weather radars for cloud detection share 100 Mc/s of this band.

9. Certain proposed consequential changes to the Geneva Radio Regulations are indicated in Appendix 4.

10. These preliminary views of the U.S.A. are put forth at this time for informal discussion in the hope that such discussions, together with additional experience and subsequent developments in the state of the art, will lead to firm conclusions which can become the basis of action in whatever administrative radio conference takes up the question referred to in Recommendation No. 36 of the 1959 OARC, Geneva.

APPENDIX 1

GUIDE FOR USE OF THE 1959 I. T. U. SPACE AND EARTH-SPACE RESEARCH BANDS

<u>BAND, Mc/s</u>	<u>PRIMARY USE</u>	<u>REASON</u>	<u>SECONDARY USE</u>
10.003-10.005	Ionosphere research.	Marked propagation effect; can be used world-wide with standard receivers and antennas.	Ultra-range telemetry, low altitude satellite.
136-137	Tracking in center-third of the band; telemetering in the other two-thirds.	Replaces the IGY 108 Mc/s; minimum noise area for tube receivers. World-wide tracking net is available.	Ionospheric measurements in association with the above band. Narrow band telemetering.
183.1-184.1	No planned use.		
400-401	Telemetering; low scan rate TV for geophysical and astronomical satellites; navigation satellites	Conventional transistors are practical	Deep space research with very large antennas.
1427-1429	Telemetering; narrow-band TV; deep space; development of precision minitrack.	Excellent for deep space with very large antennas. Very low propagation effects.	
1700-1710	Wide-band TV for meteorological satellites.	For meteorological and data transmission where wide-band is needed; likewise for radio-relay.	Planet radar.
2290-2300	Primary telemetering and tracking band for deep space research.	Nearly the ideal frequency area for 85 foot parabolic reflector antennas. Very low cosmic noise.	"Double-doppler" cross-band velocity measurements.

APPENDIX 1

<u>BAND, Gc/s</u>	<u>PRIMARY USE</u>	<u>REASON</u>	<u>SECONDARY USE</u>
5.25-5.255	No planned use.		
8.4-8.5	Communication satellite re-search - earth-to-earth relay experiments. Deep space probes.	The 100 Mc/s bandwidth here permits wide-band communications relay.	Space navigation application; planet radar; meteorology (with 15.15 and 31.5 Gc/s bands).
15.15-15.25	Space relay.	High directivity.	Meteorology (used with 8.4 and 31.5 Gc/s bands).
31.5-31.8	Space relay; re-entry telemetering.	High directivity - small antennas. Penetration of plasma layer.	Meteorology (used with 8.4 and 15.15 Gc/s bands).

APPENDIX 2a

SUMMARY OF CHANGES IN AND ADDITIONS TO
THE 1959 ITU SPACE RESEARCH BANDS - SPACE RESEARCH REQUIREMENTS TO 1967

Present Space Band Mc/s	Changes Required	New Band Limits Mc/s	Remarks
10.003-10.005	No change	Same	Being used for ionospheric research
19.99-20.01	No change	Same	Being used for ionospheric research
39.986-40.002	No change	Same	Being used for ionospheric research
136-137	Add 1 Mc/s	136-138	Principal Tracking and telemetry band, earth-satellites. The additional megacycle required by 1965.
183.1-184.1	-	-	No planned use.
400-401	For space research, no change	Same	
1427-1429	Delete	Add: 1525-1535	Exclusive for space research.
1700-1710	Make exclusive	Same	To be used for presently scheduled meteorological research satellite.
2290-2300	See remarks (Change of priority)	Same	Being activated for deep space research - Should be <u>exclusive</u> for this purpose only.

APPENDIX 2a
(Cont'd)

Present ITU Space Band Gc/s	Changes Required	New Band Limits Gc/s	Remarks
5.25-5.255	-	-	No planned use.
8.4-8.5	No change	Same	To be used for communication satellite research.
15.15-15.25	No change	-	
31.5-31.8	No change	-	

APPENDIX 2b

PROPOSED NEW INTERNATIONAL SPACE RESEARCH BANDS

In ITU Bands:	Need:	Remarks:
137-174 Mc/s	Two frequencies for earth-to-space satellite command purposes. One should be at 144 Mc/s and the other at 148 Mc/s, each 20 kc/s bandwidth.	The selection of these band-edge frequencies, 144 and 148 Mc/s, would produce the minimum impact on existing services -- a "command" is usually a single pulse of less than one second duration -- adjacent services will not be aware of its presence.
406-470 Mc/s	Two frequencies for earth-to-space satellite command purposes. One should be at 420 Mc/s and the other at 450 Mc/s. The bandwidth should be 25 kc/s.	The selection of these band-edge frequencies, 420 and 450 Mc/s, should produce a minimum impact on the existing services, reasoning as above.
1435-1660 Mc/s	The band 1525-1540 Mc/s for space use, for both telemetering and command purposes.	The too-narrow band 1427-1429 Mc/s should be deleted. The band 1525-1535 Mc/s would be used for space-to-earth telemetering, and the band 1535-1540 Mc/s for earth-to-space services, such as command, interrogation and control of the space vehicle.
1700-2300 Mc/s	The band 2110-2120 Mc/s for deep space command, footnote status.	Suggested footnote: The band 2110-2120 Mc/s may be used for earth-to-space-probe command purposes subject to agreement between administrations concerned and affected. This band would be paired with the 2290-2300 Mc/s deep-space research band for command purposes.
5.925-8.4 Gc/s	A command band 7.12-7.13 Gc/s for command of research satellites using the 8.4-8.5 Gc/s space research band, footnote status.	Suggested footnote: The band 7.12-7.13 Gc/s may be used for command of spacecraft subject to agreement between administrations concerned and affected. This band is paired with the 8.4-8.5 Gc/s space research band for command, interrogation and control purposes.

APPENDIX 3TECHNICAL FACTORS INFLUENCING THE SELECTION
OF FREQUENCIES FOR SPACE COMMUNICATIONS

Adequate signal to noise ratio is a major factor in the satisfactory operation of any communication system. In this appendix available signal to noise ratio is assumed to be suitable criteria for selecting frequencies for space communication. Factors influencing the upper frequency limit in the range 1000 Mc/s to 40 Gc/s are emphasized. Transmissions are assumed to be from the satellite to the earth terminal. However, propagation may be assumed to be reciprocal and the available signals shown will apply to transmission in either direction.

Three major factors influence the available signal to noise ratio in a space communication: (1) The signal power available under free space propagation conditions (2) The absorption in the atmosphere and (3) The radio noise level.

Free Space Signals:

Figure 1 illustrates the frequency dependence of available power at the receiver when isotropic antennas are used at both the transmitting and receiving terminals. Note the available power decreases as frequency increases.

Figure 2 shows how antenna gain increases as either antenna physical size or operating frequency is increased. If a directive antenna is used at either the transmitting or receiving terminal or both, the gain from this chart may be combined with the values of Figure 1 to estimate available signal power when directive antennas are used.

Figure 3 illustrates the decrease in antenna beamwidth as operating frequency or antenna size increase.

Figure 4 illustrates the lack of frequency dependence when a directive antenna is used at the earth terminal and an isotropic antenna in the satellite. Note that available power increases with antenna physical size but that the antenna's beamwidth becomes increasingly narrow.

Figure 5 is a portion of Figure 4 illustrating that available signal remains constant to the higher frequencies if ability to use narrow beamwidth improves. The chart assumes physical size of the antenna is limited.

Figure 6 is also a portion of Figure 4, illustrating that increasing the physical size of the antenna offers an advantage only at the lower frequencies if operational or other requirements establish a minimum beamwidth.

Figure 7 illustrates the frequency dependence of available signal power if directive antennas are used at both terminals. Note that available power increases with frequency.

Figure 8 illustrates the leveling off of available signal power at lower and lower frequencies as physical size of the earth terminal antenna increases with an operational or other limitation of antenna beamwidth.

Figure 9 illustrates that available signal power levels off at higher and higher frequencies as operational or other factors decrease the required or available beamwidth for an antenna of fixed physical size.

Figure 10 illustrates that a plateau in the frequency range develops if both terminals have maximum antenna size and minimum antenna beamwidth limitations. Note that for fixed minimum beamwidth limitations the plateau shifts to lower frequencies as antenna sizes increase. Antenna sizes and beamwidths may be selected to narrow the plateau until available signal power is maximum at a discrete frequency.

Figure 11 illustrates shift of the plateau to the higher frequencies if antenna physical sizes are fixed and beamwidth limitations are reduced.

Signal Absorption in The Atmosphere:

Figure 12 is a nomogram to estimate atmospheric absorption of the signal as a function of frequency, terminal elevation and vertical reception angle. The nomogram is based on theoretical absorption in an atmosphere typical of Washington, D. C. in August. Values from this chart can be combined with chart 1 and charts 4 through 11 to estimate available signal power in the absence of rainfall. Additional theoretical and experimental work are necessary to more completely determine atmospheric absorption. This chart is a first approximation.

Figure 13 is a nomogram to estimate signal absorption due to rainfall. These values should be added to those of Figure 12 to estimate total absorption during rainfall. The total absorption may be further combined with the free space available signal power from chart 1 and charts 4 through 11 to estimate available signal during rainfall. Estimation of absorption due to rainfall is complicated by variation of drop size distributions for the same rainfall rate and by turbulence which may produce a different water

content in the air than indicated by surface measurements. Figure 13 applies to a typical drop size distribution in steady rainfall.

Vertical Angle to a "Stationary" Equatorial Satellite

Figure 14 is a diagram of vertical reception angles, measured above the ground, to an equatorial stationary satellite at 105° west longitude.

RADIO NOISE:

Figure 15 is a nomogram to estimate noise power at the receiver. If effective antenna temperature is known enter with this temperature and bandwidth. If effective temperature is not known it can be estimated from frequency and vertical reception angle in the left hand portion of the nomogram.

Signal to Noise Ratios:

Figure 16 combines the data of the previous charts to illustrate the frequency dependence of available signals and noise in a simple satellite system. The orbit is 1000 kilometers from the earth, the earth terminal has a sea level location, the satellite has an isotropic antenna, the antenna at the earth terminal is limited to 20 meters in diameter and the minimum beamwidth is 0.2 degrees. Note the available signal starts to decrease between 5 and 6 Gc/s at all vertical angles and at the lower vertical angles starts to decrease at even lower frequencies during heavy rainfall. The same general shape of the curve holds for a broad fixed beamwidth antenna on the satellite, e.g. 20 degree beamwidth for antennas one meter in diameter or larger. Available power will increase but frequency dependence is not altered.

Figure 17 illustrates available signal to noise in a more sophisticated satellite system using highly directive antennas in a 6000 kilometer orbit. Note that adequate signal power is extended to higher frequencies especially in absence of rainfall.

Figure 18 illustrates slightly different assumptions than those reflected in Figure 17.

Figure 19 illustrates available signal power in an even more sophisticated satellite system using "stationary" orbit and extremely directive antennas. Note that available signal power remains adequate at even higher frequencies especially at vertical angles exceeding 5 degrees.

Figure 20 is the same as Figure 19 except the system has been further improved by the elevation of the earth terminal and its location in an area of "moderate" rainfall.

Conclusions:

- (1) For all-weather unstabilized satellite communication systems,

available signal to noise will decrease as frequency is increased above about 6 Gc/s. The exact frequency is dependent upon maximum antenna size and minimum beamwidth limitations at the earth terminal.

(2) As systems become more sophisticated through stabilized satellites and ability to use narrow beam antennas the upper frequency limit increases.

(3) The upper frequency limit may extend to above 15 Gc/s for sophisticated systems if reception is not required at very low angles.

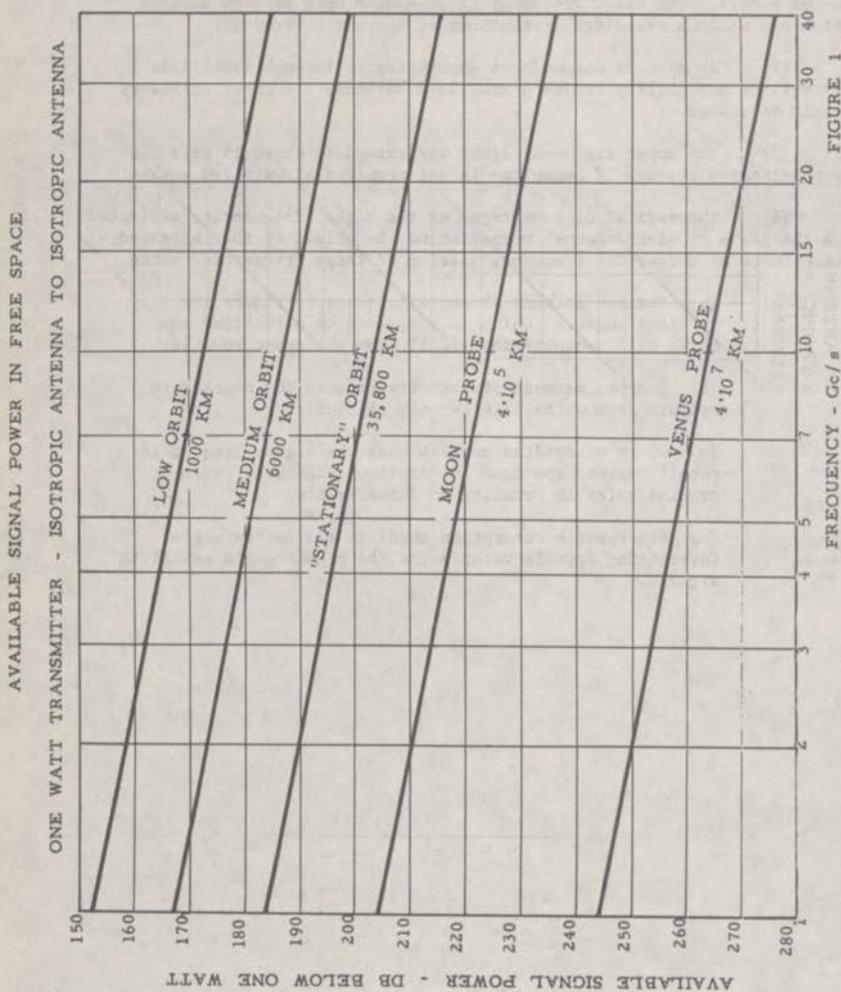
(4) Theoretical disadvantages at the higher frequencies estimated on the basis of clear channel operation may be offset by the increased likelihood of successful frequency sharing at these frequencies since:

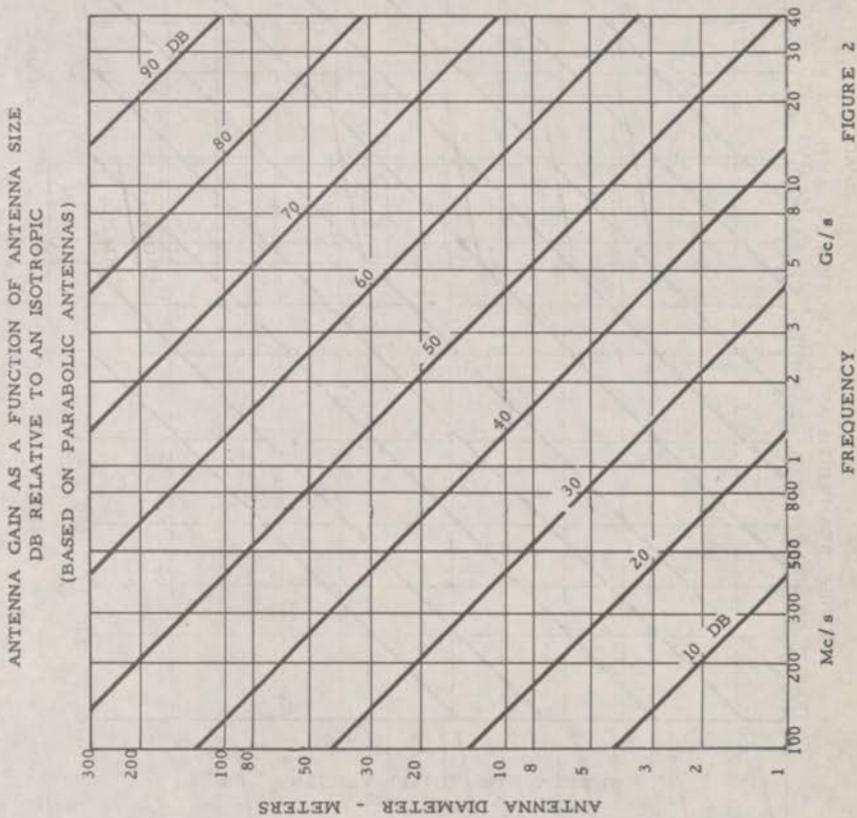
(a) Sharper antenna directivity tends to reduce the vertical angle at which interference or noise from the earth will dominate the signal from the space vehicle;

(b) Sharper antenna directivity reduces the degrees in azimuth from which interference is likely;

(c) Wider bandwidths available at the higher frequencies permit "spread spectrum" modulation techniques which promise gains in immunity to interference;

(d) Atmospheric absorption tends to reduce low angle interfering signals relative to the higher angle satellite signals.





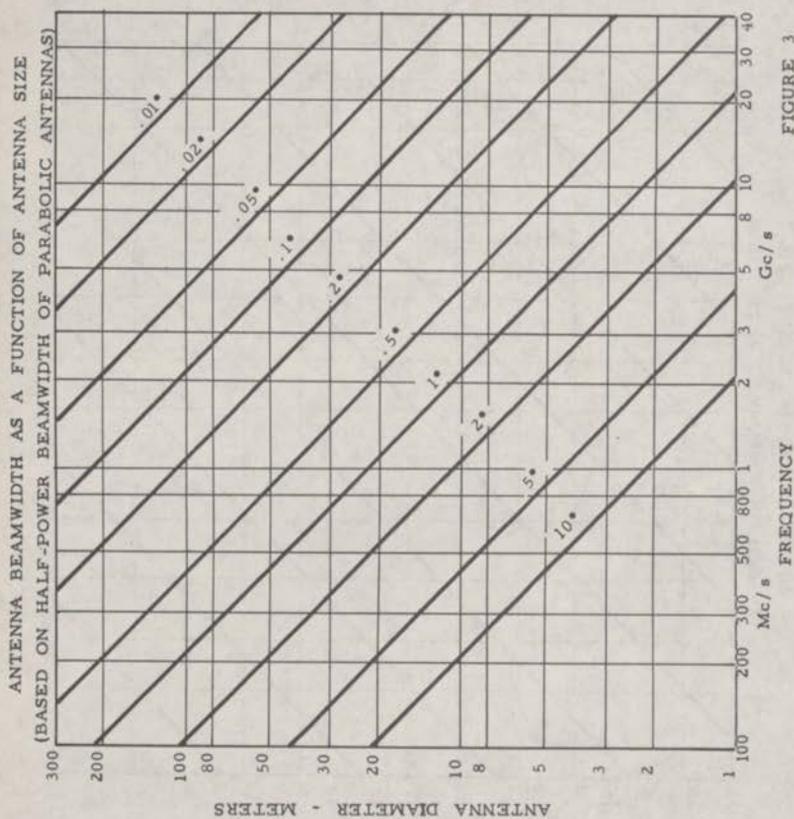


FIGURE 3

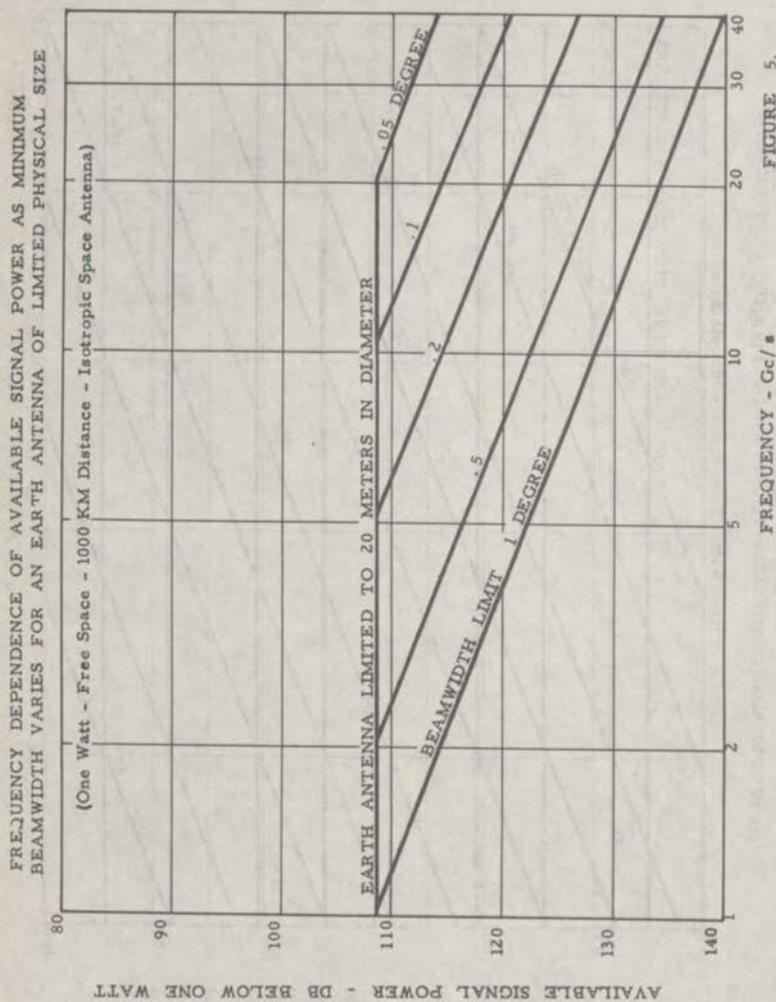


FIGURE 5.

FREQUENCY DEPENDENCE OF AVAILABLE SIGNAL POWER AS MAXIMUM
 SIZE VARIES FOR AN EARTH ANTENNA OF FIXED MINIMUM BEAMWIDTH

(One Watt - Free Space - 1000 KM - Isotropic Space Antenna)

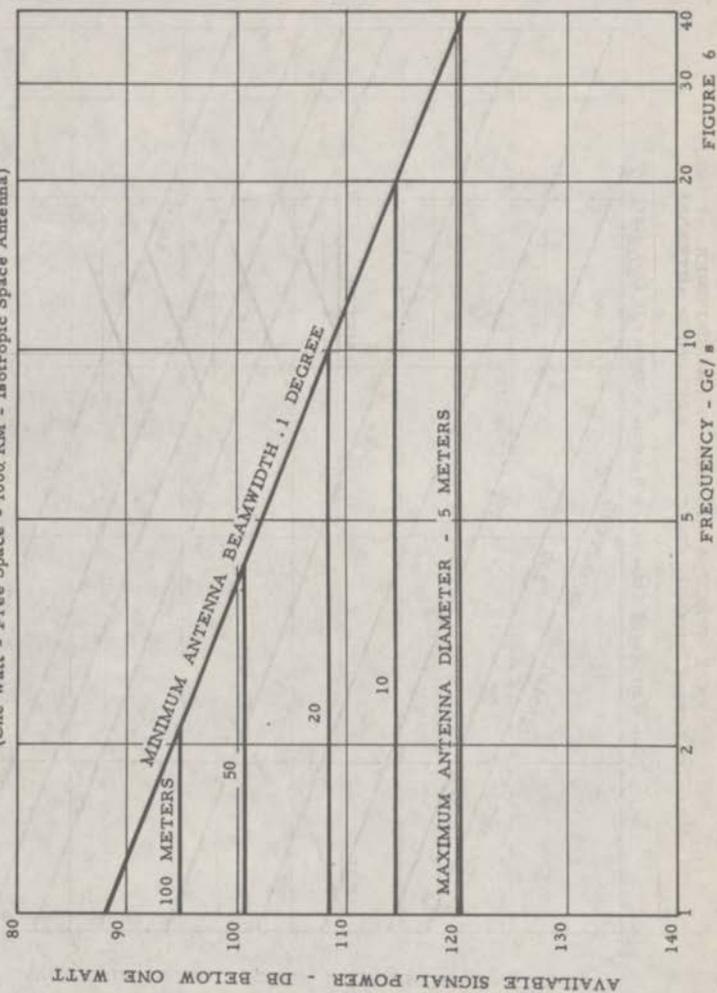


FIGURE 6

FREE SPACE AVAILABLE SIGNAL POWER
DIRECTIVE TRANSMITTING AND RECEIVING ANTENNAS

(One Watt - 1000 KM - Space Antenna 3 Meters In Diameter)

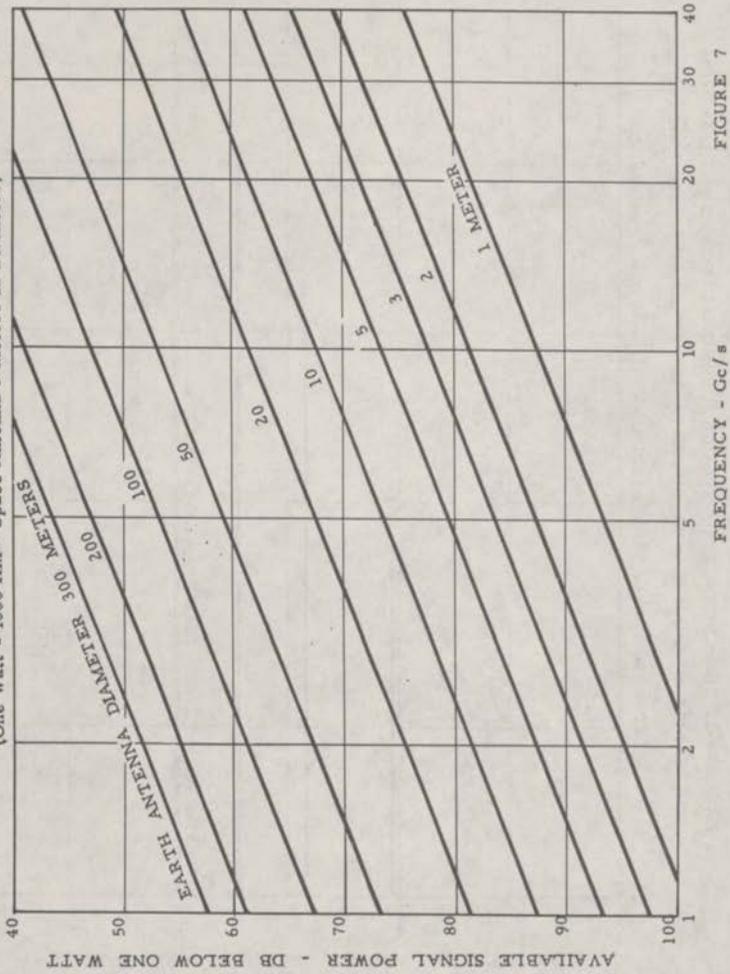


FIGURE 7

FREQUENCY DEPENDENCE OF AVAILABLE SIGNAL AS MAXIMUM SIZE
 VARIES FOR AN EARTH ANTENNA OF FIXED MINIMUM BEAMWIDTH

(One Watt - Free Space - 1000 KM - 3 Meter Space Antenna)

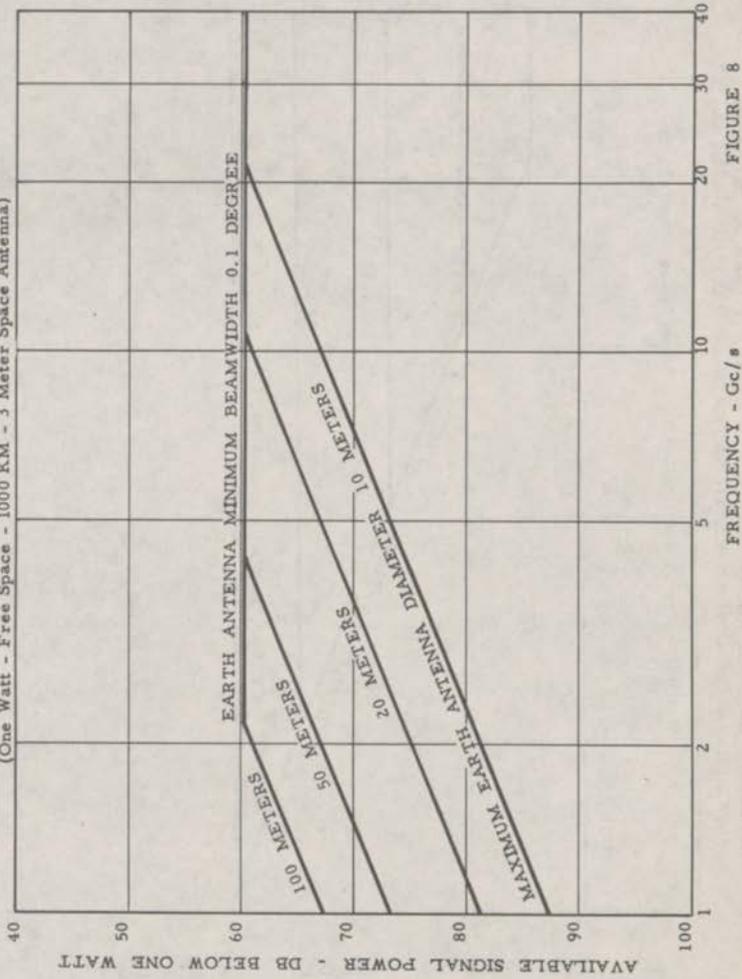
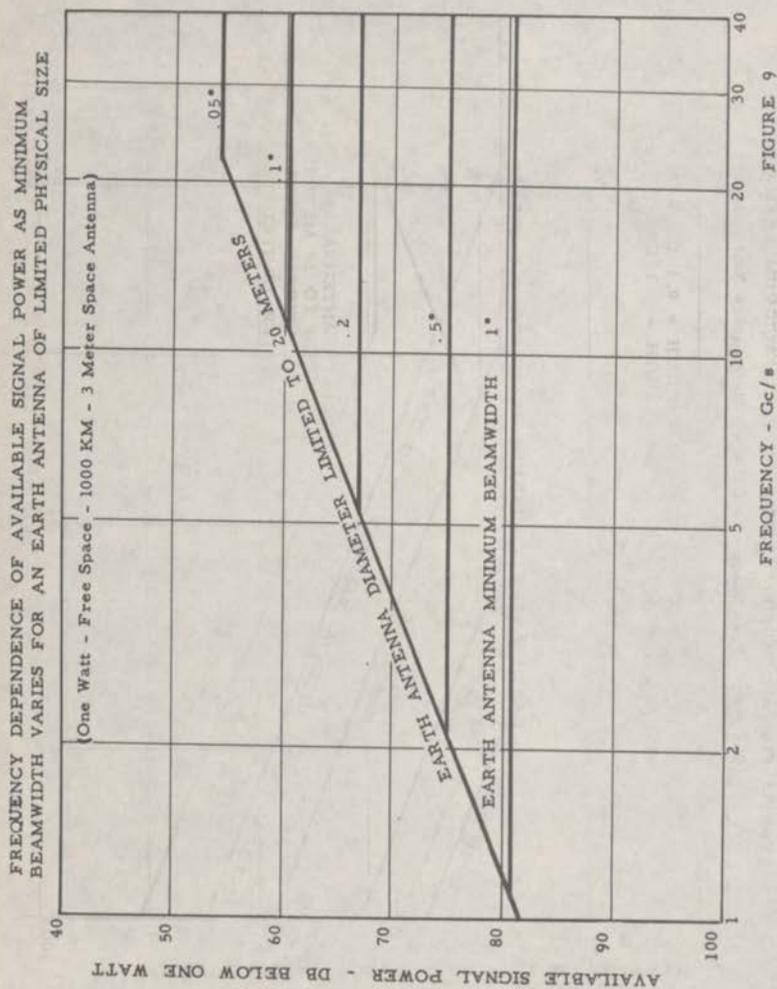
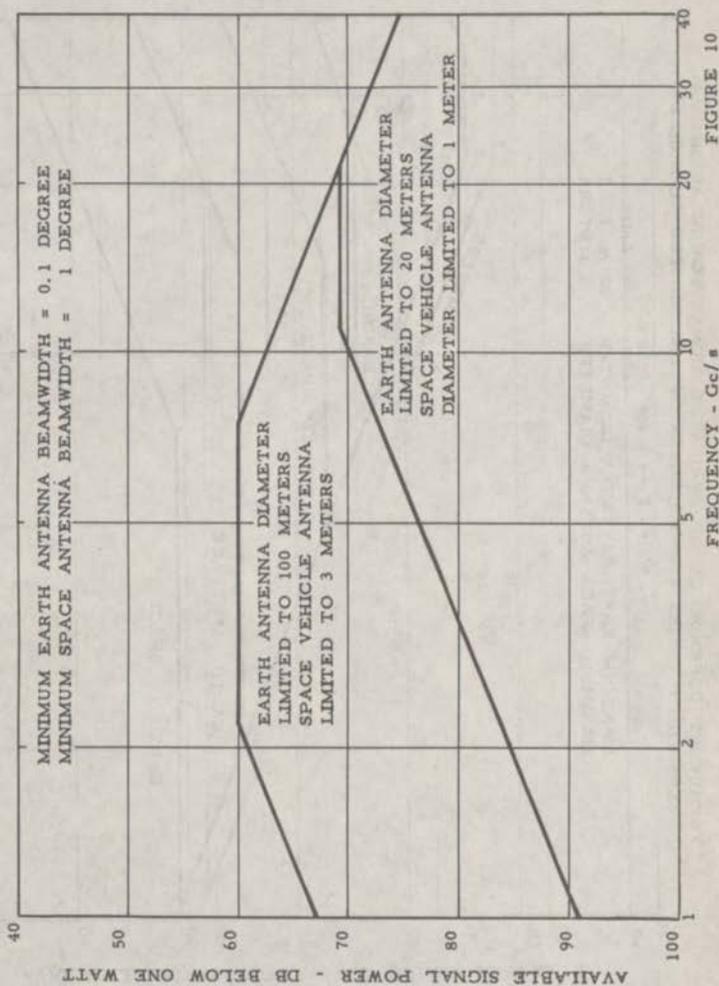


FIGURE 8



FREQUENCY DEPENDENCE OF AVAILABLE SIGNAL POWER AS ANTENNA PHYSICAL SIZE LIMITATIONS CHANGE WITH FIXED MINIMUM BEAMWIDTH REQUIREMENTS

(One Watt - Free Space - 1000 KM)



FREQUENCY DEPENDENCE OF AVAILABLE SIGNAL POWER AS MINIMUM
BEAMWIDTH VARIES FOR ANTENNAS OF LIMITED PHYSICAL SIZE

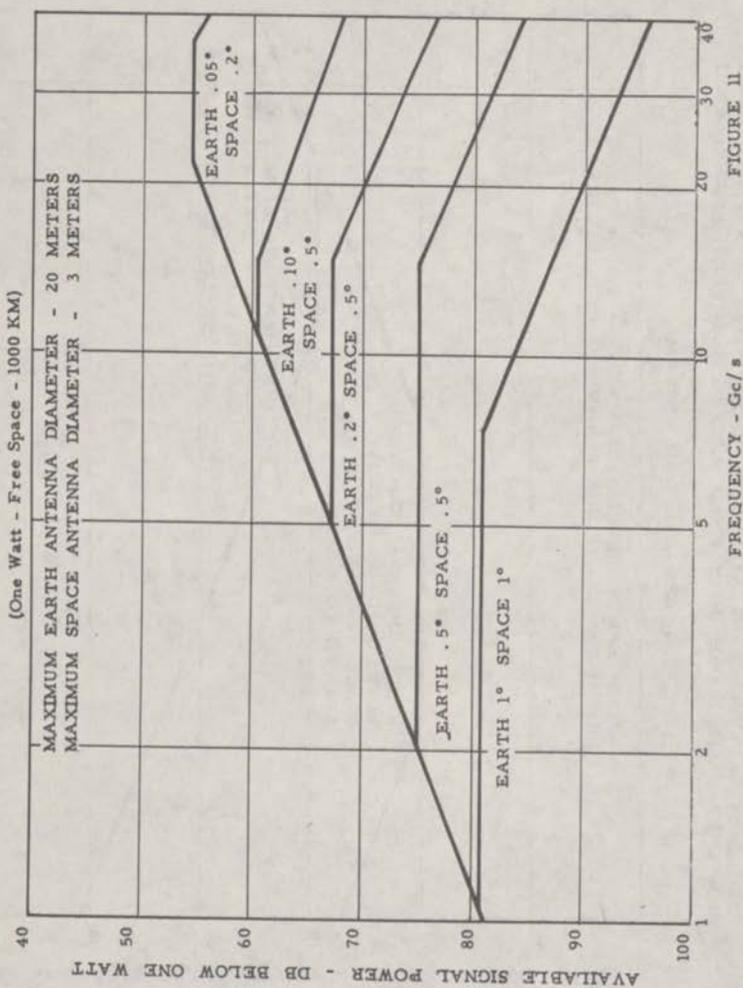


CHART TO ESTIMATE ATMOSPHERIC ABSORPTION AS A FUNCTION OF TERMINAL ELEVATION AND VERTICAL ANGLE

(Atmosphere Typical Of Washington D. C. In August)

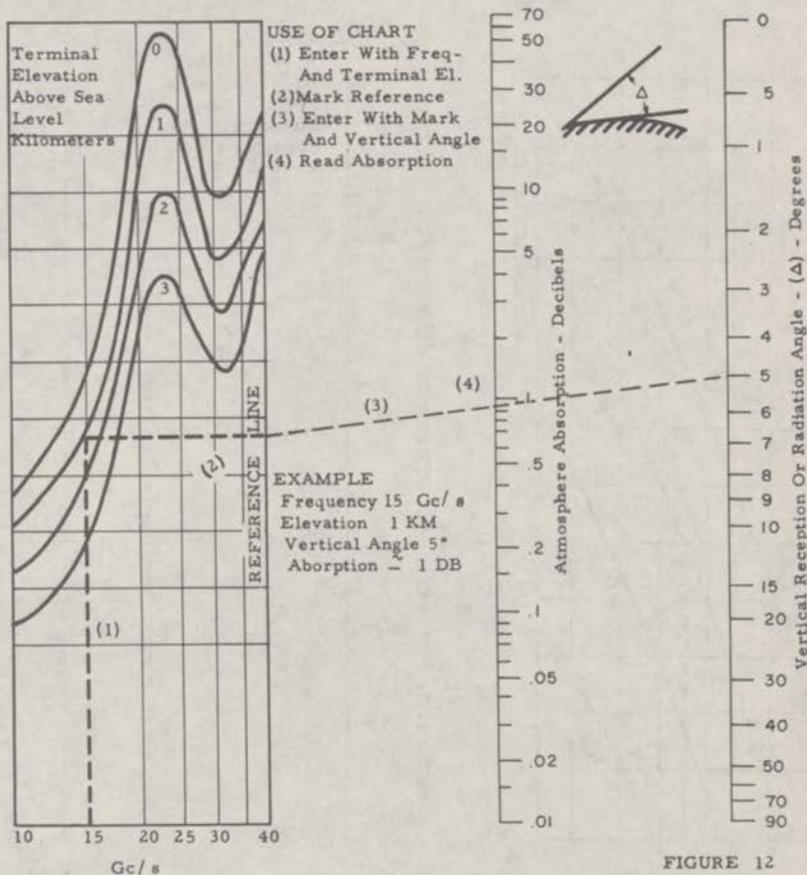


FIGURE 12

CHART TO ESTIMATE ABSORPTION BY RAINFALL

- | | |
|---------------------------------------|----------------------------------|
| (1) Enter With Freq And Rainfall Rate | (5) Enter With Mark And (H) |
| (2) Mark Reference Line | (6) Read Absorption |
| (3) Enter With Mark And (Δ) | (7) Multiply Lower Of (4) Or (6) |
| (4) Read Absorption | By Vertical Depth Of Rainfall |

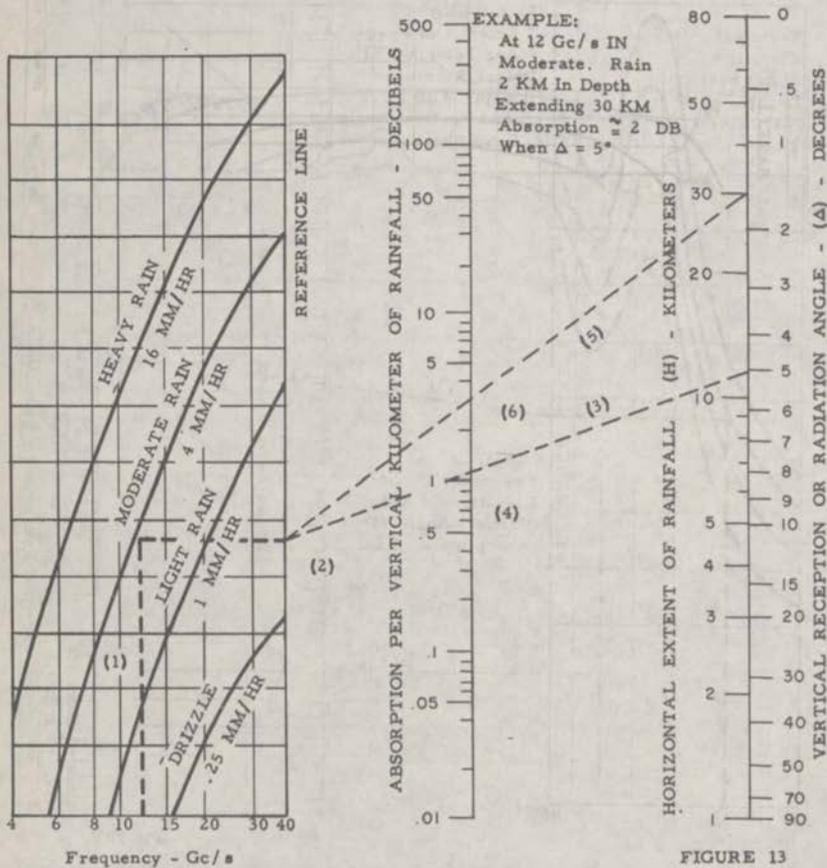


FIGURE 13

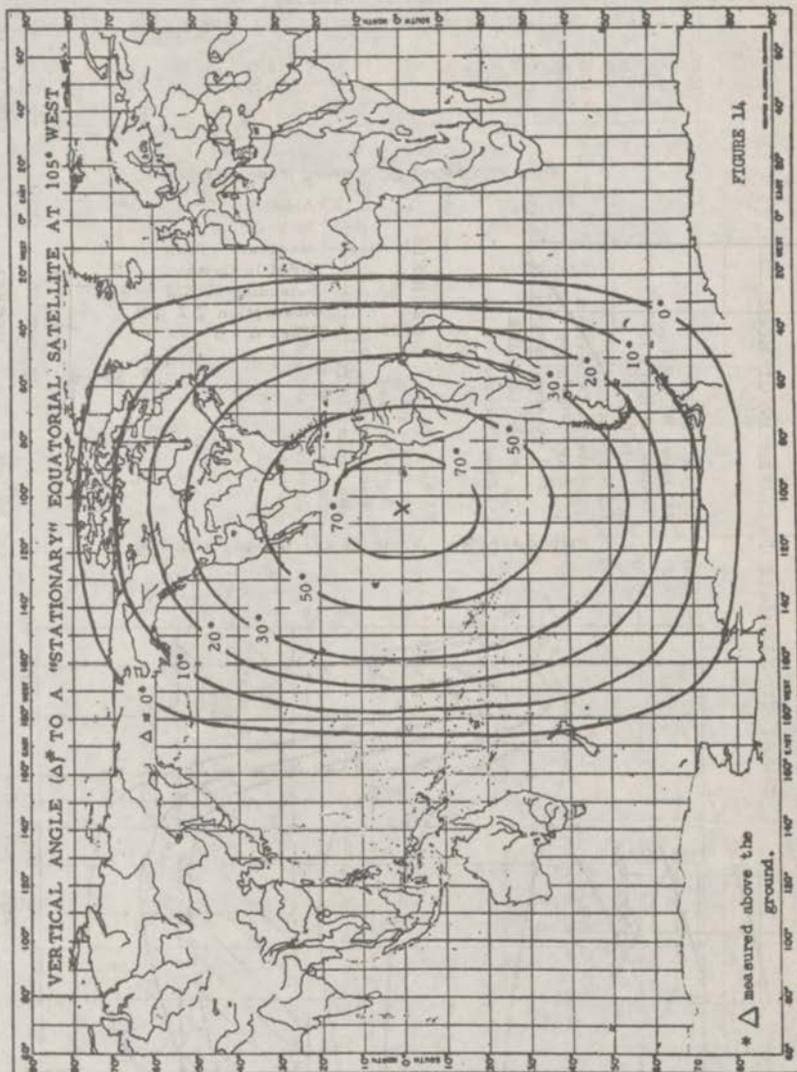
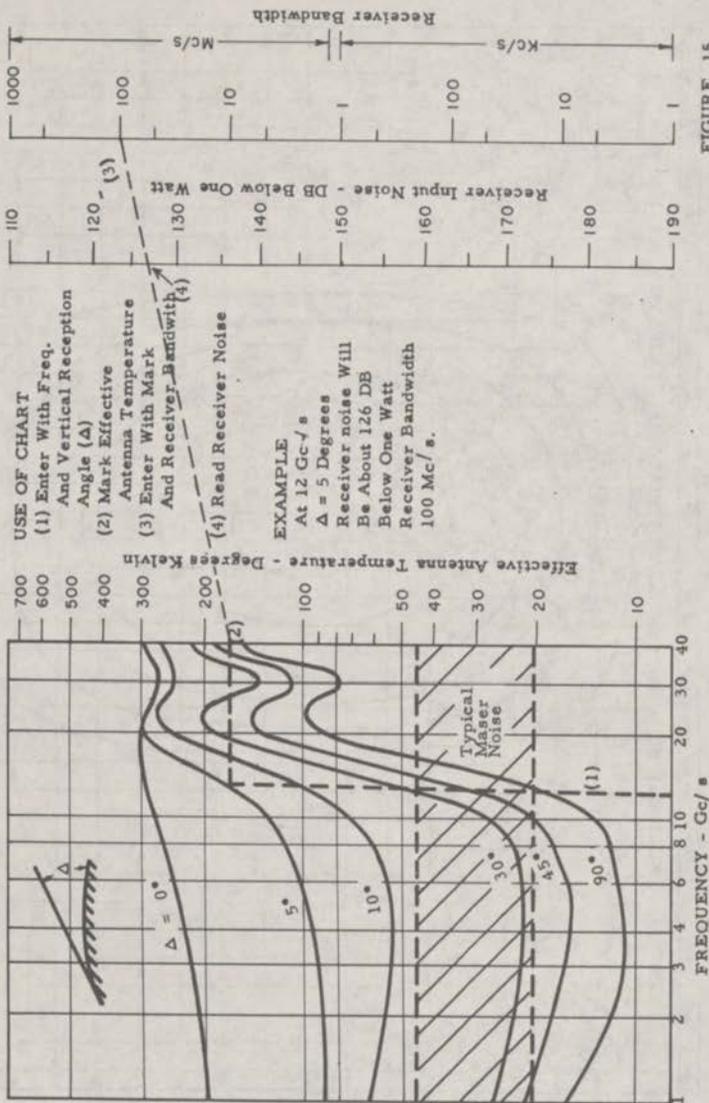


CHART TO ESTIMATE RECEIVER INPUT NOISE



THEORETICAL SIGNALS AND NOISE IN A SIMPLE SPACE SYSTEM

(Unstabilized Satellite - 1000 KM - 1 Watt - Sea Level Earth Terminal)

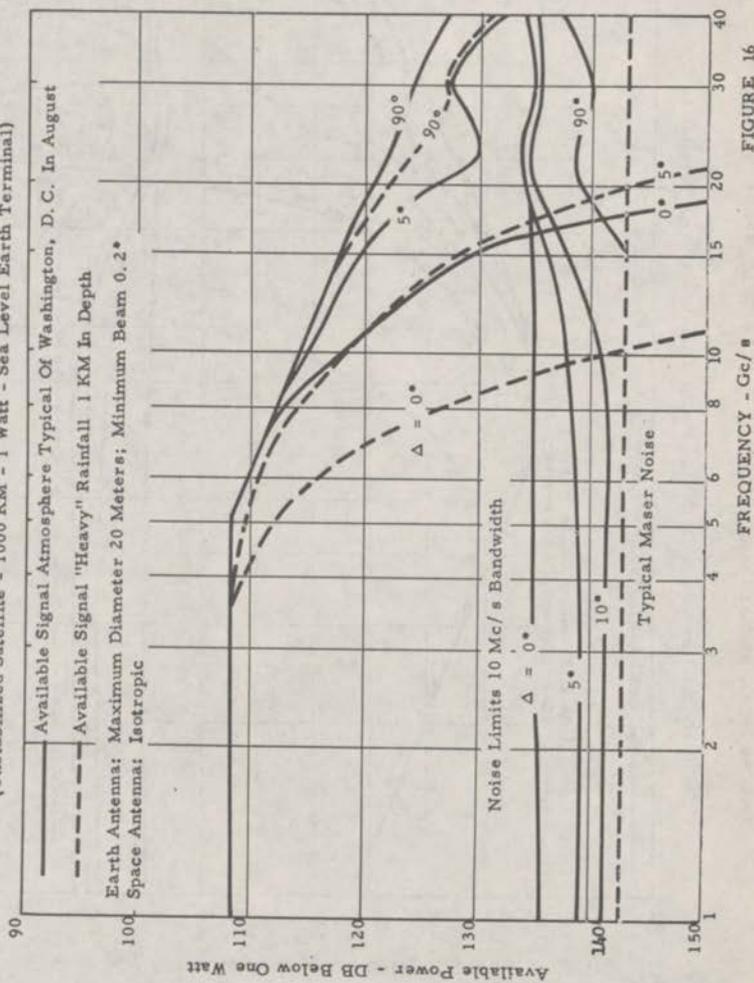
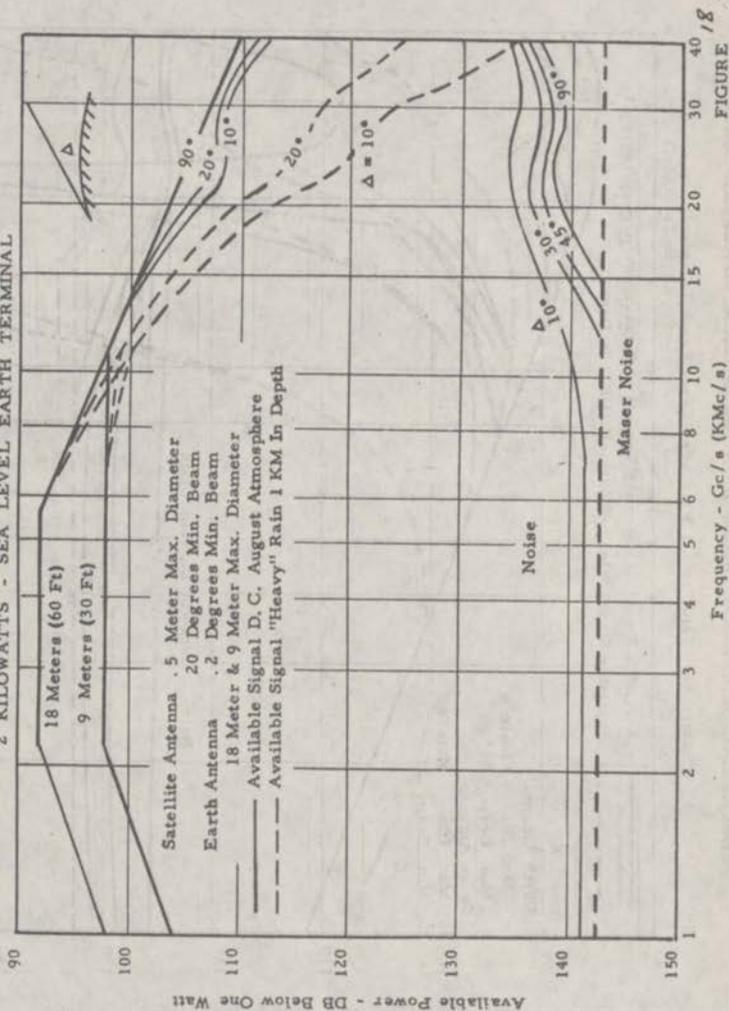


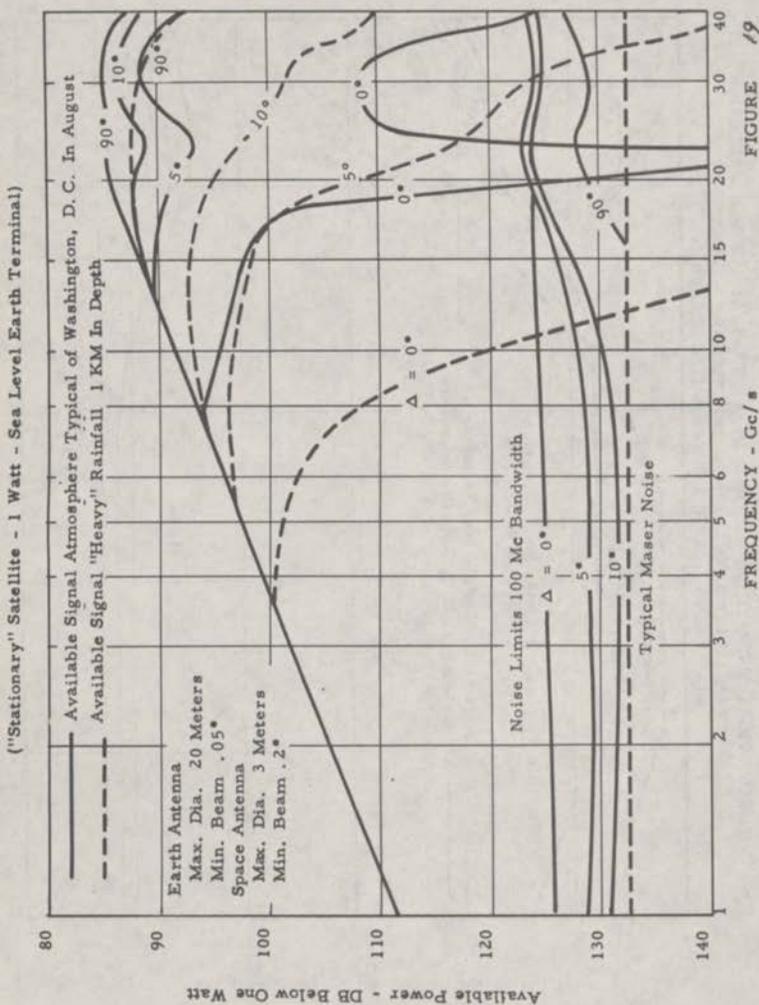
FIGURE 16

THEORETICAL SIGNALS AND NOISE IN A "TYPICAL" SPACE SYSTEM
 STABILIZED SATELLITE - "STATIONARY" ORBIT
 2 KILOWATTS - SEA LEVEL EARTH TERMINAL



FIGURE

THEORETICAL SIGNAL AND NOISE IN A "SOPHISTICATED" SPACE SYSTEM



THEORETICAL SIGNAL AND NOISE IN AN "SOPHISTICATED" SPACE SYSTEM

("Stationary" Satellite - 1 Watt - Earth Terminal 2 KM Above Sea Level)

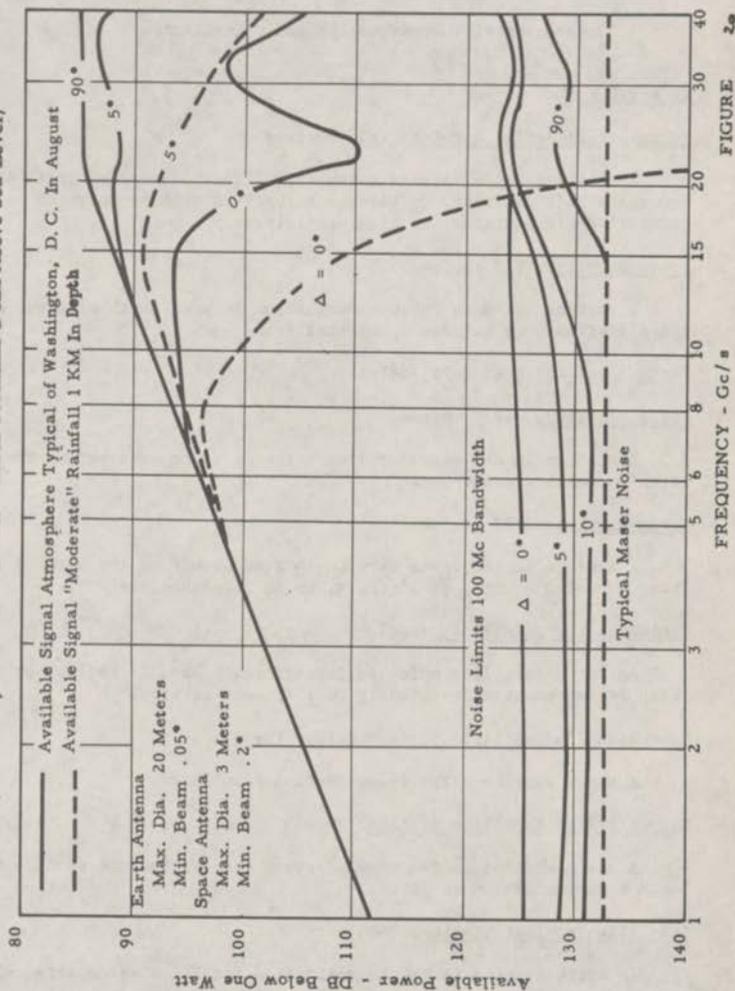


FIGURE 2a

APPENDIX 4

Consequential changes to the Radio Regulations

I. RR ARTICLE 1Aeronautical Mobile Service: (#33 revised)

A mobile service between aeronautical stations and aircraft or aerospacecraft stations, or between aircraft stations, in which survival craft stations may also participate.

Space Service: (#70 revised)

A service of space radiocommunication between earth stations and space stations, or between space stations.

Earth-Space Service: (#71, delete)Space Station: (#72 revised)

A station in the space service intended to be used beyond the earth's sensible atmosphere.

Earth Station: (#73 revised)

A station in the space service located either on the earth's surface, on board a ship, an aircraft, or an aerospacecraft.

Communication Satellite: (New)

An earth-satellite which is intentionally used to reflect or relay radiocommunication signals in the space service.

Communication Satellite Space Service: (New)

A space service using communication satellites.

Communication Satellite Station: (New)

A space station in the communication satellite space service on board a communication satellite.

Satellite Terminal Station: (New)

An earth station in the communication satellite space service.

Aerospacecraft: (New)

A vehicle capable of traveling both within and beyond the earth's sensible atmosphere.

Meteorological Satellite Space Service: (New)

A space service providing for the one-way transmission of meteorological information from meteorological satellite stations to earth stations.

Meteorological Satellite Station: (New)

A space station in the meteorological satellite service.

Space Research Service: (New)

A space service providing for the acquisition and transmission to earth stations, or between space stations, of scientific and technological information acquired by or pertaining to earth satellites or spacecraft.

II. RR ARTICLE 7Amend No. 429 to read:

"Frequencies in any band allocated to the aeronautical mobile (R) service are reserved for communications between any aircraft or aerospacecraft and those aeronautical stations primarily concerned with the safety and regularity of flight along national or international civil air routes."

Amend No. 430 to read:

"Frequencies in any band allocated to the aeronautical mobile (OR) service are reserved for communications between any aircraft or aerospacecraft and aeronautical stations other than those primarily concerned with flight along national or international civil air routes."

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[Private—Restricted]

BEFORE THE FEDERAL COMMUNICATIONS COMMISSION,
WASHINGTON, D.C., MONDAY, JUNE 5, 1961

Docket No. 14024

*In the Matter of an Inquiry Into the Administrative and Regulatory Problems
Relating to the Authorization of Commercially Operable Space Communication
Systems*

The above-entitled matter came on for hearing, pursuant to notice, at 10 a.m., before Commissioners Newton N. Minow (Chairman), Rosel H. Hyde, Robert T. Bartley, Robert E. Lee, T. A. M. Craven, and John S. Cross, in room 7134, New Post Office Building.

Appearances:

R.C.A. Communications, Inc.:

Thompson H. Mitchell, president

Howard R. Hawkins, vice president and general attorney

Elmer W. Engstrom, senior executive vice president

Philip F. Siling, director, RCA Frequency Division

Tropical Radio Telegraph Co.: Robert V. Howley, president

Western Union Telegraph Co.:

K. B. Mitchell, vice president, international communications

Samuel M. Barr, vice president, planning

American Rocket Society: Andrew G. Haley, general counsel

American Securities Corp.:

Paul A. Porter, counsel

Samuel Hoffman

Carl B. Hess

Anthony Sirna

General Electric Co.:

Joseph M. Kittner, counsel

Herbert A. Bergson, counsel

Donald T. Atkinson, vice president, Communications Satellites, Inc.

Harold T. Hokanson, vice president, Space Communications Satellites,
Inc.

General Telephone & Electronics Corp.:

Theodore F. Brophy, vice president and general counsel

Dr. Herbert Trotter, president

International Telephone & Telegraph Corp.:

Francis J. Harkins, counsel

David I. Margolis, assistant to the president

Henri Busignies, vice president and general technical director

Lockheed Aircraft Corp.:

Beardsley Graham, special assistant, communications satellite

Theodore Pierson, counsel

American Cable & Radio Corp.:

John A. Hartman, Jr., vice president and general counsel

Bertram B. Tower, president

American Telephone & Telegraph Co.:

Edward B. Crosland, vice president

George L. Best, vice president

Horace P. Moulton, vice president and general counsel

James E. Dingman, vice president and chief engineer

Hawaiian Telephone Co.: Omar L. Crook, attorney

Press Wireless, Inc.: Donald K. de Neuf, executive vice president

Radio Corp. of Puerto Rico: Francis J. Harkins, counsel

Department of State:

Philip Farley, Special Assistant to the Secretary for Atomic Energy and Outer Space

Arthur Lebel, Assistant Chief, Telecommunications System

Richard Black, Telecommunications System

Arthur Crosby, United Nations Political Affairs

Department of Justice:

John James, Antitrust Division

Robert Saloschin, Office of Legal Counsel

National Aeronautics and Space Administration:

Robert Nunn, Special Assistant to the Administrator

Arnold Frutkin, Director of International Programs

Federal Aviation Agency: Martin Menter, Office of General Counsel

United States Information Agency: Stanley Plesent, Deputy General Counsel
Office of Civil and Defense Mobilization: Fred Alexander, Director of Telecommunications

National Aeronautics and Space Council: Dr. Edward C. Welsh, Executive Secretary

Interstate and Foreign Commerce Committee, House of Representatives:

Dr. Kurt Borchardt, legal counsel

Senate Commerce Committee, U.S. Senate: Nick Zapple, Communications Counsel

Committee on Science and Astronautics, House of Representatives: Frank Hammill, counsel

Library of Congress: Edward Wenk, Jr., senior specialist, science and technology, Legislative Reference Section.

PROCEEDINGS

The CHAIRMAN. The committee welcomes each of you to our meeting this morning.

We meet today for what may in the course of time become one of the most important developments in the revolutionary history of communications. Science has now brought us to the threshold of space communication satellite systems, between all nations of the world, and today Government and private industry meet to respond to the challenge put to our free society to achieve as quickly as we can a communications satellite system which will operate in the public interest.

May we at this time have the appearances of those present for the record.

First, I would like to have the appearances of those who are here from the Government.

From the State Department?

Mr. FARLEY. Would you like us to identify ourselves?

The CHAIRMAN. Yes. Would you, please.

Mr. FARLEY. I am Philip Farley, Special Assistant to the Secretary for Atomic Energy and Outer Space. And I believe these gentlemen can introduce themselves.

Mr. LABEL. I am Arthur Lebel, Assistant Chief of the Telecommunications System.

Mr. BLACK. I am Richard Black, also with the Telecommunications System.

Mr. CROSBY. Arthur Crosby, United Nations Political Affairs.

The CHAIRMAN. From the Justice Department?

Mr. JAMES. John James from the Antitrust Division.

Mr. SALOSCHIN. Robert Saloschin, Office of the Legal Counsel.

The CHAIRMAN. National Aeronautics and Space Administration.

Mr. NUNN. Robert Nunn, Special Assistant to the Administrator.

Mr. FRUTKIN. Arnold Frutkin, Director of International Programs.

The CHAIRMAN. There are some observers from other Government agencies, but I gather, unless they want to identify themselves or intend to talk—
Are there any such?

All right, we will move now to the international carriers, American Cable & Radio Corp.

Mr. HARTMAN. John A. Hartman, Jr., vice president and general counsel.

Mr. TOWER. Bertram B. Tower, president.

The CHAIRMAN. American Telephone & Telegraph Co.

Mr. CROSLAND. Edward B. Crosland, vice president.

- Mr. BEST. George Best, vice president.
- Mr. MOULTON. Horace P. Moulton, vice president and general counsel.
- Mr. DINGMAN. James E. Dingman, vice president and chief engineer.
- The CHAIRMAN. For the Hawaiian Telephone Co.
- Mr. CROOK. Omar L. Crook, attorney for the Hawaiian Telephone Co.
- The CHAIRMAN. Press Wireless, Inc.
- Mr. DE NEUF. Donald K. de Neuf, executive vice president.
- The CHAIRMAN. Radio Corp. of Puerto Rico.
- Mr. HARKINS. Francis J. Harkins, counsel.
- The CHAIRMAN. RCA Communications, Inc.
- Mr. MITCHELL. Thompson H. Mitchell, president.
- Mr. HAWKINS. Howard R. Hawkins, vice president and general attorney.
- Mr. ENGSTROM. Elmer W. Engstrom, senior executive vice president, RCA.
- Mr. SILING. P. F. Siling, director, RCA Frequency Division.
- The CHAIRMAN. South Puerto Rico Sugar Co.
- No one here.
- Tropical Radio Telegraph Co.
- Mr. HOWLEY. Robert V. Howley, president.
- The CHAIRMAN. United States-Liberia Radio Corp.
- No one here.
- Western Union Telegraph Co.
- Mr. MITCHELL. K. B. Mitchell, vice president, international communications.
- Mr. BARR. Samuel Barr, vice president, planning.
- The CHAIRMAN. Now there were certain other parties filing comments in Docket 14024. American Rocket Society.
- Mr. HALEY. Andrew G. Haley, general counsel.
- The CHAIRMAN. American Securities Corp.
- Mr. PORTER. Paul A. Porter, counsel; Mr. Samuel Hoffman, Mr. Carl B. Hess and Mr. Anthony Sirna.
- The CHAIRMAN. General Electric Co.
- Mr. KITTNER. Joseph M. Kittner, counsel; Herbert A. Bergson, counsel; Donald Atkinson and Mr. Harold Hokanson, accompanied by certain advisors.
- The CHAIRMAN. General Telephone & Electronics Corp.
- Mr. BROPHY. Theodore F. Brophy, vice president and general counsel, and Dr. Herbert Trotter, president.
- The CHAIRMAN. International Telephone & Telegraph Corp.
- Mr. HARKINS. Francis J. Harkins and David I. Margolis, and Henri Busignies, vice president.
- The CHAIRMAN. Lockheed Aircraft Corp.
- Mr. GRAHAM. Beardsley Graham, special assistant, Communications Satellites; accompanied by Theodore Pierson, counsel.
- The CHAIRMAN. Radio Corp. of America.
- They are represented.
- In our first report in docket 14024 the Commission stated that the formation of a joint venture composed only of existing U.S. common carriers engaged in international telephone and telegraph communications deserved exploration at this time as a means to promote the orderly development of a commercial space satellite communications system. As indicated in that report, the purpose of today's conference is to exchange views as to the plans and procedures under which this exploratory effort may best go forward.
- We have arranged, as you see, for a reporter to record our discussions.
- At the outset the Commission emphasizes that it is not the purpose of this conference to review the merits of the Commission's belief that only the international carriers should presently participate in such a venture. That matter has been raised in a petition requesting reconsideration of our first report, which will be carefully considered by the Commission after receipt of replies and other statements.
- Accordingly, we request that the participants today direct their comments to the precise objective of this conference—exploration of the manner in which the organization of a suitable joint venture by the international carriers can proceed both quickly and satisfactorily.
- In its first report the Commission pointed out that it is not now possible or feasible to indicate all of the specific features which it believes should be incorporated in the joint venture, and that these are matters which will require careful study and formulation.

The Commission did, however, enumerate certain minimum objectives that any joint venture must meet. These objectives are the following:

1. Any joint venture must contain clear and definite provisions which will insure that existing and future international common carriers, whether or not participating as owners in a joint venture, shall have equitable access to and nondiscriminatory use of the satellite system under fair and reasonable terms so that they may obtain communication facilities in this system to serve oversea points with the type of services for which they are licensed or authorized by the Commission.

2. Any joint venture must make adequate and effective provisions, such as competitive bidding, to insure that there will be no favoritism in the procurement of equipment required for the construction, operation, and maintenance of a satellite system.

Although not specifically stated in our first report, it should be understood by all that we look toward the establishment of a truly global communication system, and that it is essential for any joint venture to provide for ownership participation and equitable access to the facility by all interested foreign countries.

In this same vein the eventual system should possess a capability for accepting both heavy traffic and light traffic from a large number of locations throughout the world. This is generally referred to as the multiple-access feature, and I am sure the importance of this feature will be apparent to all.

The United States, through the International Telecommunications Union and otherwise, shall continue its policy of close cooperation and consultation with all nations of the world interested in obtaining the benefits of a global space system.

I want to make it perfectly clear that the Commission's abstention at this time from specifying other objectives and safeguards is not to be taken as an indication that the Commission will not scrutinize critically each and every feature of any plan that may be evolved.

Any plan which is not fully compatible with the foregoing objectives or which fails to satisfy or is in conflict with the public interest in any other significant respect will not be acceptable to this Commission.

It is the Commission's view that the initiative in forming any joint venture should rest with the carriers themselves. This means that there must be talks between the various carriers. Presumably, such talks will be carried on by a committee composed of representatives of each carrier meeting at regular intervals.

We do not here propose to decide the degree of Commission participation, if any, in these discussions of carriers. This is a matter which will be determined very shortly and before the initiation of such talks.

In any event, we shall, of course, expect the carriers to submit periodically detailed reports with respect to the status and progress of their negotiations.

Now I think I have said enough to provide a basis for discussion. I shall now ask the parties present for any comments and suggestions that they desire to make.

If the carriers are prepared to state whether they intend to participate in ownership in any joint venture, I would like them to so state and to indicate the extent to which they would be prepared to invest funds.

We have a microphone here. Can you all hear?

All right.

If you prefer, as I call on you to come up and speak here, it is up to you as you prefer.

We will hear now from the carriers individually with their comments. First from the American Cable & Radio Corp.

Mr. KITTNER. May I have the privilege of turning off one of the fans?

The CHAIRMAN. Certainly.

STATEMENT ON BEHALF OF AMERICAN CABLE & RADIO CORP., BY JOHN A. HARTMAN, JR.

Mr. HARTMAN. Mr. Chairman, Mr. Commissioner, and guests of the Commission, I am, of course, speaking for American Cable & Radio Corp. And Mr. Tower is also representing us.

We, as you know, operate through our subsidiaries, international telegraph between the United States and most of the points of the world. We maintain direct cable circuits between the United States and Canada, Ireland, the Azores,

the United Kingdom, and the Continent as well as south to Central and South America and the Latin American area.

Our direct radio-telegraph circuits are operated between the United States and the principal countries of the world.

With reference to your inquiry, A. C. & R. does wish to participate in the ownership, maintenance, and operation of satellite communication system facilities.

Although our companies do operate facilities at many points abroad as well as in the United States, it is our understanding from your first report that we are talking now about the American interests in such systems. That being the case, A. C. & R. would be concerned with ground stations in the continental United States, the Virgin Islands, Puerto Rico, and Hawaii, together with the interest in the satellites themselves.

We are not now in a position to specify exactly what participation we can have in this. But we would expect our participation to bear a reasonable relationship to our expected use of such system, together with the other U.S. areas which will participate.

We would anticipate that some joint-venture vehicle would have to be created in order to finance the construction and maintenance of this system, whether that vehicle take the form of a partnership, corporation, or, simply, as in the case of the modern coaxial cables, operating agreements.

We therefore entirely concur with your thoughts, Mr. Chairman, that the approach to it would be the creation of an ad hoc committee under the aegis of the Commission to the degree that the Commission feels it should participate in order that we can obtain the necessary—not only obtain but coordinate the necessary statistical and financial material that is necessary to determine the degree of participation and the form that the organization should take.

In this connection we would assume also that the concept is that the ground stations abroad would be owned, maintained, and operated by foreign companies or administrations, and we would expect that, in all probability, there will be a desire on the part of some of those administrations at least to have an ownership interest in the satellite itself. That being the case, we think another thing that the committee should look into is the possibility of either present or future ownership in such satellites so that the foreign administrations can participate fully on an international basis if they so wish.

I think that completes our initial statement. Thank you very much for the opportunity, and it may well be that we will have further suggestions when we have heard what other people have to say.

The CHAIRMAN. Thank you, sir.

We will next hear from the American Telephone & Telegraph Co.

STATEMENT ON BEHALF OF AMERICAN TELEPHONE & TELEGRAPH Co.,
BY JAMES E. DINGMAN

Mr. DINGMAN. We think the Commission's first report is sound and in the public interest.

The U.S. international common carriers should be given the opportunity to work out a joint venture looking toward the establishment of a commercial communication satellite system with the interested foreign communications agencies. We stand ready to join with all the other international carriers in discussions to this end.

We would expect to participate in the ownership of the satellites themselves, and own and operate ground stations in the United States.

We fully accept the conditions which this Commission has indicated it will impose on any joint venture which may be formed and upon its continued operation. Indeed, we believe that the first report defines a framework of safeguards which should fully serve the public interest.

One fact should be kept uppermost in mind. The foreign communications agencies will have at least an equal interest in the satellite system itself, for every message that originates in the United States, terminates abroad, and vice versa. For this reason, this country's leadership can only be exercised through the prompt use of our technological advantages in this field to propose a system which will be acceptable to and have the support of the principal foreign agencies involved.

This necessity of accommodating not only the views of the U.S. participants but those of many foreign administrations present technological and economic problems of great magnitude. These can only be solved by pressing forward quickly. Therefore, we think discussions between the international carriers should be commenced very promptly and should be grounded on certain common understandings; namely, that time is a critical factor. The system should be reasonably within current technology; the system must provide service, quality and reliability comparable to that available over existing facilities for all services; the system must be available for use of all U.S. international carriers, and provide facilities suitable for the communications services each may be authorized by the Federal Communications Commission to render.

The engineering concepts and ownership arrangements must be acceptable to the foreign communications administrations, and should have the flexibility to permit participation by small or newly developing nations.

Military requirements should also be taken into account. We have advanced certain proposals, both with respect to the engineering aspects—docket No. 13522—and with respect to ownership and use of the satellite system—docket No. 14024. However, we regard these proposals as a basis for discussions but not as representing a fixed position on our part.

Given the common objective which I think we all share, it is our view that the success of such discussions should not be inhibited by inflexible positions taken by any participants.

I want to add that we agree with the suggestion made by the American Cable & Radio that we form an ad hoc committee to get going. Thank you.

The CHAIRMAN. Thank you, Mr. Dingman.

Any questions?

Thank you.

The Hawaiian Telephone Co.

STATEMENT ON BEHALF OF HAWAIIAN TELEPHONE CO., BY OMAR L. CROOK

Mr. CROOK. I am counsel for the Hawaiian Telephone Co. Our company for many years has been engaged in oversea communications services. In 1931, together with the American Telephone & Telegraph Co. and RCA Communications, radio service between Hawaii and the mainland of the United States of America was established. In 1957, in conjunction with the American Telephone & Telegraph Co., communications service between Hawaii and the continental United States was provided via cable.

It appears to us that the proposed means of providing communications via satellites is, in essence, an additional means of providing communications between the United States and other points in the world. Based on past experience where the carriers themselves have been the only entities involved in providing this service, it appears to us that this same general rule should apply for communications services via satellites. Accordingly, it is our present view that we should join with other communications common carriers in jointly providing a satellite communications service.

Our company will be interested in providing the necessary ground facilities in Hawaii and, very likely, in an ownership interest in the satellite system. Thank you.

The CHAIRMAN. Thank you.

Any questions?

Thank you.

Press Wireless, Inc.

STATEMENT ON BEHALF OF PRESS WIRELESS, INC., BY DONALD K. DE NEUF

Mr. DE NEUF. My name is Donald K. de Neuf. Thank you for inviting us here. We have filed our comments, which I think is about all we can say at the present time.

It looks to us as though the Commission is laying the proper ground rules for this thing in the public interest, and it appears to us that all of the companies, both international and manufacturers, are approaching this thing from the standpoint of providing a service in the public interest.

I do have mixed feelings with regard to the pressure which the Commission must be faced with in regard to speed, which is essential. I am sure that we are living just a little bit in terror that some morning we will come to the office and find a message from a foreign administration asking us if on a certain date we can meet their communications system which is to be fired up, and under this

pressure I think we will have to be careful that we don't make mistakes at this time. But it strikes me at the present time that all of us are doing everything we can toward an intelligent objective. Thank you.

The CHAIRMAN. Radio Corp. of Puerto Rico.

STATEMENT ON BEHALF OF RADIO CORP. OF PUERTO RICO, BY FRANCIS J. HARKINS

Mr. HARKINS. Mr. Chairman, with your permission, I would like to speak for ITT and, thereby, cover Radio Corp. of Puerto Rico. Maybe this will add some speed to what we are doing.

To be very brief, ITT definitely intends to participate in the ownership, maintenance, and operation of the satellite communications system now under discussion. We would expect, as pointed out by Mr. Hartman, that our participation would bear a reasonable relationship to the expected use of the system by our subsidiaries. We, therefore, concur in the statement by A. C. & R., the proposal rather, that there be an ad hoc committee of the carriers to move forward with this project.

Thank you, sir.

The CHAIRMAN. Thank you.

RCA Communications, Inc.

STATEMENT ON BEHALF OF RCA COMMUNICATIONS, INC., BY
THOMPSON H. MITCHELL

Mr. MITCHELL. My name is Thompson H. Mitchell. I am president of RCA Communications, Inc., 66 Broad Street, New York, N.Y.

On behalf of my company, I want to express our appreciation for the opportunity to appear here today and to participate in this important conference. It is most desirable that we explore plans and procedures to foster and accelerate the establishment of a commercial communications satellite system in the public interest.

We wholeheartedly support the conclusions of the Commission in its first report in docket No. 14024. The Commission's action is not only appropriate but it is a significant step toward the achievement of our ultimate objective, the establishment of a worldwide communications satellite system.

We are fully prepared to move forward in this endeavor jointly with the Commission, other U.S. Government agencies, and the international communications common carriers. We will desire to coordinate our efforts with our oversea correspondents, the authorized communications agencies around the world as they will be importantly involved in the establishment of an operational commercial satellite system.

In our view, it is most significant that a commercial communications satellite system be used in international communications as an addition to, rather than as a replacement of, present and future submarine cable and high-frequency radio systems.

A communications satellite system, when it becomes operational, should, therefore, be integrated in an orderly and prudent manner with the present systems around the world. This will enable the international communications common carriers to continue the business of serving the public and all nations as economically and as efficiently as possible.

As only one commercial satellite system is contemplated, we must insure that this system will be designed to accommodate the needs of communications agencies of other nations and to achieve maximum utility at minimum cost with respect to investment, the use of frequencies, and operation.

The Commission's first report has laid down a solid foundation for the development and operational integration of a communication satellite system. In the light of the first report and with future needs certain for satellite communication, it is most desirable that we proceed expeditiously with coordinated research, development, and experimental trials.

We favor an aggressive, total effort in research and development because we will then be making the progress which is more important now. We believe that experimentation should continue with sufficiently wide variation, consistent variables, so that the best choice can be made as the work progresses.

Appropriate freedom should be given to test techniques and apparatus as part of a proposed satellite system and to field test satellites in space where such tests are necessary.

We, in RCA, will proceed with all possible dispatch in the development of communication satellite systems. We have referred to certain of our activities in filings in docket No. 13522 and in docket No. 14024, including Project SCORE, the first successive satellite relay of voice transmission, and TIROS I and TIROS II, television weather satellites.

It is our hope that we shall be able to contribute importantly toward the total effort. We are continuing to devote substantial resources to our own studies and experiments directed to the solution of problems related to the development of a practical and reliable communications satellite system. We intend to participate fully as an international communications common carrier in the furnishing of international communication services via satellite systems. We expect to require a substantial segment of the capacity of the satellite system in order to satisfy the increasing demands for our international communications services. We desire to participate on a basis consistent with economic feasibility and the need for transmission capacity in the satellite system.

Though it is, of course, premature to make hard and fast decisions concerning an operational satellite system, we wish again to state our intentions to cooperate fully and to do everything within our capabilities to implement the Commission's conclusions in its first report.

We recommend that a joint government international communications common carrier industry group be set up promptly under appropriate safeguards to coordinate the efforts being made in this endeavor and to bring to bear the best available talents and ideas.

This group should be concerned with the regulatory, administrative, and technical problems. Subgroups may be designated to develop particular phases of the overall program. As its initial assignment, this group could work out appropriate schedules for research and development by government and industry and of appropriate plans and procedures for joint undertakings by the international communications common carriers.

It will be necessary to deal adequately with the comprehensive and complex problems which are involved, but we are confident that sound solutions can be developed through such joint efforts.

Thank you.

The CHAIRMAN. Thank you, Mr. Mitchell.

Is there anyone here now for the South Puerto Rico Sugar Co.?

The Tropical Radio Telegraph Co.

STATEMENT ON BEHALF OF TROPICAL RADIO TELEGRAPH CO., BY ROBERT V. HOWLEY

Mr. HOWLEY. I am Robert V. Howley, president of Tropical Radio Telegraph Co.

As the Commission knows, Tropical is a comparatively small carrier in its relationship to the Big Three. Eighteen of our twenty stations are located outside the United States, in the tropics. We have followed the Commission's initial report with a great deal of interest, and we are entirely in sympathy with the way it was prepared and the tentative conclusions which were incorporated in that report.

Speaking for my company, we would not be prepared to share in the cost of such a system. We would avail ourselves, however, of that all-important paragraph in the Commission's initial report where we would have access to the facilities, if and when we desired to make use of them on a nondiscriminatory, fair basis, so that we could continue to comply with our obligations to the United States and to the other countries where we have charters and concessions.

The Central American countries and Panama are low-volume countries, and we would have to weigh very carefully, even assuming we had access to these facilities, the cost of ground station installation in those small countries. It would have to have relationship to what the charge would be, what facilities we could use that we have a demand for, and at the present time we have ample facilities, both radio telegraph and radio telephone, for all the communications that are offered to us.

So again I repeat that I agree with the initial assignment of the Commission that this should be a carrier and only a carrier operation, but we will not contribute, but we will avail ourselves of the ability to lease at the proper time.

The CHAIRMAN. Thank you, Mr. Howley.

Is there anyone here now for the United States-Liberia Radio Corp.?

All right, we will hear from Western Union Telegraph Co.

STATEMENT ON BEHALF OF WESTERN UNION TELEGRAPH CO. BY K. B. MITCHELL

Mr. MITCHELL. I am K. B. Mitchell, vice president, international communications, Western Union.

Mr. Chairman, we appreciate being here. We generally agree with the statements of the other carriers. We, however, find ourselves in a different position because of our divestment provisions. So we want to cooperate with this committee; we want to work with it. But further than that I can't say at this moment.

Thank you.

The CHAIRMAN. Thank you, Mr. Mitchell.

At this time the Commission would like to hear from the representatives of the various Government departments and agencies. Could we start first with the representatives of the State Department.

STATEMENT ON BEHALF OF THE DEPARTMENT OF STATE BY MR. FARLEY

Mr. FARLEY. Mr. Chairman, I can say only that we welcome very much this opportunity to attend your hearing. We are not, however, in a position at this time to make any statements of position which would be helpful to you.

If there is any particular point you would like me to address myself to, I would be glad to, but I have not come with any prepared statement.

The CHAIRMAN. In the event that a committee of the carriers is established, would the Department want to participate further?

Mr. FARLEY. I believe, Mr. Chairman, that we would have to examine that in the light of the particular terms of reference that the proposed committee is to be given. We would certainly engage to consider that promptly and answer you.

The CHAIRMAN. Any other questions from the Commission?

All right, thank you.

May we have a comment from the Department of Justice?

STATEMENT ON BEHALF OF THE DEPARTMENT OF JUSTICE, BY JOHN JAMES

Mr. JAMES. I am John James of the Department of Justice.

The Department of Justice recognizes the complexity of the problems confronting the Commission, as well as the urgency in moving forward toward a workable and efficient system.

The Department urges that no action should be suggested or taken which might result in delay.

In its statement of May 5, 1961, the Department of Justice discussed those antitrust factors which it felt warranted consideration by the Commission in dealing with the problem of ownership of the proposed satellite system.

Since only one commercial system appears feasible in the near future, the Department believes, in concurrence with the Commission and apparently with all interested parties, that a joint venture which is consistent with the antitrust laws offers the best available method of achieving the common goal, a workable system at the earliest possible date.

As the plan for joint action is developed, we urge that the Commission consider the desirability of expanding the base of ownership of the satellite communication system. We believe that a further expansion of ownership and participation in the joint venture will reduce the possibility that the system will be controlled by a single company, and that a wider diversity of ownership will promote research and development in the satellite communication field.

The Department of Justice is desirous of assisting the Commission in any way possible in order that this project may move forward. We will lend whatever assistance is necessary to help work out a method whereby all conflicting considerations regarding this matter may be accommodated in a manner consistent with the overriding national interests in establishing a workable system at the earliest possible date.

Thank you.

The CHAIRMAN. Mr. James, in the event that a committee of carriers is established, would you give us the benefit of the Department's thinking on the safeguards and the antitrust laws in connection with the day-to-day operations of the committee?

Mr. JAMES. I am not prepared to do this at this time, but we certainly will do that.

The CHAIRMAN. You will do that?

Mr. JAMES. We will do that.

The CHAIRMAN. Well, I would request that you cooperate with our staff to give us a guide as to what supervision the Department might want to provide.

Mr. JAMES. We will be prepared to do that any time it is convenient to the Commission.

The CHAIRMAN. Any questions?

Commissioner CROSS. I have a brief question.

Mr. James, saying that the carriers get together on a joint venture consistent with the antitrust laws, does that mean that the safeguards which we have written into our notice or which we tried at least to write into our notice would be satisfactory in that regard, because I notice you say that you urge that we consider giving other than the carriers access to this.

Mr. JAMES. We think the safeguards are a very important part of the Commission's report, and we think we can help the Commission in working out the necessary safeguards that should be incorporated in whatever plan the Commission finally comes up with.

Commissioner CROSS. Thank you.

Commissioner CRAVEN. In your consideration of the expansion to include other than carriers, have you given thought to the matter of rates?

Mr. JAMES. We haven't.

Commissioner CRAVEN. And its impact? What impact the expansion might have upon rates?

Mr. JAMES. We have not; no, sir.

The CHAIRMAN. Any other questions?

Thank you.

Commissioner BARTLEY. I would like to be clear on one point, if I may.

Is it the legal position or the policy position which dictates the suggestion that the base be broadened?

Mr. JAMES. I would say it is the legal position; also a policy position.

I can't distinguish about that. We merely urge that the Commission consider that.

As I indicated, whatever plan the Commission comes up with we will cooperate in trying to make that plan workable and effective.

Commissioner BARTLEY. What I am trying to get at is if the Commission should determine that the base should not be broadened as a policy matter, is it the judgment of the Department that legislation would be necessary?

Mr. JAMES. I would like to see the plan first, but I think the plan could be worked be worked out so that it would be acceptable to the Division.

The CHAIRMAN. Thank you.

May we have comment from the National Aeronautics and Space Administration?

STATEMENT ON BEHALF OF THE NATIONAL AERONAUTICS AND SPACE
ADMINISTRATION, BY ROBERT NUNN

Mr. NUNN. Mr. Chairman, as NASA understands the matter, the communications policy of the country is shaping up toward having a single licensee for purposes of communications via satellites, and that licensee will consist of a joint enterprise. This means, for example, that the international carriers as such may not expect to be licensed for communication satellite purposes in their own names; but, rather, will obtain their needed satellite capacity from a joint venture in which they may participate.

In a sense, it appears to us, therefore, that the joint venture will provide channels of communication at a wholesale level, and licensed carriers will continue to provide services using these channels in a sense at retail.

I state this merely in order to lay a basis for what I have to say next.

NASA's responsibility in this whole matter is centered primarily upon the development of space technology that is pertinent to the design and the launching and utilization of satellite relays. Accordingly, NASA intends to do everything it can to stimulate and advance the technology of communication satellites so that when the time comes to establish the first operational system for the purpose of providing services to the public, the joint venture which presumably will be licensed to provide that service will have a technological basis for obtaining the best possible equipment and utilizing it in the best possible way in the space environment.

NASA expects to work very closely with the Commission so that NASA's activities in the launch and spacecraft fields will be harmonious with the activities of the Commission in developing the country's communications policy.

The CHAIRMAN. Are there any questions?

Commissioner CRAVEN. I just want to make a statement, that we have had very excellent cooperation with NASA and the Commission up to now, and I am quite certain it will continue.

Commissioner HYDE. I would like some clarification of this premise that there would be a single licensee. Are you speaking of a license of some kind from NASA?

Mr. NUNN. No. I was merely trying to restate in laymen's terms, let us say, what we understand to be the development of the policy pattern by the Commission.

I am assuming there that a license will eventually be granted by this Commission to some identifiable organization for purposes of satellite communications.

The CHAIRMAN. Thank you.

Any other questions?

Thank you.

Now there are some other Government agencies here today as observers. If any of them would care to give us the benefit of their views now, the Commission would entertain them.

Mr. MENTER. I am Martin Menter, General Counsel's Office, Federal Aviation Agency.

We just would like to say that we do appreciate the privilege of observing and being present here. We are very much interested in what may develop, and I rise only to ask that we do be privileged to follow any reports that the ad hoc group may present to the Commission so that we can actually then determine how we may perform our responsibility that may develop in the future.

The CHAIRMAN. Thank you. We will certainly do so.

Mr. PLESENT. I am Stanley Plesent, Deputy General Counsel, U.S. Information Agency.

On behalf of our agency, we, too, would like to express our thanks for having been invited today, to express our hope that we will continue to be invited to participate as this matter moves along, obviously both for the impact abroad on what we do here now and in the future with respect to this plan, and also the possible utilization of the system by the USIA.

Our interest is deep and will be continuing.

Thank you.

The CHAIRMAN. Thank you.

Mr. ALEXANDER. Mr. Chairman, I am Fred Alexander, Director of Telecommunications, Office of Civil and Defense Mobilization.

We wish to express our appreciation for the privilege of being here, and, as the other agencies have indicated, to follow, if we may, in the future the proceedings in which we are deeply interested.

I believe Dr. Welsh of the Space Council is here, too, and he feels likewise, and he would like to speak.

The CHAIRMAN. Dr. Welsh.

Dr. WELSH. I am Dr. Edward C. Welsh, Executive Secretary of the Space Council, the National Aeronautics and Space Council, and I just want to thank you, Mr. Chairman, for the opportunity to participate, and state that the Space Council is interested in the development of an overall policy in this field.

I appreciate the opportunity to be here.

The CHAIRMAN. Thank you, Dr. Welsh.

In general do you feel that—are you able or prepared to state whether the general approach of having a joint venture of the carriers would be consistent with the views of the Space Council?

Dr. WELSH. Well, we are exploring it, and all I can say is that I am very happy you have been able to move along in the coordinated fashion you have. I believe there are still some things to look at as far as the military side and the State Department interest is concerned, as well as the interests, of course, of your Commission.

The CHAIRMAN. Thank you.

I see there are some representatives of some of the congressional committees here, I believe.

Dr. BORCHARDT. I am Dr. Kurt Borchardt, legal counsel of the Interstate and Foreign Commerce Committee of the House of Representatives.

I want to express, on behalf of the committee, our appreciation for having been invited, and, in case legislation should become necessary, we are sure we would like to be informed as to what the problems are.

The CHAIRMAN. Are there any other Government agencies?

Mr. ZAPPLE. I am Nick Zapple of the Senate Commerce Committee. I am communications counsel.

We appreciate the opportunity of being here, and would like to keep informed as the meeting progresses.

Mr. HAMMILL. I am Frank Hammill, counsel for the House Committee on Science and Astronautics.

As you know, we have a lively interest in this subject, and we are about half-way through some hearings which we intend to continue in the not too distant future.

Mr. WENK. I am Edward Wenk, Jr., Senior Specialist, Science and Technology, with the Legislative Reference Service of the Library of Congress. I am here today representing the Senate Aeronautics and Space Sciences Committee as an observer.

I appreciate the invitation.

The CHAIRMAN. Any other Government agencies or Congress?

All right, we will open the meeting at this point to a general discussion.

Mr. Kittner?

Mr. KITTNER. Mr. Chairman, I wonder whether it would be appropriate at this time for the other participants in the meeting to make a brief statement reflecting their views concerning the matter under discussion.

The CHAIRMAN. I think it would, Mr. Kittner, bearing in mind what the Commission stated at the beginning as to anything dealing with the reconsideration of our first report that we have under advisement.

If you want to address yourself to the topics that have been talked about today, we will welcome that.

Mr. KITTNER. Mr. Chairman, we certainly respect the admonition and the agenda here, and within that framework we would like to address the Commission.

The CHAIRMAN. All right, you may proceed then.

Mr. KITTNER. Thank you, sir.

Mr. Chairman, I would, harking to the point just made by you, simply open by thanking you for the opportunity to be here. We do think it is a very important, extremely important matter, and we attach the same importance to it that the Commission and the other parties here attach to the matter.

In view of the statement of the chairman earlier, I think the Commission will indulge me with just a brief statement that our participation, of course, is without prejudice to the position we have previously taken and that we have urged the Commission to consider again in our pending petition for reconsideration.

Certain of those who have spoken earlier—and I think this is entirely proper although technically outside the scope of your agenda—have stated their strong support for the first report and their belief that you did the right thing, and I say respectfully that I hope you will also permit me to at least have the record show that, while we have the greatest consideration for the action taken by the Commission, we do differ fundamentally with the conclusions that you have reached, and we have urged you to reconsider those matters.

In connection with the agenda as you have set it up today, sir—and I want this to be clear on the record—I don't propose to argue the question before you—rather, the question we have raised otherwise—and, so, I am now talking with the reservation I have made with respect to a possible joint venture on the part of international carriers, and I would like to approach it on a slightly different basis than those who have spoken before.

I would like to indicate to you that, assuming the approach that we are discussing here today, that there are certain rather specific and fundamental questions that we believe are raised, are presented, that should be considered by you in connection with this approach, that so far, I think, have not received attention. And, in order to capsule it, I tried to reduce it to a series of questions which I think will make the point as they relate to this question.

For example, how would the joint venture be organized? And what formula would be used to distribute ownership or provide for participation in such a way that domination by any one interest would be prevented?

I think the Department of Justice in their statement just a moment ago emphasized the importance of the domination question, and, so, we ask you, you and the other participants here, we raise the question:

Would it be a separate legal entity, for example? Would ownership be determined by use as certain of the proposals up to now have suggested? And, if you did determine ownership, for example, on the basis of use, taking the year 1960 if statistics are available for that year, or the most recent year, what would be the relative ownership of the participants among the international common carriers if you allocated ownership in connection with use? Would you have a widespread enough distribution of ownership to avoid domination by any one interest?

What maximums or minimums would be imposed on the amount of ownership?

What provision would be made for direct public participation in the new venture?

Would the public have to go out and buy a share of RCA or A.T. & T. stock or whatnot to participate in the venture?

I go to another question, for example.

What would be the timetable for completion of the formation of a true joint venture?

Now I am assuming here, Mr. Chairman and members of the Commission, that when the Commission said joint venture of the international carriers that it was talking about a true joint venture, not one in which a single company, in effect, was it and the others, in effect, were leasing facilities, any way you slice it.

If you have a true joint venture involving the kind of contractual and other relationships that have to be worked out among competing companies, what would be the timetable for this, and would it in fact get going fast or would there be serious problems assuming a true joint venture?

What would be the incentive for carriers other than a dominant carrier, specifically A.T. & T.—I think there is no reason for shying away from initials or names—to invest in the venture if the use is to be opened on an equal, non-discriminatory basis and if they would be in the position of very minority owners with whatever right in running this system that might present. How would decisions be made by this venture if it were a corporate entity or some other kind of entity?

For example, when you came to expansion of the system how would it be determined? Who would vote? And in what relationship would you have voting rights? Would it be a 90-percent, 1-percent, 1-percent, 1-percent arrangement?

Assuming again ownership on the basis of use and taking your most recent figures and statistics into account, when you got ready to make the fundamental decisions with respect to financing, with respect to expansion of the system, with respect even to basic technical decisions, how would it be decided? Who would have the say-so? How much relative say-so would each participant have in making these fundamental decisions?

How would the system be managed? Would they set up a separate management group? Would it be managed by one company and, in effect, have a billing procedure that went to the others saying "You used it so much this year. So send us this much money"?

And on whose books would these assets appear?

I raise the question that was raised, I believe, a moment ago by Commissioner Bartley. If this thing, whatever it is, this joint venture, simply reflects a part of the books of the existing carriers, how would you separate out effectively what was devoted to this venture?

How would you establish rates that took into account an effective knowledge of what this particular venture did?

If it is to be something other than a separate corporation with separate books and with separate ownership and with separate assets, how would you effectively establish rates?

Now, sir, I have as a further question on this: Will all the participants be represented in management on a basis relative to their ownership or control? And I ask again how would that ownership and control be exercised? Will they have stock? What would be the relative percentage of stock?

There has been emphasis here, sir, on the importance of getting ahead, and that is something we have urged and argued at length, and I think our pleadings will show that.

Do you get ahead fastest, or rather, what would this system have in it that would avoid the serious antitrust complications that result from, for example, the kind of statement that the Department of Justice made, and, more im-

portantly, the formal statement in this proceeding by the Department of Justice, signed by the Attorney General of the United States, which said that any system has to have four elements in it. By definition, you have excluded certain of those elements in the venture that we are talking about here.

How within the framework of that kind of consideration could we avoid the serious delay that comes from the kind of uncertainty that we have there?

Now, sir, there has been reference to certain of the important factors, and I think most of them—I think we would agree 100 percent—important factors that have to be taken into account. For example, how would you assure aggressive, total effort in research and development in a system that is limited by its very nature to only the communication carriers?

Commissioner Cross. I'm sorry, Mr. Kittner. Would you repeat that, sir? I don't think I understood that.

Mr. KITTNER. What I am saying is that one of the points urged a moment ago, I believe, by RCA was one of the important considerations here is that there be a total effort in research and development in order to get this thing ahead fastest, to protect U.S. policy, and I think the considerations are very important.

What I am saying, sir, is that within this venture, how would you best assure that if you were talking about a venture that automatically excluded the space side of the picture from any kind of ownership participation?

Commissioner Cross. You mean other than the common carrier?

Mr. KITTNER. Yes, sir.

Commissioner Cross. The fact that the common carrier is owned, the thing wouldn't necessarily limit the research to common carriers, I certainly hope.

Mr. KITTNER. No, sir, but what I am raising is that in terms of the system, not whether that would limit the research to it, but what I am saying is that how would you, within a system that is limited to this kind of ownership, assure the best total research and development?

Commissioner Cross. I see.

Mr. KITTNER. Compared to the opportunities that you have.

Commissioner Cross. Thank you.

Mr. KITTNER. Those, sir, are the questions that we would raise in connection with this venture.

Now I would have to state just one other point which I think is important, and that is that, again in connection with such a venture, I raise with you the question of how far down the road in encouraging this kind of venture the Commission as an agency can properly go without public hearings to amend its rules or to arrive at a more definitive basis when the venture is not one that is open to all of those who want to participate, but open only to a selected group? And that is a question that relates, I think, fairly to the agency you have before you, because, sir, as you go down this road with this kind of venture, without amending your rules you are putting those who may have other viewpoints, such as General Electric, in the position of not being able to effectively urge its view because at some place down the road we have a venture that is being encouraged, that is being put together among a limited group of participants without a change in your rules, and then if 6 months from now we come in and say this is something you ought to designate for hearing because, as we told you before, we don't agree with it, we are in a position almost of being disloyal.

This is an important and vital matter. There is national policy involved. We think if there is going to be a slicing of the possible participants, that now is the time for whatever formal hearing you ought to have rather than 6 months from now when, in effect, you are presented with a package and in a position to be told that we are effectively stopping the progress of the United States in the space race.

We wouldn't relish being in that position, sir, and I think no other entity would.

So, in view of the decisions that led to this meeting and in view of the limitations that are imposed, I would urge seriously, sir, that there is a need for reexamination of the procedures involved in order to at least amend your rules if those who want to participate and have some contribution to make—in other words, if all of those who filed in this proceeding and indicated a willingness to participate—are not to be permitted to participate.

That, sir, concludes my statement with respect to the matter.

The CHAIRMAN. Thank you.

Commissioner Craven. As I understand it, you suggest the possible participation by the public in this satellite communication system.

Mr. KITTNER. Yes, sir.

Commissioner CRAVEN. Would that not imply that the joint venture would have to be a separate corporation and that it would not be a nonprofit organization?

Mr. KITTNER. That would imply, sir—we believe strongly that it would and should be a separate corporation, that it would and should be a profit corporation, with a footnote, sir, that, any way you slice it, it is going to be a profit one way or the other because the carrier is ultimately going to set its rates and what-not in a way that assures a fair return on what is involved. So the rate would be set by you as a commission. It would be a joint venture with a corporate setup or without a corporate setup. You would certainly have the elements more clearly before you with a corporate setup.

Commissioner CRAVEN. Is there a possibility that such an operation would ultimately mean higher rates than otherwise might be necessary?

Mr. KITTNER. No, sir; I don't believe so at all because you, as a commission, would have full authority to establish the rates on the basis of the traditional rate common carrier concepts, whichever way it went, whether it was corporate or otherwise, and it is our argument that you separate it out in a separate corporation and you will be a lot better able to put your finger on what it is costing for this international or global part of the hop, and see to it that the public receives the savings that come from it than it will be if you have to fish the elements out of an accounting system of a large common carrier.

We think, as a matter of fact, this approach means more clearly reducible rates to the public if it is set up in this fashion. You will know what you are dealing with precisely.

Commissioner CRAVEN. That is all.

The PRESIDING EXAMINER. Thank you, Mr. Kittner.

Mr. BROPHY. Mr. Chairman.

The CHAIRMAN. I think Mr. Porter was up first.

Do you want to be heard?

Mr. PORTER. Just a brief statement, Mr. Chairman.

STATEMENT ON BEHALF OF AMERICAN SECURITIES CORP., BY PAUL A. PORTER

Mr. PORTER. I wish the record to reflect the interest of American Securities in this proceeding. As the Commission knows, the American Securities Corp. is in the process of acquiring the Western Union cable system. That matter is currently pending before the Commission and we do not want to be left under water when the time comes that everyone else's eyes are raised to the skies and international communications are in orbit.

We, therefore, take the position that we not only have standing and status in this matter, but request and want the record to reflect that we request representation on any ad hoc committee that may be created as a result of this or subsequent meetings.

The CHAIRMAN. Thank you, Mr. Porter.

Any questions?

Commissioner CRAVEN. Just one question.

Are you making progress?

Mr. PORTER. Well, I would say, Commissioner Craven, we are not advancing back.

The CHAIRMAN. Still under the water?

Mr. PORTER. We are still under water, but we think some progress is still being made.

Mr. BROPHY. Mr. Chairman, I would like an opportunity to make some remarks on behalf of the General Telephone & Electronics Corp., if I may.

The PRESIDING EXAMINER. Yes, sir.

STATEMENT ON BEHALF OF GENERAL TELEPHONE & ELECTRONICS CORP., BY THEODORE F. BROPHY

Mr. BROPHY. We appreciate the opportunity of attending your meeting today. The General Telephone system, in addition to serving over 4 million telephones in the United States through wholly owned subsidiaries, is now operating international circuits from the Dominican Republic to the United States, the Dominican Republic to Puerto Rico, and from Haiti to the United States.

The Philippine Long-Distance Telephone Co., which is an affiliate of the General Telephone Corp. in which we have a minority interest but which we have management control of, operates 40 circuits from Manila to Oakland, Calif. In

addition to these circuits which are unquestionably of international nature, we have a subsidiary which operates a substantial part of the telephone system in British Columbia, Canada, and are in the process of expanding our existing communications facilities between the State of Alaska and British Columbia.

We have spent considerable time in conducting technical studies of satellite communication systems and are prepared to make contributions, we believe, of both a technical and monetary nature to space communications.

So far as the meeting today is concerned, we believe that the first important question that the Commission has to determine is the objectives and characteristics of an operable common carrier satellite communication system, and, as you have suggested, Mr. Chairman, we believe it should have global coverage with a multiple-access feature, that it should be within the economic reach of all countries, that it should be acceptable to ITU and the remainder of the world, that it should be as economic as possible on frequency allocations since the ultimate expandability of the system will depend to a large extent upon the availability of frequencies.

We believe it should permit economical communication between both low-density traffic areas and the high-density areas; that it should be capable of expansion without interruption and expansion without substantial modification of the initial capital investment.

We also believe that in determining the ultimate ownership and operation of the system, the Commission should have in mind the fact that the system will not be a system which will only replace cable but will join points that are not presently served by any U.S. international common carriers, and that this is an important feature that should be taken into consideration not only in the technical aspects of the system but also in the ownership and operation features.

Because of our interest, because of our present operations in the international area, we would like an opportunity to continue to participate in hearings and discussion groups so that we may contribute our ideas on the subject.

Thank you.

The CHAIRMAN. Thank you, Mr. Brophy.

Any questions?

All right.

STATEMENT ON BEHALF OF LOCKHEED AIRCRAFT CORP., BY BEARDSLEY GRAHAM

Mr. GRAHAM. I am Beardsley Graham, Lockheed Aircraft Corp., special assistant for communications satellites.

Lockheed appreciates the opportunity to appear here today and make a few short remarks.

I would just remind you that some time back, 1½ years ago, Lockheed came to the conclusion that the problem were primarily nontechnical, that space technology especially was coming along very rapidly. As a result of that conclusion, last fall and beginning the first of this year, in January, we presented our notions to various groups, including the common carriers, and sought their participation in a joint venture study group.

RCA and General Telephone & Electronics elected to join this group, and we have had some experience in discovering ways in which a joint venture can be structured through such a joint group.

As you also know, in our company comments in 14024 Lockheed has taken the position that if the common carriers will indeed proceed with the creation of a joint venture for conducting their business, Lockheed will not seek an ownership position. Such a position has always been considered secondary by us.

Our desire is to participate in the elevation of the communications hardware.

Now we are very much interested, of course, in the ad hoc committee which has been suggested. We believe also it is the only way in which such a joint venture can be gotten off the ground, and our particular concern is that at the beginning of this joint venture, the technological resources of those who are best qualified in the satellite business be included. We do not think that it can be accomplished most successfully and you cannot bring to bear upon the problem all the know-how available in United States industry unless this early participation is accomplished.

I would remind you that one thing that we discovered in our studies in the joint venture group which we have had underway now since January is that it is extremely difficult to separate the business structure from the operational structure, and I think that in today's systems this is something with which we are all familiar.

The way in which the system operates will inevitably affect the way in which it is structured for business and regulatory purposes.

That is all.

The CHAIRMAN. Thank you.

Any questions?

Commissioner CRAVEN. I would like to ask one question.

You suggest that participation by your company and others in the initial go-around in the committee of industry?

Mr. GRAHAM. That is right.

Commissioner CRAVEN. Would that be on a voting basis or advisory basis?

Mr. GRAHAM. In our initial proposals they would be the results of concluding that the best structure from a business regulatory and legal point of view would be a joint venture by common carriers and hardware companies. This would be on an ownership basis.

We have concluded subsequently that if the common carriers will proceed immediately with the creation of such a system, that we are content to provide our services through competitive procedures.

Commissioner CRAVEN. I don't think you understood my question. I am talking about this joint committee that is being established to study the nature of a joint venture. As I understood you, you wanted to participate in the early discussions.

Mr. GRAHAM. No. I said we believe that it is important that the know-how in industry be available in those early discussions. I think this is complicated by the fact that the common carriers all have large hardware organizations associated with them. We don't think it should be invented from scratch.

Commissioner CRAVEN. In other words, your advice should be sought by the common carriers very early in the game?

Mr. GRAHAM. Yes, this is true, and it has been sought by RCA and General Telephone in the joint venture discussions which we have had to date.

The CHAIRMAN. Do you think the way it should be sought is through competitive negotiation on the acquisition of hardware? I want to be sure I understand the —

Mr. GRAHAM. Are you talking about participation today or in the early studies of the ad hoc group?

The CHAIRMAN. Let us say an ad hoc committee is formed, and now they are getting down to the business of deciding what actually to do. How do you think this Commission could best protect those who are not part of the carriers, who are in the hardware business? What would be the mechanics as you see it?

Mr. GRAHAM. Well, it is our view that participation by the hardware industry in the ad hoc committee would bring to bear the major amounts of know-how.

Now whether you can get industry to participate in that committee for free without some implications of future participation I can't answer that.

PRESIDING EXAMINER. Any other questions?

Thank you.

Is there anyone else who would like to speak at this time?

I wonder then if we could now hear—if there are any specific proposals from the carriers. We have heard from you all now in general terms about your willingness to participate as to a specific suggestion, as to how you would like to take the first step.

Don't be bashful.

Well, to put my question more specifically, do you want the Commission to call you together, or would you like to take some steps on your own?

What we would like to do is give you some guidance, and we would like to find out what you think is the most expeditious way to proceed.

Mr. HARTMAN. Mr. Chairman, my thought would be that, assuming that we are from an antitrust standpoint free to meet, that the committee should be appointed by the Commission, at the least the companies to participate should be appointed by the Commission, and that it would be desirable for a Commission member, at least a staff member and the Department of Justice member, to sit in on it.

The CHAIRMAN. That is the reason I asked while the Department of Justice is here; before we take any further action, if you will give us a view as to specific participation by the Department or the Commission in a meeting of the committee.

Mr. JAMES. I think initially it would be helpful at least if the Department of Justice and the Commission both participated. What the form of that participa-

tion would be and how it would be carried out I don't know. We haven't gone into that.

Commissioner LEE. Mr. Chairman, may I ask a question.

I am familiar with the general guidelines that the Department of Justice has put out with respect to industry committees. That is, the chairmanship and so on.

Do you feel that adherence to those principles from an antitrust standpoint would satisfy the Department of Justice?

Mr. JAMES. I think that that is a good place to start. I think we want to study this more and work with the Commission in establishing guidelines that should be followed here.

Commissioner LEE. As I understood that directive, it was a matter of policy guidance rather than a specific requirement. Isn't that right?

Mr. JAMES. I think that is right; yes.

Commissioner LEE. Thank you.

The CHAIRMAN. Mr. Porter?

Mr. PORTER. I have a brief suggestion, Mr. Chairman.

Assuming the status and standing of the American Securities Corp.—and I think you must recognize it—we would prefer as a matter of law that the committee be selected by the Commission with appropriate clearances from the Department as may be necessary. And, further, I would suggest that it might be helpful if the Commission would also, through its staff, prepare the agenda for such meetings in addition to designating the personnel and perhaps, in order to get the thing off the lurching pad, put certain deadlines or targets or time tables in. Our people feel that is a feasible and practicable solution. I offer it for consideration.

The CHAIRMAN. Thank you, Mr. Porter.

Mr. Brophy?

Mr. BROPHY. Mr. Chairman, we would agree that the first thing the Commission should do is establish the objectives as I believe you outlined them this morning so that there would be guidance for the committee which you appoint. We also believe that the determination of ownership which has been, as we understand it, only suggested in your first report, is an important ultimate determination to make in order to get the greatest amount of effort from the parties who will ultimately be involved.

So it would be our suggestion, first, that the objectives and characteristics of the system should be determined by the Commission as the guidelines for the joint industry committee.

We would suggest that, as Mr. Beardsley Graham of Lockheed has pointed out, based on these objectives, consideration be given to the possible communications systems that might be used since this again, may be important in determining the ownership and operation. It should be a matter for early discussion on the agenda.

We believe that once these have been discussed, as I said before, the determination of ownership under the auspices of the Commission and the Department of Justice is important if real progress is to be made.

Commissioner CRAVEN. I would like to ask one question of the gentleman who just spoke.

Do you mean that the Commission—are you asking the Commission at this time to make a determination of what system seems to be best?

Mr. BROPHY. We don't believe that you can determine necessarily the ultimate system in technical detail, Commissioner Craven, but we do believe that once the objectives are outlined and the various proposed systems that have been covered in testimony before this Commission are laid down beside the objectives and characteristics, that one of the technical systems may appear to be more appropriate to accomplish the objectives than the others.

Commissioner CRAVEN. Well, don't you think that is premature?

I don't mean stating the objectives but aren't we supposed to have some experimentation first?

Mr. BROPHY. Yes. I believe that this should go along concurrently. But, since the form of the organization may depend to some extent upon the technical approach that is taken, we believe that this is something that should be given early consideration.

Commissioner CRAVEN. Thank you.

The CHAIRMAN. Well, one matter which should be in the record: We still have before us a petition for reconsideration of the first report.

I think at this time the Commission will take a recess for about 10 or 15 minutes, and we will come back here and give you some guidance as to the next steps.

Mr. Kittner?

Mr. KITTNER. Mr. Chairman, if the recess is for the purposes of deliberation in order to give guidance, I would appreciate being heard in connection with this matter of the committee prior to your going out. Or is it simply a recess after which we will resume discussions? Then, certainly, I have no objection to a recess.

The CHAIRMAN. I think you might proceed for a few minutes on this if you would like.

Mr. KITTNER. I apologize for being in the position of having to delay the recess, but we have two points we would like to make. One is one that you have been good enough to make for me.

You mentioned the fact that there is still pending a petition for reconsideration. Second, if there is an ad hoc committee created which is a governmentally sponsored and participated in committee, then we would want the right to participate in that committee.

We don't assert the carriers, within whatever proper legal limitations there are, can't talk among themselves. But if this is something to be formally sponsored and, in effect, be given impetus by the Commission, we would like an opportunity to participate.

The next point I would like to make, sir, is that, having listened, before you decide on what the committee structure ought to be and what its purpose ought to be and how it should go about its work, certainly in this group of carriers, particularly the American Telephone & Telegraph, there has been some serious consideration as to what this venture would look to, who would participate, how the participation would work, whether it would be on a use basis, whether it should be a separate corporate entity, and I would feel within the scope of the agenda you have outlined today, while those of us are here who may or may not be operating under limitations in the future, we are not in a position to effectively determine what the most constructive course might be on our part unless we hear something more specific than just a general suggestion that people are willing to participate. And, so I would request the Commission to ask of the carriers—and I would mention particularly the A.T. & T.—that they state with some degree of specificity at least what their present thinking is with respect to the participation, the nature of the entity, so that we can have something in some detail to work with and to consider.

Thank you, sir.

The CHAIRMAN. I think, Mr. Kittner, in response to that, the Commission would regard that as being the next step. I don't think we feel we have gotten to that particular point in our thinking here, but we will bear that very much in mind.

All right, we will take a recess for about 15 minutes.

(At this point a brief recess was taken, after which the hearing was resumed.)

The CHAIRMAN. Gentlemen, the Commission would like to thank each of you, both from private industry and from Government, for coming to our meeting today. The Commission has found it to be a most helpful one, filled with many constructive and fundamental points.

All of us here share the most urgent concern that the objective of achieving a communication satellite system in the public interest as quickly as possible will be done.

Now, we have before us, as you know, a petition for reconsideration which raises some fundamental questions. We will act upon it expeditiously, consistent with our procedures, and we will also consider the significant statements of policy of this morning.

We are aware of the need for vigorous action, and we assure you that a further Commission order as contemplated in our first report will be issued as soon as possible contingent upon our action in facing the petition for reconsideration.

I should also like to add, in closing, that the transcript of this morning will be available to all of you. There have been numerous inquires from the press, and the Commission has decided to make it available to the press. But, if any of you want copies of the transcript, you may order them directly.

So again I say in closing we thank you, and there will be a further Commission order forthcoming contingent upon our decision on the petition for reconsideration.

Thank you so much.

(Whereupon, at 11:55 a.m., the hearing was concluded.)

NATIONS UNDER AGREEMENT

Senator YOUNG. May I ask what nations you have worked out agreements with? Russia, for example?

Mr. CRAVEN. At the present time we have been in consultation with Great Britain, France, Germany and Japan—rather NASA has—with respect to the development of a research program, or research tests.

Senator YOUNG. Do you have any cooperative arrangements worked out with Russia on satellites?

Mr. CRAVEN. We have not approached Russia as yet.

Senator ALLOTT. Do you intend to?

Mr. CRAVEN. Well, I cannot answer that at the moment. It depends on a great deal on our own development. We are not quite ready to approach that. In my own opinion, it is going to be absolutely necessary to establish communication between this country and the U.S.S.R. as well as other Iron Curtain nations.

Senator MAGNUSON. We are hopeful there are countries involved, of which Russia would naturally be one, and the satellite countries in the Russian bloc, would all be in on it.

Mr. CRAVEN. The U.S.S.R. will be in this 1963 conference, and we hope to try to persuade them that perhaps our system is as good as any in the world. We hope to demonstrate before 1963 a transitional system in which we can demonstrate the technical capabilities and feasibility of the system which we would suggest.

INTERNATIONAL TELEVISION

Senator ALLOTT. Mr. Craven, at this point, you have referred to this constantly as a communications system. Do you include in your thoughts, or within the concept of that term, international television?

Mr. CRAVEN. At the beginning television will be by relay. There are several practical aspects for television direct to the homes of other nations. That is a great many years off if it ever does come for the simple reason that different nations of the world now have different standards in their home receivers than we do, different systems of television than we do, and the cost of providing that television, due to the time difference, will be great. And I visualize that someday in the very near future high altitude jets, along with film recordings and so forth, or tape recordings, will be the cheaper way of doing this, direct, through the broadcast stations of other nations.

Senator ALLOTT. But it can be done?

Mr. CRAVEN. There is nothing impossible in the realm of science, it is how practical it is and if you have the money.

Senator ALLOTT. And just so that I understand your answer, as I understand it you have not precluded consideration of television at this time?

Mr. CRAVEN. No—

Senator ALLOTT. You feel—and I may be wrong, I am trying to put this in my own words so that I know what we are saying—you feel that this is off in the future some time, some considerable time, primarily because of economic feasibility, not only from the cost to ourselves but from the different systems that are used in the different countries? Is this correct?

Mr. CRAVEN. That is right. And as an engineer with a good many years' experience and some bitter closed mind instances in my youth, I know that anything is possible from a scientific standpoint if you have the money.

Senator MAGNUSON. Well, if everyone in the world had the same type of receiving set this could be done?

Mr. CRAVEN. It could be done, yes, sir. But it requires a very large, heavy satellite, and it requires a good deal of power in the satellite itself or, on the other hand, requires a very expensive procedure. But I know that it is possible.

Senator MAGNUSON. Yes.

Senator YOUNG. May I ask this question: If the Russians develop one system and we another, would there be interference in the air in receiving?

Mr. CRAVEN. There could be interference in the air. That would depend upon the action of the 1963 conference with respect to the allocations themselves. We have been anticipating possibilities of that sort.

U.S. TRIAL SYSTEM POSSIBLE BY 1963

But one thing that I think remains hopeful for us is that from a technological-electronic standpoint, we have a little advantage, and we can demonstrate a nucleus system, what we call a trial system, before 1963 which will convince all the other countries—all the other governments in the ITU that our system is a flexible one and a workable one and practical one. It is possible that U.S.S.R. today, with their high-booster power, could put in an "uneducated" satellite from a radio-electronic standpoint, but they still will have to demonstrate to the rest of the world with whom they desire to communicate that it is worthwhile. This takes two ends of the line. I cannot say that I am going to communicate with you unless you agree to establish facilities to communicate with me. That is true not only of us, but it is true of the U.S.S.R.

Senator YOUNG. What I am trying to get at is, if they had one type of system and we another, would there be a conflict, would either one be able to operate successfully without interference in space?

Mr. CRAVEN. I doubt it. But based upon my experience with the Communications Administration of the U.S.S.R., we did not have such great difficulty with them at the Geneva Conference. When they want to communicate with someone they are agreeable. I do not know whether this should be on the record or not.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

JOINT VENTURE

Senator ALLOTT. Mr. Craven, before we proceed, not to get too far away from your own comments, you spoke about establishing a joint venture. Now as I understand your remarks, this means joint in the sense of NASA and other Government agencies and also—well Chairman Minow is shaking his head at me but I will finish my question anyway—and joint with private firms who are developing it. Is this true or not?

Mr. CRAVEN. No, sir; it is not. It is my understanding that this is a joint venture of private entities such as the A.T. & T., the RCA, and several other international communications common carriers.

Senator ALLOTT. So it is joint in the sense that it is private enterprise?

Mr. CRAVEN. Yes, sir. Of course it is going to be under the general supervision and monitoring of the Government in its formation, to be certain that it is compatible with the antitrust statutes. And we have certain requirements at the present time which are spelled out that the joint venture must assure equitable access on a reasonable basis to the use of the satellites and the satellite system.

INTERNATIONAL CONTROLS

Senator ALLOTT. Now you have answered that and let me ask you this further question. What do you envision—and I am looking toward the long-term control of this—a sort of joint commission with these countries you previously mentioned, or the Chairman has mentioned, to control the use of this as sort of an international FCC, or what?

Mr. CRAVEN. No, sir; I do not. I expect the same principles that have been followed during the past several years, and in which we have negotiated treaties which set forth the rights of use and things of that sort will continue to be done. The machinery is already set up, I think, insofar as the communications is concerned.

There is one thing I wanted to make clear.

Senator ALLOTT. Well let's not leave this for just a minute, Mr. Craven, if you do not mind. You say the machinery has been set up. Now this is the machinery by which you have already negotiated with the other countries on this matter?

Mr. CRAVEN. Not on this matter, but on communication matters.

Senator ALLOTT. On communication matters generally?

Mr. CRAVEN. That is right.

Senator ALLOTT. Now any agreements, or any control of this, as of the present state of thinking, would be entirely upon the basis of bilateral or multilateral treaties or agreements with the countries involved?

Mr. CRAVEN. Such as the International Radio Conference of 1959, which is now pending before the Senate, for ratification and which was preceded by several other international radio conventions or treaties. Insofar as the art is concerned, this is merely another communications system.

GENEVA CONFERENCE RECOGNITION OF PEACEFUL USE

Now in that connection, we are assuming that inasmuch as these satellites are for peaceful purposes, there will be no objection whatsoever with respect to their use in orbiting. It has already been recognized, I think, in the International Conference of 1959 at Geneva that the concept of satellite communications is recognized as a useful peaceful means of communication between all nations of the world. And I take that as a legal precedent.

Senator MAGNUSON. Of course if some trouble came up they would shoot it down. If a country did not want it up there, it could shoot it down, couldn't it?

Mr. CRAVEN. I guess it could. I do not know very much about shooting.

Senator MAGNUSON. Well, they can shoot them down. I do not know about jamming and things of that sort, but I suppose that is possible.

Mr. CRAVEN. Some of the systems are susceptible to jamming.

Mr. MINOW. One of the big problems is that no one knows how long the satellite will last. And when they die, or expire, one of the great problems anticipated is how to clean them all out when they are no longer useful but are still orbiting around.

PRINCIPAL MANAGEMENT ORGANIZATION

Senator MAGNUSON. Yes. Now let me ask you this question. With this development, with all these private companies proceeding in this matter, and you have suggested a joint effort, it has been my experience with the highly competitive groups that are involved here that there is not going to be much of a joint effort unless you appoint some kind of a prime manager or something to bring them all in under certain agreements. Who is going to take the lead, A.T. & T., RCA, General Electric, Lockheed, or who?

Mr. CRAVEN. In the formation of this joint venture, at the beginning, it is my contemplation that the initial organization of it would be under the auspices of the FCC and the Department of Justice. We will not approve of anything which is considered to be contrary to the spirit of the antitrust statutes.

I have discussed this thing informally with several of the people involved, and I do not see any great problem in getting rid of what I am going to call domination by a single company.

REGULATION PRIME NECESSITY

Senator MAGNUSON. Because no matter how they get together, or how this is worked out, I do not think we can envision anything but regulation by the FCC. Therefore, they would have to come in, get together and come in with a proper kind of program.

Mr. CRAVEN. I think it has been made clear and everyone understands that. That is part of the law at the present time.

In addition to that, we think the FCC will have to pass upon some of the technical characteristics which are proposed. Because that results in international negotiation.

Senator MAGNUSON. Of course I have had two or three of the companies come in, at least one of them, and suggest to me that they were hopeful they could handle the thing because they were already regulated.

Mr. CRAVEN. I think I know who you are talking about. They have a petition for reconsideration before the Commission which will be disposed of no later than after June 19.

Senator MAGNUSON. Well, they said they are regulated now and therefore they knew about regulation.

Mr. MINOW. To be precise, and to explain where we are in our proceedings, we issued a first report and order saying, and it was unanimous, that the joint venture should be limited only to the international carriers. Some companies that are not carriers, principally General Electric, filed a petition for reconsideration of our order saying that it should not be limited only to carriers, but that anyone should be free to join. This is pending before us now and we have not decided that yet.

PREPARATION FOR 1963 CONVENTION

Senator MAGNUSON. Well, we won't go into that because you have the matter before you.

Now am I to understand that we all have this problem here, not only the Commission, the Congress, and our Government and the other nations involved, that we have to be ready for the 1963 convention?

Mr. MINOW. It is essential.

Senator MAGNUSON. And that we ought to have, you should have, sufficient funds down there, or sufficient staff within your section, or even additional, so that we will go to this conference as well prepared as is possible.

Mr. CRAVEN. I would like to address myself to that, Mr. Chairman.

As the chairman has indicated, the Commission has honored me by designating me to be sort of a "spearhead" to get this thing going. We have drawn our team from the various bureaus of the Commission, the General Counsel's Office, the Common Carrier Bureau, from the Chief Engineer's Office, and others. These gentlemen—they think I am pretty much of a slave driver—have been working nights. We need help.

Senator ALLOTT. Is that unusual?

FCC SPACE TEAM

Mr. CRAVEN. It is not unusual down at the Commission.

Mr. MINOW. Not at all. However, it is unusual in that we have what we call a space team, which is composed of members of the different bureaus involved, but believe me, we have a mighty thin staff for the magnitude of the job.

Senator BRIDGES. How closely do you work with the space agencies?

Mr. MINOW. We have a day-to-day basis relationship with them. Commissioner Craven is in very close touch with them.

Mr. CRAVEN. I received a call this morning and they said they wanted a conference this morning.

Senator MAGNUSON. And they have a memorandum of agreement between them and they are working very close together.

STAFF FOR SATELLITE COMMUNICATION WORK

Senator BRIDGES. Do you have people assigned from your staff, and do they have people similarly assigned, or what is the relationship?

Mr. CRAVEN. Yes, we do have a liaison. I am liaison between the head, and we have two people on our side go to corresponding people over there, one on the legal aspects and the other on engineering aspects.

Mr. MINOW. Right. And at the management level Commissioner Craven and I have met with Mr. Webb and discussed this numerous times.

Mr. FORD. Mr. Chairman, it seems to me that it should be made clear that we do not have a staff division or staff section or anything of that sort set up for space alone because of the newness of the thing and limitations of personnel. We have just had to draw from every place and take employees off of other work and put them on this. But we do not have a special staff section on this, and it is something we will have to provide for.

NEED FOR AUGMENTED ATTENTION OF STAFF

Senator MAGNUSON. I do not like to advise anyone on their organizational work down there, but it seems to me that some of these people who have been doing this with their other work, that as we get nearer to 1963 they should be drawn out and this should be their specialized work.

Mr. MINOW. This would be my view, Mr. Chairman. Commissioner Ford, as you know, was chairman when our budget was prepared and will tell you that no one anticipated the speed with which this problem would be coming upon us, and it was not contemplated when our budget was prepared. Is that right?

Mr. FORD. That is right. I think if we had known—Commissioner Craven a time or two has made a speech and has had to rewrite it because things develop so fast in this field. If we had known 6 or 8 months ago what we know now, as to the speed of development, I am certain, as the chairman just told you, we would have come up probably with a program to set up a separate unit in our budget for this year.

REQUEST FOR PLAN OF STAFF

Senator MAGNUSON. Well if the committee members have no objection, I wish you would give us a plan, for the record, of this sort of thing because we are getting closer, and I know that the Russians will be there prepared. There will be no question about that. And I think it is very vital what country, or what group, controls, or will have at least equal control of this thing 4 or 5 years from now. It is going to be quite an important thing to us. Well, it is obvious how important communication is in time of trouble.

Mr. MINOW. We will be pleased to do that, Mr. Chairman, and we will do it very promptly.

(The information referred to follows:)

As requested by the Independent Offices Subcommittee of the Senate Appropriations Committee, there is set forth, hereinafter, the additional appropriations that would be required by the Federal Communications Commission to cope with satellite communications workload which has come sharply into focus during the recent months.

The Commission has been considering how its organization could best be modified so as to provide the most effective promotion of satellite communications and to deal with the many common carrier regulatory problems which will continue to arise. While it is expected that a more definite organization will evolve following some experience in this field, it would be desirable to establish initially a separate Satellite Communications Branch in the International Division of the Common Carrier Bureau in order to augment the present staff now working on existing forms of international communications, including ocean cable and oversea radio. It would also be necessary to add several engineers and attorneys in the Office of Chief Engineer and Office of General Counsel, respectively, so as to deal effectively with the related and coordinated satellite activities in those two offices.

Such a strengthening of organization would provide the manpower so sorely needed to deal with the many problems associated with the beginnings of satellite communications. Also, with such an additional core of personnel it will be possible to develop the proper working relations with foreign governments and to prepare adequately for forthcoming international conferences so that the United States will be in a position to present its views effectively and forcefully. The added staff would also enable the Commission to coordinate the many satellite activities with other governmental agencies who are also concerned with the problem.

Additional requirements, fiscal 1962, for satellite communications

	Positions	Amount
Personnel compensation:		
Common Carrier Bureau.....	12	\$111,030
Office of Chief Engineer.....	3	26,885
Office of General Counsel.....	3	26,885
Total, personnel compensation.....		164,800
Personnel benefits.....		12,000
Travel.....		35,000
Other obligations.....		22,700
Total.....		234,500

Senator MAGNUSON. I think you can start slowly, but I think you ought to be moving toward this thing.

Mr. FORD. Through the developments in the ad hoc committee we have set up, I think we have gone as far and as fast in that area as we can at this point.

Senator MAGNUSON. Now I understand, without going into the facts of the case, that you are moving, Mr. Chairman, on making a decision in this particular matter, getting them together—

Mr. MINOW. We regard this as the No. 1 priority item on our agenda. Every day, as far as we are concerned, is precious. We all think this is the most important work we have.

EFFECT OF HOUSE ALLOWANCE

Senator MAGNUSON. Now if we accepted the House cut on your budget, it would have to be spread through the whole organization in salaries and expense, or is there any one particular way that you would handle that?

Mr. MINOW. Well, it is, from our point of view, even more discouraging because when the house passed its appropriation the thought was they would give us 50 more people. However, I am advised by our staff that in order to get the kind of people we need, and these are technical jobs and professional people, the best we can do is get 38 people. With this we cannot keep up with the load and the problems that face us.

Senator MAGNUSON. Well the House committee allowed 20 additional people for the Broadcast Bureau.

Mr. MINOW. Right.

Senator MAGNUSON. And the present budget called for 24 additional jobs. Now, it has always been my opinion that when you talk about adding people for the varied amount of work that you do down there, you should not pinpoint where you are going to use them. You might need five here or four there, or vice versa.

NEED FOR FLEXIBILITY IN PERSONNEL PLACEMENT

Mr. MINOW. I would urge that we be given as much flexibility as possible in that. As you know, we are fortunate in having at our side of the table today your old counsel of your committee, and if you want to hear from Kenneth Cox about the problems of the Broadcast Bureau—

Senator MAGNUSON. I think, generally speaking in that particular case, that although he handles the Broadcast Bureau and he would like to have the 20 people, if you are going to add people you should have flexibility to put them where you think they are needed.

Mr. MINOW. Exactly. There are more and more users of the non-broadcast frequencies every day. Business has found this to be a highly desirable and economical way to communicate. We have hundreds of thousands of applications passing through there every year. And the present plan will let us add 10 people. Compared with the larger agencies and bigger budgets you deal with here, this, I am sure seems very minor, but to us even a few people is a matter of grave concern.

Senator MAGNUSON. Now your budget is \$1 million less than last year.

Mr. MINOW. That is because of our UHF testing, sir.

Senator MAGNUSON. Yes; but it is still down.

Mr. MINOW. They asked us to add three hearing examiners—

SAFETY AND SPECIAL RADIO SERVICES WORKLOAD

Senator MAGNUSON. Let me ask you, on safety and special radio services, I do not suppose there is a Member of the Senate or of the Congress who has not, some time or other and sometimes quite often, gotten a quick call from some business organization, some farm group, some police department, or fire department or fishermen—I get the fishermen all the time—as to why can't the Commission act promptly on an application in this field, the season is coming on and all this. Now everyone gets that. Even the other departments, the Forest Service and things of that kind.

How are you coming down there since you have been in on expediting these applications, or is this getting more bogged down?

Mr. MINOW. I fear to say I think we are not quite holding our own; it is probably a little worse.

Mr. Plummer is here and can speak on this.

Senator MAGNUSON. Tell us, Mr. Plummer.

BACKLOG

Mr. PLUMMER. We are running about an average of an 8 week backlog at the moment. When I say average, we deliberately treat some service differently than others. We give better service, faster service, to aviation, marine, and public safety.

Senator ALLOTT. Will public safety include police?

Mr. PLUMMER. Police, fire, highway maintenance, anything to do with municipalities and States. Whereas, in citizens radio, amateur radio, we let the backlogs pile up. The others are in between. But it averages out about 8 weeks' backlog at the moment.

Mr. MINOW. How many did you have this year?

Mr. PLUMMER. We are running at the rate of about 400,000 licenses a year at the present moment.

BILL RELATIVE TO RENEWALS

Senator MAGNUSON. That is quite a few. Now we have a bill pending up on the Senate floor which will cut down that 30 days in which you can act on renewals. Will that be helpful in the expedition of this?

Mr. PLUMMER. Well that is more of a convenience. There is some help. At the present moment, as a processing matter, we have to segregate these out and pile them up and wait until that particular day, whereas if that bill is passed we could process them when they come in. It would be a little help.

Senator MAGNUSON. Sometimes they would not have to appear twice.

Mr. PLUMMER. It would get rid of a sort of process, let us say, where we have to sort them, pile them and wait until that date comes along.

Senator MAGNUSON. Is that primarily manpower that is your problem?

SEASONAL CHARACTERISTICS

Mr. PLUMMER. Well at the present moment the theory of this budget is to run with a backlog because of our seasonal characteristics. You mentioned it a while ago, that in the spring everyone wants a radio for their boat, and the firemen and so on, whereas in December the number of applications drops off. So this budget is based on running somewhere in the vicinity of a 10-week backlog at the end of next fiscal year. And that is the peak backlog.

Mr. MINOW. To get good help to conduct a lot of this work we set up an office in Gettysburg and they do turn out a lot of this work.

Mr. PLUMMER. It is largely a clerical operation and we have difficulty getting clerks. But we can get them in Gettysburg.

Senator MAGNUSON. Yes. Because a lot of this work does not have to be done right here in Washington, it can be dispersed a little bit.

ADDITIONAL JOBS FOR 1962

Now there was one other thing I was going to ask. You anticipated 50 additional jobs. Am I correct in that?

Mr. MINOW. That is right, Mr. Chairman.

Senator MAGNUSON. And when you look at the House budget, or the House report, you end up with how many?

Mr. MINOW. Thirty-eight.

Senator MAGNUSON. So you are thinking in terms of 12 more with some flexibility in the 20 additional?

Mr. MINOW. That is right.

Senator MAGNUSON. And of course you will probably use a lot of those in the Broadcast Bureau anyway, but you want to move them around?

Mr. MINOW. We would like to be able to move them where we need them.

Senator MAGNUSON. That is right. I have no further questions. Senator Allott.

Senator ALLOTT. Mr. Chairman, I have two matters I would like to go into.

Senator MAGNUSON. I have a lot of questions I would like to ask the FCC, but I think that maybe the Appropriations Committee is not the place. We will catch them upstairs once in a while.

Mr. MINOW. We are going to be there June 28, Mr. Chairman.

Senator ALLOTT. Some of these I will probably touch on.

Senator MAGNUSON. That is all right, you people can do it here. I have been doing it for so long now I know the answers.

Senator ALLOTT. Mr. Chairman, you are acquainted, and I am sure have read, the report of the Senate Appropriations Committee last year on the FCC?

Mr. MINOW. Yes, sir.

INVESTIGATION OF BROADCAST STATIONS

Senator ALLOTT. Mr. Chairman, this is just a short thing on page 5 and I would like to put this in the record.

... the committee recommends restoration of \$200,000 to provide a total amount of \$13,135,000, which is \$365,000 below the budget estimate, as well as an increase in travel limitation of \$28,000 to provide a total of \$172,000. This restoration is for the purpose of enlarging the activity of investigations of stations as to technical and legal requirements, and the committee directs that in no way are such funds to be utilized in any function remotely approaching censorship.

RESULTS OF INVESTIGATIONS SUGGESTED

Now I would like to ask, first—and I do not know who answers this—what tangible result has this investigating or supervising section come up with in the last year?

Mr. MINOW. Well, I would like to answer it generally, and then with your permission call on Commissioner Ford, who I think is more familiar with it.

I think there was some fear among the broadcasters that this division was going to interfere unnecessarily with their day-to-day operations. I do not think this has been borne out at all by the facts. Indeed, in a certain number of instances where our people have gone to investigate the place, it has ended up with the broadcasters thanking us for calling certain matters to their attention.

Now, to give you one example, either in Minneapolis or St. Paul there was a station broadcasting with too much power at a certain hour, using his daytime power at night. This was called to our attention and as a result we instituted a proceeding and instituted the first fine of \$10,000 pursuant to the statutory powers which were given us by the Congress last year. This is one example.

There are other examples I know. We get more complaints than we ever did before from the general public. We cannot even keep up with the mail in answering the number of complaints which come in on various matters. Some of them are very responsible, and some are not, but they all require attention. And I think the whole staff of that division consists of seven people.

Is that right?

Mr. KENNETH COX. It is running now about 20, and this is some 8 under the original plan.

PURPOSE OF INVESTIGATION

Mr. Ford. Well, the genesis of this thing, as you know, was that the Commission had been criticized very severely for not knowing what was going on in the industry. And the reason we did not know was we did not have anyone to find out for us. The Congress gave us this unit, or the money for this complaints and compliance unit. They have conducted, and we will get to the statistics, any number of investigations during this year and have done it thoroughly. I would say that almost all of these investigations end up with the recommendation that the investigation be terminated. In other words, we get a complaint—we have been getting them and just stacking them up and that would be the end of the complaint, so we would write the station or something of that sort. Now we have a unit whose responsibility it is to look after those complaints. So that when the Commission files one of those complaints and takes no action, it knows what it is doing. We have a complete record of the investigation.

In some instances, I think there are one or two, we have actually started proceedings on revocation because of the evidence developed. Then we have other investigations which are in the process.

VALUE OF INVESTIGATION

Now, the funds of that group have been quite limited and there has been some delay in completing investigations. The reason for that is that if there is, for instance, a trip to be made to New York or some other section of the country, we have to save up in order to conserve on the travel funds and try to do this just as economically and get the most out of our money as it is possible to do. And as a result we have not been able to complete some of these investigations as quickly and as promptly as we should complete them, or would complete them if we had additional funds to handle it.

But we are getting experience in this group. I think we are still undergoing some growing pains in techniques and methods of conducting these investigations, so that the Commission has a little better idea of the methods of assembling material so that when it is turned over to the Trial Section it is in much more usable form. A lot of these things are still in the process.

Now in building this unit has been necessary to transfer some people from other sections of the Commission. Because, while it appeared in the beginning that with this additional amount of money we were going to be able to go out and recruit staff investigators, this practice, and one of the reasons is the shrinkage in the figures between 50 and 38, and costs go up and you cannot get as many people as you think you can get at the time you are making the statement. So that on the whole it seems to me that this unit has given us a means whereby the public complaints as to what is going on are being given attention by the Commission and are being investigated—the serious complaints. They are weeded out and the ones that are not serious and which are obviously on their face from disgruntled persons of one sort or another, we can put aside.

QUESTION OF CENSORSHIP

Senator BRIDGES. Have you lived up to the censorship provision of this completely?

Mr. FORD. I do not think there is any question about that. We have had actually, maybe, one or two complaints about overzealous investigators, and this will happen in the beginning, in the development of techniques. However, we got those straightened out very quickly and on the whole I think there have been just relatively minor, one or two, instances. Other than that it has operated very smoothly and I think has been highly successful.

LIMITATIONS OF INVESTIGATIONS

Senator ALLOTT. Mr. Ford, you will recall, and I do not believe there is any purpose to be served by rehashing all of the elements of this, which we went into last year, but you will recall it was the position of the committee that this be limited very strictly to technical and other violations rather than any limitation with respect to programing unless, of course—and we got into this, too—where you get a situation where something is absolutely distasteful and obnoxious. And this is a fine thing, where something is really—well, say excessive swearing or something of that sort. But you will recall this was the general distinction that was made. I have had no complaints to my office, and I will say this very frankly, about the operation of this section. But on the other hand, since it has only been 1 year, I do not want at this time to leave this matter without being sure that we reemphasize and point up again all of the conclusions and discussion we had last year as to the purpose of this section. And I am sure, from the fact I have not had any complaints on it, this is the basis upon which you apparently have operated.

Mr. FORD. I think we were very conscious of the position that Congress took with respect to this matter. We have operated rather cautiously and yet at the same time I think very effectively.

Senator ALLOTT. But it has permitted you to get into these areas of technical violations, a good example of which would be the situation Chairman Minow just mentioned of the Minneapolis station, I believe. This has enabled you to get into this area and clean up quite a few.

RECORD OF COMPLAINTS

Now, could you provide for the committee some record indicating the number and nature of the complaints handled by this division in the past year, and their disposition?

Senator MAGNUSON. We had that last year. Just bring it up to date.

Senator ALLOTT. Bring it up to date.

Mr. FORD. We will be glad to furnish, I am sure, a statistical breakdown on the operation of the unit.

(The information referred to follows:)

Complaint report

I. Total complaints received:

Sept. 23, 1960, through Dec. 31, 1960.....	1, 141
January 1961.....	593
February 1961.....	805
March 1961.....	1, 044
April 1961.....	750
May 1961.....	1, 211

Total.....	5, 544
Rodeo letters (see footnote 1).....	1, 271

Total.....	6, 815
Letters received in response to Chairman's speech ²	3, 843

Grand total..... 10, 658

II. Breakdown by subject of the 5,544 complaints received:

Programing (included here are complaints with regard to program balance, objectionable programs, profanity, program cancellations, and religious programing, in addition to general complaints against program quality)..... 1, 782

Included in the programing total of 1,782 are 504 complaints of excessive crime and violence on television.

Political and controversial (includes complaints of slanted news or remarks and editorializing)..... 386

Quality of commercials (includes complaints of lotteries, false and misleading advertising, underwear, tobacco, and liquor commercials, etc.)..... 549

Excessive number and length of commercials..... 241

Inquiries as to Commission's rules, etc..... 478

Laudatory mail (largely from civic and eleemosynary agencies in recognition of publicity, etc.)..... 570

Station practices (includes complaints of business practice, contests, publicity gimmicks, lax operations, etc.)..... 344

Payola (allegations of payola practices and correspondence relative to the Commission's payola inquiry of December 1959)..... 95

Technical and nontechnical inspection reports from Field Engineering and Monitoring Bureau (handling of these reports involves analysis of each, and where appropriate, correspondence or other action looking toward enforcement of Commission regulations)..... 753

Miscellaneous..... 346

III. Outgoing correspondence:

	Congressional	To stations	General	Total
September 1960.....	3	12	61	76
October.....	27	51	123	201
November.....	17	36	80	133
December.....	14	64	46	124
January 1961.....	18	37	69	124
February.....	26	38	55	119
March.....	26	61	208	295
April.....	15	27	189	231
May.....	17	62	348	427
Total.....	163	388	1, 179	1, 730

¹ This figure does not include 1,271 letters received protesting NBC's broadcast of a national championship rodeo on Nov. 13, 1960. Of these letters, those from groups and organizations were answered by a specially prepared form letter.

² A special project for the analysis and answering of mail received in response to the Chairman's NAB speech is being carried out by the Complaints Branch with the assistance of volunteers and summer clerical help.

³ These figures include 215 form letters sent out during the month of May. Previous months' totals do not include form letters, since May is the 1st month for which an accurate count was kept. It is estimated that prior to May at least several hundred form letters were sent out.

NOTE.—These totals do not include form letters sent in answer to the rodeo mail or those being sent in answer to the Chairman's speech mail (see footnotes 1 and 2 above).

COMPLAINTS RESULTING IN FIELD INVESTIGATION

1. Complaint alleged that treasure hunts had been rigged by station in that prizes had not been hidden until the last day of each of two promotions. Field investigation in August 1960 revealed evidence that the treasure hunts were rigged and also that other contests sponsored by station were questionable. Proceedings for revocation of license were instituted on November 3, 1960.

2. Complaint by former employee of southern station that contest was rigged by using as lucky numbers for high cash awards numbers which had not been issued to public. Field investigation (not yet completed) developed evidence that contest was in fact rigged.

3. Complaint by former employee alleged that licensee had submitted falsified logs in connection with renewal application and complaint by Better Business Bureau alleged that station was selling and charging for more spot announcements than it could deliver. Field investigation, not yet completed, has developed evidence that falsified logs were filed, and that station had policy of overcommercialization.

4. Complaint by competitor that station was broadcasting obscene, vulgar, and indecent remarks by diskjockey. After representative of station listened to tapes of program, diskjockey was fired and licensee stated he had had no prior knowledge of nature of program material. Field investigation (August 1960) developed evidence that licensee did have knowledge. Hearing on renewal application has just been completed.

5. Complaint alleged that false statements as to criminal record were made in application. Field investigation revealed that there had been concealment and also that false statements had been made as to consummation of contracts for sale of stock interests. Proceedings for revocation of construction permit are in progress.

6. Complaints that applicant for assignment of license was acting as owner prior to Commission approval. Investigation developed no substantial evidence of premature transfer, but that employees of assignee were becoming acquainted in the area, and that assignee was selling time for station subject to approval of assignor, as agent of licensee.

7. Complaint (magazine article, forwarded by publisher in advance of publication) that acts in audience participation show were rigged. Investigation disclosed that rigging took place in 1956, without knowledge of producer; that writer had not been employed by producer since disclosure in 1956, and that as a result of quiz show hearings procedures had been adopted to prevent rigging.

8. Complaints that Pacific coast station was presenting rigged contests. Field investigation did not develop any basis for allegations.

9. Numerous complaints that payola is being currently practiced in several widely separated cities. Field investigations have developed information indicating that payola is not dead. However, findings are not conclusive and further investigation will be undertaken when investigators are available.

10. Complaint of unauthorized transfer of control of California station. Field investigation (just completed) indicates that there was in fact an unauthorized transfer.

11. Complaint of unauthorized transfer of control of New Mexico station. Field investigation (just completed) indicates no transfer of control took place.

12. Complaint of unauthorized transfer of control of Tennessee station. Field investigation (not yet completed) indicates that there were several unauthorized transfers during the last 2 years.

13. Complaint that book reviewer is demanding and receiving money for a favorable review on broadcast program. Field investigation developed evidence that complaint has substantial basis, but staff shortages have prevented follow up.

14. Complaint that applicant made false statement as to criminal record. Investigation reveals that false statement was made as to convictions and also that false statements were made in financial statements. Investigation not yet completed.

COMPLAINTS RECEIVED, BUT INVESTIGATION NOT BEGUN

1. Complaints received in late April and in June 1961 raising questions of character qualifications of an applicant. A field investigation will be undertaken as soon as possible.

2. Complaints that an individual has hidden ownership in several stations. Individual has admitted several instances of concealed ownership, but straw man in one instance has denied the allegation. Complainants insist that individual has not revealed all hidden interests. Investigation has been delayed in this case because of cost of travel and staff limitations. Will be undertaken as soon as possible.

The following is a sampling of situations coming to the attention of the Complaints Branch in which the Branch would have recommended field investigation by the Complaints and Compliance Division had there been sufficient funds and staff investigators available. In certain cases the Branch has proceeded with the cases by means of correspondence, even though field investigation would have been preferable. In other cases, the matters remain unresolved at this time. In view of the fact that these cases have not been closed, stations will not be identified by call letters or location. It should be emphasized that these brief factual summaries are based on allegation received and do not at this time represent conclusions by this Branch as to their truth or falsity.

Station No. 1.—Serious allegations of biased commentary, especially during the midnight to dawn hours, evidencing a lack of licensee control. Additional allegation that complete control of programing is maintained by absentee owner in a distant city.

Station No. 2.—Allegations of fraudulent contests and promotions and serious technical rule violations. Charges include rebroadcasting of network programs without network authorization.

Station No. 3.—Allegation of fraud, submitting false program logs to the Commission, excessive commercialism, false and misleading advertising, false program log entries, etc.

Station No. 4.—Serious allegations of false log entries made at the direction of the licensee owner.

Station No. 5.—Substantial complaints alleging that personnel are receiving "payola," the station has broadcast false and misleading advertising and has conducted fraudulent contests offering huge prizes which were never awarded.

Station No. 6.—Allegations actually involving several specialty stations in a large metropolitan area to the effect that competition among them is causing rapid deterioration of service. A criminal court case citing an example of the existing situation wherein a salesman for one station has accused the sales manager of another station of assault and battery allegedly provoked by the invasion by the salesman of the sales territory "reserved" by the sales manager's station.

The above cases are cited as examples. It is conservatively estimated that a minimum of three or four cases per month come to the attention of the Complaints Branch which if, if staff and funds were available, would have recommended for field investigation. It should be pointed out that a complete list of such cases is difficult to compile, inasmuch as the Branch was made aware of the staff limitations in this regard near the outset of its operations. Consequently, the professional staff of the Branch, accepting the fact that field investigations were not possible, have given little consideration to their advisability in particular cases.

DANGER OF CENSORSHIP

Senator ALLOTT. This has particular emphasis because of the statements of your chairman—and I presume the Interstate and Foreign Commerce Committee will go into this later in the legislative bill that comes up, particularly because of the statements of your chairman—as to what he regards to be his functions and powers at the Federal Communications Commission with respect to programing over these stations. And I cannot speak for the rest of the committee, though I know I speak for some of them, that in this respect I certainly do not want to vote for any appropriation which, in any respect, is going to permit the Federal Communications Commission to exercise a censorship over programing or to exercise its power when stations come up for relicensing and set itself up as a judge as to the type of programing a station provides. I think when we get to this point we better take a good look at the whole Federal Communications Commission again.

RESPONSIBILITY OF COMMISSION

Senator MAGNUSON. But they do have the responsibility, when a station license renewal comes up, of looking at the overall operation of the station as to categories and things of that kind to see whether they have lived up to their responsibilities as a licensee.

You remember we spent almost a whole day last year on picking out this program or that program unless it was completely obnoxious.

Mr. FORD. Well, the Commission on July 29, last year adopted a program policy, and I think an examination of that policy would reassure you that insofar as the statement of the Commission policy is concerned, the Commission is extremely conscious of censorship, of any limitation —

Mr. MINOW. I might say an examination of my speech would also indicate that. What I am concerned about, and I think it is our duty to be concerned about it, is where there is a wide variance in what a station tells us it is going to do when it gets a license, and what we find, 3 years later, they actually did.

Senator ALLOTT. This is correct, and I agree with this, particularly with respect to if a station tells you it is going to devote, say, 2 hours a day to public programing and public affairs and it does not. Then I think that is a thing for the Commission.

POLICY ON CENSORSHIP

I read your first speech in the papers, or such as it was reported, and having been a lawyer for a year or two I do not always believe everything I read in the papers, contrary to what a lot of people do, and I also heard some of your remarks on television on one program or another, and I assume from that that you believe that the Federal Communications Commission has the right and authority to, in fact, censor the programing of TV stations. If this is not so, I think this would be a wonderful place for you to make your position clear.

Mr. MINOW. Well, in my speech, and I would only reaffirm everything I said in the speech. I made it I thought quite explicit that the last thing in the world we would ever do would be to censor. What I am concerned about is that we go through these elaborate hearings to figure out which of the number of competing applicants should get a channel, and very often in the last analysis we are motivated by what they tell us they are going to do with their programs, and then 3 years later we want to see that they actually did it. Some people come in and they say they will put on X number of commercials during a day. Then we look 3 years later and they put on twice as many.

I think it is our duty, as I read the Communications Act, to enforce the representations made to us. And I do not regard that as censorship in any sense.

Senator BRIDGES. I do not know whether you said it in your speech or not, but it was carried in the papers that you went on to name some programs that you would consider appropriate, and you named them by name. Now that is going a long way.

Mr. MINOW. Unquestionably. But all I said, and I would be glad to supply a copy of the speech because I do not think that was what I said, was that these were examples of what television could do. The

last thing in the world the Government should do is start telling anyone, "Put this on the air," "Take that off the air." You might as well not have a free broadcasting system. But I do not think that is my position at all.

Senator BRIDGES. I am glad to hear you say that.

Mr. MINOW. I think I said that before. That is the trouble, I think I say the same thing over and over.

Senator ALLOTT. But certainly the other impression—

Mr. MINOW. I think it was not a fair impression, sir.

Senator MAGNUSON. I think you have a right to refer once in awhile to the type of program you think is better than another type of program. That does not mean you said that you cannot put the other one on.

OBLIGATION OF COMMISSION TO CHECK PERFORMANCE

Mr. MINOW. Of course not. I see the wide variances very often between the performance and promise, and I think it is our obligation as a Federal Communications Commission under the law to insist that they be maintained.

Senator BRIDGES. I am not objecting to the categories at all. I think you should make them live up to that. What I object to is if you start to designate particular programs, and that was the impression that was given in a lot of ways. I am glad to have you clarify it.

Mr. MINOW. I would assure you and the committee that this is certainly not my intention whatever.

NEED FOR DESIGNATION OF TYPE OF PROGRAM

Senator MAGNUSON. Then the Commission has done this, and I think Congress will agree we got into this matter at some length up there in the committee, that if a program is fiction it should be related as fiction.

Off the record.

(Discussion off the record.)

Senator ALLOTT. They are doing this also in the broadcasting industry. Where they are editing they are designating them as editorials. I think they should be kept this way. I think there are certain programs on the air, particularly relating to labor matters, and I listen to these on the air every night, which are very carefully disguised as news broadcasts when in fact they are not, when in fact they are an extended commercial to lobby certain legislation or to advance the cause of certain labor groups. I do not have any objection to their saying this is on the air, but I do object to disguising it as a news broadcast when in fact it is not. It is a very carefully slanted, carefully phrased commercial either by way of lobbying for or against legislation or for certain programs of the union which happens to advance it.

INDIVIDUALS' CHOICE OF LISTENING

But I will say this, I think one of the best examples of what I am talking about, and I agree that this endless session of westerns has probably hit a low ebb in programming. Apparently it has hit the fancy of the people just as 3 or 4 years ago these \$64 question type of thing caught the fancy of the people and they wanted that. Maybe it

is not good, but as Disraeli, I think it was, said, and this is illustrative of what I think we have a right to expect in this country, "would rather listen to the beatings of the Sultan's thousand drums than to listen to the finest symphonic orchestra in the world."

Now I might disagree with him, but if this is what appeals to his esthetic sense, this is fine. To me, personally, the sound of an engine, a highly tuned engine turning over at 6,000 or 7,000 r.p.m. is one of the most beautiful sounds in the world. Now that is preferable to me to watching the bobtails run around the track. But if we get into this place where someone decides that it is esthetic and educational to have the bobtails, or whatever they call them, running around the track rather than to see some of these other things, it is a different situation.

I am glad that you have made your position clear here because I think it would be a very sad day if and when your remarks as reported became the policy of the commission.

Mr. MINOW. I would only say, Senator, that in my speech I explicitly said the last thing we would do would be to censor, but apparently that did not make an impact.

Senator ALLOTT. It is the old question of the man bites the dog?

Mr. MINOW. But I would feel my position has been consistent throughout.

Senator ALLOTT. Mr. Chairman, if there are no further questions on this, there is one other thing I would like to take up.

Senator MAGNUSON. I just wanted to clear up two things here.

TRAVEL FUNDS

When you mentioned travel, the House, this year, did not give you a travel limitation, as I understand. Is that correct?

Mr. ROBERT COX. That is correct.

Senator MAGNUSON. It is my understanding you would rather have it that way?

CLARIFICATION OF PERSONNEL REQUEST

Mr. ROBERT COX. Yes, sir.

Mr. MINOW. Mr. Chairman, while we are talking about the House, for the record, I think I misspoke before. We asked the House for 69 more jobs. The House allowed 50, but as a result of the complications we can only get 38. So, in other words, we are ending up 31 short of our original request.

Senator MAGNUSON. And of that group they specify 20 at a specific place?

Mr. MINOW. Yes, that is right.

ESTABLISHMENT OF NEW EDUCATIONAL TV DIVISION

Senator MAGNUSON. Now one other thing. I wish you would submit a modest budget item, and I do not think we need too much, but we are going to have to be ready, and the FCC is going to be a part of it, a modest setup where you might have a Division on Educational TV?

Mr. MINOW. I would be very happy to. I know I speak unambiguously in saying we will be very happy to give every encouragement in the world to educational TV.

(The information referred to follows:)

In response to the inquiry as to what the Commission would like to do in aid of the development of educational broadcasting, we feel that it would be extremely helpful to establish an Office for Educational Broadcasting in the Broadcast Bureau.

Based on recent studies of educational broadcasting and discussions with educational leaders, we are persuaded that this dynamic and expanding field will generate a number of complex issues in allocations and in other areas of Commission concern. We believe that an Office for Educational Broadcasting could assist educational broadcasting markedly by serving as a clearinghouse for information with respect to Commission procedures, trends, and development in the educational broadcasting field; by examining current Commission forms and procedures with a view to simplifying and improving Commission processes as these affect the educational broadcasters; and by serving as a liaison agency with educational groups to keep the Commission fully informed as to needs and developments in this field. In addition, if Congress enacts pending legislation providing for grants for educational television, this office would have important functions of liaison with other governmental agencies.

An educational office could be initiated on a relatively small scale, since we believe it could serve effectively in a staff capacity, rather than engage in line functions such as the processing of applications. We would suggest an initial staff of four professionals and a secretarial assistant. Personnel compensation and associated costs are estimated as follows:

Personnel compensation (5 jobs)-----	\$48,785
Personnel benefits-----	3,550
Travel-----	8,700
Other obligations-----	6,465
Total-----	67,500

Senator MAGNUSON. I think you will have to recognize that because it will be coming along pretty fast.

Senator YOUNG. May I ask one question? Are you through on this subject?

Senator ALLOTT. I am through.

FAIRNESS DOCTRINE IN PROGRAMING

Senator YOUNG. If a television station is carrying, say, several left-wing commentator programs, and some of the rightwing people, maybe extreme rightwing people, would want programs carried and are willing to pay for them, can a television station deny them that?

Mr. MINOW. Senator, this is one of the toughest problems we face, because here very often you get into the field of making value judgments. We have what is known as the fairness doctrine, which means that we say that if someone takes a point of view in broadcasting, that he has to give the other points of view an equal sort of chance.

Senator YOUNG. I am speaking of regular paid programs, regular commentator programs, weekly or something like that.

Mr. MINOW. We get occasionally complaints about this saying, "This fellow takes one point of view and therefore you have to have other points of view represented." Well, under our law and our policies we have adopted this so-called fairness doctrine which means that we try to insure different points of view getting an opportunity to be heard. And very often simply by inquiry we find that stations will cooperate in affording other points of view a chance.

Senator YOUNG. Under the rules and regulations the television station could deny a program even though they were willing to pay for it; is that right?

Mr. MINOW. Yes. Except in the case of political [candidates] and then you are in the explicit statutory provisions of section 315.

Senator YOUNG. Yes. What I am speaking of is entirely aside from politics.

Mr. MINOW. Aside from politics, that is right. Broadcasters are by law not regarded as utilities or common carriers, and they are free to accept or reject programs.

Senator ALLOTT. Although you do have this fairness doctrine applicable generally to the question Senator Young has asked?

Mr. MINOW. Right. On controversial issues we have a fairness doctrine. And as I say, although it seems hard to apply, we find that it works successfully.

Mr. FORD. I think his question is specifically as to whether or not an individual program which would balance a leftwing program would come under that.

Now the individual program does not have any rights, but the point of view has the rights. The broadcaster should select someone that has a different point of view. But there is no particular right for a particular program.

But broadcasting the position on controversial issues, both sides, is what the fairness doctrine means. So both sides should be put on. But to go into a station and say this particular program is the one that we want to balance the leftwing or rightwing program—that does not apply.

TV BOOSTERS

Senator MAGNUSON. One other question. Commissioner Craven, has our booster thing straightened out altogether?

Mr. CRAVEN. I think they are getting along. They are in good shape.

Senator MAGNUSON. Everyone is happy?

Mr. CRAVEN. I do not know whether everyone is happy, but we are trying to make them happy.

Senator MAGNUSON. There is a greater degree of happiness than there was a year ago?

Mr. CRAVEN. I think so.

UHF-TV PROJECT

Senator ROBERTSON. Mr. Chairman, can you tell us anything about the experiment on ultrahigh frequencies? We appropriated \$1 million to be spent at Rockefeller Center.

Mr. MINOW. I would be glad to have Commissioner Lee, our expert on this, answer it.

Mr. LEE. Well, Senator, we expect to have this station on the air with the test pattern by October 1. We will duplicate the programming of the existing seven of VHF stations beginning November 1. We have the transmitter largely installed, we have the antenna awarded, and it is being installed. We expect to put out bids very shortly for placement of these sets. We hope to have some 5,000 measurements, I think, in the period of a year. It is very much on schedule.

We asked here before this committee that the time limitation be extended for 6 months—that is all we are asking for at this time—in view of the fact that in the event we terminated the project we would have to give 90 days notice for the removal of the equipment. I do not think this will be necessary because we are negotiating right now with the city of New York to operate the station for us.

DATE OF REPORT

Senator ROBERTSON. When will your report be available?

Mr. LEE. The report should be within 6 months after the test is in. I would venture to say we would have a report by January of 1963.

Senator ROBERTSON. The test will not start until November of this year?

Mr. LEE. That is correct, Senator.

Senator ROBERTSON. How long will the test run?

Mr. LEE. Under our existing authority the test will run only for 8 months. We are asking for an additional 6 as a precautionary measure. I think within the 8-month period we will have the information we need.

PRESENT INFORMATION ON UHF

Senator ROBERTSON. Do you have sufficient information now to know whether the use of ultrahigh frequency on a rather large scale would relieve the pressure on the regular wavelengths?

Mr. LEE. I certainly have enough information for my determination, but I do not think that we have convinced the industry as yet that this is a good direction to move in.

Senator ROBERTSON. I read that only about 35 percent of the sets now being sold are equipped to receive UHF.

Mr. LEE. I think that is an overstatement. There are 10 million sets roughly that are equipped to receive UHF on the market out of approximately 60 million. For example, we have an application from New Jersey for an ultrahigh frequency station right now. So there would be two really available to New York City. We will have an educational UHF station on the air here for the first time in industry this September. I am attending the symposium tomorrow. We are going to make the award.

PRESENT USE OF UHF

Senator ROBERTSON. To what extent is the ultrahigh frequency being used now?

Mr. LEE. There are approximately, oh, perhaps six or seven areas in the entire country where the UHF signal is all that is available to the people. There are a number of other areas where there are UHF and VHF intermixed. In these areas the UHF, of course, finds it very difficult. The Commission has moved to remove some of these VHF frequencies where it is feasible.

For example, in Fresno we have accomplished this. We removed a VHF, making it all UHF, as a result of which we have four or five more applications that have come in.

Senator ROBERTSON. Is the area in which these signals can be received comparable to the area served by the regular broadcasters?

Mr. LEE. No, sir. I think it is only fair to say that the propagation characteristics from the standpoint of distance of the UHF are somewhat inferior to the VHF. It will not go out quite as far. The fidelity, however, depending on the terrain and the problems of ghosting and so on, close in is very, very good and may very well prove superior to VHF.

Senator ROBERTSON. What types of organizations are operating those UHF stations that are now on the air?

Mr. LEE. Well, they are commercial operations. For example, Fort Wayne is a good example. There are three UHF stations there and no VHF. So when you buy a set in that area you receive a set that receives a UHF signal. I checked on the differential in cost. For example, the set that you would buy in Indianapolis for VHF would cost you something like \$15 less than the set you would buy in Fort Wayne which is equipped for the UHF.

SUPPORT OF EDUCATIONAL TELEVISION

Senator ROBERTSON. To what extent are the foundations, and other organizations interested in education, let us say, supporting educational programs over television?

Mr. LEE. Well, of course, the Ford Foundation has made available a great many grants to individual stations, largely on a matching fund basis, in order to get them started. They also have been doing some work in the programing area. I guess they call it the Ford Workshop.

Senator MAGNUSON. You have the Purdue experiment.

Mr. LEE. Yes, the Purdue experiment is off the ground. This is airborne television.

Senator ROBERTSON. Off and on, we have been hearing discussions about television programs without a lot of commercials. Sometimes the commercials not only are not interesting, they are really repulsive.

Has there been any investigation of the development of the ultra-high frequency programs of an educational and religious nature that would not carry commercial ads at all, at least the objectionable types?

EDUCATIONAL TV STATIONS

Mr. LEE. We hope, with the implementation of educational allocations around the country, that this would make available to the people a choice of this type of cultural programing. The educational stations, of course, are not permitted to carry commercials. And it so happens that some two-thirds of the allocations that we have made, of the 240-odd we have made, two-thirds of them are in the UHF portion of the spectrum. The Commission is going to great lengths to encourage the educational people to go ahead and implement their allocation, much as they are doing here right in Washington, on UHF rather than waiting for years and years with the expectation of obtaining a V.

Senator MAGNUSON. I mentioned this little shop I am suggesting on educational TV, anticipating we will probably do something about it up here before we quit, or at least we will the first of the year. So you have to be ready for it. Still, the fact is, of the 247 channels allocated, there are 214 unused, both V and U. I must say to the Senator from Virginia that we are hoping we can get this really off the ground and we are hoping that they will start to think in terms of putting these stations together. I envision a fourth network before we are through with educational TV. And the surprising thing was that, for instance, the networks were vigorously for this educational TV on the theory that it will have the tendency to elevate all types of programing all over. And the Commission has always been for it and have been very helpful and always testified when we have had the bill up.

Mr. LEE. I think it is off the ground a little bit.

Senator MAGNUSON. It is moving.

Mr. LEE. We have a number of petitions, for example, from States asking for additional allocations in the UHF band for this integrated network type of thing.

Senator ROBERTSON. I think that would be the only answer. I do not believe that any single group will be able, without commercial ads, to finance such a station. You say it does not have quite the range. Well if the range regularly would be 50 miles, this would be about 35 miles.

Mr. LEE. Roughly, yes.

COST OF OPERATION

Senator ROBERTSON. What would it cost to operate one of these stations devoted primarily to educational and religious instruction?

Mr. LEE. \$300,000 or \$400,000.

Senator MAGNUSON. We had some figures. It would cost them in any educational TV, and Commissioner Craven can correct me and so can Commissioner Hyde, between \$300,000 and \$400,000 to put a station up.

Mr. CRAVEN. Up to \$500,000, depending on the tower you want to use and the range you want to cover.

Senator MAGNUSON. About half a million. And then, of course, in the bill we have passed, both in the House and in the Senate bill, the House is going to come out with grants, matching funds, and we have a direct grant to get it started. In all cases the Health, Education, and Welfare must have a contract with them that they have sufficient funds and will operate and maintain the station.

Senator ROBERTSON. What will it cost to operate?

Mr. LEE. Well, it depends on the number of hours and the type of programming. New York City, for example, is putting a figure in their budget in the expectation of operating this UHF station of ours when we are through with it of some \$450,000. Now that is a rather ambitious program.

Senator ROBERTSON. That is what I thought.

Mr. MINOW. Senator, one of the best of the educational channels, with which Senator Saltonstall is familiar, is in Boston. That is probably the best in the country, and they run on a budget of almost \$1 million.

BOSTON AND NORFOLK BROADCASTING

Senator ROBERTSON. I have always commended the progress of Boston. You see, they wrote most of our history.

Mr. MINOW. They run on a budget of almost \$1 million a year in order to do that.

Senator ROBERTSON. The public schools in Norfolk had a \$100,000 grant from the Ford Foundation for just appearing on a regular TV station for educational work. Ford did not continue that grant. They said it was an experiment, and the school said they could not continue because it was too expensive to carry it alone. But, if there was a grant for a local station, and a network that would furnish programs so that each station would not have to originate all of its material—

Mr. MINOW. That is right.

Senator MAGNUSON. That is the idea. That is what we are trying to get to.

DIFFERENCE OF OPINION

Mr. LEE. You take, for example, in the District here, this educational station. The District Public Schools have not formally joined. The Superintendent of Schools feels there are priorities for his money in other directions. There are differences of opinion even among the educators in this, sir.

Senator ROBERTSON. In your opinion, for those who want the educational, religious, and good musical programs, free from objectionable advertising, is ultrahigh frequency a better answer than the lease programs?

SUBSCRIPTION TV

Mr. LEE. I think that is part of the answer, as is the possibility of subscription TV with which we are experimenting.

Senator ROBERTSON. Thank you. That is all I have to ask, Mr. Chairman.

Senator MAGNUSON. When does the pay TV experiment start in Hartford?

Mr. LEE. They are not operating now. There is still some litigation. We have approved it. I understand that they have not yet solicited subscriptions from the public. They are lining up programming and I suppose worrying about this litigation.

Mr. MINOW. Mr. Chairman, could I at this point in the record put in the language that we would suggest, on the UHF experiment in New York, extending the time?

Senator MAGNUSON. Yes; submit that later.

Mr. MINOW. I will submit that for the record. Thank you.

(The information referred to follows:)

Provided, That the limitation until June 30, 1962, on the availability of the appropriation for a special ultrahigh frequency television study, contained in the Independent Offices Appropriation Act, 1961, under the head Federal Communications Commission, is hereby extended until December 31, 1962.

EDITORIAL ON MINOW SPEECH

Senator MAGNUSON. The Senator from Colorado still has a couple of questions.

Senator ALLOTT. I have to backtrack for a moment, Chairman Minow, to the question of what is contemplated because I have just had an editorial by a very good writer—in Denver—Jim Bishop, on Friday, May 26, called to my attention. I will just read part of this but I am going to insert the entire editorial in the record. He says:

The private eyes make boobs of the police; the sadism of the villains panders to the lowest taste, the old Charlie Chan movies and the folksy sweetness of the Garry Moores, the Perry Comos, and the Dinah Shores is, at times, sickening.

Still, there are scores of millions of people who like these shows, and identify themselves with them. However, Minow warned the broadcasters not to pander to the public taste.

When a renewal is set down for a hearing, he said, I intend—wherever possible—to hold a well advertised public hearing right in the community you have promised to serve.

The threat cannot be made more blunt. Minow proposes to appeal to the mob to show up and register a protest.

This could be a form of legal lynching. In a lesser manner, it is valid blackmail. If enough gripers show up at the meeting, the understanding is that the Federal Communications Commission will not renew television licenses. This means that an organization with a fortune in cameras, studios, transmitters, and employees is dead.

The FCC, said Minow, has a fine reserve of monitors—almost 180 million Americans—gathered around 56 million sets. If you want those monitors to be your friends at court—it's up to you.

If this system were to be applied to newspapers, or any other form of public communication, it would mean that everyone would be at the mercy of a small cadre of malcontents.

Now he goes on to say in the forepart of his editorial that he read your speech not once, but twice, thoroughly. And he is a very thoughtful and good reporter. And I only introduced this for the purpose of showing the conclusions that some people have drawn with respect to these remarks.

I ask, Mr. Chairman, that the whole editorial go in the record.

Senator MAGNUSON. Yes, it will be put into the record at this point. (The editorial referred to follows:)

[From the Rocky Mountain News, Denver, Colo., May 26, 1961]

MINOW HOLDS ALL THE ACES

(By Jim Bishop)

Speeches, even good ones, do not appeal to me and I seldom listen to them. However, Newton N. Minow made one a week ago and I read it in the newspapers. Twice.

Minow is Chairman of the Federal Communications Commission; he licenses television stations. He can give, or he can take away.

Minow is new to his job but, when a man has the power of life or death over his audience all timidity vanishes.

Minow told the television executives that he proposes to tell them how to run their business.

They will no longer run it the way they please; or even the way the public pleases, but the way Minow pleases.

In case they didn't get the message, he said: "I understand that many people feel that in the past licenses were often renewed pro forma. I say to you now—renewal will not be pro forma in the future. There is nothing permanent or sacred about a broadcast license."

The age of peacetime censorship is dawning. President Kennedy, who has no power to license newspapers or magazines, addressed the press a few weeks earlier and offered it the pill of "voluntary" censorship.

Count me as one who thinks that John F. Kennedy is going to be one of our great Presidents, but he is far from perfect and some of his ideas about domestic and foreign affairs need maturity.

It is, I think, ironic that I have kidded television so often in the past for being the supine slave of the advertising agencies, and now a man named Minow speaks and I find myself defending television.

It is far from a perfect instrument of communication. The ammunition wasted by cowboys alone would have financed a successful Cuban revolution.

The private eyes make boobs of the police; the sadism of the villains panders to the lowest taste; the old Charlie Chan movies, and the folksy sweetness of the Garry Moores, the Perry Comos and the Dina Shores is, at times, sickening.

Still, there are scores of millions of people who like these shows and identify themselves with them. However, Minow warned the broadcasters not to pander to the public taste.

"When a renewal is set down for a hearing," he said, "I intend—wherever possible—to hold a well-advertised public hearing right in the community you have promised to serve."

The threat cannot be made more blunt. Minow proposes to appeal to the mob to show up and register a protest.

This could be a form of legal lynching. In a lesser manner, it is valid blackmail. If enough grippers show up at the meeting, the understanding is that the Federal Communications Commission will not renew television licenses. This means that an organization with a fortune in cameras, studios, transmitters and employees is dead.

"The FCC," said Minow, "has a fine reserve of monitors—almost 180 million Americans—gathered around 56 million sets. If you want those monitors to be your friends at court—it's up to you."

If this system were to be applied to newspapers, or any other form of public communication, it would mean that everyone would be at the mercy of a small cadre of malcontents.

DENVER POST ARTICLE

Senator ALLOTT. Now maybe Chairman Minow has some comments to make before I proceed with the other matter.

Mr. MINOW. Senator, since you are from Colorado, I would also like to submit an article from the Denver Post which takes a completely contrary view of the interpretation of what I said. I believe in having hearings in the field. I could show you the letters I get from the PTA and League of Women Voters saying, "We want a chance to participate," "We want to know when our stations' license is up for renewal," "We would like to have our voice heard." I think they have a right to do so.

PUBLIC HEARINGS

Senator ALLOTT. This is entirely correct and with this I agree. Except, what you hear when you have such meetings are primarily malcontents and not the hundreds and the thousands who are generally satisfied. We have an example in our State, not in Denver, of one man who started out in 1927 with a radio station and who has been a very fine enterprising business. He started out and established a TV station at Grant Junction at a time when everyone thought he had a few extra holes in his head because it could not possibly be made to pay. But he has made it pay and provided a great public service. So you also have to consider I think in this light the investment of, not a big corporation, not ABC or CBS or NBC or something like that, but you also have individuals who have gambled on life and their own life savings in attempting to serve the public. And I am personally satisfied with your former answer, but I do say that in holding public hearings you are not going to hear, in Denver or Chicago, or in New York or in Washington, from the hundreds of thousands of people who are satisfied with programing, you are going to hear from the very bitter malcontents who think the whole matter should be reformed.

Mr. MINOW. I would respectfully disagree. I think it is imperative that people have a chance to participate at these hearings. I think that it is impossible if they are held here in Washington because they do not know about them. The only people we hear from now are the licensees and their lawyers. And when I hear from the PTA's and League of Women Voters and church groups I think I have an obligation, as I read the law, to give them a chance to participate in determining whether a licensee is operating in the public interest. And I would be frank with the committee that this is what I would intend to do.

Senator ALLOTT. But I find nothing wrong with this except that you are going to find that where you have hundreds of thousands of people who are perfectly satisfied, you are going to have a relatively few who will be interested in trying to do what they think is upgrading programs.

Mr. MINOW. If I could give you one example, we set down for hearing our first case in the field and just recently completed the hearing. Although I cannot comment on it in full because it is still before the examiner, I would be very happy to submit for the record the clippings of the local newspapers commenting on the respect and dignity and fairness with which the hearing was conducted, that it attracted ministers and distinguished citizens of the community and not the malcontents.

Senator ALLOTT. I am not worried about your shutting out anyone or carrying on any kind of a hearing other than a proper, judicial one with a both-sides atmosphere. However, I do think that you will find people, particularly as to certain types of programs, or perhaps the general level of programs, will appear very bitterly, and the great bulk of the public will be left out. And not left out in the sense that you will eliminate them, but just that they are not fired by a great deal to reform the system.

Mr. MINOW. Senator, the only thing I would say in reply is that the broadcaster, of course, is free to present anyone he wants. And this is what our practice is, to encourage him to present any witness and represent any point of view he wants. So it seems to me it assures you will not get anything but a representative, fair presentation of views.

Senator ALLOTT. Well I just want to give you a typical example of how this can work even in Washington. I am sure that the Senators here will remember when CATV lobbyists got up and attacked committee meetings and actually packed the Senate last year when this matter was on. And I would only say this by way of warning, that there are people who have a genuine interest. And I do not say I think the programing of stations is as high as it should be, and some things I think are obnoxious. I see things on Sunday programs which I think are entirely inappropriate to the Sabbath. Nevertheless, I think in the long run the public will correct it.

GSA ROLE IN RATE MATTERS

Now, Mr. Chairman, I would like to move on to another matter which will just take a few minutes, and I am referring particularly to testimony which appeared at page 685, and subsequently in the House hearings with relation to the role of the GSA in rate matters. I would like to ask this question, as to whether or not you feel that the staff of the FCC is adequate and competent to advise the Commission and protect the public interest with respect to rate matters coming before it?

Mr. MINOW. I will answer that by saying yes, we do. We are very proud of our staff and we think it is very able. We would hope it would be supplemented pursuant to our request today. But we think it is competent to do the job.

GSA comes in, as I understand it—because this was before my arrival—to represent the point of view of the Government as a user.

The Government is the largest phone user now in the United States. And when they do appear they take the view that they are representing the Government as a consumer of phone service. But we feel that our own staff is very able to represent the public as a whole.

Senator ALLOTT. I expect to go into this much more thoroughly with GSA when we have them before us. But I think it is very important that there be a distinction drawn between GSA's presentations to the Commission as representative of what is probably the largest user of telephone service, for example, and presentations on an overall rate of return and general matters pertaining to, we will say, telephone service in a given area. There have been enumerable complaints in my office about GSA duplicating the efforts of your staff, for example, and the ICC staff to a great extent, and coming in and, in effect, setting down an ultimatum, in one recent case which carried on for some time, where GSA appeared in Denver and presented their case the first day or two and then came in with a staff of five people and walked out and just said—

This is a Government agency and we have arrived at these conclusions, not only as to the rates which should be charged the Government, but also as to the general rate of return on the investment of the people involved.

And it therefore has a tendency to, in effect, set the rates and to that extent diminish the powers which the Congress has vested in you.

GSA AS CUSTOMER AND REGULATOR

Now I have read parts of your testimony here as I have had time. I know the Commission is not in full agreement in their attitudes on this matter and it would be my hope, and I think this is as far as I will go, that the Commission would distinguish and draw a very clear line between the Government acting as a customer, GSA acting as a customer, and GSA attempting to act as a sort of a second or advisory regulatory agency to the FCC.

Would you agree with this?

Mr. MINOW. I think unquestionably, and I think I could say all of us unanimously would agree to that, Senator. We may differ with respect to certain specifics, but we all agree with that principle wholeheartedly.

Senator SALTONSTALL. Mr. Chairman, might I make a remark from that?

Senator MAGNUSON. Yes, Senator. The Senator of Massachusetts.

Senator SALTONSTALL. I think you and I, as chairman of this committee for a number of years, had that problem that has just been brought up by the Senator from Colorado. Actually it is one of the most difficult problems we have to face, as to where the GSA is acting on behalf of the Government as a customer and regulating the rates which is in the hands of the FCC. And I do not think we have every satisfactorily worked it out after we tried to ask them to work it out. Am I correct?

ICC RATE CASES

Senator MAGNUSON. Well, we tried to ask them. You will recall the history of this is that some years ago when the railroads came in here for an overall general rate increase of 12 percent, we found that GSA had not appeared before the ICC on behalf of the Government, and

the Government was the biggest shipper in the United States. Now, maybe the increase was justified, I did not suggest that, but we went in there to protect the Government's interest. They set up the shop down there, as you will recall, and then they got into these telephone rate cases, and pretty soon they were appearing before the State regulatory agencies. And last year and the year before we tried to define as narrow as we could their function.

GSA AS LITIGANT

Now, in the meantime this has grown up between the FCC and the GSA. But by the same token, I suppose the FCC, to protect the public, has to get some information from the GSA, some factual information—Commissioner Hyde knows about this—sometimes to carry out a responsibility in the public interest.

Mr. HYDE. In the same way as any other litigant or party, but not as adviser to us.

Senator ALLOTT. I think that is a very good remark. And I brought this matter up because it seems contrary to the hope that the problem seems to be decreasing rather than increasing.

GSA POSITION IN PENDING CASES

Mr. FORD. We have two proceedings pending now in which we cannot go into in any detail here, but in one of those proceedings GSA takes the position, which may be to the interest of the Government but not to the interest of the general public. And in the other proceeding perhaps it is across the board, in the interest of the Government and also to GSA representing the Government as a user. So that I would heartily agree with Commissioner Hyde's statement that when they come into our hearings they come as a party user just as anyone else, just as any other user would come before us as a party to the proceeding, and make their contentions. Their contentions are made on the record just as any other party's and they are considered just as the contentions of any other parties.

Senator ALLOTT. I hope the Commission will keep that basis. I do not have to tell you this, but, of course, you have first to consider in any rate case what constitutes a fair rate of return, and you have to come up with X number of dollars, which is going to constitute a fair return for any given corporation or utility.

Senator MAGNUSON. In these cases the GSA is just like any other user interest.

Senator ALLOTT. We will just hope that the Commission can retain this point of view and treat them as a customer.

Mr. MINOW. I can assure you of that.

Mr. FORD. I think perhaps if we did it otherwise, Senator, we would probably be in violation of fair procedure.

Senator ALLOTT. There is no question about it. But in certain State regulatory agencies, and perhaps in some Federal agencies, it has had an undue influence.

Mr. FORD. But in these highly contested cases, for example, those things are on the record. They cannot come around and advise us privately about what they think the Government—

Senator ALLOTT. I am not talking about privately, Mr. Ford.

Mr. FORD. Their contentions have to stand on the basis of the logic and the merit of them and that is all.

Senator ALLOTT. As a customer.

Mr. FORD. As a customer.

Mr. MINOW. On that I am sure all of us would completely agree.

Senator ALLOTT. Thank you very much, Mr. Chairman.

NEED FOR ADDITIONAL STAFF

Senator SALTONSTALL. Mr. Chairman, I would like to ask just one question. I apologize for being late.

If you have answered this, do not answer it again. I notice that you are asking for \$125,000 more for some additional people. And the people that you have gotten from the House, and also the people that you are requesting from the Senate, I do not see from reading your justification that they apply to accelerating and cutting back the great backlog of hearings and getting your regulations up to date. Am I incorrect in that, and if so why should you apply your additional men more for that proceeding?

Mr. Chairman, has that question been asked before?

Senator MAGNUSON. No, not that phase of it.

Mr. MINOW. Some of them do, Senator Saltonstall. Earlier we explained one of our biggest problems now, which we feel so conscious of, is the space communications satellite program where our responsibilities are very heavy and we find we are inadequately staffed.

Senator SALTONSTALL. That is still in the theoretical stage, or, we will go further, it is in the development stage?

Mr. MINNOW. Right. But we are in the process now of holding hearings on the private companies' role in it, and getting together, and we regard this actually as the most important thing we have before us. We talked earlier about them.

Now, on the hearing part, we wish we had more examiners. The House has urged us to take on three more examiners. Unfortunately, despite the fact the House gave us 50 more jobs, we find it merely boils down to 38 because the caliber of people we need in an agency such as ours is mostly professional or technical people and the funds would only be adequate to get 38 of the kind of people we need.

Senator SALTONSTALL. How long does it take you now to get an application processed?

AM BACKLOG

Mr. MINOW. Our biggest problem is in the AM radio field, not in the hearing stage as much as it is in the fact it is 14 months before we can pick up an application for a new AM radio. That is because of the engineering standards problem. We authorize perhaps 10 AM radio stations a week, and there are now 4,000 AM radio stations in the country.

Senator SALTONSTALL. Then the 14 months, if I applied, or Senator Magnuson in Washington, or Senator Allott in Colorado, applied for a new radio station or a new allotment, or whatever it is, it would be 14 months before I could get a hearing to know whether I could go forward with that or not?

Mr. MINOW. That is right.

Mr. KENNETH COX. Senator, if we were able to grant the application without a hearing it would take about 14 months. If it was found at the time of processing that a hearing was going to be re-

quired because there were mutually exclusive applications or because there were unresolved questions because of legal or financial qualifications or so on, then there would be the additional time required for the hearing. And this can vary depending upon the complexity of the case. But the backlog is such that these have to wait their turn in line subject to the rules that we work out as best we can to expedite and handling. And in the ordinary situation, where the Commission is able ultimately to grant the application without a hearing, it is approximately 14 months. And this has gone up somewhat, I think, from what it was a year ago.

Senator SALTONSTALL. 14 months before you grant the hearing?

Mr. KENNETH COX. Quite often we are able to grant the application without a hearing. But if we are going to have a hearing it probably is 14 months before.

Senator SALTONSTALL. It is 14 months even if you grant it without a hearing?

Mr. KENNETH COX. Yes.

Senator SALTONSTALL. So that a man who wants to build up a radio station, or get some capital to build it up, won't know for at least 2 years—

Mr. KENNETH COX. If we run into problems which would require a hearing.

Senator SALTONSTALL. At least 2 years?

Mr. KENNETH COX. Yes.

NEW CUTOFF RULE

Mr. MINOW. Senator, we have recently adopted a new rule. Actually it was done under Chairman Ford's direction. That is what we call the new cutoff rule which was just reviewed by the courts, which cuts off the time in which competing applications can be considered. We feel this will expedite a lot of our problems. Because until now we have had to wait a while to see if other people would apply or would interfere. And we feel this would be a very constructive step.

MORE PEOPLE TO REDUCE WAITING TIME

Senator SALTONSTALL. As a practical matter, then, Mr. Chairman, if you are going to make the FCC as effective as it can be, and avoid this criticism of long delays which I have heard so much about, would it be possible for you to say, if we granted any more of this \$125,000, the people we granted it for, to give you additional people, you would put on this work? Is that your top priority?

I have high regard for research and development, and putting satellites up into space and all that, but this is a practical realistic problem and going forward with our enterprise here in the United States.

Mr. MINOW. Right. Our plan is to put some of them into this work, and some of them into the safety and special services, which are non-broadcasters, which are growing faster than anyone else.

TOTAL APPLICATIONS

Senator MAGNUSON. That is even worse, safety and special services. All of the new industries, police, firemen—

Mr. MINOW. There are 400,000.

Senator MAGNUSON. There are 400,000 applications.

Mr. MINOW. A year. But some of them will go into this. Actually, we have under consideration the possibility of changing some of our rules. There are some people who feel we ought to revise our whole engineering standards in the AM radio field.

Senator SALTONSTALL. I do not know enough to argue on that. But I would think, Mr. Chairman, when we hear this argument year after year, and I get criticism from home and so on, that if the FCC was going to be really an efficient, up-to-date organization it ought to keep closer to its time schedule.

DELAYS IN COURT

Mr. MINOW. Right. We heard oral argument in a case the other day that, believe it or not, started in 1947. I was just horrified. Then I discovered it had gone through the courts three or four times. And this is why the delay has occurred. So sometimes it is not our fault, it is the litigation and constant going back and forth.

Mr. FORD. There is one additional factor that I think you should know about. That is, as the number of radio stations in the United States increases, the engineering difficulties of adding another one multiply.

Senator SALTONSTALL. You ain't telling a New Englander nothing. [Laughter.]

Mr. FORD. So this is responsible to a large extent for increased backlog.

Senator MAGNUSON. I think you need some more people down there, a very modest budget amount. And I think it is better to let the Commission place them than to evaluate this thing. Obviously some of them are going to be in the broadcasting end.

Mr. MINOW. Senator, we have roughly the same number of employees now that we had 10 years ago, and I think we have three times as many stations or better. Maybe four times as many stations. So that shows a picture of how this industry has grown.

Mr. KENNETH COX. Of course, the addition of these stations not only complicates the engineering, which Commissioner Ford has mentioned, with respect to making grants, but then there are supplemental applications. They modify their facilities, they are transferred, there are additional renewals. So that across the board the increase in the stations makes additional work for the Commission.

Senator SALTONSTALL. Mr. Chairman, I thank you for giving me this opportunity. That seems to me, as a simple layman, one of the most acute problems that you face.

PROPOSED ADDITIONAL SUPERGRADES

Senator MAGNUSON. Now, Mr. Chairman, one last question. You are plagued down there, I suppose, like any agency in the field, with supergrades and trying to get better people. I wish you would submit to the committee, the Commission rather, a proposal for the establishment of whatever you have, four or five. And for the record, give us a table on what you need to work on reducing the backlog.

Mr. MINOW. I would be very glad to do that.

(The information referred to follows:)

Additional manpower above House request required to reduce application backlog

Backlog in weeks	Man-years		Dollar increase ¹
	Increase	Total	
10.4.....	0	132.5	000
9.4.....	2.0	134.5	\$13,600
9.0.....	2.8	135.3	19,100
8.0.....	4.9	137.4	33,400
7.0.....	6.9	139.4	47,050
6.0.....	9.0	141.5	61,380
5.0.....	11.3	143.8	77,060
4.0.....	13.3	145.8	90,700
3.0.....	15.5	148.0	105,700
2.0.....	17.5	150.0	119,350
1.0.....	19.8	152.3	135,000
Current.....	21.5	154.0	146,600

¹ An additional 23 percent should be added to the dollar cost to cover "personnel benefits" and "other objects" expenses, including the cost of rental of office space.

Senator MAGNUSON. I wanted to tell you, though, this committee looks at these, and we understand some of the problems involved, but we are not the legislative committee on this matter and we have often put in one or two or three supergrades in obvious cases when they are needed and then we are subject, of course, to a point of order on the floor. But I want you to submit them so we can take a look at them.

Mr. MINOW. I am very grateful for the suggestion. Of course we are in competition with the other Government agencies and private industry and we cannot keep the best people.

Senator MAGNUSON. Sometimes these occasions arise before the legislative committee can act on them because they have so much work at the end of every Congress and they get a sort of overall bill when many times they are vitally necessary in between, before they can act. But we are subject to a point of order, and it is often made against us, on the ground we are usurping legislation on an appropriation bill. But we will look at them and lay a foundation.

Senator SALTONSTALL. Mr. Chairman, may I make an off-the-record remark on that?

Senator MAGNUSON. Yes.

(Discussion off the record.)

Senator MAGNUSON. If there are no further questions, we thank you all very much for coming. And we will recess and hear the Federal Power Commission this afternoon.

(Whereupon, at 12:20 p.m., the committee was recessed, to reconvene at 2 p.m., the same day.)

AFTERNOON SESSION—WEDNESDAY, JUNE 14, 1961

FEDERAL POWER COMMISSION

STATEMENT OF JEROME K. KUYKENDALL, CHAIRMAN, ACCOMPANIED BY FREDERICK STUECK, COMMISSIONER; HARRY J. TRAINOR, EXECUTIVE DIRECTOR; JOHN C. MASON, GENERAL COUNSEL; RUSSELL C. RAINWATER, CHIEF ACCOUNTANT; CARL T. KALLINA, CHIEF, BUREAU OF RATES AND GAS CERTIFICATES; FRANCIS L. ADAMS, CHIEF, BUREAU OF POWER; MILTON A. PILCHER, DIRECTOR OF ADMINISTRATION; AND THOMAS F. CASHELL, CHIEF, DIVISION OF BUDGET AND FINANCE

BUDGET REQUEST

Senator MAGNUSON. The committee will come to order.

We have the Federal Power Commission today.

And for the purposes of the record, the Power Commission fiscal 1961 appropriations was \$8,163,500. The January budget and the amended budget, both budgets will raise that to \$8,793,000. And the House recommended that amount, which is a plus \$629,500. And there is no suggested change.

The Chairman of the Commission has a short statement.

We will be glad to hear from you, Mr. Chairman.

And we will put the letter in the record.

(The letter referred to follows:)

FEDERAL POWER COMMISSION,
Washington, June 7, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee in charge of the Independent Offices Appropriation Bill for 1962, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In reply to your letter of June 2, 1961, the Federal Power Commission appreciates the opportunity to appear before the Subcommittee in charge of the independent offices appropriation bill for 1962. As requested by the clerk of the subcommittee, we are preparing to present our budget justification to you at 2 p.m. on June 14, 1961.

The appropriation bill as reported to the House would provide the Commission the full amount requested. We propose no changes at this time.

Sincerely yours,

JEROME K. KUYKENDALL, *Chairman.*

GENERAL STATEMENT

Mr. KUYKENDALL. Mr. Chairman, and members of the committee, the Federal Power Commission has asked the Congress to appropriate \$8,793,000 for its use during fiscal year 1962. This is \$629,500 more than the \$8,163,500 appropriated for fiscal year 1961. The increase will provide for an additional 82 positions, or 60 man-years, and for additional travel and other costs generally related to the proposed staff increase. Most of the increase is for natural gas case-work with a small amount for additional non-Federal hydroelectric project work. As you know, the House has approved the amount requested.

TRAVEL LIMITATION

Senator MAGNUSON. Did the House put any travel limitation on the commission?

Mr. KUYKENDALL. Yes. I think it is the highest travel limitation we have ever had.

Senator MAGNUSON. \$558,000?

Mr. KUYKENDALL. I believe that is it.

Senator MAGNUSON. Yes, that is in the bill.

ESTIMATE FOR NATURAL GAS INDUSTRY

Mr. KUYKENDALL. The estimate includes \$4,765,400 for natural gas industry work, an increase of \$523,500 over 1961. This will provide an increase of 74 positions—18 for processing certificate applications and 56 for handling rate matters. However, additional staff alone is not the full answer to our backlog problems and the commission will continue its efforts to develop broad substantive and operational policies contributory to the more rapid processing of certificate and rate matters. An example of broad substantive policy change is the initiation in September 1960 of a plan for determining prices on an area basis for sales of natural gas sold in interstate commerce by independent producers. Preparations are being made for areawide hearings for the purpose of determining just and reasonable rates for sales of natural gas produced in the Permian Basin and Southern Louisiana areas. Prehearing conferences for the Permian Basin already have been held in Midland, Tex. and in Washington, D.C., and formal hearings are scheduled to begin in October 1961. Prehearing conferences for the Southern Louisiana area are scheduled to begin June 26, 1961, in Baton Rouge, La. On the basis of economic and other data submitted by producers and other interested parties, the commission expects to develop rate standards for the two areas. These standards should substantially reduce the need for individual proceedings in producer rate cases. However, the many complex problems attending the development of rate standards will not be resolved quickly, and because of this we do not anticipate an early reduction in the commission's workload of independent producer rate cases.

GROWTH OF GAS FACILITIES

Natural gas industry facilities are growing at the rate of \$2 billion annually. The present staff is too small to process applications for certificates of public convenience and necessity as expeditiously as is desirable, and the rate of new applications is not expected to change. The commission believes that the importance of natural gas service to the Nation's economy requires adding manpower to reduce the backlog of applications and keep current with new filings. Nevertheless, we presently have underway a comprehensive study of our methods of processing certificate applications which should result in improved procedures.

There were 131 natural gas pipeline company rate cases pending at the end of April 1961 involving increases of \$388 million annually. There were 50 new pipeline company rate cases filed in fiscal year 1960. While it appears that the number of new cases in 1961 may be

lower, our best judgment is that we will have about 50 new rate cases in 1962. There were 2,520 independent producer rate cases—

Senator MAGNUSON. When you say the natural gas pipeline company rate cases, that involves a broader concept of rate cases. Would that be what we call an area rate case?

Mr. KUYKENDALL. No, that would be the rate case of a separate company, a long distance transmission company.

Senator MAGNUSON. Transmission. I see.

As differentiated from the independent producer rate cases.

RATE CASES PENDING

Mr. KUYKENDALL. Right.

There were 2,520 independent producer rate cases pending at the end of April 1961 involving increases of \$171 million annually. Additional staff is required to handle the pipeline company and independent producer rate work.

In both certificate and rate cases we are emphasizing the use of conferences prior to and during hearings and the use of prepared testimony to shorten our hearings. We have amended our rules of practice and procedure and regulations under the Natural Gas Act to shorten hearing time and hearing records. The rules provide for the expanded use of conferences between the parties to the proceeding and the staff at any stage of the hearing in an effort to limit the hearing only to those controversial issues which cannot otherwise be resolved.

Senator MAGNUSON. Now, this procedure generally follows the Federal court procedure of prehearing?

Mr. KUYKENDALL. Yes, the principle is the same.

Senator SCHOEPEL. May I ask, does this involve and contemplate intervenors, too?

Mr. KUYKENDALL. Yes, they are present.

Senator SCHOEPEL. That is after the appearance picture has been determined?

Mr. KUYKENDALL. Yes, after the case has been noticed and the parties have had a chance to appear.

In addition, the rules now limit the length of hearing recesses and postponements to periods of not more than 30 days unless approved by the commission. These actions should do much to speed up the process of reaching decisions in rate and certificate cases.

FUNDS FOR NON-FEDERAL HYDROELECTRIC PROJECT

The commission estimates that it will need an increase of \$58,100 over 1961 for Non-Federal Hydroelectric Projects work. This will provide a staff increase of six positions for headwater benefit determinations. These determinations relate to benefits received downstream from upstream projects, with the Federal Government being the major recipient of payments for such benefits. The determinations are required under the Federal Power Act, and the cost of making them is reimbursed in full by the non-Federal interests involved. We believe it is good business practice and to the advantage of all parties that these determinations be made within a reasonable time. The amount requested would permit processing 17 investigations carried over into 1962 and starting 4 new investigations.

NO PROCEDURE CHANGE CONTEMPLATED

Senator MAGNUSON. Now, this wouldn't in any way interfere or duplicate or change the procedure because we do expect—I think the Chairman of the Commission is generally familiar with this—to have, if possible, some new legislation on upstream-downstream benefits. But that still wouldn't interfere with the Power Commission having the investigations ready so that we could have some guidelines?

Mr. KUYKENDALL. No, we could go right ahead with those regardless of legislation which might change the details.

Senator MAGNUSON. Yes.

Mr. KUYKENDALL. Although we are not requesting increases for other licensing work, no reduction in the workload of processing applications for hydroelectric projects or in the investigation of unlicensed projects is anticipated in 1962.

The Commission plans to continue Federal river development projects work at substantially the same level. Also, no change in 1962 is proposed in the level of work in our International Joint Commission and Administration activities. A nominal increase of two positions is proposed for the electric power industry work to permit the staff to maintain a more current position with respect to data on the power industry.

PERSONNEL INCREASE

I believe this explains the increased amount we have requested. We have been successful in our employment program this year and are convinced that the additional staff proposed for 1962 can be recruited, trained, and utilized productively. Thank you.

Senator MAGNUSON. Now, you say that the increase allowed by the House will provide for an additional 82 positions, and then in the next paragraph you say that the work in the natural gas industry will provide an increase of 74 positions. Is that included in the 82, or is that added?

Mr. KUYKENDALL. That is included.

Senator MAGNUSON. That is included.

So that of the 82 positions—and correct me if this isn't right—74 are going to be in the natural gas industry work?

Mr. KUYKENDALL. That is true.

Senator MAGNUSON. Where you have constantly your biggest backlog, particularly in the rate cases.

Mr. KUYKENDALL. That is right.

Senator MAGNUSON. I have no questions.

The Senator from Kansas has two or three questions he wants to ask.

HEARING EXAMINERS

Senator SCHOEPEL. I would like to ask a couple of questions at this stage of the proceedings of these gentlemen.

Mr. Chairman, the Federal Power Commission's statement to the Senate Appropriations Committee on June 6, 1960, in justification of its 1961 budget contained these two paragraphs. I will read them briefly:

The Federal Power Commission has one other problem which should be brought to the attention of this committee because it directly affects both

staffing and production. That problem is the need for more supergrade positions than have been made available to us by the Civil Service Commission.

The other recommendation:

One phase of this problem pertains to our hearing examiners. As you know, the grades for these positions are determined independently by the Civil Service Commission pursuant to the Administrative Procedure Act, and hence we have not presumed to suggest a specific grade. But we are confident that the complexity of cases coming before hearing examiners of the Federal Power Commission is such as to warrant grades above GS-15 at which they presently are allocated. We urge that 14 additional supergrade positions be provided in order that the Civil Service Commission may correctly allocate our hearing examiner positions.

Now, with reference to this increased load that we have in the gas phase of your Commission's determination, and what you have indicated in your statement—I will point out, of course, that I was not a member of the Appropriations Committee of the 86th Congress, but it is my understanding that this committee inserted language in the Federal Power Commission budget appropriation for 1961 providing for six additional supergrades, four in GS-18, one in GS-17, and one in GS-16, and none, however, for the hearing examiners.

Now, this is a question I would like to ask: Is this the present situation, now, with regard to the hearings examiners in the Federal Power Commission?

Mr. KUYKENDALL. Yes. The situation is still the same, they are all GS-15.

Senator MAGNUSON. How much is that? How much does that pay?

Senator SCHOEPEL. GS-15 runs from \$13,730 to \$15,030, I believe.

Mr. KUYKENDALL. I couldn't verify that from memory, but I think that is correct.

Senator SCHOEPEL. I am reading from the grade-level card.

REQUEST FOR GS-18 POSITIONS

Now, further, it is my understanding that you wrote a letter—addressing this to you, Mr. Kuykendall—wrote a letter to the Civil Service Commission, and I seem to recall that it was in March of this year, calling their attention to the serious pay situation of the Federal Power Commission hearing examiners and requesting the immediate allocation of 15 GS-18 positions for these hearings examiners.

Now, has the Civil Service Commission acted on your request, as far as you know now?

Mr. KUYKENDALL. No, it hasn't acted in regard to giving us a supergrade of any kind for our examiners.

Senator SCHOEPEL. The reason I felt that I wanted to raise this is because here is this big load that is down there, and you gentlemen on this Commission are attempting to approach it realistically, as indicated here in your statement, and if we are ever to get that backlog off, it is going to take a lot of work, not only on the part of you men here on the Commission, but the hearing examiners. Those hearing examiners—and I know something about some of them—in my judgment, of course, are in a quasi-judicial capacity of determining matters of as high and equal purport at times as Federal judges.

And I think to get good men and hold good men down here—and we are going to have this problem, as I view it, for years to come, be-

cause this is a growing industry, and the public interest is involved and it involves a lot of years that are going to come up for determination—and I just have a feeling that somewhere down the line something should be worked out to increase these grades for these Federal Power Commission examiners, because of the importance that is attached to it, and the responsibility which they are taking and will take in the future under what you men here have in contemplation.

That is the reason I raised the question here.

Mr. KUYKENDALL. Well, I would like to repeat that all of us are eternally grateful to this committee for enabling us to get the supergrades that we did get last year.

Senator MAGNUSON. You got six.

Mr. KUYKENDALL. Yes.

Senator MAGNUSON. But we got away with it without a point of order.

Go ahead.

TOTAL EXAMINERS

Mr. KUYKENDALL. Incidentally, Mr. Trainor can give me the figure, but we now—we soon hope to have how many examiners, Mr. Trainor?

Mr. TRAINOR. We have 15, and we have 1 resignation pending. We need 3 more, 1 to fill the vacancy and I think we need 2 additional ones, in other words, 17.

Senator SCHOEPEL. Now, will you need an additional hearing examiner other than what you have mentioned here if you approach this load factor as rapidly as you expect to?

Mr. KUYKENDALL. I believe so. Even if we are successful beyond our greatest hopes with this area pricing it will be a continuing matter. You know prices can't be static, and there will be hearings from time to time. And I pointed out how many pipeline rate cases we have, and we have a great volume of certificate cases, both for the pipelines and for the producers.

Senator MAGNUSON. Let's clear this up, Senator Schoepfel.

You have got how many now in this grade?

Mr. KUYKENDALL. We have 15 in grade 15.

Senator MAGNUSON. And that was with the additional six we gave you last year?

SUPERGRADE POSITIONS

Mr. KUYKENDALL. None of those six positions were for hearing examiners. They weren't touched by this.

None of them are supergrades.

Senator MAGNUSON. I see.

But you have 15 now.

They are not in supergrades?

Mr. KUYKENDALL. No, they are in the highest grade below supergrades.

Senator MAGNUSON. And what you are suggesting is that you put them in supergrades, and add two more?

Mr. KUYKENDALL. That is correct; that is Senator Schoepfel's proposal, as I understand it.

Senator SCHOEPEL. That is right.

Senator MAGNUSON. And that would amount to the difference between the pay of the lowest and the next grade only?

Mr. KUYKENDALL. No; we recommended to the Civil Service Commission, as Senator Schoeppel quoted, promotion to grade 18. They are now grade 15.

COST OF UPGRADING

Senator MAGNUSON. So the difference—they are going to ask us, how much is this going to cost—and the difference would be what they get now in grade 15 and what they would get?

Mr. KUYKENDALL. I think it would be just \$5,000 a year a piece.

Senator SCHOEPEL. Mr. Chairman, I think it will run approximately \$52,000 for the Federal Power Commission to make that increase, I believe I am right on that.

Mr. KUYKENDALL. It could be about \$85,000, if it is \$5,000 for a fiscal year. Of course, we are using—

Senator MAGNUSON. I say, if we put this in, we will have to add it to the bill.

Mr. KUYKENDALL. That is right.

Senator MAGNUSON. That is why I wanted the figure.

Will your furnish the record with the figure?

Mr. KUYKENDALL. I think that is correct.

Mr. TRAINOR. We have hearing examiners at the top of the grade. We have two that I can think of, and we have others that are in the various steps. So it wouldn't be exactly the difference between the first and the steps of the two grades. We would have to compute it.

Senator MAGNUSON. Get that for the record, so if the committee should decide to do this, we will know how much more money we will have to add to the bill.

Mr. KUYKENDALL. We will get that promptly.

(The information referred to follows:)

The 1962 budget for 17 hearing examiners in grade GS-15, ranging from \$13,730 to \$15,030 per annum will cost \$249,000. The cost of 17 hearing examiners in grade GS-18, at \$18,500 per annum, would cost \$314,500 or \$65,500 additional.

LEGISLATION NEEDED

Senator MAGNUSON. Let me ask you this: Can the Civil Service do this by administrative action?

Mr. KUYKENDALL. I don't believe they can. I don't think they have the positions.

Senator MAGNUSON. I think the legislative committees ask for their recommendations, or they may recommend it. But I think you have got to go through the legislative committee, which takes some length of time.

Senator SCHOEPEL. I had understood, Mr. Chairman, that in that omnibus measure that has been submitted, or will be submitted, that they have got several hundred that are involved if they are successful in it. But heretofore the Federal Power Commission examiners have lagged in this advancement, and I think, just the way it looked to me, as if there were a great difference in the salaries they were getting in proportion to the responsibility of the work that they were doing under the Federal Power Commission's direction.

Senator MAGNUSON. You will find out through these independent agencies that some of them are up and some of them are down, it depends on whether they got through here with some supergrades. And

no point of order was made, and there has been no overall approach on it. But the facts have dictated that something like this will be done. And surely they are dictated in this important work.

Mr. KUYKENDALL. Well, 8 years ago we had no supergrades at the Federal Power Commission. By continued effort we now have 20, but not a one of those is an examiner, and actually, we feel we need about 6 more on the other staff, too.

Senator MAGNUSON. You submit to us what the Senator from Kansas suggested, and get the exact figures so we will know what to put in the bill.

Mr. KUYKENDALL. We will do that very promptly.

RATE CASES PENDING

Senator SCHOEPEL. I just had one other question to ask, Mr. Chairman, before I have to leave here.

And that was up here on your—I think it was on the second page of your statement:

There are 131 natural gas pipeline company rate cases pending at the end of April 1961 involving increases of \$388 million annually.

Now, I take it that in those applications that you have there, in those cases pending, you may have a good many of those rate increase cases by the same pipeline company; do you not, or is this independent?

Mr. KUYKENDALL. There are not 131 different companies involved.

Senator SCHOEPEL. I wanted to clarify that.

Mr. TRAINOR. Forty-five.

Mr. KUYKENDALL. Forty-five companies.

Senator SCHOEPEL. Forty-five companies involved in these 131 cases.

Thank you, that is all I wanted to ask.

Senator MAGNUSON. The Senator from Colorado?

SPEEDUP OF PROCESSES

Senator ALLOTT. I have been very interested in your remarks, Mr. Kuykendall, about the matter we went into last year, which was finding ways of speeding up these processes. But you haven't been too specific as to results yet. And have you found out that these new methods that you have put in, the new order of procedure, are actually tending to speed these up and help you, or are you just letting it sit?

In other words, I hope you won't neglect to do anything which will speed up these cases.

Mr. KUYKENDALL. Senator Allott, we started our efforts to speed up all our work years ago, and we can give you figures, if you want, to show you the increased efficiency of the Commission over recent years.

A lot of people wouldn't believe that because we have such a backlog. But it is true.

And we are getting a much greater amount of work per man out of the Commission, overall, than we did years ago.

Mr. Trainor, could you think of how you could readily demonstrate that by submitting information if Senator Allott wants it?

Mr. TRAINOR. In our gas certificate cases for independent producers, our actual production per man year to date this year has been 33.5 cases, where as we estimated that our production for this year would be 32.5 cases.

Of course, the estimated production was based on past history to an extent.

That gives you an indication of the improvement in that particular area, that is, the gas certificate cases for independent producers.

PROCEDURAL REFORMS

Senator ALLOTT. Now, I noted your reference, for example, to certain procedural reforms you had instituted. Do you feel that these have been effective?

Mr. KUYKENDALL. Oh, yes; I do. But the impact isn't so apparent, because of the great backlog, this deluge of work we have had since the Supreme Court decided in 1954 in the *Phillips Petroleum* case that the producers were under our regulation, and the various uncertainties in the law have made a great amount of litigation which is in progress and which will continue, apparently, for some years to come, too.

Senator ALLOTT. Now, turning to another matter which I will cover very briefly—

Senator MAGNUSON. I just don't want to leave this.

I do hope we can do something here, because a Senator just told me upstairs that there is a case up there from his home State that has been filed, and at the present rate of procedure in the gas case that it would be to the year 2000 before they got to it. I don't know how accurate that is, but, nevertheless, it is quite startling to know the backlog of these cases.

Mr. KUYKENDALL. We said something even more startling in our Phillips decision last fall, where we determined and said officially that we couldn't continue to regulate the price of gas sold by producers on a case-by-case basis. We calculated that if we kept on at the rate we were going in processing those cases, even though we tripled our staff, it would take us over 80 years. So we are using different methods and hoping the courts will sustain us.

SOUTHERN NATURAL GAS CASE

Senator ALLOTT. Now, it is my understanding that you have had GSA before you only in one case, and that is the Southern Natural Gas.

Mr. KUYKENDALL. That is the only one I know of, Senator.

Senator ALLOTT. And in this case they presented evidence on the cost of capital which would satisfy the minimum requirements of a nonconfiscatory rate of return, or the floor of a range of fair rate of return.

Is that correct?

Mr. KUYKENDALL. I believe that is.

Senator ALLOTT. Now, the thing that I want to get at, in that case GSA actually left out—and maybe if you are not personally acquainted with this—GSA left our several million dollars worth of the

company's outstanding obligations. I will read you from the Commission's opinion of July 8, 1960, at pages 24 FPC page 28:

GSA—

I insert "GSA" myself—

understates the cost of debt securities outstanding at the time of hearing and understates the cost of debt which Southern will experience because of the failure of this method to reflect the fact that earlier low-cost debt has, in large part, been certified.

And then continuing at another point:

Nor are we persuaded that the dividend price ratios employed by GSA witnesses are a better measure of investor requirements than earnings price ratios heretofore utilized by the Commission. We can find no good reason for departing from the Commission's practice of using earnings price ratios with judgment as an indication of a proper return on common equity.

I presume that is still the policy of the Commission.

Mr. KUYKENDALL. Yes, it is.

COMPLAINTS ON GSA PARTICIPATION

Senator ALLOTT. Now, the reason I ask this question is this, that more and more complaints and objections are coming to my office as to the participation of GSA, not as a consumer, representing the U.S. Government but in an actual attempt to assume in effect a part of the ratemaking functions of various commissions. And I would like to ask this question, whether or not the policy and the function of the GSA in an appearance before the Commission, the Federal Power Commission, is that of a consumer, to wit, the U.S. Government?

Mr. KUYKENDALL. Well, Senator, that is a difficult question to answer. And I might say I have some familiarity with this. I have heard this problem discussed at the meeting of the National Association of Railroad Utilities Commissioners, the organization of State regulatory commissioners. A number of those commissions have been apparently annoyed with GSA, but I find it pretty hard to separate the customer interest from the—for example, in this case you mentioned the rate of return. If the GSA could have persuaded the Commission to follow its theories, why then, there would have been a little bit lower rate of return, which would redound to them as a customer. And that is one of the problems we have in all these cases.

Senator ALLOTT. But if they had been able to persuade the Commission in this respect, actually it would have resulted eventually in—while it would have resulted in a lower rate for the Government, perhaps, it would have resulted eventually in higher rates for the rest of the consuming public, would it not?

Mr. KUYKENDALL. Well—

Senator ALLOTT. It would have had to, you have got to take it from somewhere.

Mr. KUYKENDALL. That is true, these companies have to get so much income so they can maintain their stability and be able to attract capital for expansion. You can't deprive them of essential income and still expect them to maintain service.

ATTITUDE ON GSA PARTICIPATION

Senator ALLOTT. You speak of this matter as if it were a very tender subject.

I feel very strongly about it, that it is up to the Federal Power Commission to set these rates, and I am opposed to the GSA setting up, in effect, its own power commission in this field, or its own commission in other fields in rate fields, and superimposing itself as a superpowered advisory board to the commissions which Congress has established to handle these matters.

Mr. KUYKENDALL. Well, I agree with you, that in that case they introduced evidence of a nature which our staff always introduces; that is in regard to cost of money and rate of return to be derived from the use of that. They covered that same ground in a different way and came up with a different answer.

Senator ALLOTT. But the answer, according to your own decision or opinion, was that they had understated by several million dollars the debt which Southern Natural Gas Co. owed at that time.

Mr. KUYKENDALL. Yes.

Senator ALLOTT. Now, let me ask this one last question, I hope it will be the last one.

QUALIFICATION OF STAFF

Do you feel that your staff is qualified and is sufficient to advise you as to the rate of earnings that a given company would have to establish in order to meet its minimal requirements and continue in business?

Mr. KUYKENDALL. Yes, I do.

I think we have a very sincere and devoted staff. I will go so far as to say I think they are better qualified than the GSA staff.

Senator ALLOTT. I don't say I concur with you wholeheartedly in that.

That is all.

Senator MAGNUSON. If there are no further questions, thank you very much.

And bring all that data in.

(The data referred to follow:)

Comparison of disposition of natural gas cases during first 11 months of fiscal year 1960 and fiscal year 1961

	Number of cases completed		Number of man-years		Number of cases completed per man-year	
	Fiscal year 1960	Fiscal year 1961	Fiscal year 1960	Fiscal year 1961	Fiscal year 1960	Fiscal year 1961
Certificates:						
Pipeline.....	283	289	76.6	79.1	3.7	3.7
Independent producers.....	1,285	1,402	41.4	41.9	21.0	33.5
Rate cases:						
Pipeline.....	14	25	88.3	118.8	.16	.22
Independent producers.....	374	304	127.7	112.8	2.9	2.7

¹ On Dec. 23, 1960, the Commission issued its order in Docket AR61-1 et al. which instituted an area rate hearing consolidating nearly 400 rate matters involving sales made in the so-called Permian Basin area. A similar order was issued on May 10, 1961, consolidating 331 rate matters involving the southern Louisiana area. Because these matters are to be disposed of as a group rather than on an individual basis, completion of some cases since December have been delayed pending disposition of these hearings.

Increased efficiency in the disposition of independent producer matters is shown by comparison of data for the first 6 years of regulation, the last 3 full years, and the first 11 months of fiscal year 1961.

Comparison of disposition per man-year of independent producer rate and certificate matters fiscal years 1955-60; fiscal years 1958-60, and 11 months fiscal year 1961

	Number of cases completed per man-year		
	Fiscal years 1955-60	Fiscal years 1958-60	11 months fiscal year 1961
Independent producers:			
Certificate cases.....	23.6	28.1	33.5
Rate cases.....	1.3	1.7	2.7

COMMISSION CASELOAD CURRENT

MR. KUYKENDALL. I would just like to say one thing, Senator. We members of the Commission don't believe people generally understand this, but this particular backlog we have is not with the Commissioners themselves; we are almost completely current, and we soon will be. We have two cases, one of them, I think, is almost ready for disposition, leaving us with only one case. All the other matters before the Commission are current. It is our beleaguered staff which has the backlog.

Senator MAGNUSON. Thank you very much, gentlemen.

We will recess to tomorrow, when we have the Federal Trade Commission, the Federal Home Loan Bank, General Accounting Office, and the ICC.

(Whereupon, at 3:40 p.m., Wednesday, June 14, 1961, the committee recessed, to reconvene at 10 a.m., Thursday, June 15, 1961.)

INDEPENDENT OFFICES APPROPRIATIONS FOR 1962

THURSDAY, JUNE 15, 1961

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:15 a.m., subject to call in room F-37, U.S. Capitol Building, Hon. Warren G. Magnuson (chairman) presiding.

Present: Senators Magnuson, Robertson, Allott, Schoeppel, Young, Smith, and Bridges.

FEDERAL TRADE COMMISSION

STATEMENT OF PAUL RAND DIXON, CHAIRMAN, ACCOMPANIED BY ROBERT T. SECREST, COMMISSIONER, WILLIAM C. KERN, COMMISSIONER, AND WILLIAM P. GLENDENING, COMPTROLLER

AMENDMENT AND JUSTIFICATION

Senator MAGNUSON. The committee will come to order.

We have the Federal Trade Commission appearing before us this morning. For the purpose of the record, the 1960 fiscal budget was \$8,900,500. The first budget submitted for fiscal 1962 is \$9,640,000, and then that was amended to make it \$10,690,000.

The House bill recommended \$10 million, which is \$1,900,000 over the 1961 budget, but \$690,000 under the amended budget.

We have the Chairman of the Federal Trade Commission here and we will place in the record the letter that you sent the committee, Mr. Chairman, and also your letter on the amended budget.

(The letter referred to follows:)

FEDERAL TRADE COMMISSION,
Washington, D.C., June 8, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of Independent Offices Appropriations, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: I have your letter of June 2, 1961, concerning the independent offices appropriation bill for 1962 for the Federal Trade Commission as reported by the House Appropriations Committee.

We request that H.R. 7445 be amended on page 15, line 2, by striking the figure "\$10,000,000", and substituting "\$10,690,000".

The increase for fiscal year 1962 of \$2,680,500 recommended by the President is predicated upon (1) \$1,630,500 to provide additional staff to handle the ever-increasing volume and backlog of the work of the Commission. Pending investigations are now equivalent to more than 1½ years of work by the present staff; and (2) \$1,050,000 to comply with the Attorney General's request that the Commission conduct investigations into 56 court decrees of antitrust law

violations, as required by section 6(c) of the Federal Trade Commission Act. Incidentally, these 56 decrees represent a span of 20 years.

House Report No. 449 states that our request for \$190,000 for rental of additional office space be reduced to not in excess of \$100,000. This limitation will barely provide the additional space which is required in Washington and will allow nothing for additional space necessary for the expansion of our field office staffs for which substantial funds are included in the bill and in our request for restoration.

The reduction of \$690,000 proposed by the House amounts to a reduction of 25.7 percent of the Commission's requested increase. This reduction would eliminate 54 positions and \$420,000 from the increases proposed for the regular Federal Trade Commission programs and 22 positions and \$270,000 from the enforcement investigations program requested by the Attorney General.

I previously stated that the volume and backlog of the Commission's work are at an unprecedented level. As of May 31, 1961, pending investigations total 2,519 as compared with 1,808 1 year ago—an increase of 39 percent. Restraint of trade investigations totaled 1,203 on May 31, 1961, as compared with 931 1 year ago—an increase of more than 29 percent. Deceptive practices investigations have also risen to 1,316 from 877—an increase of 50 percent. The formal caseload in the restraint of trade field also reflects a sharp increase. During the first 11 months of the current fiscal year the Commission issued 117 restraint of trade complaints and 97 cease and desist orders, as compared with 98 complaints and 35 orders during the same period last year.

We have been advised that my appearance before your subcommittee has been scheduled for June 15, at which time I will be able to present more detailed explanations of the remarks.

With kindest regards, I am,
Sincerely yours,

PAUL RAND DIXON, *Chairman.*

FEDERAL TRADE COMMISSION,
Washington, D.C., April 28, 1961.

HON. ALBERT THOMAS,
*Chairman, Subcommittee on Appropriations for Independent Offices,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: Section 6(c) of the Federal Trade Commission Act states:

"Whenever a final decree has been entered against any defendant corporation in any suit brought by the United States to prevent and restrain any violation of the antitrust acts, to make investigation, upon its own initiative, of the manner in which the decree has been or is being carried out, *and upon the application of the Attorney General it shall be its duty to make such investigation.* It shall transmit to the Attorney General a report embodying its findings and recommendations as a result of any such investigation, and the report shall be made public in the discretion of the Commission. [Italic supplied.]

On March 24, 1961, in accordance with the above statute, the Attorney General made application for this Commission to make an investigation into 56 listed cases. A copy of the Attorney General's letter is attached.

The Federal Trade Commission welcomes the inauguration of a new era of cooperation with the Attorney General in his efforts to insure a more effective enforcement of these antitrust decrees. This is a new program insofar as our operational budget request for 1962 is concerned, and our compliance with the Attorney General's request will depend entirely upon funds to be appropriated specifically for this work.

This statutory function has been invoked on only three occasions in the past—1936, 1938, and 1952. This type of investigation is the most difficult, painstaking, and time consuming of all the Commission's work and requires the assignment of the most capable and experienced employees. The 1936 investigation, which involved a decree against the Standard Oil Co. of California, required the assignment of 10 of the Commission's most qualified personnel, including attorneys and accountants, who spent the greater part of 1 year (most of which was on the west coast), to complete the investigation and submit the report. In 1952 the Attorney General made application for investigation of a decree against the American Optical Co. Five attorneys were assigned to this case for more than 15 months. These examples readily highlight the tremendous responsibility and workload placed upon this Commission by the Attorney General's

application. In addition, we have been advised informally that additional applications will be forthcoming.

It is obvious that there is relatively little experience in this field upon which to base precise estimates of time elements and manpower requirements. While it is true that some of the 56 investigations could be completed in a shorter time than cited in the examples, many of these investigations will entail the assignment of far more manpower and will consume a greater amount of time than has yet been experienced. It is obvious therefore that additional funds to provide the extra manpower must be provided if this work is to be accomplished with reasonable dispatch.

After a thorough study of all of the facts and circumstances presently available, we submit herewith our request for additional funds for fiscal year 1962 to provide for 88 additional employees (74 professional and 14 clerical), together with supporting costs, travel, and general operating costs amounting to \$1,050,000 as set forth in detail in the attached schedules and in the following paragraphs. This increases the total funds requested for operations of the Federal Trade Commission for the fiscal year 1962 to \$10,690,000.

11 Personnel compensation:

The cost of 74 professional and 14 clerical employees lapsed to provide for delays in hiring, etc., is estimated to be \$700,000, which will provide 77 man-years of employment. As heretofore explained, the grades of these employees are somewhat higher than would usually be provided because the nature of the work requires experienced and extremely capable personnel.

A detailed summary of the positions requested by grade and title is as follows:

	Attorneys	Economists	Accountants	Clerical	Total
GS-15.....	6	1			7
GS-14.....	8	6	4		18
GS-13.....	8	3	6		17
GS-12.....	10				10
GS-11.....	10				10
GS-9.....	12				12
GS-5.....				4	4
GS-4.....				6	6
GS-3.....				4	4
Total.....	54	10	10	14	88

12 Personnel benefits:

This sets forth the estimated costs of \$45,000 for civil service retirement and \$8,000 for employees life and health insurance.

21 Travel and transportation of persons:

Experience to date has revealed that travel costs in this type of work are high. The estimate of \$200,000 provides only 100 days of travel for 74 professional employees at the current cost. Should pending legislation which raises the per diem rate be passed, this travel time would be reduced to approximately 90 days per man.

22 Transportation of things:

Activation of this program will necessitate the shifting of manpower between the various field offices and Washington. The estimated cost of moving employee household goods is \$5,000.

23 Rents, communications, and utility services:

Additional telephone and communications services are estimated at \$3,000.

Space will have to be leased for quarters for the 88 additional employees. The cost of \$50,000 is based upon current estimates from the General Services Administration.

25 Repairs and building alterations:

Moving partitions and other alterations of office space together with other moving costs are estimated at \$5,000.

26 Supplies and materials..... \$10,000

31 Equipment..... 24,000

These amounts will be required to provide the additional office supplies, paper, duplicating materials, etc., as well as desks, chairs, other office furniture, typewriters, adding and calculating machines, and other office equipment.

Our request for additional funds to undertake this enforcement program has the support of the Attorney General as evidenced by his letter of April 18, 1961, which is attached.

Respectfully submitted.

PAUL RAND DIXON, *Chairman.*

FEDERAL TRADE COMMISSION

Budget page	Heading	Original estimate	Revised estimate	Increase
166	Federal Trade Commission: Salaries and expenses..	\$9,640,000	\$10,690,000	\$1,050,000

Program and financing

[In thousands]

	Original estimate	Revised estimate	Increase, 1962
Program by activities:			
Operating costs:			
1. Antimonopoly:			
(a) Investigation and litigation.....	\$4,204	\$4,204	-----
(b) Economic and financial reports.....	711	711	-----
(c) Trade practice conferences, industry guides, and small business.....	150	150	-----
(d) Compliance investigations for the Attorney General.....		1,050	\$1,050
2. Deceptive practices:			
(a) Investigation and litigation.....	2,395	2,395	-----
(b) Trade practice conferences, industry guides, and small business.....	300	300	-----
(c) Textile and fur enforcement.....	896	896	-----
(d) Lanham Act and insurance.....	1	1	-----
3. Executive direction and management.....	503	503	-----
4. Administration.....	480	480	-----
New obligational authority (appropriation).....	9,640	10,690	1,050

[In thousands]

Object classification	Original estimate	Revised estimate	Increase, 1962
11 Personnel compensation:			
Permanent positions.....	\$7,925	\$8,625	\$700
Other personnel compensation.....	12	12	-----
Total personnel compensation.....	7,937	8,637	700
12 Personnel benefits.....	596	649	53
21 Travel and transportation of persons.....	441	641	200
22 Transportation of things.....	8	13	5
23 Rents, communications, and utility services:			
Rents.....	186	236	50
Communications.....	89	92	3
24 Printing and reproduction.....	50	50	-----
25 Other services.....	19	24	5
Clinical testing.....	85	85	-----
Stenographic reporting.....	38	38	-----
Topical digest of decisions.....	18	18	-----
26 Supplies and materials.....	106	116	10
31 Equipment.....	67	91	24
Total obligations.....	9,640	10,690	1,050

Personnel summary

	1960 actual	1961 estimate	Revised 1962 estimate
Total number of permanent positions.....	754	823	1,119
Average number of employees.....	747	815	1,090
Number of employees end of year.....	782	950	1,100
Average GS grade.....	9.2	9.2	9.1
Average GS salary.....	\$7,631	\$8,155	\$7,858

OFFICE OF THE ATTORNEY GENERAL,
Washington, D.C., March 24, 1961.

HON. PAUL RAND DIXON,
Chairman, Federal Trade Commission,
Washington, D.C.

DEAR MR. DIXON: In accordance with the provisions of section 6(c) of the Federal Trade Commission Act (15 U.S.C. sec. 46(c)) application is hereby made to the Federal Trade Commission for an investigation of the manner in which the judgments in the attached list of cases have been and are being carried out.

For the purposes of such investigations, representatives designated by the Federal Trade Commission to make the investigations are hereby duly authorized to act as representatives of the Department of Justice pursuant to the sections of the respective judgments giving certain visitation and interview rights. Supplemental written authorization will be provided for such representatives upon request of the Commission by the Assistant Attorney General in charge of the Antitrust Division.

As you are aware, the statute hereby invoked has been virtually unused since its enactment in 1914. There are, therefore, no precedents or liaison procedures established for this reference. It is suggested that you instruct the appropriate members of your staff to communicate directly with the Assistant Attorney General in charge of the Antitrust Division, or other members of the antitrust staff, and secure such additional information and formulate such liaison procedures as will best permit the discharge of the respective functions of our agencies as appear to be contemplated by the statute.

It is hoped that utilization of this procedure may inaugurate a new era of cooperation between Department of Justice and the Federal Trade Commission, and of more effective enforcement of antitrust decrees.

Sincerely,

ROBERT F. KENNEDY,
Attorney General.

FEDERAL TRADE COMMISSION,
Washington, D.C., March 28, 1961.

HON. ROBERT F. KENNEDY,
The Attorney General,
Washington, D.C.

DEAR MR. KENNEDY: I am pleased to acknowledge receipt of your letter of March 24, 1961, in which you request the Federal Trade Commission to make an investigation of the manner in which the judgments in an attached list of cases have been and are being carried out.

I want to assure you of our wholehearted support of your efforts to insure enforcement of these antitrust decrees. The Commission welcomes the prospect of more effective cooperation with the Department of Justice under your leadership.

As suggested in your letter, I have instructed the appropriate members of our staff to communicate with the Assistant Attorney General in charge of the Antitrust Division, or with other members of the antitrust staff, for the purpose of formulating the liaison procedures necessary to accomplish the investigations you have requested. This phase of the work will proceed immediately.

Upon assuming the duties of Chairman of the Federal Trade Commission on March 21, I found, among other things, that the Commission's program for enforcing even its own outstanding orders to cease and desist has been seriously neglected. Revitalization of this work is essential, and from my study of the problem I am convinced that the enforcement responsibilities heretofore resting in the Office of General Counsel must be transferred to the agency's principal operating bureaus. This transfer will be effectuated as soon as possible, and I am now planning to integrate into the enforcement activity the investigations you have requested.

This, of course, will necessitate the employment of additional personnel which, in turn, will require us to seek additional funds for fiscal 1962. I have informed the Director of the Bureau of the Budget of this need, and shall appreciate any help you may be able to give us in support of our request.

Sincerely,

PAUL RAND DIXON, Chairman.

FEDERAL TRADE COMMISSION,
Washington, D.C., April 10, 1961.

Hon. ROBERT F. KENNEDY,
The Attorney General,
Washington, D.C.

DEAR MR. KENNEDY: On March 24, 1961, you made application to this Commission for an investigation of the manner in which the judgments in 56 listed cases have been and are being carried out. We welcome the inauguration of a new era of cooperation between the Department of Justice and the Federal Trade Commission and agree that a more effective enforcement program of anti-trust decrees must be achieved. Doubt in any area as to the effectiveness of decrees which have been rendered in the antitrust field should be resolved.

The Attorney General's authority to request the Federal Trade Commission to conduct investigations into the manner in which antitrust decrees are being carried out has been invoked on only three occasions. Our experience to date reflects that this type of investigation is in the realm of the most difficult, painstaking, and time consuming of all the Commission's work and requires the assignment of the most capable and experienced employees. The 1936 investigation, which involved a decree against the Standard Oil Co. of California, required the assignment of 10 of the Commission's most qualified personnel, including attorneys and accountants, who spent the greater part of 1 year (most of which was on the west coast) to complete the investigation and submit the report. In 1952, investigation of a decree against the American Optical Co. required the use of five attorneys for more than 15 months.

While we feel that experience gained over the past 20 years will enable us to perform the task now much more efficiently than it was performed before, cursory examination of the list of cases involved in the current request convinces us that many of these investigations will entail the assignment of much manpower and will consume considerable time. It is well known, for example, that in a number of the cases involved the original litigation extended over a period of several years and required expenditures approaching a million dollars each. It is logical to expect that an investigation of the type required to determine the extent to which the decrees are being complied with will entail comparable expenditures of time and money. It is obvious therefore that additional funds to provide the extra manpower must be provided if this work is to be accomplished with reasonable dispatch.

In order that we may undertake this additional work and at the same time proceed with other Commission functions, we have applied to the Bureau of the Budget for authorization to request additional funds from Congress to provide 95 professional and 20 clerical employees together with travel and supporting costs amounting to \$1,290,000. We are confident that the results which can be achieved through this program will fully justify this expense. In addition, we have been directed to appear before the House Subcommittee on Appropriations on April 20, 1961, in support of our original 1962 request, and since your application is a matter of public record we will undoubtedly be questioned on the program.

Your support of our request to the Bureau of the Budget will be appreciated.
Sincerely yours,

PAUL RAND DIXON,
Chairman.

OFFICE OF THE ATTORNEY GENERAL,
Washington, D.C., April 18, 1961.

Hon. PAUL RAND DIXON,
Chairman, Federal Trade Commission,
Washington, D.C.

DEAR MR. CHAIRMAN: I have your letter of March 28, 1961, and appreciate the assurance of your wholehearted support of our efforts to insure enforcement of the antitrust decrees mentioned in my letter of March 24 to you.

I note from the last paragraph of your letter you refer to the necessity for the employment of additional personnel which will require additional funds for the fiscal year 1962. We will be happy to support your request for such additional funds and will await suggestions from you as to the direction our efforts should take.

Sincerely,

ROBERT F. KENNEDY, Attorney General.

GENERAL STATEMENT

Senator MAGNUSON. Do you have a statement that you would like to make, or do you want to read from your letter?

Mr. DIXON. I would just let the letter speak for itself, if you will, Mr. Chairman, and speak orally to this proposition.

Senator MAGNUSON. Well, read the letter. It is very short. Then we will get our bearings here.

Mr. DIXON (reading):

DEAR MR. CHAIRMAN: I have your letter of June 2, 1961, concerning the "Independent offices," appropriation bill for 1962 for the Federal Trade Commission as reported by the House Appropriations Committee.

We request that H.R. 7445 be amended on page 15, line 2, by striking the figure "\$10,000,000", and substituting \$10,690,000.

The increase for fiscal year 1962 of \$2,680,500 recommended by the President is predicated upon (1) \$1,630,500 to provide additional staff to handle the ever-increasing volume and backlog of the work of the Commission. Pending investigations are now equivalent to more than 1½ years of work by the present staff; and (2) \$1,050,000 to comply with the Attorney General's request that the Commission conduct investigations into 56 court decrees of antitrust law violations, as required by section 6(c) of the Federal Trade Commission Act. Incidentally, these 56 decrees represent a span of 20 years.

House Report No. 449 states that our request for \$190,000 for rental of additional office space be reduced to not in excess of \$100,000. This limitation will barely provide the additional space which is required in Washington and will allow nothing for additional space necessary for the expansion of our field office staffs for which substantial funds are included in the bill and in our request for restoration.

The reduction of \$690,000 proposed by the House amounts to a reduction of 25.7 percent of the Commission's requested increase. This reduction would eliminate 54 positions and \$420,000 from the increases proposed for the regular Federal Trade Commission programs and 22 positions and \$270,000 from the enforcement investigations program requested by the Attorney General.

I previously stated that the volume and backlog of the Commission's work are at an unprecedented level. As of May 31, 1961, pending investigations totaled 2,519 as compared with 1,808 1 year ago—an increase of 30 percent. Restraint of trade investigations totaled 1,204 on May 31, 1961, as compared with 931 1 year ago—an increase of more than 29 percent. Deceptive practices investigations have also risen to 1,316 from 877—an increase of 50 percent. The formal caseload in the restraint of trade field also reflects a sharp increase. During the first 11 months of the current fiscal year the Commission issued 117 restraint of trade complaints and 97 cease and desist orders, as compared with 98 complaints and 35 orders during the same period last year.

We have been advised that my appearance before your subcommittee has been scheduled for June 15, at which time I will be able to present more detailed explanations of these remarks.

With kindest regards, I am,

Sincerely yours,

PAUL RAND DIXON, *Chairman.*

WORK UNDER FUNDS ALLOWED

Senator MAGNUSON. All right. First of all, your letter explains—which will be put in the record in full—the reason for the added \$1 million plus in the amended budget.

Mr. DIXON. This is correct.

Senator MAGNUSON. Now on the \$690,000 that the House cut. They gave you approximately \$500,000 extra from the other budget. Approximately, in general terms?

Mr. DIXON. Approximately; yes, sir.

Senator MAGNUSON. That would eliminate 54 positions and 22 positions in the 270 from the enforcement investigation program requested

by the Attorney General. Are these new cases or backlogs of the Attorney General?

CASES AFFECTED

Mr. DIXON. Mr. Chairman, these are selected cases, what they would consider, I believe, their more important type judgments or decrees. These are cases that they actually prosecuted and a determination, a decision, a decree was rendered. The question is whether the decrees are being complied with or being violated.

Now each of those cases were, as you might imagine, very important cases. They took a tremendous amount of time to investigate, to build up and try. Our experience has shown that in order to competently determine whether they are being violated or not, it takes a great deal of time and skill to get that information to make that judgment.

So under our basic law, section VI—

Senator MAGNUSON. We understand the law.

JUSTICE DEPARTMENT REQUEST FOR STUDY

Mr. DIXON. Three times in the history of this law, the Justice Department has requested the Federal Trade Commission to make such a study for them.

Senator MAGNUSON. The point I am making is, Have these requests come to you since you have been down there, or since the new Attorney General has taken office?

Mr. DIXON. It has come since I came down there. I had been there about 2 or 3 days when I got a letter from him saying he wanted this to be done. And I told him I felt this was fine, it should be done, and I wished he would support us to get the funds to do it.

Senator MAGNUSON. And we are to understand these are cases that Rodgers piled up—I do not mean piled, I do not mean to use that term—they are cases they prosecuted and that Kennedy has now asked you to see that the decrees are being enforced?

Mr. DIXON. Yes, sir. They are cases as far back as 1940. In other words, these are antitrust cases.

Senator MAGNUSON. Well, I guess the word "pile" up is accurate.

Mr. DIXON. Now we have the same problem with our cease and desist orders. We have about 40 volumes of them ourselves.

LIAISON WITH JUSTICE DEPARTMENT

Senator MAGNUSON. I just want to point this out because it always has seemed to me, after years here, that the liaison between the Department of Justice, both ways, has been in many cases lacking. In other words, the Trade Commission has sent over to the Justice Department cases which sometimes would lie there and vice versa.

But this will point up the fact now there is a working liaison. I will ask you then, does it work the same way when you send cases over to the Justice Department?

Mr. DIXON. I would believe so, sir. It is my determination, and my fellow Commissioners' determination, certainly, to use the powers that Congress has vested in these two Departments in the best way possible.

Senator MAGNUSON. Now do you just send each other letters or do you have some physical contact?

Mr. DIXON. We have physical contacts. We have definite liaison people set up to check daily to see that we are not duplicating each other's efforts. And when we send something, we would intend it be done.

And, of course, on this request coming to us, we can do it if we get the fiscal moneys—

Senator MAGNUSON. Because you know very well from your past experience, you cannot point your finger at one agency or the other, but there has been that lack of, not cooperation, but lack of pulling together on cases, both ways.

Mr. DIXON. This is correct, sir, it could be said. But the point here is that if we perform the job requested by the Department of Justice on these 56 cases without money, then we could not perform the functions that the Congress expects us to perform under the basic laws of the Federal Trade Commission Act, the Textile-Fur Act, and the Clayton Act.

Senator MAGNUSON. What about the 54 positions; in what category are they?

REVISED BUDGET

Mr. DIXON. Well, my predecessor at the Commission requested of the Eisenhower Budget Bureau some \$3 million increase in order to carry out the increased workload of the Commission. The Eisenhower Budget Bureau recommended \$1,630,500 increase.

Senator MAGNUSON. That is right. From \$8,009,500 they recommended \$9,640,000.

Mr. DIXON. They recommended that. And even before I was confirmed by the Senate and took office, of course, it became apparent that with the various requests that were made of me, as to what we were going to do about the lag, what could we do ourselves to improve our own procedures and to become more efficient, some action would be necessary. So I went to the Budget Bureau and requested the same amount of money. However, I wanted it clearly understood we were going to attempt to reorganize this Commission, as I tried to outline before your committee.

Senator MAGNUSON. Senator Schoeppel and I asked you some very pointed questions about that.

LETTER FROM HOUSE ON REORGANIZATION

Mr. DIXON. And they listened very patiently, and they wrote a letter to the House Appropriations Committee endorsing that amount of money. It is very short. Or, rather, they wrote back to me.

MY DEAR MR. DIXON: This refers to your letter of March 22, 1961, regarding organizational changes that you propose for the Federal Trade Commission.

I took office in March.

Your letter notes that the changes proposed will not require additional funds over the amount requested for the Commission for fiscal year 1962, although some revision of the planned allocations among bureaus will be necessary.

On the basis of our conversation, and the views of Bureau staff with whom you have had further discussions, I believe that the proposed changes should provide an effective organization, consistent with the basic objectives pointed up in our recent staff report on the activities of the Federal Trade Commission. It would be entirely appropriate to discuss the desired changes with the House

Subcommittee on Appropriations at such time as you are called to testify on the Commission's 1962 budget request.

PURPOSE OF REORGANIZATION

And I did that. I explained in great detail to the House Appropriations Committee these organizational changes. And not to be repetitive, because both you and Senator Schoepfel heard me describe these things—Senator Robertson did not hear me there—the main thing we have in mind doing here is to cut out as much load as we possibly can, the overlapping and duplication, and to center primarily in our enforcement bureaus the responsibility, not only investigation, but trial and completion of the matter.

This would keep people from having to duplicate each other's work.

Senator MAGNUSON. Now, you have a staff of 823 people.

Mr. DIXON. That is approximately correct, sir.

Senator MAGNUSON. And the estimates as revised would provide 296 additional jobs.

Let me ask you first, in what shops would they be spread, all over the Commission or in one particular division?

Mr. DIXON. They would be spread through the Commission. Now, I can call them off to you very briefly, because—

Senator MAGNUSON. That is enough. We will put that in the record.

Mr. DIXON. All right, sir.

I think there is a sheet in this Appropriation Committee hearing here that will reflect the new organization of the Commission, the present staff, and how the increases will be spread among the bureaus.

Senator MAGNUSON. All right.

(The table referred to faces this page:)

FUNDS FOR INCREASED PERSONNEL

Then the House gave you enough increase for 230 employees and I understand—

Mr. DIXON. 220, I believe.

Senator MAGNUSON. This says 230 here.

Mr. DIXON. It is approximately that.

Senator MAGNUSON. All right, for the record let's say 220.

Mr. DIXON. Yes, sir.

Senator MAGNUSON. I understand from you now that if the House figure should stand, those 220 would be spread throughout the Commission.

Mr. DIXON. This is correct, sir.

HEARING EXAMINERS AND COMPLIANCE PERSONNEL

Senator MAGNUSON. The House also granted your request for 10 additional hearing examiners and 5 clerical employees, and they said that at least 66 of the new jobs should be in compliance. Now, what do you have to say as to that directive?

Mr. DIXON. The 66 on compliance would be for the Attorney General's program. That is the way I would understand that.

FEDERAL TRADE COMMISSION

COMPARATIVE SUMMARY
BUDGET TO CONGRESS -- FISCAL YEAR 1962

	ALLOCATION OF FUNDS -- FISCAL YEAR 1961				INCREASE OR DECREASE -- FISCAL YEAR 1962				TOTAL BUDGET REQUEST FOR THE FISCAL YEAR 1962					
	Pos.	Pers. Serv.	Travel	Other Exp.	Total	Fers. Serv.	Travel	Other Exp.	Total	Pos.	Pers. Serv.	Travel	Other Exp.	Total
COMMISSIONERS	5	100,500	10,000	—	110,500	—	—	—	110,500	5	100,500	10,000	—	110,500
OFFICES OF COMMISSIONERS	30	257,500	1,000	—	258,500	—	—	—	258,500	30	257,500	1,000	—	258,500
OFFICES OF EXECUTIVE DIRECTOR	63	469,500	3,500	—	473,000	7	4,250	—	480,250	72	452,000	3,500	—	455,500
Office of Executive Director	9	84,500	—	—	84,500	—	—	—	84,500	9	84,500	—	—	84,500
Office of Administration	2	20,010	—	—	20,010	—	—	—	20,010	2	20,000	—	—	20,000
Div. of Personnel	7	48,000	—	—	48,000	2	12,000	—	60,000	9	60,000	—	—	60,000
Div. Mgmt. & Organization	3	28,500	—	—	28,500	1	7,000	—	35,500	4	35,500	—	—	35,500
Div. Adm. Services	42	228,500	—	—	228,500	6	23,500	—	252,000	48	252,000	—	—	252,000
OFFICE OF COMPTROLLER	57	363,000	1,500	—	364,500	7	2,500	2,000	374,000	64	388,000	1,500	3,000	420,500
Office of Comptroller	3	29,000	—	—	29,000	—	—	—	29,000	3	29,000	—	—	29,000
Div. Budget and Finance	19	101,000	—	—	101,000	3	9,000	2,000	112,000	21	110,000	—	—	110,000
Div. Financial Statistics	36	233,000	—	—	233,000	4	16,000	—	249,000	40	249,000	—	—	249,000
OFFICE OF SECRETARY	41	235,000	1,000	—	236,000	4	13,000	—	249,000	45	249,000	1,000	—	250,000
Office of the Secretary	12	84,000	—	—	84,000	4	13,000	—	97,000	12	84,000	—	—	84,000
Legal and Public Records	29	151,000	—	—	151,000	—	—	—	151,000	33	164,000	—	—	164,000
GENERAL COUNSEL	31	321,000	7,000	—	328,000	6	42,000	2,000	372,000	37	363,000	9,000	—	372,000
Office of General Counsel	8	89,000	—	—	89,000	—	—	—	89,000	8	89,000	—	—	89,000
Division of Legislation	2	19,000	—	—	19,000	2	11,000	—	30,000	4	30,000	—	—	30,000
Division of Appeals	14	134,000	—	—	134,000	3	21,000	—	155,000	17	155,000	—	—	155,000
Division Consent Orders	7	79,000	—	—	79,000	1	10,000	—	89,000	8	89,000	—	—	89,000
HEARING EXAMINERS	26	274,000	37,000	—	311,000	15	14,000	4,000	335,000	41	414,000	41,000	—	455,000
BUREAU RESTRAINT OF TRADE	143	1283,500	55,000	20,500	1359,000	46	235,000	14,500	1508,500	183	1518,500	69,500	28,500	1616,500
Office of Director	93	175,500	—	—	175,500	3	28,000	—	203,500	112	203,500	—	—	203,500
Clayton Act - Sec. 7 & 8	821,000	—	—	—	821,000	9	61,000	16,000	898,000	23	898,000	—	—	898,000
General Trade Restraints	14	134,000	—	—	134,000	8	59,000	64,000	257,000	26	257,000	—	—	257,000
Clayton Act - Sec. 2 & 3	18	163,000	—	—	163,000	4	22,000	—	185,000	19	185,000	—	—	185,000
Compliance Trade Restraints	15	140,000	—	—	140,000	—	—	—	140,000	3	25,500	—	—	25,500
Economic Evidence	3	25,500	—	—	25,500	—	—	—	25,500	—	—	—	—	25,500
Accounting	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Export Trade	—	—	—	—	—	—	—	—	—	—	—	—	—	—
BUREAU DECEPTIVE PRACTICES	82	766,000	32,000	59,500	857,500	19	111,000	8,500	977,000	101	977,000	40,500	99,500	1,017,000
Office of Director	61	85,000	—	—	85,000	—	—	—	85,000	69	85,000	—	—	85,000
Food, Drugs, Cosmetics, Devices	536,000	—	—	—	536,000	8	27,000	—	563,000	5	563,000	—	—	563,000
General Dec. Practices	5	49,000	—	—	49,000	6	39,000	—	88,000	14	88,000	—	—	88,000
Informal Treatment	8	85,000	—	—	85,000	5	45,000	—	130,000	13	130,000	—	—	130,000
Compliance Dec. Prac.	8	85,000	—	—	85,000	—	—	—	85,000	—	—	—	—	85,000
Medical and Scientific	232	1783,000	174,000	—	1957,000	83	452,000	69,000	2078,000	315	2235,000	243,000	146,000	2428,000
BUREAU FIELD OPERATIONS	8	77,000	—	—	77,000	—	—	—	77,000	8	77,000	—	—	77,000
Office of Director	224	1706,000	4,500	—	1710,500	83	452,000	1,000	2163,500	307	2158,000	55,000	—	2213,000
Field Operations	41	353,500	—	—	353,500	12	64,000	—	417,500	53	417,500	—	—	417,500
BUREAU T.P.C. & IND. GUIDES	33	276,000	9,500	—	285,500	7	44,000	—	329,500	41	329,500	—	—	329,500
Office of Director	39	308,000	4,000	—	312,000	8	43,000	2,000	363,000	44	335,000	11,500	3,000	357,500
Trades Fac. Conferences	—	—	—	—	—	5	27,000	—	27,000	—	—	—	—	27,000
Guides	—	—	—	—	—	—	—	—	—	—	—	—	—	—
BUREAU TEXTILES AND FURS	—	—	—	—	—	—	—	—	—	—	—	—	—	—
BUREAU ECONOMICS	—	—	—	—	—	—	—	—	—	—	—	—	—	—
GENERAL OPERATING EXPENSES	823	6730,500	340,000	939,000	8009,500	248	1194,500	335,000	9439,000	1031	7925,000	441,000	1275,000	9641,000
TOTALS	—	—	—	—	—	—	—	—	—	—	—	—	—	—



EFFECTS OF DELAY IN SETTLEMENT

Now, when I was before the House subcommittee, I made the statement that there are approximately some 400 docketed complaints on the Commission's calendar being heard by some 15 hearing examiners, and I would estimate perhaps we are some 3 years behind. And I said this seemed to me like mighty poor management, and that by all means we ought to have enough money, because this justice delay is certainly causing a great deal of difficulty in the small business community particularly. Although we have challenged a violation and we are proceeding in it, if it is taking us 2 or 3 or 4 years to get through, the party complaining could very well be bankrupt and out of business before we get through with this matter. So when I pointed that out, they seemed to agree with it, and they have highlighted it here.

REORGANIZATION TO CORRECT DELAYS

Now, in our reorganization, we are working on a rule now. We find that some 70 percent of our docketed cases, Mr. Chairman, are settled. Now, heretofore, once a complaint was issued, the settlement, the trial, and everything was handled by the hearing examiner. A great deal of time lag has developed in that program because often opposing counsel will come in and go through all kinds of gyrations and negotiations, even at the point of where you go to a distant point for a trial and they settle it that day, and we have lost the time set aside for it.

COUNSEL FOR CONSENT ORDERS

We propose to set up under our General Counsel an Assistant General Counsel in charge of consent orders. This will mean that the hearing examiner will be free to try nothing except contested matters and we will get more out of him. It will also mean, I think, that our orders will be more consistent because he does not perform a real judicial function here. All we have here is a consent. We have a complaint and the parties consent. It comes to the Commission and we approve or disapprove that.

Senator MAGNUSON. This will be his job?

Mr. DIXON. This will be the hearing examiner's job, to try the contested cases, and it will be the Assistant General Counsel's job to handle consents. We propose to issue, under our own basic authority there, a new rule that would set our cases down at a time, place, and date certain, where we would hope that except for most extreme circumstances, they would be tried until completed, with no interlocutory appeals lying until it finally comes to the Commission. This should resolve the proposition of where 2 or 3 years will go by and we may not have over 15 days trial in those years. I want those in succession, if we can get it.

LETTER FROM NATIONAL CONGRESS OF PETROLEUM RETAILERS

Senator MAGNUSON. Now, Mr. Cooper just handed me a letter we received on March 8 from the National Congress of Petroleum Retailers. And I am not proposing to discuss the merits of the case, or whatever the facts are in the case. However, here is a pertinent

thing to what you are talking about, bearing upon what we are discussing here today.

They say they were shocked to read in the trade press recently that the Federal Trade Commission complaint cases, based upon those injured going back to 1956, on which the most recent hearings were held in September 1960, had been recessed until April 1962.

Now, is that the sort of thing you are talking about, to get at these things and make a decision?

Mr. DIXON. This is exactly it. We are using all of the ingenuity we have to do everything we can to take the lag out of our program.

Senator MAGNUSON. I do not know anything about the case.

Mr. DIXON. Then as I tried to point out, as the national economy growth occurs in the country, and it is going to continue, the problems of the business world are going to continue rising, so our responsibilities are going up.

LIAISON WITH FCC

Senator MAGNUSON. Now, I want to ask you one more question about this. The two departments you are more concerned with and vice versa, are the Justice, which you discussed, and then the Federal Communications Commission.

What kind of liaison have you found since you have been down there with the FCC? They were up here yesterday. This is mainly on advertising.

Mr. DIXON. We have, in my opinion, a very fine liaison with them, and we are going to continue developing that liaison to where it will be foolproof and where it will provide them with as much information as we can possibly give them in order to perhaps use it as they would see fit in determining, I suppose, the question of licensing.

Senator MAGNUSON. That is right, because they have a very difficult problem, and part of this whole nationwide uprising against programming, a lot of it, is because of the nature of advertising.

INFORMATION FOR RADIO STATIONS

Mr. DIXON. We were just talking yesterday about a project that, if we can work it out, should be useful.

You know there are a tremendous number of radio stations and television stations. We issue tremendous numbers of complaints and orders.

Now, we are trying to determine whether we cannot work out some method where we can send and keep these radio stations themselves informed of the types of matters that are coming before us.

Now, this would certainly, in a sense, put them on notice of the information.

Senator MAGNUSON. Because the chairman wants to say it is not the fault of the networks or the licensees in these cases, it is usually the advertising agencies.

The villain usually becomes the advertising agencies, and unless, as Senator Allott pointed out yesterday, it is patently obnoxious, there is not much they can do about it.

Mr. DIXON. Then I would think, in fairness to them, and I do not know whether they have the expertise to determine whether it was obnoxious or not—

Senator ALLOTT. Let's follow that further, just a moment. You mentioned a moment ago that you are making an attempt to keep them informed of the type of cases that are coming before you. I know that your reports are published, but in the small towns all over Washington, Colorado, Oklahoma, and Louisiana, where you have small stations, they do not see these reports.

Mr. DIXON. This is the point I am addressing myself to.

Senator ALLOTT. And I think that perhaps if some distribution could be made of these decisions, or just a synopsis of—

Mr. DIXON. That is it, exactly.

Senator ALLOTT (continuing). It could help these people very much.

Senator MAGNUSON. Because mainly they want to try and do a good job.

Senator ALLOTT. They want to keep out of trouble themselves, and this is the way they do it.

QUESTION OF MAILING

Mr. DIXON. The only problem we have in front of us, and I am sure we can resolve it, is the question of mailing. And today, as you know, we are charged with mailing expense. This would be a considerable mailing. We would be actually performing something that would be very beneficial to them.

Senator ALLOTT. Perhaps you could work out something with the FCC in this respect.

Mr. DIXON. We are going to determine it one way or the other. I think the expense is incidental, as to who does it. It would increase the work of our print shop—it would be something like 4,500 mailings that would have to come out.

Now we send out summary sheets about every 10 days or something like that. We could say every 10 days if we sent summary sheets of our activity to these 4,500 recipients they would at least be informed.

COOPERATION WITH FCC

Mr. SECREST. I think I might interject one thing, that it has been the policy of the Commission always to cooperate with the FCC. And if we issue a complaint or have any reason to proceed against an advertiser who used radio or television, that is all we send to the FCC. In the payola cases we issued approximately, I think, 100 complaints. Every file we had on payola was made available to the FCC. They sent men over to look through them. So anything the Commission has ever had that we thought would help them, or be in line with their work, they have had access to it and we have voluntarily given it to them.

VALUE OF SERVICE TO RADIO STATIONS

Senator MAGNUSON. Would you agree, Mr. Secrest, what we are talking about is—that might be true—that either the Trade Commission or the FCC, or both, ought to get some of these people—

Mr. SECREST. I agree 100 percent.

Senator MAGNUSON (continuing.) Down to the licensee, and the people who might get hurt by it.

Mr. SECREST. I agree 100 percent. If we could send to every radio station in the country copies of the complaints we issue, they would

then know the type of advertising we proceed again and could reject it on their own.

SUMMARY SHEET OF INFORMATION

Senator ALLOTT. I do not think this much is necessary. I do not want to make an advertisement for a particular magazine here, but I think it is the U.S. News & World Report that carries each week two or three columns with respect to Treasury rulings, Internal Revenue rulings, NLRB ruling, "You can do this," "You cannot do this," "You cannot do this." You have all seen them I am sure. But isn't it sufficient for these purposes—it is not necessary that they have full copies—that a well-written concise synopsis of the complaint in your decision on it, in three or four sentences—

Mr. DIXON. This is our summary sheet we are talking about.

Senator ALLOTT. This is the sort of thing that could do the job.

Mr. DIXON. This is what we are talking about, our summary sheet. The point was I did not want to infer, and I thought that perhaps you were aware of it, as Commissioner Secret has recited, the Commission has been regularly sending complaints and making files available. But as you point out, Mr. Chairman, this is to the Commission. Was that information getting down to the individual stations and all?

TRADE JOURNALS IN BROADCASTING

Now, there are excellent trade journals in the broadcasting and radio industry. A great deal of this information is duplicated there.

Senator MAGNUSON. The Broadcast magazine, for example.

Mr. DIXON. The point is they say they did not have notice of it, it was not brought to them. And if we can boil it down as you suggest, Senator Allott—

COOPERATION WITH BROADCASTERS NECESSARY

Senator MAGNUSON. But our point is that if the American public is going to get a better all-around presentation over this real potent medium of communications now, radio and television, there has to be a partnership between the Federal Trade Commission, the FCC and the operators, 99 percent of whom want to do a good job.

Mr. DIXON. I agree 100 percent. I say we could never, all of the agencies you have created could never, police and do it for them. It will be done in the public interest when individual responsibility is accepted. And we should do our part to keep them advised. I think we ought to be intelligent enough to work this out. I can say we were on it just as late as yesterday.

QUESTIONABLE ADVERTISING

Senator ROBERTSON. Mr. Chairman, I want to call attention to something I hear every afternoon. If I turn on NBC for the local news, I hear about the "big, big gallon" Cities Service is selling. Is that any bigger than any other gallon? Aren't you lucky if you get 4 quarts out of one of these vending machines? I have never heard of one putting out 5 quarts, but I have heard of less than 4.

Is that the proper kind of advertising?

Mr. DIXON. It would sure be questionable. We cut the area here, whether it is puffy or what it is. This puts the screws to us.

Senator ROBERTSON. Of course, we learned long ago that if you buy a bottle of pills you get a third cotton on the top. Now you are getting plain air in your packages of cereal, a third of it is empty at the top.

I read of an "economy" package, which is supposed to be bigger; you pay more for it, but you get less than you did when you bought the small package.

Is that fair advertising? Things used to be advertised by the pound and now you get 2 or 3 ounces less than a pound.

Mr. DIXON. These are new problems that come to us and they keep stacking up. As I say, we have some 3,000 of them now and every day we have others added to them. And you come down and say, "When do we get into these questions?" We are doing our very best. And I want to say to the Congress that we are going to keep on doing it, we are going to keep on telling you just where we are and hoping that you will help us along with enough money to do it with. Because this agency—I came to this agency in 1938—is very little larger today in manpower than it was in 1938. Now, the population and the gross national product of this country, as everyone knows, is considerably larger. So the problems of this agency are larger. Then as the years have gone on you have passed the various textile acts, the fiber acts, and fur acts, and we have the responsibility, and you have from time to time given us some money.

TEXTILE-FUR BUREAU

Now, in my scheme here—and I presented it to the Commission and the Commission approved it unanimously—we are going to create a complete new enforcement bureau, and we are going to call it the Textile-Fur Bureau. Because these problems are now of magnitude. And this will be a self-sufficient bureau. And part of these moneys we are asking for will man these offices throughout the country, give us new inspectors and new lawyers that are expert in this field, who can follow them and follow them quickly.

EXPEDITING PROCEDURES

Senator ALLOTT. Mr. Dixon, may I ask this question: The chairman and I have always been interested in trying to pick up new procedures and tightening procedures to facilitate and expedite—perhaps we covered this before I came in, as I had to be in attendance at another committee—but are you studying on your Commission methods today for the tightening up of your procedures so that your decisions will be expedited? I think there has been a great deal of laxity. I do not put this on you alone because we have this problem with every regulatory agency we have. Are you taking steps in this direction?

Mr. DIXON. We expect to have these steps completed by the 1st of July. The apparent thing was first this reorganization, and then what could we do under our basic authority to make rule changes that would overcome some of this lag. As I said to you, I would not be critical of the Commission in the past because when the Commission was established in 1914 distances were an important factor. To-

day distance does not amount to much. In America you can go anywhere very quickly. We went to where the party was, and we would even go and carry opposing counsel and hearing examiners and reporters. And we would go and hear one witness in this town and then we would move somewhere else. It just took a lot of time.

Now when the APA Act was passed in 1946, of course, it brought into being a recognition of the fact of the place in the regulatory agencies for a hearing examiner. It gave these regulatory agencies the right to either treat them, whatever they were doing, in the form of a report, recommendation, or initial decision. The Commission was the agency that went all the way then. We sat our hearing examiners up as trial judges and they render initial decisions. Although we did, under our rules, preserve the right at any time, in doing this thing, of interlocutory appeal. We have had a lot of drag or delay. Whether in good faith or bad faith this takes time. So what we are aiming at in our rule is this, sir, that when we issue a complaint now we will issue this complaint realistically at a time, and a date, and a place certain. Now that place could be Washington, New York, Denver, or Seattle if that was the center of the problem, where the complaint is to be heard until complete and no appeal shall lie until they come to the Commission finally. Now this will wipe out a lot of this delay of trial. Then we are going to issue also in this rule, Senator, we hope, a rule that will give notice that during this period of time a cutoff date will be provided, that in this period of time they can negotiate for settlement if they desire to do so. Now this was going to be done as I mentioned before by the Assistant General Counsel in charge of consents. So only the hearing examiners come into this picture after these dates, and then it is for certain he is going to try. And we want to try it the way you would in a law court.

FUNDS TO HANDLE DOCKET WITH SPEED

You have heard so much here in Congress about the need for new judges to get over that lag. Now we want an increased amount to handle the docket, handle it quickly, but we want it handled this way, not that way. Now if we can do this within our own rules—and these will be great changes because, mind you, today we have some 3,000 matters in various States somewhere in the United States building and coming toward Washington. These enforcement bureaus are going to have to take these things, and where nothing is done they are going to have to start directing what they want so they won't have to, after they get it, do it over again.

USE OF SECTION VI

We are also insisting that, as a matter of course, now we are going to raise our sights. We are going to use the formal power that the Congress granted to the Federal Trade Commission in a kind of regular type of way. This is use of section VI. This is the type of power you in Congress have, where you can demand upon a corporation to give you information under oath. We can request they give it in summary form or report. Through section IX of our act we have your actual power of investigation of subpoena and access. We are going to use these formal powers to get this matter in the

beginning so that we will have it and we will be ready so that if there is any question as to due process we can meet the due process clause when we say, "You have to be ready, too."

DIRECTIVE TO INVESTIGATE DECEPTIVE PRACTICES

Now just the other day, as an example of this, Mr. Chairman, and we have not made any announcement on this yet, to show you the type of use of this, the Commission issued a resolution directing the investigation of unfair or deceptive practices in violation of the Federal Trade Commission Act by corporations engaged in advertising, sale, or shipment of food, drugs, cosmetics, or devices.

We have issued this. Now this means that our enforcement bureau, now with this authority, can serve upon any of the corporations in this area a demand for this type of information. Instead of sending one man out to see another, we can sit here and move in and get this information. It will also, in my opinion, do something that worried me a great deal of the time. I heard it when I was at the Commission and I heard it when I was up here working with the Senate. Various constituents would write to the Senators and say, "Very well, I may be violating the law, but what about my competitors, they are doing the same thing." Now because of fiscal limitations we have proceeded for years in taking a case and proceeding with it, knowing full well that perhaps there may be others. However, we did not have the information, and we had this and we would hope that the others would take a lesson from it. Well, businessmen know the powers and penalties or the strength of our agency. We have the power of injunction. This is all, no punitive power. Now by the use of section VI I think we can do more equity.

GREATER EQUITY BY USE OF SECTION VI

If we get information, we will say, that a shrimp manufacturer might be violating the law by discriminating in price, for instance, we are going, if we have evidence enough to indicate that some of them are questionable, to use this power to move in on all of them and get the information and find out whether they are all doing the same thing. Then if they all are, we will ask them all, if we can get the evidence, to stop it so that one could not say, "Well if I have to stop an unlawful practice I will be driven out of business because my competitors are doing something unlawful." This will mean that our 3,000 cases now could very well be 5,000 cases under this type of approach, this moving in. Because we are going to get a tremendous amount of information this way. But for too long I have listened to the businessmen come in and say, "Well, you should not make me stop until you make the other man stop, or at least if I have to stop do not make me comply until you get him, too." And it makes some sense, it makes good sense.

ANTITRUST ENFORCEMENT IN CIGARETTE CASE

Senator ROBERTSON. What about the enforcement of the antitrust decree in the *Cigarette* case of some years ago? That is a notable victory in a contested case against the four leading manufacturers. It was so conclusive in the second court of appeals they did not even try to appeal it. I have heard they paid no attention to it at all.

Mr. DIXON. Well, in our advertising cases, if it takes us too long, advertisers are clever enough to get a new program started.

Senator ROBERTSON. You said there were 56 cases of antitrust laws. Wouldn't that be one of them, the *Cigarette* case? That is certainly a very important industry, and certainly they were trying everything they could to put the independent manufacturers of cigarettes out of business. The court held without any question that they had violated the law—the four main manufacturers. Isn't that among the 56 cases that you are going to investigate?

Mr. DIXON. Senator, I would not like to state on the record just what these are. I would be very happy to show them to you. I think you should see them—

Senator ROBERTSON. If that is not there, it should be.

Mr. DIXON. It could very well be. And I understand this is not all of these cases. This, as they have said to me, is the beginning. In other words, they have hundreds of cases that they are not sure right now are being complied with.

Senator ROBERTSON. Well, it would be so easy to enforce that. All you have to do is send a letter to all the independent producers asking, "Has this decree been violated," and "If so, what proof can you produce?"

Mr. DIXON. I agree with you, sir.

Senator ROBERTSON. And you will get a flutter of replies.

POWERS UNDER SECTION VI

Mr. DIXON. You see, when the Attorney General asked us to do this job, he appointed the Federal Trade Commission as his representative for the right of visitation under the decree. But he only had the right to visit the defendant. By section VI, we can visit the applicant, the whole industry. And this is the reason he has asked us.

Senator ALLOTT. Let us take that up. I had a case here which I called the Commission's attention to, either 2 or 3 years ago in Colorado with respect to unfair trade practices, with respect to large dairy, creamery, commercial people just simply running our small independents out of business in Colorado. Now, this is old coals. But you made the point a few minutes ago that if you do not act on these, these people may be out of business.

I want to say, first of all, anything the Commission did in this case, particular case, was very unsatisfactory as far as I was concerned. Any real interest, as a matter of fact, was very unsatisfactory.

DANGER IN COMMISSION'S LACK OF POWER

Now, if the Commission is not able to act on these matters, then the dairy people, the independent dairy people, in this case may be out of business. This may be true in any other situation, because the people who are getting hurt are usually the poorer people who are just trying to get a toehold in a business, or get started. And big companies have gotten in and utilized various practices which are unfair.

This is the reason I asked you particularly about procedure, because certainly when someone in my State, or anyone else's State, calls my attention to practices which are very evidently in violation, they

are being carried on, if they are carried on for 2 or 3 months these people may be out of business.

And then, for the purposes of this particular area, the Trade Commission might just as well not be in existence.

RIGHT TO PERMANENT INJUNCTION

Mr. DIXON. This points up the thing I have said now to several committees that I have been before in recent days. When the Congress created the Federal Trade Commission, they gave them the right to issue a permanent injunction, an order to cease and desist.

When you passed the Wheeler-Lee Act, you gave us the right to seek preliminary injunctions by going to the district court, and when the Flammable Fabrics Act was passed, you gave us the right to go to the district court.

PREMERGER NOTIFICATION

There is being debated a Beall bill called premerger notification. Part of that bill would give us the right to go to a district court. In commenting on that bill, the Commission itself this time suggested that the Congress should consider giving the Federal Trade Commission its own right to issue a temporary injunction.

Now, this is awfully important because, just as Senator Allott has outlined here, the respondent, defendant, or whatever we want to call him, if he is violating the law, no matter how fast we can proceed, damage is occurring all the time. And if we finally issue a cease-and-desist order, the complainant may very well be out of business. Now, I think the Congress should give this very serious consideration.

When you created the Federal Trade Commission, if I understand its history, it was because the district courts were not quite expert in this field, all the judges were not expert in this field.

RIGHT OF TEMPORARY INJUNCTION

You picked five experts that were supposed to be better than the ordinary district judge was.

Now, you gave these five experts the right to issue the final injunction, but you did not give them the right to issue, as the district judge can, the temporary injunction. Now, I would think serious consideration should be given to give us no more power and no less power than a private individual has, or the Department of Justice has, in any antitrust act that they proceed in to take a temporary injunction by the judge.

Now, I would say that if we had this right upon a showing of record of irreparable harm and injury which would be met by due process because it would be subject to judicial review in the circuit court, we could not use it unless it was justifiable, because we would get greater enforcement and deterrent from those things that are destroying competition in America more than anything else. And certainly what is happening in the fluid milk industry today is scandalous, sir. I participated in hearings, specific hearings on it, and I know Mr. Patman has had a series of hearings across the country, and in Denver, very recently, we got a complaint again that another type price war has broken out out there. We sent a man out immediately and we are awaiting the report right now of that situation.

Senator SCHOEPPEL. Will the Senator from Colorado yield?

Senator ALLOTT. Yes.

Senator SCHOEPPEL. Apropos to what Senator Allott has brought up here, and the members of the Commission, and what you have said, Mr. Dixon, has been going on in my State of Kansas, and it is ruining a lot of legitimate independent, fine operating companies, in the milk and ice cream and dairy field.

COMPETITIVE DISADVANTAGE

The very thing that Senator Allott has pointed out here is very, very damaging and detrimental. Something absolutely ought to be done about that, because it is so sensitive and it is so devastating in the period of time.

I have had people come into my office and talk to me in Wichita, Kans., group of them, and said to me, "Senator, isn't there some way that somehow we can get some action on a legitimate violation, as we read it and as the ordinary lawyer points out to us is a violation, and we have to wait months and months and months before we can get action."

Mr. DIXON. Or years.

Senator SCHOEPPEL. Yes. "And we are losing thousands and thousands of dollars in this unjust competitive disadvantage we are in."

Mr. DIXON. That is what I was just addressing myself to.

Senator SCHOEPPEL. I was very interested in what you had to say.

EXAMPLE OF UNFAIR COMPETITION

Mr. DIXON. Because we—well, take a large national integrated dairy. As they start moving into new areas, they will come in and call it promotion or whatever they want to, and maybe their cost of a half gallon of milk is 30 cents, and I saw an investigation in Missouri where they were pricing it for a period of 6 weeks at 9 cents. Now, what do you think happens to the dairyman while that is going on?

Now, that is challenged. Oh, and in 2 or 3 years he has to stop it, but you will never put those dairy people back in business. They are gone; they are dead.

Senator ALLOTT. Yes; and their property is gone and their farms are gone and their buildings are gone and everything is gone.

Mr. DIXON. Now you understand this: We can improve our procedures; we can pull up the lag as much as we can, but we cannot perform a miracle. We can say, "You have transgressed, we have reason to believe, and here is our complaint."

The man has the right to deny it, and the burden is upon us to prove it, prove he injured people. He has the right to come to us and review the matter, and then he has the right to go to the circuit court and to the Supreme Court. And with the money they have, they will go.

They can say, "Well, we are not worried; all they can finally do to us is say 'Stop' and by the time they say 'Stop,' we have the market."

Now, I think that it is a serious problem.

POWER OF INJUNCTION

Senator ALLOTT. Doesn't your injunction hold until it has been reversed?

Mr. DIXON. Sir, our injunction, our final order, is not in effect until it is finally reviewed by the highest court. Only then.

Senator ALLOTT. Could this be corrected statutorily?

Mr. DIXON. It could be. I said to you the greatest thing you could do for this agency, in my opinion, would be to, in a very simple form, give us no more power or no less power, but the same procedures, that the district court follows for the issuance of a temporary injunction. And only then can we really hang them on a fence. And I make this prediction to you. We worry about the lag. I will say to you, if a temporary injunction were issued, and it was sustained, even if they appealed it up to the circuit court, I do not think they would drag their feet very long in wanting to litigate that matter.

Senator SCHOEPEL. Mr. Chairman, is the Senator from Colorado through?

Senator ALLOTT. I have no further questions.

Senator SCHOEPEL. I would like to ask a couple of questions, Mr. Chairman, apropos to what Senator Robertson has said.

PREDETERMINATION OF ADVERTISING

Some of this is fantastic. It goes beyond copying in the advertisement field. Let me ask you this: Does your Commission have any substantial sustaining record of, say, these advertising agencies for different sundry industries in this country coming to you for a pre-judgment or a determination as to the type of advertising they want to use before they put it on the air and go to the newspapers with it?

Mr. DIXON. My experience would be to the contrary. In other words, there would be some question as to whether we should be a censor or not. But as a matter of practice, anyone who comes to the Federal Trade Commission would be directed to the highest competent staffman we have, who will counsel and give them any kind of advice that they are capable of giving if people want to seek it, sir.

Senator SCHOEPEL. I am glad to get that answer.

HEARING EXAMINERS

Now, let me ask you something else about your request for hearing examiners and your additional appropriations here which I am inclined to go along with you on. Now, you need additional hearing examiners, do you not?

Mr. DIXON. We do, sir. We only have 15.

Senator SCHOEPEL. What has been your experience with your hearing examiners? Are you ready to keep good examiners? Do you have a turnover in your department on that?

Mr. DIXON. Our problem is this, and we may as well face it bluntly. The bar and the Congress in order to be fair, have brought this hearing examiner into being. We hire our hearing examiners from a civil service list and they have some kind of requirements by which they grade them. And we must take one of three.

DIFFICULTIES WITH HEARING EXAMINERS

Now, I can get transfers. However, once we pick a man, Senator, in a sense we are stuck with him, just as if you pick a district judge you are stuck with him.

Now, some of our hearing examiners have been just about the hardest knotheads I have ever seen. I have seen this happen at the Commission level, where they actually have remanded cases to hearing examiners with instructions, and the examiners have sent them right back just like they were before. Now this creates a problem.

Neither I as Chairman nor any Commissioner can go down there and tell a hearing examiner how to decide a case. But I warn each one of them if he keeps on proving that he is a knot-head I am going to go somewhere to see if someone cannot give him some kind of education.

RECRUITMENT OF QUALIFIED EXAMINERS

Senator SCHOEPEL. That brings me to the very point I wanted to present here. As the distinguished Chairman here knows, in certain of our independent agencies, the hearing examiner must be on a higher efficient, more definite practical plane than they do in the mine run of examiners. And I do not mean to be discourteous or disparaging in my remarks with reference to any of the groups of examiners. But here is a specialized field in your department, and in some of the other departments, probably one or maybe two more. Are you finding that on the grade level you are not being able to get the qualified type of hearing examiner that you would want to fit into your picture by reason of some of the things you mentioned?

Mr. DIXON. Well, I will say I have a great deal of difficulty. Because, here we are: You give us, say, \$10 million. Historically we spend this money about 60 percent antitrust and 40 percent deceptive. This gets the results that we have determined over the years is best in the public interest.

Now let's take that antitrust field. How many district judges do we have in the United States who are competent today to hear a General Motors case or a United Steel case or *Cement* case? This is really a challenge. This is the day-by-day case our examiners have to hear.

We require men of extreme ability and background in the field. Now what can I tell them? Grade 15, \$13,700. One of the first things I did was to recommend that these examiners be increased to \$18,500. It is good to pay them, but will we still get the men? Money won't solve it. Will we get the men?

I cannot go out and pick them. And the system may be all right. I might go and pick some old Texas judges that would give them a fair trial and hang everyone. I would try to pick men who have a competent background in this area.

I think I could be a pretty good judge of picking my type of men. But nevertheless, I must, under the present system, go to the register to get them.

Senator SCHOEPEL. That is the thing that I, among other things, was trying to spotlight here. I do not know what we can do about it. I know it is a subject that has to be determined by another committee. But I can see where you are getting a lot of incompetency by taking the mine run, and I have a feeling that some of these agen-

cies ought to have a preferential position that will be responded to in this examiner field.

And certainly you are not going to get them on the grade that you are having to initially pick them.

Mr. DIXON. This is not only true there, it is true of the men who are here with me, the staff men. Many of them have spent their lives here. We are getting young men, Mr. Chairman, who come into these agencies, and kind of walk through and walk out.

SALARY LIMITATION

Maybe they are smart in not spending their life here like these other men and I have. But this top salary is really hurting today.

I know it is a problem for the Congress, and this is all you hear, that one of my trial men that I may be paying \$1,000 a month, very often will appear day after day opposing lawyers where there will be half a dozen lawyers who will make more than he will make all year in 3 days in that one case.

Now I would like to have some kind of system. I noticed in the paper this morning that the Attorney General has asked to have the right to set his own salaries for his lawyers. I think someone better go to worrying about that because we are going to end up with not good enough lawyers, maybe, to represent the public industry if this keeps up.

And this applies to the hearing examiners. I think the hearing examiner under the scheme the Congress has created, is a district judge in a sense. Once he is picked he has a life tenure. Now we ought to pay them enough to attract very highly qualified men.

DIFFICULTY IN ASSESSING QUALIFICATIONS

Senator MAGNUSON. Well is it one of the problems, too, that when you get on the list to be an examiner, you do not qualify to be an examiner in this particular field?

Mr. DIXON. This is right, sir.

Senator MAGNUSON. Practically all you do is submit your admission to the bar.

Mr. DIXON. That is right, and any experience you may have, general experience.

Senator MAGNUSON. It may be that we should look to the civil service and say, "When you qualify men to be hearing examiners they should qualify for the Federal Trade Commission work," but that is another story. And then they have to get men who—

Mr. DIXON. Well, some people think they ought to operate out of a pool and move from one agency to another. But I think it would come as a great shock to a man to have to move from one to another.

Senator ROBERTSON. Mr. Chairman, even if you had an entering salary of \$16,000 you still would not know really what a man was until you tried him out for a year or two.

Mr. DIXON. This would be a problem.

Senator ROBERTSON. You have him for life, when you get him, unless there are serious charges. He may be lazy. He may go out and drink all night, but be sober the next morning. He may be hazy or a little fuzzy, but you could not put your finger on it.

METHOD OF QUALIFYING EXAMINERS

So, why wouldn't it be better for you to have ingrade promotions, where the men who demonstrate their ability have something to look forward to?

Mr. DIXON. The question that would come up would be the unfairness of assignment of cases, sir. In other words, why should you give one man a tough case and pay him \$12,000 for it, and give another man the same type of case and pay him more for it? Because you have to have the same degree of competency from them. And this is a real problem. I would rather approach it from the standpoint of putting them all on the same par and hope to goodness that we get men of this caliber. Because a very serious thing, Senator Robertson, has developed in the law.

These men are the trial judges. If they hold wrong, and we get the Commission reverse them, too often the circuit court goes with that man saying, "He observed them."

Senator ROBERTSON. He heard the evidence.

Mr. DIXON. "He heard the evidence." "Therefore, we do not agree with you at the Commission." This is a serious problem.

Mr. SECREST. If I may interject, I think the chairman put his finger right on the point. I have seen these applications for hearing examiners. If you qualify in any field or the independent agencies, you qualify as an examiner and you go on the list according to your grade.

You may be the best low-graded lawyer there and we may get you. I can give you a perfect example now. Bob Freer, former Chairman of the Federal Trade Commission, a member for 12 years, made the highest grade I understand ever made at the Civil Service Commission, 105. He is over at the National Labor Relations Board now—

Mr. DIXON. No.

Mr. SECREST. I am sorry, he is over at Federal Power, hearing Federal Power cases. And if Civil Service could take the hearing examiner list and separate them into the agencies where they have had their experience and where they fit, you would get a far better hearing examiner. I am not complaining about ours because I think under the circumstances we have good hearing examiners generally.

DELEGATION OF POWER TO FIELD PERSONNEL

Senator MAGNUSON. Let me ask you one more thing. We discussed this I believe when you were in front of the Senate Commerce Committee. In the reorganization plan there was a suggestion that we talk with you about delegating more of this work in the field, as much as you could under the law. Now you have a reorganization plan up here.

Mr. DIXON. I want to be perfectly honest on that point with you, Mr. Chairman. What we are trying now is to center the responsibility for viewing the applications that come in, to plan and execute the investigation and trial in one place. Now, it would be highly desirable like today if as we build we could say to you that we will duplicate this centralization in regions, but I am frank to say to you until we get this thing worked out back here it is not sensible. I think the next time I come to the Congress, in the next year or so, I am going

to go to talking to you about letting me build a self-sufficient unit in the East, and one in the midcontinent, and one in the West so that some of these matters could be taken care of. But this dispersion right now would cause us trouble.

Senator MAGNUSON. Yes, you have to start there at the core.

Mr. DIXON. Yes, sir.

Senator MAGNUSON. And this reorganization plan, on which we will be holding some hearings up in the Senate Commerce Committee, is mainly the authority to delegate.

Mr. DIXON. To delegate functions.

REORGANIZATION PLAN No. 4

Now, I have testified about three times on Reorganization Plan No. 4, and on Senator Carroll's bill which is aimed at increasing some of the powers of the hearing examiner and getting these agency commissions freed from some of the routine. Now, we feel at the Commission, and we have so expressed it, that some of the routines, like this section VI, we have to do at the table. When we sign an investigational subpoena, only a Commissioner can do this. And now on extensions of time, suppose we sent out 200 of these, and out of those 200 each one of them came in and wanted an extension of 45 days. Today that petition must be brought in through the Motions Commissioner, and the Commission must pass on it each time. Now, these are ministerial duties that could very well be delegated down and would not be a surrender or an improper thing, in my opinion, for the Commission to do. Now, it is true in the reorganization plan if three of these five Commissioners decided to delegate some of its actual functions down to an employee or a group or an individual Commissioner, they could do this, with the built-in right of two of the members to review anything they wanted to that might have been done, and also the right to undo that which they did. Now, we at the Commission do not see any need for us to delegate down our decisional functions beyond where we are, what has already happened as a result of APA when the hearing examiner was set up.

APPELLATE FUNCTION

Today we operate actually kind of like an appellate court. Let's view it that way. Now, we have talked about a rule that would also take up a great deal of lag, a type of rule like certiorari, of imposing on either side, either the Government or opposing counsel, the responsibility to petition for review in the form of certiorari. And if he could not make up a good enough reason, we would allow the initial decision to stand. The way our rules are written today, the right of appeal, although it is a privilege and not a right—we automatically grant it to anyone who asks for it—means of setting it down, briefs, arguments, and a decision. Now, if the hearing examiner did an outstanding job, he wrote good findings, good conclusions, and a good order, and the record sustained it, and no one could show on either side that anything would be gained by looking at it again, when we passed upon that it would cut out all of this delay. Now, this is another thing. We are working on this rule ourselves. We have the power to write these rules in our basic law, rules of practice and procedure.

Senator MAGNUSON. I understand that the Commission favors Reorganization Plan 4?

Mr. DIXON. Yes, sir.

NUMBER OF EXAMINERS REQUESTED

Senator MAGNUSON. All right. Now, you have 26 hearing examiners.

Mr. DIXON. We have 15.

Senator MAGNUSON. You have 15 now.

Mr. DIXON. Yes, sir. We have asked for the money, and as I say to you, as soon as we get the money I am going to immediately try to get five very quickly and create three of these men in this consent thing to take care of some 70 percent of what they are doing now, and then build on toward the others.

Senator MAGNUSON. You have 15 hearing examiners and 26 positions in the job?

Mr. DIXON. Clerks and stenographers.

Senator MAGNUSON. And the House says that the request for 10 additional hearing examiners and 5 clerical employees has been approved.

Mr. DIXON. They approved that. They singled that out and said, "You have that." So now if they cut me 25 percent, I would do that but I would have to take away from some of the other things. My own implication would be if they are going to cut us, we would have to cut down even somewhere.

Senator MAGNUSON. In other words, to set up the 15 new positions, you are going to have to take it away from some of the other places?

Mr. DIXON. I would think so, sir.

Senator MAGNUSON. Is that what your budget man said?

Mr. DIXON. That is what he says, and he is my fact-and-figure man.

Senator MAGNUSON. All right. Any further questions?

EXTENT OF DELEGATION UNDER PLAN NO. 4

Senator ALLOTT. I have just one on this reorganization plan. This involves the delegation of authority to an employee and employee board. I just wonder if you are not going pretty far in the delegation of authority in a matter like this?

Mr. DIXON. Well as I said to you, and I want to be right on the record and honest with you. We have discussed this at the Commission table. We cannot visualize why we should delegate beyond ministerial things, as I have described, such as extending the time and things like that any more than we are now—

Senator ALLOTT. The point I am getting at is under that reorganization plan you could delegate this to the lowest employee—

Mr. DIXON. We could if three Commissioners out of five decided to. Now, you have a lot of checks and balances in this reorganizational plan. First, three out of five must decide that it should be done. Then after it is done, if they do not like it they can undo it. If it is allowed to continue, so far as review, any two of the five can

insist that whatever is done be reviewed, either initially or de novo, or review what has been done.

Now many people have complained here that this would further grant too much power to me as the Chairman, and in the various reorganization plans this is highlighted. But I have always said this, that in 1950, after the Hoover task force had studied these agencies, they made a report and reorganization plan No. 8 was sent to the Congress by President Truman, and the Congress allowed it to be passed into law. There has been a permanent Chairman at the Federal Trade Commission since 1950 with the powers actually that are in this Reorganization Plan 4. With respect to the some 800 employees of the Federal Trade Commission, I have the responsibility as Chairman for the assignment of what those people do with the exception of some 7. Those seven are the principal bureau heads, or principal staff officers in the Commission. With respect to those, as the President does when he appoints a Presidential appointee, I take them to the Commission for their advice and consent. They pass on those. Now it is true under reorganization plan No. 4 I would not have to do that. If that is passed into law and three members decide to delegate to an employee or group some function of the Commission, then I would delegate who those people would be. But in my opinion we already have that system. If you do not like it you have to take reorganization plan No. 8 off the books.

Senator ALLOTT. We might take part of it off sometime.

RETIREMENT COSTS

Senator MAGNUSON. \$514,000 is requested for the agency share of employee retirement costs for fiscal 1962. That is approximately 5 percent of your total budget. Isn't that a little high?

Mr. GLENDENING. No, sir.

Senator MAGNUSON. Do you contribute 5 percent?

Mr. GLENDENING. Six percent of the wages, 6 percent of the personnel salaries.

Senator MAGNUSON. You contribute 6 percent. So this is a mandatory fixed figure?

Mr. GLENDENING. Yes, sir. Six percent of personnel services costs.

Senator MAGNUSON. I see.

REMOVAL OF EXAMINERS

Senator ALLOTT. I would just like to say one thing before we conclude, Mr. Chairman. Going back 15 or 20 minutes ago, I would be very disappointed in this Commission if they remanded any case back to an examiner with instructions and the examiner did not comply with those instructions, if the Board did not institute proceedings to dispose of that examiner.

Mr. DIXON. The Interstate Commerce Commission, I believe, has a case in point. They have been trying for 2 years to get rid of one hearing examiner.

Senator ALLOTT. Let's bring this thing up to a head because this is the sort of thing that cannot be tolerated.

Mr. DIXON. Well, you know, President Eisenhower did, and President Kennedy has followed through with something they call a judicial conference on this problem under Judge Prettyman. It had been continued and is being revitalized. What will eventually come from it, what type of recommendations, I do not know, sir. But I am quite sure that you are going to get some type of recommendation from this conference.

Senator ALLOTT. You said a few moments ago you would find some way to get rid of these knot heads, and those are the words you used.

Mr. DIXON. Well I am going to do everything I can within the law.

Senator ALLOTT. Well I am going to say this, I hope you will carry through on it. Because it is inconceivable to me that a Commission, which has been given this authority by Congress, can make a decision, remand it for further action before an examiner in accordance with its decision, and that examiner completely, or even in a major part, or in any part, disregards the instructions of the Commission.

EXAMPLE OF DIFFICULTY WITH EXAMINERS

Mr. DIXON. I will give you an example of this. When I was a trial attorney at the Commission I had a resale price maintenance case. When I rested the Government's case, a motion to dismiss was filed. The hearing examiner granted it. We went to the Commission on an appeal. The Commission overruled that decision of the hearing examiner and held a prima facie case certainly had been made out. The respondent did not even put in any defense. So he had to write his final decision, and he was consistent and wrote the same decision. He dismissed it again. Now I think that is a pretty good example of what we are talking about.

Senator MAGNUSON. Well so many of these cases are based upon policy. The Commission is an arm of Congress created to do what Congress could not do, and the examiners were created to gather facts and merely advise.

Mr. DIXON. That was the initial approach. Then APA came along with an idea that you had to separate some of these two-headed functions of these people. So in order to honor what the American Bar wanted, the Congress, when it passed the APA and brought into being a hearing examiner, gave these agencies the choice of still treating them as a report, recommendation, or initial decision. But I point this out to you, that prior to 1946 the Commission's hearing examiners were making recommendations to the Commission. They were kind of like a master's report. Even in those cases, where the hearing examiner recommended differently, and the Commission had overruled and decided something different, when they got to the circuit court the circuit court was looking at those things and saying, "We believe the man who saw, not the reviewing body." So we did not have very far to go and we just went ahead and let them make initial decisions.

Senator MAGNUSON. Yes. All right, if there are no further questions, we thank you all very much.

GENERAL ACCOUNTING OFFICE

BUDGET ESTIMATES

STATEMENT OF JOSEPH CAMPBELL, COMPTROLLER GENERAL OF THE UNITED STATES, ACCOMPANIED BY ROBERT F. KELLER, GENERAL COUNSEL; JOHN F. FEENEY, ADMINISTRATIVE OFFICER; AND HERSCHEL J. SIMMONS, CHIEF, BUDGET AND FINANCE BRANCH

BUDGET ESTIMATE

Senator MAGNUSON. Next, we have the Comptroller General. Is Mr. Campbell here?

Mr. Campbell, for the purpose of the record, your 1961 appropriations for fiscal 1961 were \$42,179,000. The January budget was \$43 million, an increase of approximately \$800,000 plus. And the amended budget was \$43 million and the House gave you \$43 million, which is an increase of \$821,000.

Mr. Campbell has sent us a letter in which he says that insofar as the bill is concerned, the General Accounting Office sees no reason for any change. And he has kindly consented to come up and appear before us for any questions we may want to ask.

TRAVEL ALLOWANCE

I want to ask you this, Mr. Campbell: I have often thought there was too much limitation on your travel allowance in the past, but I see the House has it up \$250,000. Is that sufficient for you?

Mr. CAMPBELL. That is correct, Mr. Chairman. There was one year when we were badly restricted in travel. I think your committee was somewhat more liberal. We feel we can do the job with the amount of money recommended.

Senator MAGNUSON. It still only amounts to 5.7 of the total budget.

Mr. CAMPBELL. That is correct; yes, sir. It will be 6.2 this coming year.

Senator MAGNUSON. 6.2; but you have to do a great deal of travel with the missions that are assigned to you. I was just wondering if that was enough.

Mr. CAMPBELL. Our travel is now increasing. We now have about 2,000 traveling as against about 800 a few years ago.

Senator MAGNUSON. Now the \$821,000, what is that primarily for?

Mr. CAMPBELL. Of the \$821,000, \$512,000 is for increased salaries and \$22,000 for employer's contributions relating to that increase, making a total of \$534,000. In addition there is \$250,000 for increased travel and a \$37,000 increase in other expenses.

STAFF SITUATION

Senator MAGNUSON. Does that add any new positions?

Mr. CAMPBELL. No, sir. It decreases our total staff by about 50. Our staff today is down to 4,830 which is just about what it was in the year 1936-37.

Senator MAGNUSON. But you are paying them more?

Mr. CAMPBELL. But you are paying them more?

Mr. CAMPBELL. Yes, sir. We think we have bettered the quality of the staff.

Senator MAGNUSON. Well I want to say this to the committee, I agree with the House when they say the committee thinks the Comptroller General is doing an outstanding job. And the increase here is not in personnel, but some of this is dictated by law itself.

Mr. CAMPBELL. Yes, sir.

Senator MAGNUSON. And I was pleased to see that they did give further travel allowance because there is a great deal of that to be done.

Mr. CAMPBELL. Yes, sir.

Mr. Chairman, I have a short statement which I would like to offer.

Senator MAGNUSON. We will put that into the record in full.

Mr. CAMPBELL. Thank you, sir.

Senator MAGNUSON. Thank you.

(The statement referred to follows:)

Mr. Chairman and members of the subcommittee, we appreciate the opportunity of appearing before you to discuss the budget estimates of the General Accounting Office for the fiscal year 1962. We trust that the justifications furnished your committee are in sufficient detail to explain our operations, requirements, and some of our accomplishments.

We are requesting that \$43 million be appropriated for the operation of the General Accounting Office during the coming fiscal year. This amount represents an increase of \$821,000 above the sum appropriated for fiscal year 1961. With respect to particular items of expense, the amounts are as follows:

[Dollars in thousands]

	1962 estimates	Per- cent	Revised 1961 amount	Per- cent	Change
Personnel compensation.....	\$36,232	84.3	\$35,720	84.7	+\$512
Employer's contributions: civil service retirement; life insurance; F.I.C.A. taxes; health benefits; pensions.....	2,751	6.4	2,729	6.5	+22
Other personnel benefits: Living and quarters allowances; suggestion awards; education of dependents.....	203	.4	203	.4	-----
Total: Personnel services and benefits.....	39,186	91.1	38,652	91.6	+534
Travel.....	2,650	6.2	2,400	5.7	+250
All other expenses.....	1,164	2.7	1,127	2.7	+37
Total: Travel and other.....	3,814	8.9	3,527	8.4	+287
Grand total.....	43,000	100.0	42,179	100.0	+821
Appropriation 1961.....			41,150		
Supplemental 1961.....			1,029		

The Independent Offices appropriation bill for 1962, as reported by the House Committee on Appropriations and passed by the House on June 7, provides for the full amount which we requested, that is, \$43 million, and we believe that amount is sufficient for our purposes.

That concludes our statement, Mr. Chairman. If you have questions concerning our operations or our budget requirements, we will be glad to answer them.

HOUSING BILL AMENDMENT

Senator ROBERTSON. We adopted an amendment to the housing bill which will increase their travel allowance. Heretofore, the Comptroller General did not have absolute power to go into the records of any city administration and find what they did with the urban renewal and public housing funds. We put in the bill a requirement that FHA, the Home Housing Administrator, should indicate how records of the Federal funds should be kept and the Comptroller Gen-

eral would then have access to them. He would have to go to the city to see those records, however, they won't bring them here.

Mr. CAMPBELL. Senator Robertson, that was a move which we appreciated deeply. It was very important to us to have access to these records.

Senator ROBERTSON. I hope the House will concur because it is very important. We are going to put \$4½ billion into urban renewal projects, and we certainly ought to know what the cities are doing with it. I do not mean to infer that there is any crookedness in any city administration, although, with all due deference, there have been a few instances in the past.

PRESPENDING RULING

Senator MAGNUSON. I wanted to ask, Mr. Campbell, this question: I have often run into where a department, let's say the Defense Department, has been asked a question by a contractor as to a certain item, is this or not legitimate overhead? They have not spent it, but they are going to ask them for sort of a free rule now. And sometimes the Comptrollers of the departments will say, "Well, we think it is, but we do not know what General Accounting Office will think about it." And therefore, the thing is just—now is it possible for them to come to you and get a preruling, or at least a review of what their judgment might be?

Mr. CAMPBELL. Yes, sir. The contractors are welcome to come to us at any time to ask that kind of a question and we will give a prompt answer.

Senator MAGNUSON. It is not a case where they are passing on what they have done, it is something they might contemplate doing and they do about it.

Mr. CAMPBELL. Either the contractor might ask us or the comptroller of the department.

Senator MAGNUSON. He decides, "Yes; I think you can do this." He could get, then very quickly ask you people what do you think about this?

Mr. CAMPBELL. Yes. In the Defense Department we have our men right there with them who might answer such questions.

Senator MAGNUSON. Yes. That is what I wanted to be clear on. Because sometimes there is a little confusion there as to just what decision or what ruling could be made.

DECISION AS TO PRIVATE CONTRACTORS

Senator ALLOTT. I am not quite clear, Mr. Campbell, about one thing and I would appreciate your answering this question and clearing it up for me. I had an instance recently called to my attention where one of the agencies of the Government is carrying on a function which could be contracted with private contractors for at least a third, and maybe more than that even, of the price that it is now costing the Federal Government to do it. Is this the proper function of your office?

Mr. CAMPBELL. We have on several occasions examined that kind of a problem and have given our opinion as to which figures are fair and which is the best way for the Government. We had a large one recently in Illinois, in Chicago.

Senator ALLOTT. Off the record.

(Discussion off the record.)

Senator MAGNUSON. Any questions, Senator Schoeppel?

Senator SCHOEPEL. No further questions.

Senator MAGNUSON. Thank you very much, Mr. Campbell.

We will recess until this afternoon at 2 o'clock.

(Whereupon, at 11:40 a.m., Thursday, June 15, 1961, the committee was recessed, to reconvene at 2 p.m., the same day.)

AFTERNOON SESSION—THURSDAY, JUNE 15, 1961

FEDERAL HOME LOAN BANK BOARD

STATEMENT OF JOSEPH P. McMURRAY, CHAIRMAN, ACCOMPANIED BY JOSEPH J. WILLIAMS, JR., BOARD MEMBER; IRA DIXON, BOARD MEMBER; THOMAS H. CREIGHTON, JR., GENERAL COUNSEL; WILLIAM H. HUSBAND, GENERAL MANAGER, FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION; LAWRENCE M. WALTERS, DIRECTOR, DIVISION OF EXAMINATIONS; AND THADDEUS CORCORAN, BUDGET OFFICER

LANGUAGE AMENDMENTS

Senator MAGNUSON. The committee will come to order.

We will put your letter in the record in full, as well as your letter to the House committee explaining the budget amendments.

(The letters referred to follow:)

FEDERAL HOME LOAN BANK BOARD,

Washington, D.C., June 9, 1961.

HON. WARREN G. MAGNUSON,

Chairman, Subcommittee in charge of Independent Offices appropriation bill for 1962, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: We thank you for your letter of June 2, 1961, requesting us to advise you whether any changes are required in the public interest in H.R. 7445, the independent offices appropriation bill for 1962 as reported to the House.

We are pleased to advise you that the House committee approved the Board's 1962 budget estimates as submitted by the President. However, subsequent to the date of the President's budget submission, a situation developed which required the Board, with no objection from the Bureau of the Budget, to seek the House committee's approval of two proposed amendments, one to the language of the Board and the other to the language of the Federal Savings and Loan Insurance Corporation. The House committee did not go along with our request.

We submit herewith the proposed amendments to the bill together with justification of their need. At our hearing before your committee, scheduled for June 15, 1961, we shall be prepared to support them in more detail and to answer any questions you and the committee may wish to ask concerning them or any other aspect of the Board's budget and operations.

We appreciate your interest.

Sincerely yours,

JOSEPH P. McMURRAY, Chairman.

FEDERAL HOME LOAN BANK BOARD

PROPOSED AMENDMENTS TO H.R. 7445 AS REPORTED TO HOUSE

On page 42, line 10, after "section 407", insert "or 408".
On page 43, line 22, after "section 407", insert "or 408".

Budgetary data

None involved.

Legislative history

House hearings—Not discussed.
House Report No. 499—Not mentioned.

Justification

The proposed amendments, one to the language for the Federal Home Loan Bank Board and the other to the language for the Federal Savings and Loan Insurance Corporation, would classify as nonadministrative expenses, not subject to amount limitation, all necessary expenses of the Board or of the Corporation relating to the preparation for or conduct of proceedings under section 408 of the National Housing Act, the section relating to savings and loan holding companies.

These expenses would thus be given the same treatment now given to such expenses of proceedings under section 407 of the National Housing Act, relating to the termination of insurance, and proceedings under subsection (d) of section 5 of the Home Owners' Loan Act of 1933, relating to the appointment of legal custodians for Federal savings and loan associations and to other types of proceedings under that subsection involving such associations.

Section 408 was added to the National Housing Act by Public Law 86-374, approved September 23, 1959, and was made permanent by Public Law 86-746, approved September 13, 1960. Its general objective is to prevent the creation of situations where a company, as defined therein, has control of two or more savings and loan associations or other institutions insured by the Federal Savings and Loan Insurance Corporation, and to prohibit the use of such insured institutions by controlling companies for certain types of financing of activities of such companies or of other subsidiaries of such companies.

Paragraph (3) of subsection (a) of section 408 provides that a company shall be considered as having control of an institution or organization if such company owns, controls, or holds with power to vote more than 10 percent of its stock, or if the Board determines, after reasonable notice and opportunity for hearing, that such company directly or indirectly exercises a controlling influence over the management and policies of such institution or organization.

In the event that the Board is required to prepare for and conduct proceedings under this section, the expenses of so doing could not be predetermined and therefore could not be properly provided for in the Board's regular budget estimates. For this reason, the classifying of such expenses as nonadministrative would seem to be both necessary and realistic; this purpose would be accomplished by Senate approval of the proposed amendments.

Approval of the amendments are respectfully urged as lack of such authorization would preclude the Board at any time from carrying out its responsibilities under this section.

FEDERAL HOME LOAN BANK BOARD,
Washington, D.C., May 26, 1961.

HON. ALBERT THOMAS,
Chairman, Independent Offices Subcommittee,
House Appropriations Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: The President recently approved and forwarded to the Speaker of the House an amendment to the Federal Home Loan Bank Board's 1962 budget estimates. The amendment affects the estimates of both the Board proper and the Federal Savings and Loan Insurance Corporation. In connection with this action the Board wishes to make the following explanation.

At my meeting with the President on April 26, 1961, I discussed plans for the improvement of the organization and operations of the Board including the Federal Savings and Loan Insurance Corporation. The President suggested that I discuss these plans further with the Budget Director.

Accordingly, on May 2, 1961, the Board attended a meeting at the Bureau of the Budget presided over by Deputy Director Staats. Resulting from this meeting and later telephone conversations between the Bureau and me, agreement was reached on the following proposals of the Board.

The Board proposed and has established a temporary task force of advisers familiar with the operations and problems of the savings and loan industry. This task force will consult with the Board on a variety of policy and managerial matters. Such matters would include but not be confined to: variable dividends, length of mortgage terms, reserve requirements, liquidity, possible liberalization of investment portfolio of bank members, extension of lending area, Federal charters for mutual savings banks, examination of relationship between the 11 Federal home loan banks and the Board, capitalization of the banks, the most effective organization and operation of the activities of the Federal Home Loan Bank Board and the rendering of maximum service to the public. The Board expects to benefit from the views of individuals knowledgeable on many of the Board's most difficult problems. The task force would consist of 12 members; there would also be two consultants. The members would be selected from all sections of the country. The task force would meet about 20 times during the fiscal year and would spend an average of 1½ days at each meeting. The two consultants would spend an average of 3 days each time the task force would meet. Invitations have been extended to you and to the respective chairmen of the Senate Appropriations Committee, House Banking and Currency Committee, Senate Banking and Currency Committee, and to the Bureau of the Budget to have a staff representative at these meetings. The members of the task force would be paid not to exceed \$25 per diem and transportation costs; the two consultants would be paid not to exceed \$100 per diem and transportation costs. The estimated cost of the operation—included in schedule A attached—is \$62,250. Of this amount \$12,000 is in "Personnel compensation," and \$50,250 in "Travel and transportation of things."

The Board also proposes to set up in the Board a new office to be called Office of Research and Home Finance. This Office would have a staff of seven employees headed by an Adviser to the Board (GS-18). Under him would be one specialist in banking and mortgage finance (GS-16), one specialist in real estate and housing (GS-16), one statistical clerk (GS-7), and three secretaries (one GS-9 and two GS-8). The office would analyze all economic, financial, mortgage, and housing data and information relating to the money market generally. It would advise the Board on developments relating to the work and jurisdiction of the Board. It would initiate studies and investigations intended to provide information and generate ideas which may develop into policies of the Board and the Insurance Corporation. It would conduct special assignments as requested by the Chairman and/or the other Board members. It would cooperate with directors of comparable offices in other agencies such as the Bureau of the Budget, Council of Economic Advisers, Treasury Department, Federal Reserve, Housing and Home Finance Agency, Department of Commerce, and Veterans' Administration in connection with their economic, mortgage finance, and real estate studies. The Office would work closely with the Joint Committee on the Economic Report and would cooperate with other economists in other economic and trade organizations. The estimate for this new activity—also included in schedule A attached—is \$82,750. Of this amount \$64,940 is for personnel compensation, \$4,800 for personnel benefits, \$6,650 for rent, communications, and utilities, and \$6,360 for equipment.

In connection with the three supergrades requested, the Board asks your assistance and the assistance of the committee in its efforts to obtain these three grades; we will also seek the assistance of the chairman of the House Post Office and Civil Service Committee.

The Council of Economic Advisers recently requested the Board to expand and place on a monthly basis its limited report on interest and dividend rates of insured savings and loan associations. This activity is carried on by the Operating Analysis Division of the Federal Savings and Loan Insurance Corporation.

In addition, the Board wishes to obtain similar information from the mutual savings banks, commercial banks, and life insurance companies. The information necessary to prepare the reports on both the savings and commercial banks will be obtained through the cooperation of the Federal Deposit Insurance Corporation and the Federal Reserve Board, respectively.

Information in such reports would involve:

1. Monthly reporting by all insured associations and mutual and commercial banks of weighted average interest rates on loans made for construction of homes and for new and existing homes.
2. Monthly or quarterly reporting of dividend rates paid.
3. Reporting of related financial data for gaging effects of rate changes and for use in computing effective charges.
4. Interest charges to be computed by the Federal Savings and Loan Insurance Corporation in terms of effective yield as well as contract rate.
5. Computing detailed frequency distributions by the Federal Savings and Loan Insurance Corporation in terms of number of insured associations, mutual banks, and commercial banks reporting various average rates.
6. All data will be summarized by Federal home loan bank districts and/or by major geographic areas.

The attached schedule B reflects an estimated cost of \$100,000 for this additional work in fiscal 1962. Of this amount, \$48,400 is for personnel compensation, \$3,600 for personnel benefits, \$6,650 for rents, communications, and utilities, \$5,350 for printing and reproduction, and \$36,000 for automatic data processing services and other related costs.

Your favorable consideration and that of your committee of our request for additional funds in fiscal 1962 for the purposes outlined will be sincerely appreciated. We shall be glad to furnish any additional information or respond to any further inquiries you or your committee may wish to make.

Sincerely yours,

JOSEPH P. McMURRAY,
Chairman.

FEDERAL HOME LOAN BANK BOARD

SCHEDULE A.—Amended summary of administrative expenses, fiscal year 1962

	Original estimate		Proposed amendment		Amended estimate	
	Average number	Amount	Average number	Amount	Average number	Amount
Personnel compensation:						
Offices of the Chairman and Board members.....	8.0	\$97,286	0	0	8.0	\$97,286
Office of the Assistant to the Board.....	2.0	22,323	0	0	2.0	22,323
Budget Office.....	2.0	17,320	0	0	2.0	17,320
Office of Information.....	4.8	37,174	0	0	4.8	37,174
Division of F. S. & L. Operations.....	16.2	141,302	0	0	16.2	141,302
Office of the Secretary.....	54.3	313,066	0	0	54.3	313,066
Office of the Director of Audits.....	11.3	117,548	0	0	11.3	117,548
Division of Personnel.....	6.8	50,827	0	0	6.8	50,827
Division of FHLB Operations.....	11.6	112,584	0	0	11.6	112,584
Comptroller's Division.....	29.0	170,974	0	0	29.0	170,974
Office of the General Counsel.....	34.1	309,114	0	0	34.1	309,114
Office of Research and Home Finance.....		0	6.3	\$76,940	6.3	76,940
Total personnel compensation.....	180.1	1,389,518	6.3	76,940	186.4	1,466,458
Personnel benefits:						
Social security taxes (FICA).....			400		0	400
Health benefits.....			8,815		580	9,395
Incentive awards.....			2,500		0	2,500
Life insurance.....			4,895		225	5,120
Retirement.....			88,715	3,995		92,710
Total personnel benefits.....			105,325	4,800		110,125
Total personal services and benefits.....		1,494,843		81,740		1,576,583
Contractual services and supplies:						
Travel and transportation of persons.....			54,600	50,250		104,850
Transportation of things.....			625	0		625
Rent, communications, and utilities.....			156,880	6,650		163,530
Printing and reproduction.....			6,300	0		6,300
Other services.....			5,375	0		5,375
Services of other agencies.....			11,025	0		11,025
Supplies and materials.....			52,227	0		52,227
Total contractual services and supplies.....			287,032	56,900		343,932
Acquisition of capital assets: Equipment.....						
			13,125	6,360		19,485
Total gross expense.....	1,725,000		145,000		1,940,000	
Reimbursement from other accounts.....		70,000				70,000
Total estimate.....	1,725,000		145,000		1,870,000	

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

SCHEDULE B.—Amended summary of administrative expenses, fiscal year 1962

	Original estimate		Proposed amendment		Amended estimate	
	Average number	Amount	Average number	Amount	Average number	Amount
Personnel compensation:						
Office of the General Manager.....	11.0	\$92,975			11.0	\$92,975
Underwriting Division.....	19.9	161,026			19.9	161,026
Insurance Settlement and Rehabilitation Division.....	8.0	78,841			8.0	78,841
Operating Analysis Division.....	37.1	229,757	11.0	\$48,400	48.1	278,157
Comptroller's Division.....	14.6	114,529			14.6	114,529
Total.....	90.6	677,128	11.0	48,400	101.6	725,528
Personnel benefits:						
Retirement.....		43,804		3,116		46,920
Health.....		4,409		339		4,748
Life insurance.....		2,349		145		2,494
Social security taxes (F.I.C.A.).....		110				110
Total.....		50,672		3,600		54,272
Total personal services and benefits.....		727,800		52,000		779,800
Contractual services and supplies:						
Travel and transportation of persons.....		15,400				15,400
Transportation of things.....		100				100
Rent, communications, and utilities.....		62,800		6,650		69,450
Printing and reproduction.....		27,000		5,350		32,350
Other services.....		50,800		36,000		86,800
Supplies and materials.....		6,100				6,100
Total.....		162,200		48,000		210,200
Total estimate.....		890,000		100,000		990,000

GENERAL STATEMENT

Senator MAGNUSON. And we will be glad to hear from you.

Mr. McMURRAY. Thank you. My name is Joseph P. McMurray. I am the new Chairman of the Federal Home Loan Bank Board.

First of all, I want to say how happy I am to appear before this subcommittee and to tell you that as the new Chairman of the Home Loan Bank Board I hope I shall be the kind of Chairman who will bring credit.

Senator MAGNUSON. Thank you.

Mr. McMURRAY. And I remember a period here on the other side when Senator Maybank used to be chairman of this subcommittee, and we all loved and respected him.

Accompanying me today are Joseph J. Williams, Jr., and Ira Dixon, the other two Board members, Thomas Creighton, the General Counsel, William H. Husband, General Manager, Federal Savings and Loan Insurance Corporation; Lawrence M. Walters, Director, Division of Examinations, and Thaddeus Corcoran, Budget Officer.

We appreciate the opportunity of appearing before you to discuss our budget needs for fiscal 1962 and to justify in more detail our request for inclusion of an amendment to the language of both the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation.

Detailed justifications of our budget needs for fiscal 1962 are contained in the presentation delivered to the committee some time ago.

AUTHORIZATIONS, 1962

As you know, the President's budget contains \$12,981,000 in authorization, subject to annual limitation, for the Federal Home Loan Bank Board made up as follows:

<i>Unit</i>	<i>Amount</i>
Board and staff offices.....	\$1, 725, 000
Division of Examination and Supervision.....	10, 366, 000
Federal Savings and Loan Insurance Corporation.....	890, 000
Total.....	12, 981, 000

HOUSE RECOMMENDATION

On page 41, line 15 and on page 43, lines 14 and 17 of H.R. 7445, the independent officers appropriation bill for 1962, dated June 2, 1961, the House recommends without change, each of the authorizations requested. The Board appreciates and is fully satisfied with the House action. However, the Board requested the House to approve two proposed amendments, one to the language of the Board and the other to the language of the insurance corporation. The House did not go along with our request.

OPERATION UNDER PROPOSED AMENDMENTS

The proposed amendments, if approved by the Congress, would permit the Board and the Insurance Corporation to treat as nonadministrative expense all necessary expenses of the Board or of the Insurance Corporation relating to the preparation for or conduct of proceedings under section 408 of the National Housing Act, the section relating to savings and loan holding companies.

Such expenses would thus be given the same treatment now given to expenses of proceedings under section 407 of the National Housing Act, relating to the termination of insurance, and proceedings under subsection (d) of section 5 of the Home Owners' Loan Act of 1933, relating to the appointment of legal custodians for Federal savings and loan associations and to other types of proceedings under that subsection involving such associations.

Because such expenses cannot be predetermined it is not possible to properly provide for them in the regular budget estimates of the Board or of the Insurance Corporation.

Approval of the amendments is respectfully urged in order that the Board may carry out its responsibilities under this section.

We thank you, gentlemen, for the opportunity of making this statement. We shall be glad to answer any questions you may wish to ask.

SECTION 407 PROVISIONS

Senator MAGNUSON. Under 407 of the Housing Act which was approved last year, what does that provide generally, 407?

Mr. McMURRAY. Under 407, it is possible to make expenditures, without limitation and classify them as nonadministrative expense, to hire counsel and such persons as may be needed to carry on certain work in connection with proceedings under that section.

Senator MAGNUSON. And that was made permanent?

Mr. McMURRAY. That is relating to the termination of insurance. And that is permanent.

SECTION 408 PROVISIONS

Now, under 408, which is the section relating to the holding companies, we do not have the statutory provision to treat expenses incurred under this section as nonadministrative. And in the event we had to operate under that, we would not have funds to do so.

Senator MAGNUSON. So that we get this clear, in your justification you say that 408 was added to the National Housing Act in September 1959, and made permanent by Public Law 86-746, approved September 13, 1960. Its general objective is to prevent the creation of situations where a company, as defined therein, has control of two or more savings and loan associations or other institutions insured by the Federal Savings and Loan Insurance Corporation, and to prohibit the use of such insured institutions by controlling companies for certain types of financing of activities of such companies or of other subsidiaries of such companies.

Paragraph 3 of subsection (a) of section 408 provides that a company shall be considered as having control of an institution or organization if such company owns, controls, or holds with power to vote more than 10 percent of its stock, or if the Board determines, after reasonable notice and opportunity for hearing, that such company directly or indirectly exercises a controlling influence over the management and policies of such organization.

In the event that the Board is required to prepare for and conduct proceedings under this section, the expenses of so doing could not be predetermined.

And what you are asking is, if you have to move in under this section, you ought to have the opportunity to spend such as you deem proper.

Mr. McMURRAY. You have correctly stated the situation.

Senator MAGNUSON. That is the one amendment.

You have two amendments.

And you are asking for no change in the House figures.

Mr. McMURRAY. That is correct.

HOUSE REPORT

Senator MAGNUSON. Now, the House didn't include \$100,000 contained in House Document 168. What is the \$100,000 for—\$145,000 for the Board, and \$100,000 for the Corporation, "limitation on administrative expenses."

The proposed increase in this limitation would provide for the publication of a monthly increase of dividend rates and mortgage interest rates for savings and loan associations and other mortgage lenders. This would also provide a great deal of the financial data, and so forth.

The House has just informed us that in this particular case they will consider that item in the supplemental. So we don't need to take it up.

Mr. McMURRAY. That is our understanding, and that is perfectly agreeable to us.

Senator MAGNUSON. One other thing.

REORGANIZATION PLAN NO. 6

You have a Reorganization Plan No. 6 pending.

Mr. McMURRAY. Yes, sir.

Senator MAGNUSON. Have you testified yet on that one?

Mr. McMURRAY. No, sir.

Senator MAGNUSON. Have hearings been set, do you know?

Mr. CREIGHTON. They called me from the committee this morning and said June 27 was the tentative date—they said they weren't positive, they were going to try to have hearings on that date.

Senator MAGNUSON. This was just sent up on June 12.

If this reorganization plan goes into effect in the 60-day period will that make any change in your request for funds?

Mr. McMURRAY. Not that I know of at the moment. In the long run, I hope, it would result in more efficient and less costly operation.

Senator MAGNUSON. It is more an administrative reorganization for the Board?

Mr. McMURRAY. Yes, sir.

Senator MAGNUSON. I haven't looked at it too carefully but I can see that it wouldn't make any change in administration of funds.

Any questions, Senator Schoeppel?

Senator SCHOEPEL. I would just like to ask one question here.

ADDITIONAL EXPENSE FUND

You know I am not familiar with too much of the details on this thing. But in this proposed amendment change here, you anticipate, of course, that there will be an additional expense fund that you will have the opportunity to utilize one way or another, isn't that right, or am I wrong on it?

Mr. McMURRAY. There will be funds to be used. And I think Mr. Corcoran can tell you—you are just asking if there are additional funds?

Senator SCHOEPEL. Yes.

Mr. McMURRAY. There are additional funds that can be utilized. Now, how do you get those additional funds?

Senator SCHOEPEL. That is the next question.

SOURCE OF FUNDS FOR EXPENSES

Mr. CREIGHTON. All of our expenses for our operations come by assessments which we are authorized to make upon the 11 home loan banks and upon the Insurance Corporation.

And we can assess them whatever our expenses are, whatever you authorize, plus our nonadministrative expenses. We will be able to get the funds all right if you give us this legislation.

What we want this legislation for is so we will not have to pay those expenses out of the limitations you place upon our administrative expenses.

Senator SCHOEPEL. I gather that, but I was wondering how are you going to recoup and how are you going to get a reimbursement?

Mr. McMURRAY. Actually, Senator, all of the expenses of the Federal Home Loan Bank System come from the banks and the member associations. So actually we do not spend any Federal funds as such.

Senator SCHOEPEL. I see. That answers my question.

Senator MAGNUSON. We give them the authority to spend it.

Senator ALLOTT. And that is true of the Federal Savings and Loan Insurance Corporation?

Mr. McMURRAY. Yes, sir.

CONSULTANT SERVICES

Senator MAGNUSON. I note the House included language authorizing funds to be used for consultant services. Why is that?

Mr. McMURRAY. One of the things I was surprised at, Senator, when I came into the office was that there was no authority, if we needed some expert, to hire someone on a consultant basis. I am not absolutely certain, but I imagine most agencies of the Government can hire consultants and have this authority. I am now advised that most agencies included in the independent offices bill have this authority. In my previous position as president of a college we had that right, and in every agency I have ever worked with we had the right to hire on a per diem basis a consultant up to a certain limit.

And this proposed amendment gives us that authority to do so.

As you know, it is frequently much more economical to hire an expert for a day or 2 days than to hire a person on an annual basis, it is less expensive.

Senator MAGNUSON. The bulk of these funds are for examinations of savings and loan institutions, are they not?

Mr. McMURRAY. That is right.

Senator MAGNUSON. They are on what basis, now?

Mr. CORCORAN. Twelve months.

Senator MAGNUSON. They stay on 12 months?

Mr. CORCORAN. Yes, they are on a current basis substantially except in the State of California.

Senator MAGNUSON. And the House gave you, in your opinion, enough to do that?

Mr. CORCORAN. That is right.

Senator MAGNUSON. Senator Allott?

Senator ALLOTT. I have a couple of questions.

AMOUNT FOR CONSULTANTS

How much is involved in the consultant request?

Mr. McMURRAY. We have no specific authorization or authority to do so. And I presume it would be based on what I would call savings in our budget.

Is that correct?

Mr. CORCORAN. Yes, for the current fiscal year.

Mr. McMURRAY. In other words, we stay within the budget. So it couldn't be very much.

AREAS OF USE OF CONSULTANTS

Senator ALLOTT. I ask the question again. You have a Board and you have a good-sized budget. What justification in what fields would you want to employ consultants?

Mr. McMURRAY. Well, for example, it might be that in connection with a specific legal matter you might want to get an expert in to advise you.

You might—one of the things that I have observed is that the Federal Home Loan Bank Board, although it supervises something over \$70 billion in other people's money, does not have any real experts in the field of finance, economics, the money market, et cetera. And on occasions you might want to make an economic study to make an intelligent determination with respect to the policy the Board might be considering. And this is the kind—

RECRUITMENT OF EXPERT STAFF

Senator ALLOTT. Why shouldn't your Board be set up so as to include within your Board people with this particular knowledge and ability?

I raise this question because of this reason: I realize that on rare occasions it is necessary to call in outside consultants.

On the other hand, the people that you call in or any other administration calls in as consultants are not employees of the Government, they have not taken an oath of office, and they have not taken an oath to support the Constitution and functions of our Government as you have and as the rest of us have, and when you call in outside consultants, you can never be sure of what influences may be brought to bear in the consulting services which you employ?

I have a very strong feeling about this, a feeling that this should only be done in the most extreme circumstances.

Why cannot your Board build up a staff which is capable of doing this?

Mr. McMURRAY. I am glad you asked that question, Senator, because, as a matter of fact, that is another request that will come to you; it is embodied in the President's communication to the Speaker of the House in House Document No. 168 of May 23, 1961, that is exactly what we are asking for, funds to begin this very work. However, at the moment we do not have it. And I am not sure we may have the need, but in the event we do we would like to have the authority.

REQUIREMENT OF OATH

As far as taking the oath goes, I would like to—is that true, they do not take an oath?

Mr. CREIGHTON. I think that is correct, yes, sir.

Mr. McMURRAY. Is there any reason, for example—if I may be permitted to ask a question of our General Counsel—is there any reason why, in the event that they would, we couldn't have them take an oath?

Mr. CREIGHTON. I don't think there is my requirement that requires them to take an oath, and I don't think you have any authority to require it.

Mr. McMURRAY. Maybe we haven't authority, but if they didn't take it, if they didn't want to, I wouldn't have to hire them. However, Senator, I think generally part of my procedure would be, it would seem to me, I would be very careful and scrupulous, as would other Board members, in determining the kind of person you take. And any person you hire as a consultant is usually a well-known and recognized expert in his field.

Senator ALLOTT. This may be true, but it does not mean that he has not been subject to past business connections or prospective future business connections which could in part alienate, slant, or color any advice that he might give to your agency.

Mr. McMURRAY. Well, that is always a possibility, I must concede that. But I have found myself, on occasions I have served as an expert, that you try and work for the person who hires you, and you are very jealous of your own integrity.

And most of the people I know that have done that kind of work, many of them are college professors or experts in their particular field—lawyers, of course, they are always doing this—one day they might work for one client and another day for another client, and I would guess that they act honorably and do not try to anticipate what they will be doing tomorrow in terms of their advice to their client today.

And I just assume that that is the way most people would work.

And I do think that it is an authority that exists in most of the other agencies, and from time to time you might need someone very urgently to do an important job or study.

The way it is now, you only can pay up to \$25 per diem.

So I think it is an authority that would be useful, Senator. And all I can say to you is that we have no present plans for making use of it.

But it would be the kind of thing, if needed, that would be very helpful to have. And I can tell you that I would be very careful in the person or persons that I would select for this purpose, keeping in mind the very things that you have stated.

Senator ALLOTT. I don't think that all of these people are to be questioned as to their integrity, by any means, I am sure that by a great amount in numbers, percentage in numbers, they would be people of integrity. But I do think in a board like this and in the other agencies where we have pretty wide and varied staffs that the functions of the agency should be by and in large part incorporated within

that staff rather than calling upon outside help in connection with which, as I have stated, there may be unknown factors influencing advice and decisions which you can't lay your hands on no matter how careful you yourself are.

I would like to ask one further question.

INVESTMENT IN DEVELOPMENT LOAN CORPORATIONS

On the floor of the Senate the other day an amendment was offered which provided that savings and loan institutions, Federal savings and loan institutions, would be permitted to invest a portion—a very limited portion, it is true—of their money in development loan corporations of States. And I ask this as a 27-year member of a board of directors of a small Federal savings and loan in which I have very great pride. And I might say, Mr. Chairman, I have been reimbursed very magnificently by that board over the years.

I started out with a no-dollar value, and I had it doubled every year.

But I would like to ask you this question. Did the Board give any assent either written or oral in any way backing that amendment?

Mr. McMURRAY. Formally, sir, the Board did not do so, because the Budget Bureau has not yet taken a position.

However, to answer your question completely, I have talked to the staff director of the Senate Banking Committee, and I told him that the Budget Bureau had not taken a position, but that on the other hand I thought that it was a good amendment, because I believed that the savings and loan associations, where they can, should participate in community activities, at least to some extent. Presumably these public development corporations would do something that would help the area or the community in which the association operated and that, in turn, certainly should be beneficial not only to the community but more especially to the real estate in the area.

Senator ALLOTT. Then I understand that you did advise the counsel for the committee that you favored this amendment?

Mr. McMURRAY. That I personally did. We were talking on the telephone, and I said that I could not—

Senator ALLOTT. This did not represent action of the Board itself?

Mr. McMURRAY. That is correct, sir.

Senator ALLOTT. And there was no—subject to hearing from the Budget Bureau there was no written endorsement of the amendment?

Mr. McMURRAY. As far as I know.

Was there any previous action?

I only came in on May 1.

Mr. DIXON. I prepared a suggested letter, but it has never been cleared, and has never been sent, to my knowledge.

Senator ALLOTT. Does that letter approve the amendment?

Mr. DIXON. It doesn't disapprove it.

Senator ALLOTT. I wonder if we could have a copy of it. That isn't an executed letter yet?

Mr. DIXON. It is not.

Senator ALLOTT. So I can't ask that it be made a part of the record.

ESTABLISHMENT OF SAVINGS AND LOAN INSTITUTIONS

You are aware, Mr. McMurray, that Federal savings and loan institutions were established at a time when there was utter chaos in the financing of private homes, and you understand the reasons that these Federal savings and loan institutions were established? You understand further, I am sure, that loans can be made only upon first mortgages or first trust loans upon real property, there is a limitation of 15 percent upon any business property, and that they cannot be made in excess of 80 percent of the appraised value of the property. I am sure you are aware of that.

Mr. McMURRAY. Yes, sir.

Mr. CREIGHTON. There are no limitations in the statute, Senator, as to the amount which they can loan on the appraised value of the property. That is by regulation of the Board.

Senator ALLOTT. All right.

Then by regulation of the Board which has the force and effect of statute as far as us poor people are concerned—

Mr. CREIGHTON. I meant to indicate it could be changed by the Board if it saw fit.

Senator ALLOTT. Now, as a member of a board—and I speak as a member of a board—I act in trust for the benefit of all of the people who put their money in an institution which they have selected me to help govern—by what right do I have even to take a small portion of those moneys, even granted there is strict limitation on a portion, and invest it in investments which may be at the best and are at the best venture investments and development investments, and to some extent hazard investments?

Mr. McMURRAY. Well, I would presume that such a public corporation would not enter in—I realize the word “speculative” is subject to—it is a matter of judgment whether it is speculative. But I would imagine that if it were that kind of a venture that was highly risky for the public institution to go into, that the board of directors would exercise judgment and not go into it.

This is giving the association the right to invest one-half of 1 percent of its assets in such corporations, and they are public corporations, and presumably act in the public interest, and it is hard for me to conceive, although it is possible, I suppose, that they would invest in what you would call speculative types of ventures.

DEVELOPMENT LOAN CORPORATIONS

Senator ALLOTT. It isn't possible that you don't know the nature of what development loan corporations are, is it?

Mr. McMURRAY. As to the grassroot situations, I do not, sir—that is I know their purpose, but have not had any intimate experience with their operation.

Senator ALLOTT. I am speaking of grassroots, because they exist in every State, and my State is not the only grassroots State in the Nation.

But development loan corporations are organized for the specific purpose of promoting new industries and developing new industries within States.

Now, it doesn't seem to me—I must say that it is wholly inconsistent with my obligation, my sense of obligation, to people whose money I control in one-ninth degree as one member of nine on the board, to use any money which has been placed with me with the idea that it will be invested only in first mortgages, and only then up to 80 percent of its appraised value to take any of that money and put it in a development loan corporation which is admittedly formed and the capital is solicited upon the basis that it will form new businesses and try to form new business which of necessity must be hazard and venture capital.

Mr. McMURRAY. Well, I can conceive that in some cases it could be hazardous.

But I would guess that if it would result, for example, in bringing to a community a new industry, presumably they should be successful in most instances in bringing new industry in, this should generally reflect favorably on the value of the land and real estate in the area in which the association operates.

TRUST RELATIONSHIP

Senator ALLOTT. Mr. Chairman, you miss entirely my point, which is the point of the trust relationship which a man has to the money of other people which he is handling.

Mr. McMURRAY. I think, looking at it from another standpoint, that it might very well be that he is acting positively to keep the land value, the real estate values, the employment, and in general the economic health of the community high.

Senator ALLOTT. It may not be a community, it may be the State and never result in an immediate application to the immediate community. I hope the Board before it ever—of course, the amendment is in the law now as it now stands, subject to the action of the House, but I hope before the Board issues a letter or an opinion with respect to this legislation that it will go into this matter very seriously, because the savings and loan institutions of this country have by far and away been the backbone of the home building in this country.

Mr. McMURRAY. That is correct.

Senator ALLOTT. Far more even than FHA, which most people don't realize. And, to me, this could be the beginning of a breakdown of the basic character and integrity of savings and loan institutions.

Mr. McMURRAY. Well, all I can say to you is that we will certainly give it very careful study.

Senator ALLOTT. I would be happy to appear with you, and I am sure that Senator Anderson is very much interested in this matter and would also be very happy to appear with you and discuss it with you.

Thank you very much.

Mr. McMURRAY. Thank you.

Senator MAGNUSON. Let me ask the board—

(Discussion off the record.)

RATIO OF LOANS TO DEPOSITS

Senator MAGNUSON. Would you furnish for the committee—I imagine you have—the overall national percentage in savings and loan institutions of loans as to deposits? You must have a national average.

Mr. McMURRAY. Yes, I think we have it right here.

FIGURES ON FORECLOSURES

Senator BRIDGES. Could you, Mr. Chairman, also include in that request the total national figures on foreclosures?

Senator MAGNUSON. Yes.

Mr. McMURRAY. May I ask—are our foreclosure statistics sufficiently comprehensive, or are you simply asking the foreclosures on our loans?

Senator MAGNUSON. And the percentage of loans as to deposits?

Mr. McMURRAY. And foreclosures related thereto.

Senator ELLENDER. And losses, could we get that, percentage-wise, over the period?

Mr. McMURRAY. We will try to get the complete information.

Mr. HUSBAND. I can give it to you now if you want it.

Senator MAGNUSON. All right.

TOTAL LOANS AND TOTAL DEPOSITS, DECEMBER 31, 1959

Mr. HUSBAND. This is as of December 31, 1959. The total mortgage loans for all savings and loan amounted to \$53 billion. And the total savings amounted to \$54,548 million. If you want the foreclosures, I have those.

Senator BRIDGES. Your total savings, that is deposits amounting to \$54 billion.

Mr. HUSBAND. As of December 31.

Senator BRIDGES. And of total loans?

Mr. HUSBAND. \$53,087 million.

Senator BRIDGES. What are your foreclosures?

TOTAL FORECLOSURES IN 1959

Mr. HUSBAND. These are total foreclosures; including all financial institutions in 1959 foreclosures for the United States of home properties, 44,075; 1958, 42,367.

Senator MAGNUSON. Would you say generally that they have gone up for 1960?

Mr. HUSBAND. Yes, Senator, a slight advance; in 1950, for example, the foreclosures for that year were 21,537. There has been a slight increase over the last 3 or 4 years.

Senator ELLENDER. Isn't that due more or less to an increase in loans?

Mr. HUSBAND. Yes, sir. As your volume goes up, naturally you would expect a higher number.

TOTAL LOANS, MARCH 1961

Senator ALLOTT. Do you have the figure there of total number of loans?

You have given us the total number of foreclosures.

I think it only becomes meaningful with the total number of loans.

Mr. HUSBAND. The insured associations have 7,261,000 loans on their books, and they have about 28 million savings accounts.

These last figures, Senator, are as of March 31, 1961.

Senator ALLOTT. And the number of foreclosures was 44,000?

Mr. HUSBAND. The number of foreclosures was 44,075 in 1959.

Senator MAGNUSON. It will be about 46,000 now.

Mr. McMURRAY. Those foreclosures are aside from the loans that we made.

Mr. HUSBAND. Yes, as I indicated—

Mr. McMURRAY. They would include some of your FHA 203's, or 221's, VA's, and so on. So there might have been more foreclosures that are not part of our loans.

Senator MAGNUSON. Would you say that that percentage of foreclosures as to the total savings is a normal figure?

Mr. HUSBAND. Yes, sir. I don't think that the slight increase has any real meaning, as Senator Ellender pointed out, there is an increased volume of lending, and there is no serious adverse trend. The first step before foreclosure as you know, the loan becomes slow, and there is practically no increase in the percentage of slow loans to the total.

Senator ALLOTT. If my arithmetic is good, and I hope it is not too bad, there are 7,261,000 loans, and 44,000 of those were foreclosed or are under foreclosure.

Mr. McMURRAY. Those figures are not consistent with each other, I want to point that out.

Senator ALLOTT. Let's get consistent figures. How were they not consistent?

Mr. HUSBAND. 7 million for savings and loan only, and the foreclosure 44,075 were for banks, life insurance and everything.

Senator ALLOTT. Even at this rate it would be only approximately one-half of 1 percent.

Mr. HUSBAND. Yes, sir.

Senator ALLOTT. So the figures for savings and loan would be far better.

Mr. HUSBAND. Infinitesimal; yes, sir.

INTEREST RATE

Senator MAGNUSON. What is the going interest rate in insurance savings and loans under your jurisdiction?

Mr. McMURRAY. You mean interest on the mortgages or dividends paid?

Senator MAGNUSON. Interest on the mortgages.

Mr. McMURRAY. They vary by area.

Mr. DIXON. Dr. Husband has a composite.

Mr. McMURRAY. I know in the New York area at the present time they are running about 5½ percent.

Senator MAGNUSON. What I am trying to get at is—

Mr. McMURRAY. And in California they would be 6½ percent, possibly.

Senator MAGNUSON. Now, in those cases—I am trying to get at the spread here—if they are paying 6 percent, then they usually charge about a half a percent, is that the general figure, more for the loan over and above what they pay?

Mr. DIXON. 2 percent.

Senator ALLOTT. Mr. Dixon said here a few moments ago he thought the average was about 5.8. I would not be surprised but what that is correct as far as my knowledge extends. And he says that the spread is ordinarily about 2 percent, which is what I have observed.

Mr. DIXON. One and three-quarters to two percent.

Senator MAGNUSON. In an institution like that they would pay no more than 4 percent.

AVERAGE DIVIDENDS

Mr. DIXON. Four percent. The national average of dividends is slightly below 4 at the present time; 3.9, isn't it?

Mr. HUSBAND. About 3.99.

Senator MAGNUSON. The dividends?

Mr. HUSBAND. The national average; yes, sir.

Senator MAGNUSON. So that 2, that would run near 6 nationally for the loans?

Mr. HUSBAND. Yes, sir; just under.

Senator MAGNUSON. That corresponds, doesn't it, with commercial banks fairly well, I mean for home loans?

Mr. HUSBAND. We would think so, although I don't know that the banks publish comparable figures, Senator. But based on observations, I would say yes.

Senator BRIDGES. What is the highest rate paid in dividends, and what is the highest interest rate?

Mr. HUSBAND. I know of one little association, and it is the only one I know of in the United States, Senator, that is paying 8 percent, but if you try to put money in there they wouldn't take it.

ADVERTISING POLICY

Senator BRIDGES. You see a lot of advertising seeking money.

Senator MAGNUSON. You see a lot at 6?

Mr. HUSBAND. Not the insured associations. If you have as many as three insured associations, Senator, paying 6 percent I would be surprised.

Senator MAGNUSON. So there, again, I am being confused, because I don't know which is which by the advertisements.

Mr. HUSBAND. You can see here advertising around town by Maryland associations of 5½ percent, but they of course, are not insured by us.

Senator MAGNUSON. But most of the people think they are.

Mr. HUSBAND. Unfortunately, they do.

Senator ALLOTT. Would it be fair to say that about the highest general dividends that are being paid in the present scope of things are 4½, and the lowest is about 3½?

Mr. HUSBAND. Yes, sir.

Senator MAGNUSON. And you say the national average would run about 4?

Mr. HUSBAND. 3.8, 3.9, right in there.

Senator MAGNUSON. Right around 4?

Mr. HUSBAND. Yes, sir.

Senator MAGNUSON. Which would give you a national average on your loans if you figure 2 percent, between $5\frac{3}{4}$ and 6?

Mr. HUSBAND. Yes.

Mr. McMURRAY. 3.53 in 1959, and 3.38 in 1958 in the United States; in California, where the rates are higher, it was 4.05 and 3.98.

LOAN POLICY

Senator ALLOTT. Just one other question: Does the Board still pursue the policy with respect to outside institutions which come under the insurance provisions, that these loans must be made in conformity with certain principles, for example, they must be direct reduction loans, and things of that type?

Mr. DIXON. Right.

Senator ALLOTT. This is one of the great things that this thing brought to this country.

DIRECT REDUCTION LOANS

Senator MAGNUSON. What do you mean by direct reduction?

Senator ALLOTT. For example, if I take out a loan for \$5,000, and make a \$50 payment on the first of the month, the interest is first taken out of my payment, and that goes into the earnings of the loan association, and the rest is applied upon the \$5,000 balance I owe. So that the next month I pay on \$5,000 less whatever has been applied on it. So you get a direct reduction every month, even though you pay a constant amount, more and more of it goes each month to the application toward the principal. And this is what really has made these associations a godsend, because this is what has made it fair to the borrower.

Senator MAGNUSON. Could you pick it up any time?

Mr. DIXON. Yes, if you want to pay it off.

Senator MAGNUSON. At any time?

Mr. DIXON. Yes, sir.

Mr. McMURRAY. Some of them, I presume, would have prepayment penalties.

Mr. HUSBAND. Federals can charge, if it is more than 20 percent, a penalty of 6 months' interest. But a lot of associations charge no penalty for prepayment.

Senator MAGNUSON. But they could, that is sort of a service free, if they come in and pay it up ahead of time?

Mr. HUSBAND. If it exceeds 20 percent of the debt.

Senator MAGNUSON. Well, what if a fellow came in with 19 percent 1 month and then 19 the next month and paid it all off in 6 months?

Mr. HUSBAND. I think he would have the cooperation of the association.

Senator ALLOTT. They would at least be put on warning that they were going to get his money and plan to put it out again.

(The following letter was later received:)

FEDERAL HOME LOAN BANK BOARD,
Washington, D.C., June 16, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee on Independent Offices,
Senate Committee on Appropriations,
Washington, D.C.

DEAR MR. CHAIRMAN: In connection with our informal discussion on the advertising by savings and loan associations, I stated that this was not limited to savings and loan associations.

As a matter of fact, National and State commercial banks and savings banks in other States do the same kind of advertising. The Federal Deposit Insurance Corporation, as I stated, has not up to now concerned itself with this problem, and I am hopeful that it will.

I am attaching a few typical examples of the kind of advertising these banks use, and I respectfully request that these be included in the hearing.

Sincerely,

JOSEPH P. McMURRAY, *Chairman.*

Free

Original Rogers
5-Piece
Place Setting

**WHEN YOU
SAVE \$25**



Open a new savings account of \$25 or more at friendly Topeka State . . . or add to your present savings. Your first setting of this fine Original Rogers silverplate is FREE. Then, every time you add \$25 . . . you get another 5-piece place setting for only \$2.25; a \$5.50 value.



The
Topeka State Bank

Your Convenient "Bank at Seventh"

DOWNTOWN 7th and Kansas

DRIVE IN: Between Topeka and Tyler on 8th

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

Free!

This beautiful, imported translucent china in lovely "Eternal Harvest" pattern. 4-piece setting consists of 1 • 10 1/2" dinner plate, 1 over-sized 8 1/2" ounce cup, 1 • 6" saucer and 1 • 6" bread-and-butter plate.

...and membership in our

China Club



Here's the perfect setting for savings!

Just open or add to your First Citizens savings accounts with \$25 or more—something for your future. You'll receive a beautiful, translucent china dinner set. As a member, you immediately receive this fine, white, 4-piece china setting—band decorated in 24 karat gold—absolutely free. Each time thereafter you add

\$25 or more to your account you may obtain an additional piece of its beautiful china dinner set. As you continue to add to your account, you're completing your table setting. Insured savings are earning 3% guaranteed interest—compounded! Don't let a wonderful pattern for savings go by! Yes, ask all our offices.



• BOWTOWN
Washington & Republic Sts.

• WEST SIDE DRIVE IN
417 Midway Dr.

• LINDSEY
2100 First State Ave.

• CENTRAL
1613 North Frontal Road

• NORTH SIDE
710 N. Tenth St.

Also in GANER
City of Wilmington
N. C. Government



FREE

**Choice of
Fine
Gifts**

The advertisement features a central graphic of a large, dark, downward-pointing triangle. Inside and around this triangle are several household items: a coffee maker, a table lamp, a pressure cooker, a clock, and a set of silverware. The items are arranged to suggest a variety of gift options. The background is a light, textured surface.

**THE / MANHATTAN
SAVINGS BANK**

**LOOK! CHOOSE!
IT'S YOURS FREE!**

Any one of these valuable products will be given to you absolutely free when you open a new savings account of \$25 or more, while the supply lasts. (Minimum balance of \$25 for one year required on these gift accounts.) Only one gift to an individual.



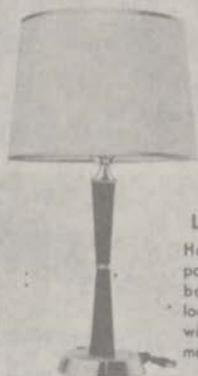
**EMPIRE ELECTRIC
PERCOLATOR**

Economical, fast, 3-cup "perco-drip" coffee maker . . . good-looking, easy-to-clean, polished aluminum . . . modern, sanitary pouring lip . . . Underwriters' Laboratory cord, rubber insulated . . . fully guaranteed.



**MIRRO
COMBINATION
PAN**

This 5-way combination consists of 3 qt. double boiler, covered saucepan, saucepan, covered casserole and egg poacher. A "Charm" product, made of super-thick highly polished aluminum with smart copper-tone cover. Adds beauty and efficiency to your kitchen.



LEE-O-LITE TABLE LAMP

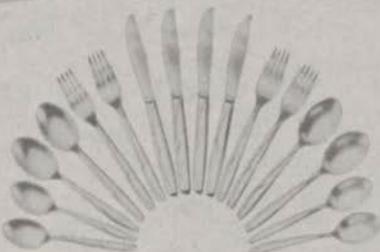
Handsome "decorator" lamp of polished walnut with brass plated base, harp and finial . . . rich-looking silk shantung shade, 13" wide. Over-all height 24½". A most attractive lamp.

**GENERAL ELECTRIC CLOCK**

The "Dorm," attractive electric clock made by the world's best-known manufacturer of electric clocks. Dependable, accurate, long-lasting . . . quiet, needs no winding, no regulating. Guaranteed.

**16-PIECE SET
SUPREME SILVERPLATE**

Lovely "Baroness" pattern made by the Meriden Silverplate Company, a division of The International Silver Company, world's largest manufacturer of silverware. Four place settings consisting of 4 teaspoons, 4 soup spoons, 4 dinner forks, 4 dinner knives . . . generously plated for long-wearing beauty.

**LATEST DIVIDENDS**

3³/₄% A YEAR

total rate on two-year money
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3¹/₂%

A YEAR
regular rate on funds on deposit less
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Money deposited on or before **APRIL 14**

will earn dividends from **APRIL 1**

After days of grace, dividends from
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PUMP ARM LAMP

2-STEP FALCO
LADDER

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Now

GENERAL
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HEATING
PAD

6-PIECE PYREX
"CINDERELLA"
CASSEROLE SET
BY CORNING

HALLITE FRY PAN
BY WEAREVER

(look inside)

gyle

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BEAUTIFUL GIFTS!

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HALLITE FRY PAN BY WEAREVER

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Sturdy stepladder for indoor or outdoor use. Made of aluminum, with non-skid rubber feet and "safety surface" steps. Stands 21" high, has 19½" spread when open. Lightweight, easy to handle, folds compactly for storage.



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Made by Corning Glass... 6-piece bake, serve and store set consists of 1 pt., 1½ pt., and 1 qt. dishes with covers. Heat and cold resistant. Attractive design and color.

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A handy New-Depositor Bonus Card worth up to 80 Money Orders and 8 Gift Checks as you increase your account — given to you **ABSOLUTELY FREE** when you open your account.

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TUESDAY
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NOW *while the supply lasts!*

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$3\frac{1}{2}\%$
a year

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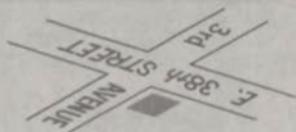
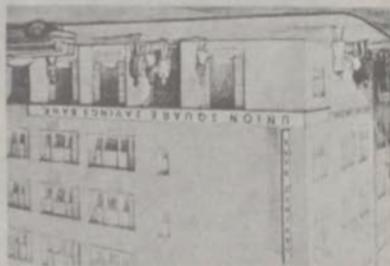
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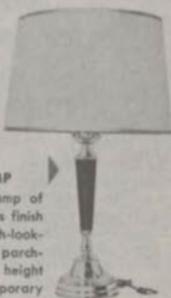
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The "Dorm," attractive electric clock made by the world's best-known manufacturer of electric clocks. Quiet, dependable, accurate, with clear alarm. Needs no winding, no regulating. Guaranteed.



LEE-O-LITE 3-WAY TABLE LAMP

Handsome "decorator" lamp of polished walnut with brass finish base, harp and finial. Rich-looking shade of shantung over parchment. 13" wide; over-all height 22". A beautiful contemporary design.

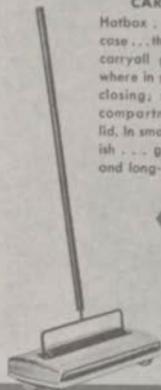
HATBOX-CARRYALL

Hatbox... overnight case... this roomy 13" carryall goes everywhere in style. Zipper closing; mirror and compartment inside lid. In smart plaid finish... good-looking and long-wearing.



BISSELL-ETTE CARPET SWEEPER

Space-saving sweeper with telescopic handle stands only 34" high; is ideal for fireplace, den, game room or bedroom. Sleek brass finish; made by the famous Bissell Carpet Sweeper Company.



DETECTO "MAGNIF-EYE" BATHROOM SCALE

Easiest-to-read scale ever made! Accurate, dependable, handsome, adjustable. Non-skid, easy-to-clean mat. Weighs every pound up to 250 pounds.



DIVIDENDS paid QUARTERLY
from DAY OF DEPOSIT

Latest
Dividend

3 3/4%

a year

(3 1/2% regular dividend,
3 3/4% extra dividend on
3-year balances)

NEW CONVENIENCE FOR MIDTOWN
RESIDENTS AND BUSINESS PEOPLE
Savings Accounts • Bank by Mail
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8 Beautiful Carols

A CARILLON-ORGAN CONCERT BY JOHN GART
ON THE RADIO CITY MUSIC HALL STUDIO ORGAN

Silent Night O Little Town of Bethlehem
Joy to the World Hark! The Herald Angels Sing
God Rest Ye Merry, Gentlemen Away in a Manger
Bring a Torch, Jeannette, Isabella O Come All Ye Faithful

JOIN AND GET YOURS RIGHT NOW!

Think of going Christmas shopping next year with a pocketful of cash! Think of having enough money for holiday plans . . . entertaining . . . maybe some festive new clothes! And imagine the faces of your family and friends when you give them the very presents they've been hoping for. You'll feel great—and all because you had the foresight to open a Christmas Club account at The New York Savings Bank. Just a little bit saved every week adds up to an extra-merry prepaid Yuletide Holiday for you and yours. Right now, while supplies last, we are giving the magnificent long-playing record, "A Carillon-Organ Concert" by John Gart on the Radio City Music Hall Studio Organ, to everyone opening a Christmas Club account. It was especially made to add beauty and joy to your Christmas—and it's yours with our very best wishes. Do come in to any of The New York Savings Bank's three offices and open your account now.

Save Weekly	Receive Next November
\$1	.....\$50
\$2	.....\$100
\$3	.....\$150
\$5	.....\$250
\$10	.....\$500

This 33 $\frac{1}{3}$ RPM Record is your Gift
if you open a Christmas Club
Account of \$1 to \$10 at any office
of The New York Savings Bank



Here is unforgettable beauty
for this Christmas and for
Christmases still in the future!

Take Your Choice Of

THESE 5 VALUABLE GIFTS—

YOU may have one of these 5 attractive and valuable gifts—absolutely free—when you open a new savings account at any Central office with \$25 or more, while the supply lasts. You may deposit up to \$10,000 in an Individual Account, up to \$20,000 in a Joint Account or a Trust Account. (A minimum balance of \$25 for one year is required on these gift accounts.) Only one gift to an individual.

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MIRRO 3-WAY COMBINATION PAN

This 3-way combination consists of 3 qt. double boiler, covered saucepan, covered casserole and egg poacher. A "Charm" product, made of super-thick highly polished aluminum with smart copper-tone cover. Adds beauty and efficiency to your kitchen.

LEE-O-LITE 3-WAY TABLE LAMP

Handsome "decorator" lamp of polished walnut with brass finish base, harp and finial. Rich-looking shade of shantung over parchment. 13" wide; overall height 22".



GENERAL ELECTRIC CLOCK

The "Dorm," attractive electric clock made by the world's best known manufacturer of electrical appliances. Dependable, accurate, long-lasting... quiet, needs no winding, no regulating.



16-PIECE (4 PLACE SETTINGS) FAMOUS SILVERPLATE

Beautiful "Bermuda Rose" pattern made by the Meridian Silverplate Company, a division of The International Silver Company, world's largest manufacturer of silverware.



MAGNA WONDER KNIFE®

Revolutionary new carving knife that slices, carves, shreds or chops. Slicing control adjusts to any thickness, remains securely in place. Use for meat, cheese, fruit, vegetables. Stainless steel 8 1/4" blade made in Switzerland, with serrated edge that never needs sharpening.

The Highest Bank Dividend Rate
Permitted in New York State

3 3/4%
a year

on savings remaining on deposit for two years
or longer (3 1/4% regular plus 1/2% extra)

3 1/2% a year

on all other savings entitled to dividends
COMPOUNDED QUARTERLY From DAY OF DEPOSIT

Central SAVINGS BANK

In Our Second Century—One Of The Largest Savings Banks In America

Main Office: 73rd Street and Broadway

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FILL OUT AND SEND THIS COUPON NOW

Central Savings Bank, Box 620, Radio City Station,
New York 19, N.Y.

I enclose \$_____ Please open a savings account as checked
below and send the passbook to me.

Individual Account

Joint Account with _____

Trust Account for _____

Check office in which you wish account to be opened:

Main Midtown Union Square Subway

Check One of these gifts. It will be mailed to you without
charge if your deposit is \$25 or more.

Combination Pan

Clock

Lamp

Silverware

Knife

Sign here _____

Print Name here _____

Address _____

City _____

Zone _____

State _____

Send check or money order T-1

FREE GIFTS

AT THE BILLION DOLLAR DIME

MARCH 27th THRU APRIL 26th

- **Halite Tea Kettle**
2½-quart capacity. Made by Wear-Ever of quick-heating aluminum with gleaming copper-colored cover that never needs polishing.
- **Chilton Electric Percolator**
Makes up to 8 cups of delicious coffee. New heating unit with safety thermostat prevents burnout. Style of sparkling aluminum. (Uses standard electric current.)
- **Carry-All Hatbox**
A big 15 inches in diameter and 7 inches deep. Zippered cover. Finished in red Tartan plaid with handy strap handle.
- **Imperial Flash Camera Set**
Takes black and white or color—indoors and out. Contains camera, flash-gun, batteries, flash bulb, film, and carrying strap.
- **30-Piece Set of Dishes**
Impoved service for four. Set includes—4 dinner or luncheon plates, 4 bread and butter or cake plates, 4 dessert or vegetable dishes, 4 cup and saucers. (Cannot be mailed.)

Your choice . . . when you open a Dime Savings Account with \$25 or more—in person or by mail! More than ever it pays to save at The Billion Dollar Dime—where you get top bank dividends, more banking hours, more wanted services . . . and, when you start your account now, a free gift, too. You can have an Individual account, a Trust account, or a Joint account—but don't delay, open your account today! (A minimum balance of \$25 must remain in these gift accounts for fourteen months.) Only one gift to an individual—while supply lasts.



3 3/4%
A YEAR

Rated total quarterly dividend for money on deposit 3 years or more—1 1/2% a year regular from day of deposit, plus 3/4% a year special for money on deposit 2 years or more.

The Billion Dollar

DIME SAVINGS BANK OF BROOKLYN

Downtown: 220 Broadway
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USE THIS COUPON TO GET YOUR FREE GIFT BY MAIL

Mail to: The Dime Savings Bank of Brooklyn
Post Office Box 21144, Brooklyn 1, New York

[enclose deposit of \$_____] (Minimum deposit \$25—Maximum deposit \$10,000 on Individual Accounts; \$20,000 in a Trust or Joint Account.) Please open a Savings Account—

In my name only
 Jointly with _____ (please print)
 In trust for _____ (please print)

My choice of gift is (check one)

1. Tea Kettle 3. Hatbox
 2. Percolator 4. Camera Set
 5. 30-Piece Dish Set (Sherry—cannot be mailed)

We'll send coupon that enables you to pick up your gift at any Dime office within 30 days.

I Print Name in Full _____
 Mr. Mrs. Miss

Address _____
City _____ State _____

Cash should be sent registered mail. Offer good only in continental United States, March 27 thru April 26, 1962. H-1



132nd ANNIVERSARY GIFT OFFER...

HURRY! FINAL DAYS

Free

TRAVEL ALARM CLOCK

Genuine leather case, brass polished rim, luminous hands and dial... a trim and shipshape clock for dependable use at home and when you travel. (Representative clock shown. Clocks vary in size and color.)

It's yours free when you open a new savings account of \$25 or more (minimum balance of \$25 or more to be maintained for one year). Only one clock to an individual while the supply lasts.

Come to any of our three offices or mail the coupon to open your account and get your free clock. Do it now!

Latest dividends **3 $\frac{3}{4}$ %** a year on two-year savings
(3 $\frac{1}{2}$ % regular plus $\frac{1}{2}$ % special)

PAID FROM DAY OF DEPOSIT, COMPOUNDED QUARTERLY

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The Seamen's Bank for Savings, P. O. Box 305, Wall Street Station
New York 5, New York

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(Please check the office in which you want your account to be opened.)

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NAME _____

ADDRESS _____

CITY _____ ZONE _____ STATE _____

Send check or money order

The
SEAMEN'S BANK
for SAVINGS

Main Office: 30 Wall Street
Fifth Avenue Office: Fifth Avenue at 45th Street
Bowling Green Office: Beaver Street at New Street
All offices open Thursdays 11:11 6 P.M.

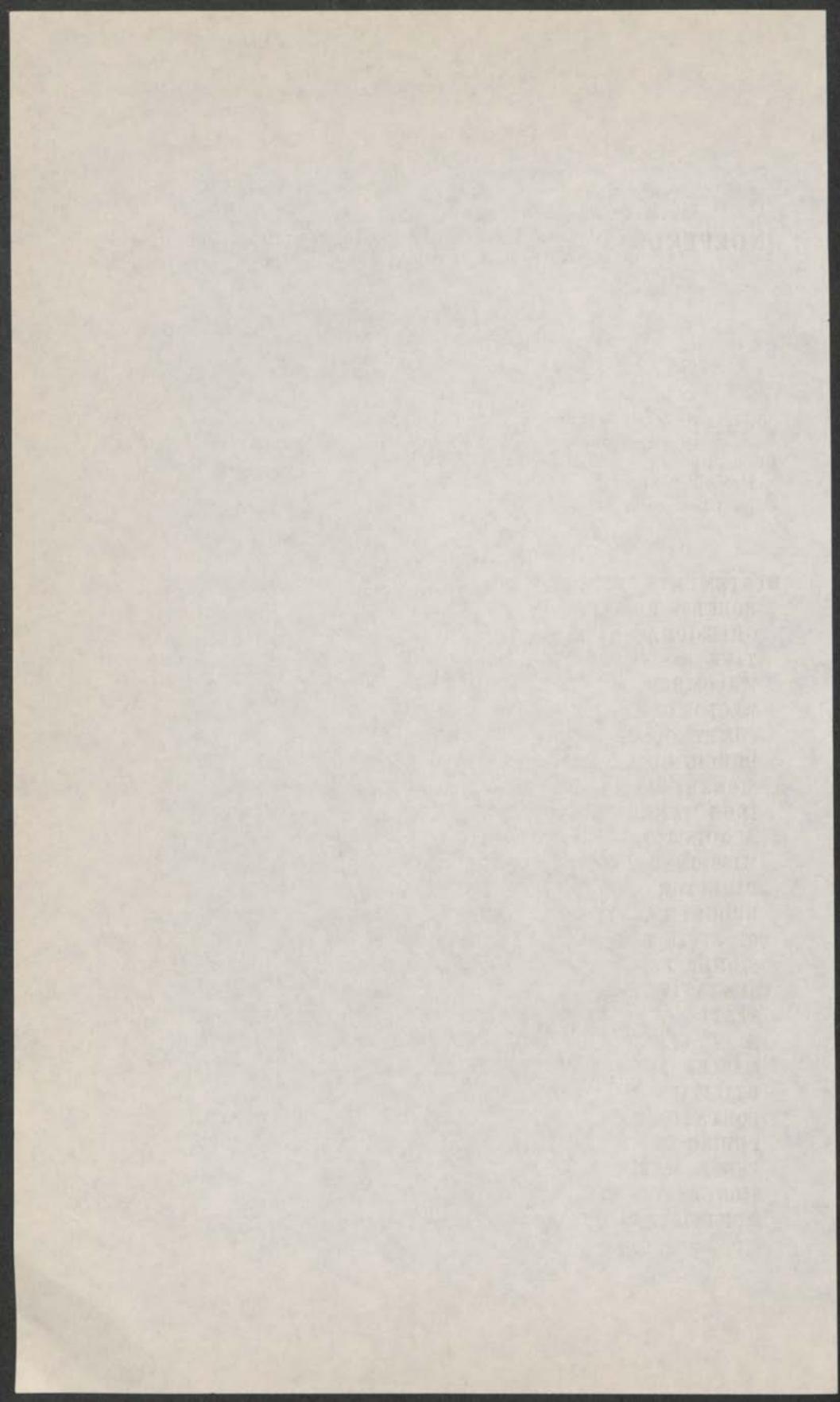
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COMMITTEE RECESS

Senator MAGNUSON. If there are no further questions, thank you very much, gentlemen.

Mr. McMURRAY. Thank you, gentlemen.

(Whereupon at 3 p.m., Thursday, June 15, 1961, the committee recessed, to reconvene at 10 a.m., Friday, June 16, 1961.)



INDEPENDENT OFFICES APPROPRIATIONS FOR 1962

FRIDAY, JUNE 16, 1961

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to recess, in room F-37, U.S. Capitol Building, Hon. Warren G. Magnuson (chairman) presiding.

Present: Senators Magnuson, Robertson, Young, Smith, Allott, Schoeppel, and Bridges.

GENERAL SERVICES ADMINISTRATION

STATEMENTS OF BERNARD L. BOUTIN, DEPUTY ADMINISTRATOR; ROBERT T. GRIFFIN, ASSISTANT ADMINISTRATOR FOR CONGRESSIONAL AND PUBLIC AFFAIRS; PAUL M. HAINES, EXECUTIVE ASSISTANT; WILLIAM P. TURPIN, COMPTROLLER; J. H. MACOMBER, JR., GENERAL COUNSEL; HERBERT E. ANGEL, DIRECTOR OF ADMINISTRATION; HOWARD GREENBERG, ASSISTANT COMPTROLLER, BUDGET; KARL E. WALLACE, COMMISSIONER, PUBLIC BUILDINGS; LAWSON B. KNOTT, JR., DEPUTY COMMISSIONER; CARL E. RANTZOW, ASSISTANT COMMISSIONER, BUILDINGS MANAGEMENT; J. E. MOODY, ASSISTANT COMMISSIONER, ACQUISITION AND DISPOSAL; L. L. HUNTER, ASSISTANT COMMISSIONER, DESIGN AND CONSTRUCTION; J. E. STRAWSER, DIRECTOR, PROGRAM ANALYSIS STAFF; P. C. JUMONVILLE, BUDGET REPRESENTATIVE; FRANK B. ELLIS, DIRECTOR, OFFICE OF CIVIL AND DEFENSE MOBILIZATION; C. D. BEAN, COMMISSIONER, FEDERAL SUPPLY; HUNTER L. SPILLAN, BUDGET REPRESENTATIVE; DR. WAYNE C. GROVER, ARCHIVIST OF THE UNITED STATES; WALTER ROBERTSON, JR., ADMINISTRATIVE OFFICER; H. V. LLEWELLYN, BUDGET REPRESENTATIVE; MALCOLM D. MILLER, ACTING COMMISSIONER, TRANSPORTATION AND PUBLIC UTILITIES; T. A. KENNEDY, ASSISTANT COMMISSIONER, TRANSPORTATION; F. W. DENNISTON, ASSISTANT COMMISSIONER, PUBLIC UTILITIES; MAURICE J. CONNELL, COMMISSIONER, DEFENSE MATERIALS; J. G. HARLAN, JR., ASSISTANT COMMISSIONER FOR OPERATIONS; G. K. CASTO, DIRECTOR, PROJECT ADMINISTRATION; RUSSELL H. HUGHES, DEPUTY ASSISTANT

DIRECTOR, OFFICE OF CIVIL AND DEFENSE MOBILIZATION; W. G. FRITZ, DIRECTOR, STOCKPILE COORDINATION OFFICE, PRODUCTION AND MATERIALS; AND JAMES P. DURKIN, ASSISTANT TO THE GENERAL COUNSEL

PROPOSED AMENDMENTS AND JUSTIFICATIONS

Senator MAGNUSON. The committee will come to order.
We have the General Services Administration this morning.
Mr. Boutin is here.

And let the record show that Mr. Moore had a very urgent family matter and couldn't be here, but expresses his regrets.

Now you have submitted to the committee a letter with the proposed amendments which we will put in the record in full, and the justifications, and we will go into the specific items.

But for the purposes of the record, your 1961 appropriations were \$509,227,000; the January budget, the first budget for fiscal 1962 submitted was for \$550,370,000, and then the amended budget, the second one which was amended with the new administration was \$552,170,000, and the House recommended \$510,390,000 which is a plus \$1,163,000 over the 1961 appropriations, but a minus \$41,780,000 of your 1962 estimates.

(The letter and justification referred to follow:)

GENERAL SERVICES ADMINISTRATION,
Washington, D.C., June 12, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of the Independent Offices Appropriation Bill for 1962, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In response to your letter of June 2, 1961, we request an opportunity to appear before the committee to discuss the effect of changes in the budget estimates of the General Services Administration in the independent offices appropriation bill for 1962 as reported to the House.

At the same time, I would like to explain certain amendments to the bill which I will propose. These amendments are being prepared in the customary form and will be delivered to the committee staff in a few days.

Sincerely yours,

JOHN L. MOORE, Administrator.

GSA Amendment No. 1

OPERATING EXPENSES, PUBLIC BUILDINGS SERVICE

PROPOSED AMENDMENT

On page 15, line 25 of the bill as reported to the House, strike out "\$170,000,000" and insert in lieu thereof "\$176,000,000".

BUDGETARY DATA		
1962 budget estimate	-----	\$176,000,000
1961 appropriation in annual act	-----	\$165,075,000
Transfer from S. & C.M. (3d supplemental)	---	4,917,000
Transfers from DOD	-----	1,617,081
	-----	171,609,081
Change in 1962 from 1961	-----	+4,390,919
1962 bill as reported to House	-----	170,000,000
(Change from budget estimate)	-----	(-6,000,000)
Restoration proposed by this amendment	-----	+6,000,000
Bill as changed by this amendment	-----	176,000,000

LEGISLATIVE HISTORY

GSA budget justifications.—Pages I-17 to I-53.

House hearings.—Part 1, pages 858 to 924.

House Report No. 449; pages 8-9: "Operating expenses, Public Buildings Service.—The committee recommends an appropriation of \$170 million for management of real property programs. This is \$8,000 over 1961 and a reduction of \$6 million in the budget estimate. The committee is of the opinion that the amount of leased space can be reduced to a larger degree than the estimates reflect as new buildings are placed into operation. The estimates include \$4,200,000 to operate newly constructed buildings in 1962, but they reflect only a \$2,500,000 decrease for released space. This item in 1962 also includes no funds to acquire and operate additional leased space to support expanding programs of other agencies, nor for space previously financed by reimbursements. Funds for these purposes are included in estimates of other agencies and will be transferred to the General Services Administration. A general provision is included in the general provisions for GSA to authorize such transfers."

JUSTIFICATION OF THE AMENDMENT

In reducing the budget estimate by \$6 million the House committee stated that in its opinion reductions in leased space can be made to a larger degree than reflected in the budget. The \$2,500,000 reflected in the budget for this purpose represents the maximum amount which can be eliminated from this appropriation in 1962 and was arrived at after a building by building evaluation timed to dates of occupancy of the new buildings. Additional reductions of \$1,200,000 will be reflected in appropriations of other agencies which will discontinue paying rents after they move into new structures. No further reductions can be made because the remaining leased space will continue to be occupied by Federal employees until additional buildings are completed in 1963 and thereafter.

In view of the foregoing unless the amount is restored GSA will be unable to—

[Amount required in millions]

(1) Adequately staff for the operation of 29 new buildings constructed at a total cost of \$159.2 million.....	\$4.5
(2) Pay increased rents as leases for occupied space expire and must be renewed.....	1.1
(3) Pay increased costs of utilities arising from expanded use of airconditioning and electronic computers, etc.....	1.2
Total.....	6.8
Less amount apparently allowed by the House.....	— .8
Net deficit.....	6.0

For the foregoing reasons full restoration of the \$6 million reduction is urged.

GSA Amendment No. 2

REPAIR AND IMPROVEMENT OF PUBLIC BUILDINGS

PROPOSED AMENDMENT

On page 16, line 15, of the bill as reported to the House, after the semicolon add "construction of fallout shelters;". Also on the same line strike out "\$58,000,000" and insert in lieu thereof "\$60,000,000".

BUDGETARY DATA

1962 budget estimate.....	\$60,000,000
1961 appropriation in annual act.....	58,000,000
Change in 1962 from 1961.....	+2,000,000
1962 bill as reported to House.....	58,000,000
(Change from budget estimate).....	(-2,000,000)
Restoration proposed by this amendment.....	+2,000,000

Bill as changed by this amendment..... 60,000,000

LEGISLATIVE HISTORY

GSA budget justifications: Pages I-54 to I-86.

House hearings: Part 1, pages 925 to 939.

House Report No. 449.—Page 9:

"Repair and improvement of public buildings.—The Committee has approved \$58,000,000 to renovate public buildings, which continues the same appropriation level as 1961. The Committee has again disallowed the request for \$2,000,000 to make alterations to existing buildings to provide fallout shelters."

JUSTIFICATION OF THE AMENDMENT

This amendment proposes restoration of the reduction by the House of \$2 million which was explained in the justifications as covering the provision for fallout shelters in existing Federal buildings and providing for leadership and example to State and local governments and private enterprise in the provision of fallout shelters.

Restoration of the item has been urged by the Director, OCDM and is also supported by the remarks of the President in his address of May 25, 1961, to the joint session of the House and Senate. After discussing the need for civil defense as an insurance for the civilian population in the event of an attack, the President stated "there is no point in delaying the initiation of a nationwide long-range program of identifying present fallout shelter capacity and providing shelter in new and existing structures" to protect millions of people against the hazards of radioactive fallout of a large-scale nuclear attack. The President made it clear that the Government should participate in a nationwide effort by providing shelter capacity in existing buildings and in buildings to be constructed.

While shelter areas have been designated in many Federal buildings, affording some protection against blast, they are totally inadequate as presently equipped to offer continuing protection against fallout. This program proposes to improve such areas for shelter purposes, including provision of emergency facilities for electricity, water, air, toilet accommodations, and storage of rations, protective clothing, equipment, etc.

The item provides for a small start on an overall program to eventually include fallout shelters, where practical, in existing Federal buildings. It contemplates provision of shelter facilities in those buildings in 1962 selected jointly by GSA and OCDM, which would be in the best interests of the program.

In addition to restoring the amount cut by the House, the amendment proposes the additional phrase "construction of fallout shelters" to comply with the requirement of section 303 (p. 50 of the bill) that no funds shall be used for this purpose except where specifically provided.

GSA Amendments No. 2 (a) and (b)

REPAIR AND IMPROVEMENT OF PUBLIC BUILDINGS

PROPOSED AMENDMENT

No. 2(a): On page 16, line 18 of the bill as reported to the House strike out "and" and substitute a comma.

No. 2(b): On the same page, line 21 after the comma add "and buildings under the control of another department or agency where alteration of such buildings is required in connection with the moving of such other department or agency from buildings then, or thereafter to be, under the control of General Services Administration,".

BUDGETARY DATA

None applicable.

LEGISLATIVE HISTORY

None applicable.

JUSTIFICATION OF THE AMENDMENTS

From time to time GSA acquires use of portions of facilities excess to immediate needs of the owning agency under permit and it now has authority to alter such permitted buildings under this appropriation or to extend and convert such buildings, where the costs exceed \$200,000 under the "Construction, public buildings" appropriation.

In some cases the other agency is willing to permit the desired buildings to GSA provided substitute space can be provided for activities of such agency

which must be removed from the buildings without cost to it. The costs involved included costs of moving and alteration to other buildings remaining under custody of the other agency. While GSA has authority to pay the moving costs the General Accounting Office has held that it cannot pay for the alterations in buildings remaining in the custody of other agencies without specific appropriation language authorization.

A case now pending typifies the situation and demonstrates the economies which can be realized. It involves the Fort Worth General Depot at which the Department of the Army is willing to permit warehouses 1, 2, and 3 to GSA for use as a supply depot and records center. These buildings can be readied for use by GSA at an estimated cost of \$1.25 million, for which purpose GSA has both funds and authority, and preclude construction of a new building estimated to cost \$7 million. Provision of space by one or the other means is essential to adequately house GSA's expanding supply operations in the Southwest.

The Army stipulates, however, that GSA must finance certain alteration and moving costs estimated at \$225,000 to provide for its continuity of operations for the displaced activities in warehouses 4, 5, 6, and 7, which will remain in custody of the Army. GSA can finance the portion attributable to moving (\$46,000) but without the proposed language it cannot finance the alteration estimated at \$179,000.

In view of the overall savings of over \$5 million that can be realized in this case alone by obviating construction of a new building it is urged that the proposed amendment be adopted. No additional funds are required.

GSA Amendment No. 3

CONSTRUCTION, PUBLIC BUILDINGS PROJECTS

PROPOSED AMENDMENT

On page 17, line 3 of the bill as reported to the House, insert after "for" "and fallout shelters in".

BUDGETARY DATA

None applicable, see GSA Amendment No. 4.

LEGISLATIVE HISTORY

GSA budget justifications.—Page I-91:

"1. Insertion of a specific authorization for construction of fallout shelters in certain buildings is intended to insure compliance with the provisions similar to those contained in section 303 of the Independent Offices Appropriation Act, 1961, if reenacted. That section required specific authorization on use of appropriations or funds for that purpose."

House hearings.—Language change not specifically mentioned.

House Report No. 449.—Page 10:

"* * * Funds are also specifically disallowed for installing fallout shelters in each project * * *"

JUSTIFICATION OF THE AMENDMENT

It is proposed that fallout shelters be provided in certain of the projects for which funds for construction are requested for 1962 to comply with requirements of the national shelter policy. That policy was stated to heads of all Federal departments and agencies in a letter from the Director of OCDM dated February 4, 1959, which reads in part as follows:

"The administration will provide leadership and example by incorporating fallout shelters in appropriate new Federal buildings hereafter designed for civilian use. Federal example is an indispensable element to stimulate State, local government, and private investment for fallout shelters.

"Accordingly all Federal departments and agencies are directed to include in their design and construction budget estimates for new Federal buildings hereafter submitted the additional sum of money required for the incorporation of fallout shelters in such buildings."

Restoration of funds and authority to provide fallout protection has been urged by the Director, OCDM, and is also supported by the remarks of the President in his address of May 25, 1961, to the joint session of the House and Senate. After discussing the need for civil defense as an insurance for the civilian population in the event of an attack the President stated "there is no point in delaying the initiation of a nationwide long-range program of identify-

ing present fallout shelter capacity and providing shelter in new and existing structures" to protect millions of people against the hazards of radioactive fallout of a large-scale nuclear attack. The President made it clear that the Government should participate in a nationwide effort by providing shelter capacity in existing buildings and in buildings to be constructed.

To comply with the limitation in section 303 of the general provisions that no funds included in this act shall be used for construction of fallout shelters unless they are specifically provided for, it is requested that specific provision be made as recommended under the head "Construction, public buildings projects." A detailed list of the projects in which it is proposed to include fallout shelters will be found in the justification of GSA Amendment No. 4.

GSA Amendment No. 4

CONSTRUCTION, PUBLIC BUILDINGS PROJECTS

PROPOSED AMENDMENT

On page 17, lines 3 and 4 of the bill as reported to the House strike out "\$171,600,000" and insert in lieu thereof "\$183,846,000."

BUDGETARY DATA

1962 budget estimate.....	\$181,325,000
1961 appropriation in annual act.....	165,441,000
Change in 1962 from 1961.....	<u>+15,884,000</u>
1962 bill as reported to House.....	171,600,000
(Change from budget estimate).....	(-9,725,000)
Restoration and changes proposed by this amendment (net).....	<u>+12,246,000</u>
Bill as changed by this amendment.....	183,846,000

LEGISLATIVE HISTORY

GSA budget justifications.—Pages I-87 to I-102.

House hearings.—Part I, pages 939-967, and 985-996.

House Report No. 449.—Pages 9-10:

"Construction, public buildings projects."—The committee recommends \$171,600,000 for public buildings construction projects in 1962 at the locations listed in the following tables.

"Public buildings projects included in the bill:

Location	Sites and expenses (previously funded)	Construction cost	Total
Decatur, Ala.....	33,000	1,315,750	1,348,750
Los Angeles, Calif.....	405,149	27,388,500	27,793,649
Long Beach area, Calif.....	.....	2,000,000	2,000,000
Denver, Colo.....	388,000	18,145,000	18,533,000
Statesboro, Ga.....	16,000	538,650	554,650
Winder, Ga.....	29,000	475,000	504,000
Chicago, Ill.....	580,000	31,293,000	31,873,000
Sante Fe, N. Mex.....	65,000	2,362,650	2,427,650
Wyandotte, Mich.....	15,000	402,800	417,800
New York, N.Y.....	831,100	59,222,050	60,053,150
Bryson City, N.C.....	29,000	753,350	782,350
Thomasville, N.C.....	18,000	327,750	345,750
Pembina, N.Dak.....	10,000	183,350	193,350
Cincinnati, Ohio.....	290,000	17,432,500	17,722,500
Medford, Oreg.....	52,459	1,728,050	1,780,509
Johnstown, Pa.....	40,000	1,187,500	1,227,500
Lebanon, Pa.....	27,000	730,550	757,550
Derby Line, Vt.....	14,000	267,900	281,900
FOB No. 8, District of Columbia.....	60,000	3,800,000	3,860,000
GPO field plant, District of Columbia.....	36,000	1,545,650	1,581,650
Small projects outside District of Columbia.....	.....	500,000	500,000
Total.....	2,938,708	171,600,000	174,538,708

"The committee has generally reduced the amount for each project by 5 percent, which is less than savings that have been made by the General Services Administration in construction cost contracts of projects already completed. Funds are also specifically disallowed for installing fallout shelters in each project. The bill includes funds for 20 major projects, and \$500,000 as has been provided in previous years for construction of such small projects outside the District of Columbia as the Administrator may determine. The committee again cautions the agency to use sound business judgment and insure that good, substantial, and usable buildings are completed without excess trimmings.

"The committee has made three material changes from the program as submitted in the budget estimates. (1) It has added \$5,623,050 to the project in New York City as there is some question whether it could be constructed within the cost limitation contained in the budget estimate. (2) The proposed General Services Administration storage depot at Denver, Colo., has been disallowed as it is not considered feasible to construct this new building at this time. (3) The committee has included in the bill \$2,000,000 for constructing separately an appraisers store and warehouse in the Long Beach waterfront area. The project for Los Angeles has not been reduced in size as all the space will be needed for future growth.

"During the hearings the committee was informed that there are 28 additional projects that have a construction capability in 1962. The estimated cost of these other projects is \$142,078,000 and the committee will expect that they be included in the 1963 budget program."

JUSTIFICATION OF THE AMENDMENT

This amendment proposes an increase in appropriation above that reported to the House to reflect the effect of other amendments which GSA is proposing elsewhere under "Construction, public buildings projects", as set forth in the table below:

Project location	Amounts provided in House bill	Add			Proposed in this amendment
		Amendments Nos. 6, 7, 8, and 10 through 26		Amendment No. 9 to restore deferred project	
		Restore fallout protection	Restore cost levels		
Decatur, Ala., PO, FOB.....	\$1,315,750	\$58,000	\$89,250		\$1,443,000
Los Angeles, Calif., CU, FOB.....	27,388,500	1,441,000	1,441,500		30,271,000
Long Beach area, California, Customs and Appraisal, warehouse.....	2,000,000				2,000,000
Denver, Colo., CT, FOB.....	18,145,000	955,000	955,000		20,055,000
Denver, Colo., GSA Stores Depot.....				\$5,795,000	5,795,000
Statesboro, Ga., PO etc.....	538,650	28,000	28,350		595,000
Winder, Ga., PO etc.....	475,000	25,000	25,000		525,000
Wyandotte, Mich., PO etc.....	402,800		21,200		424,000
Santa Fe, N. Mex., PO, FOB.....	2,362,650	119,000	124,350		2,606,000
New York, N.Y., CU, CT, FOB.....	59,222,050	1,695,000			60,917,050
Bryson City, N.C., PO, CT.....	753,350	40,000	39,650		833,000
Thomasville, N.C., PO.....	327,750	17,000	17,250		362,000
Pembina, N. Dak., BS.....	183,350	10,000	9,650		203,000
Cincinnati, Ohio, FOB.....	17,432,500	917,000	917,500		19,267,000
Medford, Oreg., PO etc.....	1,728,050	91,000	90,950		1,910,000
Johnstown, Pa., PO etc.....	1,187,500	52,000	62,500		1,302,000
Lebanon, Pa., PO etc.....	730,550	38,000	38,450		807,000
Derby Line, Vt., BS.....	267,900	14,000	14,100		296,000
GPO field plant, District of Columbia.....	1,545,650		81,350		1,627,000
FOB No. 8, District of Columbia (increase).....	3,800,000		200,000		4,000,000
Chicago, Ill., CT, FOB (increase).....	31,293,000	770,000	1,647,000		33,710,000
Small projects outside District of Columbia.....	500,000				500,000
Total.....	171,600,000	6,270,000	5,783,050	5,795,000	189,448,050
Deduct: Amendment No. 27 which authorizes use of funds appropriated in 1961 annual act for construction and alteration project at Philadelphia, Pa., which has been superseded by a larger and more adequate new building project, to aid in financing the projects listed above.....					-5,601,500
Adjusted total.....					(183,846,550)
Rounded.....					183,846,000

As reflected above, this amendment proposes a net increase of \$12,246,000 (rounded) above the amount included in the House bill. The increase is comprised of (1) \$6,270,000 to restore provisions for fallout protection in certain buildings pursuant to the national shelter policy, (2) \$5,783,050 to restore the cost level reductions made by the House and (3) \$5,795,000 to restore the stores depot project at Denver, Colo., less (4) reapplication of \$5,601,500 previously appropriated. Each addition is separately justified in the amendments numbered in the above tabulation.

GSA Amendment No. 5

CONSTRUCTION, PUBLIC BUILDINGS PROJECTS

PROPOSED AMENDMENT

On page 17, lines 5 and 6 of the bill as reported to the House strike out "sites and expenses for" and insert in lieu thereof "of".

BUDGETARY DATA

None applicable.

LEGISLATIVE HISTORY

None applicable.

JUSTIFICATION OF THE AMENDMENT

The provision of funds made by the House for small public building projects outside the District of Columbia is similar to authorizations contained for the same purpose under "Sites and expenses" in the Independent Offices Appropriation Acts of 1958 and 1959. GSA considers the authorization to be highly desirable and concurs with its placement in the "Construction, public buildings projects" appropriation insofar as construction costs are concerned. However, related sites and expenses for all projects funded for construction under that appropriation are traditionally financed from the separate "Sites and expenses" appropriation and it is not necessary or desirable to depart from this practice insofar as the small projects are concerned.

This perfecting amendment accordingly recommends deletion of the requirement that sites and expenses for the small projects be financed from the construction appropriation. Such costs, estimated at about \$75,000, can be financed from the "Sites and expenses" appropriation without change in its language or amount.

The vesting in the Administrator of authority to approve such small projects as he deem necessary, not to exceed \$500,000, in the appropriation act is construed as waiving applicability of section 7 of the Public Buildings Act of 1959 to such projects.

GSA Nos. 6 through 26 (except No. 9)

CONSTRUCTION, PUBLIC BUILDINGS PROJECTS

PROPOSED AMENDMENT

On page 17, lines 14, 16, 20, 22, and 25, and on page 18, lines 2, 4, 6, 8, 9-10, 11, 12, 14, 16, 18, 19, 21, and 25, and on page 19, lines 1 and 4 of the bill as reported to the House strike out the limits of cost on each public building project and insert the appropriate amounts shown in the table below.

BUDGETARY DATA

See amendment No. 4 and justification below.

LEGISLATIVE HISTORY

GSA Budget Justifications.—Pages I-87 to I-102.

House Hearings.—Part 1, pages 939-967.

House Report No. 449.—Pages 9 and 10 (quoted in GSA amendment No. 4).

JUSTIFICATION OF THE AMENDMENTS

Amendments Nos. 6 through 26 (except for No. 9) are directed toward increasing the limits of cost for certain projects to provide for the construction of fallout shelters, where appropriate, to comply with the requirements of the national shelter policy (see amendments Nos. 3 and 4) and restoration of the

5 percent reduction in cost estimates made by the House (see amendment No. 4).
Details follow:

Bill reported to House		Location of project	Amount in budget estimate	GSA proposed amendments		
Page	Line			Strike out	Insert in lieu	GSA No.
17	14	Decatur, Ala.....	\$1,443,000	\$1,315,750	\$1,443,000	6
	16	Los Angeles, Calif.....	30,271,000	27,388,500	30,271,000	7
	20	Denver, Colo.....	20,055,000	18,145,000	20,055,000	8
	22	Statesboro, Ga.....	595,000	538,650	595,000	10
	25	Winder, Ga.....	525,000	475,000	525,000	11
18	2	Wyandotte, Mich.....	424,000	402,800	424,000	12
	4	Sante Fe, N. Mex.....	2,606,000	2,362,650	2,606,000	13
	6	New York, N.Y.....	55,294,000	59,222,050	60,917,050	14
	8	Bryson City, N.C.....	833,000	733,350	833,000	15
	9-10	Thomasville, N.C.....	362,000	327,750	362,000	16
	11	Pembina, N. Dak.....	203,000	183,350	203,000	17
	12	Cincinnati, Ohio.....	19,267,000	17,432,500	19,267,000	18
	14	Medford, Oreg.....	1,910,000	1,728,050	1,910,000	19
	16	Johnstown, Pa.....	1,302,000	1,187,500	1,302,000	20
	18	Lebanon, Pa.....	807,000	730,550	807,000	21
19	19	Derby Line, Vt.....	296,000	267,900	296,000	22
	21	District of Columbia (GPO plant).....	1,627,000	1,545,650	1,627,000	23
	25	District of Columbia (Federal office building No. 8).....	19,105,000	18,905,000	19,105,000	24
	1	District of Columbia (Federal Office building No. 8) (equipment).....	6,000,000	5,700,000	6,000,000	25
	4	Chicago, Ill.....	39,210,000	36,793,000	39,210,000	26

The foregoing increases include (1) \$6,270,000 for fallout protection and (2) \$5,783,050 to restore the 5 percent reduction in cost estimates made by the House in anticipation of favorable bids. These individual amounts are applied separately to each project in the table appearing under justification on amendment No. 4.

Justification for restoration of fallout protection appears in amendment No. 3.

With respect to the cost reduction the committee, on pages 9 and 10 of Report No. 449, states: "The committee has generally reduced the amount for each project by 5 percent, which is less than savings that have been made by the General Services Administration in construction cost contracts of projects already completed." In so doing the committee apparently overlooked the fact that the budget estimates had already been reduced to reflect recent favorable bid experience. This fact was stated on page I-88 of GSA's justification and was discussed at some length as pertaining to the New York City project and briefly as to all projects, at the House hearings (pp. 952-956 and 962). As compared to the amounts approved by the Public Works Committees for individual projects, the 1962 budget estimates reflected reductions averaging 17.6 percent.

As pointed out in the testimony appearing on page 962 of the hearings, construction costs have increased seven-tenths of 1 percent in the 7 months ending with March. In that month alone they increased four-tenths of 1 percent. It was also testified that further increases could be anticipated. Under the circumstances it does not appear prudent to further reduce the estimates as proposed by the House and assume the risks of being unable to award construction contracts because of too tight maximum cost limits. It is likewise imprudent to rely solely on the escalation authority contained in the proviso on page 19, beginning on line 6, because that authority can only be exercised out of savings, if any. While savings might well be effected on some projects there can be no assurance they will occur in sufficient amounts and at the times needed to fund the escalation of any given project.

For the foregoing reasons approval of the restoring amendments is recommended.

No amendment is proposed with respect to the project added by the House for construction of a customs and appraisers warehouse in the Long Beach, Calif. area, at an estimated cost of \$2 million. However, the appropriation of funds for this purpose is construed as waiving applicability thereto of section 7 of the Public Buildings Act of 1959.

GSA Amendment No. 9

CONSTRUCTION, PUBLIC BUILDINGS PROJECTS

PROPOSED AMENDMENT

On page 17 of the bill as reported to the House insert the following after line 20: "General Services Administration stores depot, Denver, Colorado, \$5,795,000;"

BUDGETARY DATA

GSA budget justifications.—Pages I-90, I-94, and I-97.

House hearings.—Not specifically mentioned.

House Report No. 449.—Page 10: " * * * (2) The proposed General Services Administration storage depot at Denver, Colorado, has been disallowed as it is not considered feasible to construct this new building at this time".

JUSTIFICATION OF THE AMENDMENT

The House hearings give no clue toward amplifying the brief comment quoted above from its Report No. 449, to indicate why it does not consider the construction of a stores depot at Denver feasible at this time.

The facts are that the existing stores depot in the Denver Federal Center became inadequate some time ago because of expanding sales from the depot, primarily due to expanding use of GSA supply facilities by the military. Because of physical limitations of the building, both as to area and cube, no suitable alterations could be made. Accordingly, GSA pressed into use under permit, as a secondary location, a part of a military installation at Clearfield, Utah, some 370 miles distant from the Denver area where the Federal population served by the depot is primarily centered. Some relief is expected in 1962 upon completion of a subdepot at Albuquerque, N. Mex., funds for the construction of which were appropriated by this committee in the annual act for 1961. This relief, while important, is insufficient to provide for the full impact of the expanding stores business conservatively estimated for 1962. Accordingly, GSA will be forced to temporarily increase its reliance on the Clearfield installation despite the heavy added costs incurred for backhauling supplies to Denver for normal distribution. Careful review of all available or potentially available space in suitably located military installations has disclosed none having acceptable space, condition or area, transportation aspects considered.

There follows a tabulation of actual and projected regional sales, inventory, and warehouse space requirements for the 3-year period ending in 1963:

	1961	1962	1963
Sales.....millions of dollars..	\$14.4	\$18.6	\$21.3
Inventories.....do.....	\$4.8	\$6.2	\$7.1
Space requirements.....thousands of square feet..	400	647	850
At Denver, Colo.....	367	367	700
Clearfield, Utah.....	33	200	70
Albuquerque, N. Mex.....		80	80

The foregoing tabulation indicates that maximum space now available at Denver (367,000 square feet) is 280,000 square feet short. Some 80,000 square feet will be provided in the new facility at Albuquerque leaving a net shortage of 200,000 square feet which must be accommodated at Clearfield, although at a substantial addition in transportation costs. Completion of the proposed new building in 1963 will restore an appropriate balance as indicated above.

Projections of sales and inventories beyond 1963 leave no doubt that space now utilized at Denver will continue to be used to accommodate expanding business.

Restoration of the project is urged.

Amendment No. 27

CONSTRUCTION, PUBLIC BUILDINGS PROJECTS

PROPOSED AMENDMENT

On page 19, line 8 of the bill as reported to the House, before the period insert: "Provided further, That funds in the amount of \$5,601,500 appropriated under this head in the Independent Offices Appropriation Act, 1961, for a construction and alteration project at Philadelphia, Pennsylvania, since abandoned as to its previously approved scope, are hereby made available for the purposes of this appropriation."

BUDGETARY DATA

None applicable.

LEGISLATIVE HISTORY

None applicable.

JUSTIFICATION OF THE AMENDMENT

A project was approved in February 1960 by resolutions of the House and Senate Committees on Public Works for alterations and construction of four additional stories on the existing post office and courthouse, Philadelphia, Pa., to provide additional space for the U.S. courts, the U.S. attorney, and the U.S. marshal. Funds in the amount of \$5,601,500 were appropriated for the purpose under this head in the Independent Offices Appropriation Act, 1961.

Eight bids for the work were opened in January 1961. Since all bids were either excessive or unresponsive, no award was made.

In view of the probable increased cost for this extension, the difficulties and inconveniences which would be experienced by the U.S. courts and other building occupants during construction, and in consideration of the shortcomings of the approved project from the viewpoint of effectively housing the courts and other Federal activities now in leased space, it was decided to abandon the project and request approval of a larger and more adequate new building. A prospectus for this purpose contemplating use of a site in the Independence Mall development to be donated by the city of Philadelphia, was transmitted to the congressional Public Works Committees on June 7, 1961.

Construction funds for the new project, if approved, will not be required until after completion of design, sometime in fiscal year 1963, and will be considerably in excess of the amount appropriated for the abandoned project.

This amendment proposes use of the \$5,601,500 previously appropriated to aid in financing the increases for other purposes requested in amendment No. 4, funds for the new project will be requested in a later budget.

Amendment No. 28

SITES AND EXPENSES, PUBLIC BUILDINGS PROJECTS

PROPOSED AMENDMENT

On page 19 of the bill as passed by the House insert the following after line 10:

"SITES AND EXPENSES, PUBLIC BUILDINGS PROJECTS

"For an additional amount for expenses necessary in connection with the construction of public buildings projects not otherwise provided for, as specified under this head in the Independent Offices Appropriation Acts of 1959 and 1960, including preliminary planning of public buildings projects by contract or otherwise, \$5,000,000, to remain available until expended."

BUDGETARY DATA	
1962 budget estimate.....	\$5,000,000
1961 appropriation in annual act.....	21,000,000
Change in 1962 from 1961.....	-16,000,000
1962 bill as reported to House.....	(25,000,000)
(Change from budget estimate).....	(+20,000,000)
1962 bill as passed by House.....	0
Increase proposed by this amendment.....	+5,000,000
Bill as changed by this amendment.....	5,000,000

LEGISLATIVE HISTORY

GSA budget justifications.—Pages I-103 to I-107.

House hearings.—Part 1, pages 967-971.

House Report No. 449.—Page 10: "The committee has included in the bill \$25 million for sites and expenses for additional projects, which is \$4 million more than the 1961 appropriation and \$20 million above the budget estimate. This amount is needed for financing the site and expense costs of projects that are now pending or will be submitted to the Public Works Committees this year."

House action.—Congressional Record for June 7, 1961, pages S993-S994.

"Mr. GROSS. Mr. Chairman, a point of order.

"The CHAIRMAN. The gentleman will state it.

"Mr. GROSS. Mr. Chairman, I make a point of order against the language on page 19 beginning with line 9 and running through line 16, reading as follows:

(Language omitted for brevity.)

"I base the point of order on the ground that the appropriation herein called for is not justified, is not authorized; and I respectfully call the attention of the Chair to the language in the report on page 10 under the title 'Sites and expenses, public buildings projects.'

"This amount is needed for financing the site and expense costs of projects that are now pending or will be submitted to the Public Works Committees this year.'

"The CHAIRMAN. Does the gentleman from Texas desire to be heard on the point of order?

"Mr. THOMAS. Mr. Chairman, the point of order is good; it has not been authorized. But it is needed. They testified to that effect. It has not been authorized, however, and on that basis it is subject to a point of order.

"The CHAIRMAN (Mr. Bolling). The point of order is sustained."

JUSTIFICATION OF THE AMENDMENT

Without funds for sites and expenses in 1962 the program for acquisition of sites and design of needed public buildings authorized in the Public Buildings Act of 1959 will come to a standstill. This would delay for at least a year actions necessary to provide urgently needed space to house Government activities in many parts of the country.

Technically the item was susceptible to point of order. However, at the time it was taken, 36 prospectuses involving net sites and expense requirements of \$24.7 million were pending before the Senate and/or House Committees on Public Works and 1 prospectus (Macon, Ga.) involving \$0.8 million had been fully approved by both committees.

While this agency cannot predict the timing and extent of approvals by the two committees it has no reason to assume that committee actions will not be completed during the current session of Congress.

In order to preserve some continuity in the essential program for providing suitable housing for permanent activities of the Government it is recommended that \$5 million, the original budget estimate, be restored.

GSA is confident that the temporary lag between project authorizations and the appropriation act will be overcome before Congress adjourns.

GSA Amendment No. 29

CONSTRUCTION, FEDERAL OFFICE BUILDING No. 7, WASHINGTON, DISTRICT OF COLUMBIA

PROPOSED AMENDMENT

On page 20, line 5 of the bill as reported to the House, strike out "\$23,700,000" and insert in lieu thereof "including fallout protection, \$26,175,000".

BUDGETARY DATA

1962 budget estimate.....	\$26,175,000
1961 appropriation.....	0
Change in 1962 from 1961.....	+26,175,000
1962 bill as reported to House.....	23,700,000
(Change from budget estimate).....	(-2,475,000)
Restoration proposed by this amendment.....	+2,475,000
Bill as changed by this amendment.....	26,175,000

LEGISLATIVE HISTORY

GSA budget justifications.—Pages I-112 to I-115.

House hearings.—Part 1, pages 977-981.

House Report No. 449.—Page 10: "The committee has approved \$23,700,000 for construction of a Federal office building on Lafayette Square for use of agencies of the executive branch. The reduction of \$2,475,000 reflects a reduction of 5 percent in the estimate based on construction cost experience for other projects in the District of Columbia area, and \$1,227,000 is for elimination of fallout shelter features."

JUSTIFICATION OF THE AMENDMENT

The reduction of \$2,475,000 made by the House includes denial of \$1,227,000 for fallout protection and a 5-percent cost reduction of \$1,248,000.

These are the basic issues applicable to construction in general and are discussed in detail in amendments Nos. 3, 4, and 6 through 26 under "Construction, public buildings projects." As stated therein GSA's position is (1) denial of fallout protection is contrary to the national interests, and (2) it is imprudent to reduce the cost estimates below the reduced amounts proposed in the budget. Insofar as Federal Office Building No. 7 is concerned the budget estimates were 26.6 percent below the prior estimates due in part to anticipated favorable bids and also because of reducing the scope of the building to exclude provision of space for the U.S. Court of Claims as authorized in the regular 1961 act. It is not prudent to anticipate further reductions.

Full restoration to the budget estimate of \$26,175,000 is recommended.

GSA Amendment No. 30

OPERATING EXPENSES, FEDERAL SUPPLY SERVICE

PROPOSED AMENDMENT

On page 20, line 9, of the bill as reported to the House, strike out "\$3,450,000" and insert in lieu thereof "\$3,737,000".

BUDGETARY DATA

1962 budget estimate (direct appropriations portion)-----		\$3, 737, 000
1961 appropriation in annual act-----	\$3, 978, 000	
Comparative transfer to ESD-----	-993, 600	
Transfer from S. & C.M. (3d supplement)-----	252, 000	
		<u>3, 236, 400</u>
Change in 1962 from 1961-----		<u>+500, 600</u>
1962 bill as reported to House-----		<u>3, 450, 000</u>
(Change from budget estimate)-----		(-287, 000)
Restoration proposed by this amendment-----		+287, 000
		<u>3, 737, 000</u>

LEGISLATIVE HISTORY

GSA budget justifications.—Pages II-2 to II-31.

House hearings.—Part 1, pages 996 to 1071.

House Report No. 449.—Page 10: "Operating expenses, Federal Supply Service: The bill provides \$7,385,000 for personal property management activities. This is an increase of \$713,400 over comparable appropriations for 1961 and \$287,000 less than the budget estimate. Of the total amount \$3,450,000 will be financed by appropriation, and \$3,935,000 from proceeds received from the sale of excess personal property. The increase over 1961 includes \$427,600 to strengthen and promote the utilization and sales program and \$285,800 for cataloging and other activities."

JUSTIFICATION OF THE AMENDMENT

The DOD AIR program objective is to eliminate duplicative items used for the same purpose within the various military services and to increase the number common to all services. Many of these items are common administrative, maintenance, and housekeeping items widely used by civil agencies as well. Without GSA's participation in the DOD AIR program there is no efficient method for insuring that duplicate items between military and civilian agencies will be eliminated.

In a sampling conducted in June 1960 at the Military General Supply Agency, Richmond, Va., of common use items such as office furniture, household furniture, floor covering, office machines, office supplies, etc., it was found that of 9,518 DOD items and 12,040 GSA items, only 1,630 items, or 8.1 percent, were common to both military and civilian agencies. This low rate of commonality is directly related to the fact that the AIR program heretofore was confined to items found in the military system.

To determine the nature of the responsibilities it would assume as a participant in the AIR program and also to gauge the benefits which would result, GSA conducted a test on office furniture items jointly with the Military General Supply Agency, the DOD single manager for general supplies. During August and September, studies of office furniture items carried in both military and civilian agency systems resulted in the following:

	Before study	After study
Number of Department of Defense items-----	1, 060	297
Number of GSA items-----	567	380
Number of items common to both systems-----	200	289
Percent common-----	14	74
Net number of items in both systems-----	1, 427	388

This study resulted in increasing commonality between military and GSA items from 14 to 74 percent. Even more striking, it reduced the total number of office furniture items from 1,427 to 388, a reduction of 73 percent. This clearly indicates the economies for the Government as a whole which will result from full participation by GSA in the DOD AIR program through major reductions in inventory investments and recordkeeping for similar items used for the same end purpose. It will also produce more advantageous prices and delivery through concentration of procurement action on the item best suited for the particular job.

Furthermore, GSA is already deeply into its program of expanded support to military activities. Thus far, other 50,000 items have been referred by DOD to GSA for decision as to appropriate method of supply. It is expected that at least 200,000 additional items will be referred to GSA over the next few years.

Ideally, the technical and management actions involved in the AIR program should precede review of items for determination as to method of supply. Inability of GSA to participate at the outset in the AIR program due to lack of funds imposes additional workload and continuing high supply management costs throughout the Government's supply system.

GSA must review and determine, item by item, those which will be supplied from GSA stock, from Federal supply schedule contracts, by direct delivery from contractors and by local procurement. It is estimated that 150,000 items presently in the supply system will be eliminated as a result of participation in the AIR program.

If participation in the AIR program is curtailed, it is certain that excessive numbers of items will remain in the supply systems. Therefore, it is essential that GSA participate in this program to the full extent requested in the budget estimates.

It is urged that the full amount of the proposed amendment be restored.

GSA Amendment No. 31

EXPENSES SUPPLY DISTRIBUTION

PROPOSED AMENDMENT

On page 20, lines 23 and 24, of the bill as reported to the House, strike out "\$27,375,000" and insert in lieu thereof "\$29,374,000".

BUDGETARY DATA	
1962 budget estimate.....	\$29,374,000
1961 appropriation in annual act.....	22,950,000
Comparative transfer from OE-FSS.....	993,600
Transfer from strategic and critical materials (3d supplemental).....	1,475,000
Transfer from DOD.....	43,000
Total.....	25,461,600
Change 1962 from 1961.....	+3,912,400
1962 bill as reported to House.....	27,375,000
(Change from budget estimate).....	(-1,999,000)
Restoration proposed by this amendment.....	+1,999,000
Bill as changed by this amendment.....	29,374,000

LEGISLATIVE HISTORY

GSA budget justifications.—Pages II-32 to II-50.

House hearings.—Part 1, pages 1071 to 1092.

House Report No. 449.—Page 11:

"Expenses, supply distribution.—An appropriation of \$27,375,000 is recommended for operating the General Services Administration stores and supply system. This provides an increase of \$1,913,800 over comparable appropriations for 1961, and it is a reduction of \$1,999,000 in the budget estimate. The committee has allowed a part of the increase requested based on new workload but has not allowed the request for funds to increase the amount of space allowed for a given quantity of inventory."

JUSTIFICATION OF THE AMENDMENT

In the past 5 years GSA's total volume of buying has almost doubled from \$548.8 million in 1956 to \$1,025.9 million for 1961. The increased volume of sales for 1962 projected in the budget has been reaffirmed as the minimum amount which should be planned for 1962, because current trends this year indicate these sales estimates to be conservative.

For 1962 total volume of buying will be \$1,105.5 million, or an increase of \$79.6 million. Since only one half of the increased funds required were provided, business possible with these reduced funds could only total approximately \$1,065 million. Projected unit costs for stores and buying to support the conservative sales estimated were planned at costs lower than at present. Costs of operation have been held to the lowest possible levels which compare very favorably to those prevailing in private industry. This has been achieved despite a generally rising commercial market and absorption of pay increases and health benefit costs.

Conservative sales estimate of \$215 million from stores stock in 1962 will require an inventory of \$70 million by the end of 1962. This is an increase of \$8.5 million from the end of 1961 and will require a total of 6,900,000 square feet of space based on storage at the rate of \$10.14 worth of inventory per square foot.

It is essential that the funds requested for space be approved in order to permit efficient and economical handling of the increasing volume of supply items previously referred to in this estimate. The continuation of congested warehousing practices also contributes to the possibility of safety and fire hazards.

It is urged that the item be restored to the full amount of the budget estimate.

GSA Amendment No. 32

GENERAL SUPPLY FUND

PROPOSED AMENDMENT

On page 21, line 4, of the bill as reported to the House, strike out "\$4,000,000" and insert in lieu thereof "\$8,000,000".

BUDGETARY DATA	
1962 budget estimate.....	\$8,000,000
1961 appropriation in 3d supplemental act.....	20,000,000
Change in 1962 from 1961.....	-12,000,000
1962 bill as reported to House.....	4,000,000
(Change from budget estimate).....	(-4,000,000)
Restoration proposed by this amendment.....	+4,000,000
Bill as changed by this amendment.....	8,000,000

LEGISLATIVE HISTORY

GSA budget justifications.—Pages II-51 to II-59.

House hearings.—Part 1, pages 1093 to 1099.

House Report No. 449.—Page 11.

"General supply fund.—A \$4 million increase in capital for the general supply fund is recommended instead of \$8 million as proposed in the estimate. The capital has only recently been increased by \$20 million in a supplemental bill. The additional amount will increase the appropriated capital to \$119,750,000."

JUSTIFICATION OF THE AMENDMENT

The budget request of \$8 million is necessary to support the steadily increasing volume of stores sales and other activities financed through the general supply fund.

Total sales financed through the fund were estimated at \$380.4 million for 1962, or an increase of \$23.9 million over the 1961 sales estimated at \$356.5 million. Existing trends indicate that the 1962 estimate of sales volume will be exceeded. For example, current projection for stores stock sales for 1961 is

\$182.5 million as compared to \$171.7 million included in the justification. Motor pool sales are now expected to reach \$19 million for 1961 instead of the \$17 initially projected.

The House committee did not indicate they disagreed with the projected volumes. However, in allowing only \$4 million for this fund, sufficient capital is not provided to maintain a balanced program of supply to Federal agencies.

Report No. 85 from the Senate on the third supplemental appropriation bill, 1961, March 24, 1961, page 14, stated in connection with borrowing from unrelated appropriations, "The committee believes that such action is poor practice, even in an emergency situation, and requests the administration to submit the need for such funds through the regular appropriation procedures, without resorting to an expediency of this nature." If the full amount of \$8 million is not restored it may not be possible to support the general supply fund programs.

Cash must be maintained at the estimated level if GSA is to continue paying bills promptly, to maintain good relations with industry and to take advantage of discounts offered. The \$4 million reduction reflected in the House bill would require a reduction in the assets below the level required to carry out the programs effectively. Inventory cannot be reduced below the level forecast, in the face of sharply rising customer demands, without seriously impairing supply performance. Equipment is required at the level forecast to continue the orderly development of the motor pool program. To reduce accounts receivable would require a speedup in billing and collecting that would be impractical and result in additional costs.

It is therefore urged that the full amount of the proposed amendment be restored to provide sufficient capital for proper business management of our supply program.

GSA Amendment No. 33

STRATEGIC AND CRITICAL MATERIALS

PROPOSED AMENDMENT

On page 22, line 11, of the bill as reported to the House, strike out "\$30,000,000" and insert in lieu thereof "\$38,683,000".

BUDGETARY DATA

1962 budget estimate.....	\$40,000,000
1961 obligation program.....	43,012,200
Change in 1962 from 1961.....	—3,012,200
1962 bill as reported to House.....	30,000,000
Restoration proposed by this amendment.....	+8,683,000
Bill as changed by this amendment.....	38,683,000

LEGISLATIVE HISTORY

GSA budget justifications.—Pages III-2 to III-31.

House hearings.—Part 1 pages 1180 to 1213.

House Report No. 449.—Page 11:

"*Strategic and critical materials.*—The committee recommends an appropriation of \$30 million for the stockpiling program instead of \$40 million as requested. The bill also allows \$3 million for operating expenses instead of \$3,015,000 as the agency proposed."

JUSTIFICATION OF THE AMENDMENT

The House committee reduced the request for appropriations to carry out the Strategic and Critical Materials Stock Piling Act from \$40 million to \$30 million. This is a \$10 million reduction below the budget estimate and \$31,012,200 below comparable financing for 1961. The House committee report gave no explanation of the reduction except to state that the operating expenses had been reduced from \$3,015,000 to \$3 million. This amendment requests an appropriation of \$38,683,000 which constitutes restoration of \$8,683,000.

The estimate submitted included \$2,154,000 for acquisition of new materials and upgrading of existing materials required to meet minimum stockpile objec-

tives in accordance with program advice from the Office of Civil and Defense Mobilization; \$12,692,000 for expenses of storage of materials in the national and supplemental stockpiles; \$1,983,000 for expenses involved in disposal of materials in excess of stockpile objectives; and \$2,156,000 for national industrial equipment activities.

The estimate for acquisition of new materials covers limited procurement of a few critical materials which are below the stockpile objectives. The estimate for upgrading provides only for transportation and handling costs involved. Processing costs are to be covered by using excess materials for payment in kind without any requirement for appropriation. The estimate for storage of strategic materials and industrial equipment is substantially all for fixed recurring expenses which cannot be reduced without serious effect on the programs involved.

The estimate for 1962 also provided \$18 million for the cost of rotation of materials subject to deterioration in storage. The major items to be rotated are the cordage fibers, abaca and sisal, for which \$16,667,000 is required. Rotation of these fibers cannot be delayed without impairing the quality of the stockpile. Approximately 77 million pounds of cordage fibers must be rotated in 1962 in order to maintain the stockpile in sufficiently fresh condition to meet emergency needs for which the materials are stockpiled. In addition, deferring the rotation of these fibers will increase the cost of the rotation program in future years because of the necessity for granting additional discounts when older fiber is sold.

In view of decreases in stockpile objectives for castor oil, feathers and down, and shellac since preparation of the budget estimates for 1962, it is possible to eliminate rotation of any of these materials during 1962. The quantities of these materials which have deteriorated to a point otherwise requiring rotation are within the amounts surplus to revised objectives and, therefore, can be disposed of. Rotation costs for these materials, amounting to \$1,302,000, can be eliminated from 1962 requirements.

The requested amendment for an appropriation for \$38,683,000 reflects the elimination of the \$1,302,000 as well as the \$15,000 reduction made by the House for operating expenses.

GSA Amendment No. 34

STRATEGIC AND CRITICAL MATERIALS

PROPOSED AMENDMENT

On page 22, lines 18 and 19, of the bill as reported to the House, after the word "Acts" delete "provided said leasehold interests are at nominal cost to the Government".

BUDGETARY DATA

None applicable.

LEGISLATIVE HISTORY

GSA budget justifications.—Not mentioned.

House hearings.—Part 1, page 1206.

House Report No. 449.—Page 11:

"Two language provisions were submitted in the estimates which the committee has approved. One gives the administration authority to acquire leasehold interests in property for storage of materials at industrial plant sites. It was testified that most of these leases are at nominal cost to the Government. The committee has amended the language of the bill to include this requirement."

JUSTIFICATION OF THE AMENDMENT

General Services Administration is charged with the duty and responsibility of providing for the storage, security, and maintenance of almost \$7 billion worth of strategic, critical, and other materials acquired for the national stockpile and the supplemental stockpile. In the discharge of this responsibility with appropriations which were made "available until expended," GSA had acquired leasehold interests in storage sites for terms of years, with renewal options usually ranging from 40 to 99 years. Since most material is stored upon plant sites of the probable consumers in the event of a national emergency, the majority of such leases was negotiated for a nominal consideration. The exercise of options to renew leases that call for only nominal consideration presents no legal difficulty.

On the other hand, it has been necessary in a number of instances for GSA to utilize commercial or industrial storage areas which could be acquired only by the payment of rental of more than mere nominal amounts (e.g., up to as much as \$8,000 per annum) even though they may represent only a fractional portion of the true fair rental value of the properties. These leases contain valuable renewal options extending over many years, during which it may be anticipated there will be a general, and in some instances substantial, appreciation in land values. Future additions to the supplemental stockpile resulting from the barter of surplus agricultural commodities will require the leasing of even more commercial space. Inasmuch as the appropriations are now limited to use during a fiscal year, authority is needed to exercise options that cover periods which extend beyond a single fiscal year and which were secured before a fiscal year limitation was placed on the appropriation. Without the authority in cases other than those involving nominal rentals, existing option rights at reasonable rates will have to be forfeited. Moreover, the Government's bargaining position will be greatly weakened, and additional expenditures may be necessary to pay increased rentals or to move materials.

In order to (1) preserve valuable option rights (the loss of which would probably entail costly removal of stored material or, alternatively, costly condemnation proceedings); and (2) afford GSA a favorable bargaining position for the acquisition of sites for a term of years, GSA's authority to acquire long-term leasehold interests should not be limited to those instances in which the rental consideration is nominal.

GSA Amendment No. 35

ADMINISTRATIVE OPERATIONS FUND

PROPOSED AMENDMENT

On page 24, line 8, of the bill as reported to the House, strike out "\$14,268,900" and insert in lieu thereof "\$14,864,000".

BUDGETARY DATA

1962 budget estimate (limitation)-----		\$14,864,000
1961 limitation in annual act-----	\$13,150,000	
Supplemental for expenses supply distribution (3d supplemental)-----	120,000	
Increase in limitation (3d supplemental)-----	823,000	
Transfer from DOD-----	155,700	
	<hr/>	14,248,700
Change in 1962 from 1961-----		<hr/> +615,300 <hr/>
1962 bill as reported to House-----		14,268,900
(Change from budget estimate)-----		(-595,100)
Restoration proposed by this amendment-----		<hr/> +595,100 <hr/>
Bill as changed by this amendment-----		14,864,000

LEGISLATIVE HISTORY

GSA budget justifications.—Pages III-48 to III-80.

House hearings.—Part 1, pages 1222 to 1228.

House Report No. 449.—Page 12:

"*Administrative operations fund.*—A limitation of \$14,268,900 is provided for administrative, financial, legal, and other general support for GSA programs. This provides the same funding as in the current fiscal year for such services."

JUSTIFICATION OF THE AMENDMENT

Original estimates of requirements for integrated staff services including financial, administrative, legal, legislative, and business services, and field supervision were directly related to the workload and appropriation requests for the various programs. In many program areas the estimates for administrative support contemplated a decrease in unit costs or in the cost ratio in relation to program costs.

Allowances for the administrative operations fund in the bill as reported to the House reduced the amount requested to the 1961 level of operations and, at the same time, provided increases in appropriations for programs to be serviced by staff activities financed in the administrative operations fund. GSA has kept its administrative operations staff and costs at the minimum level for efficient and economical operations. Increased appropriations for program functions must be matched by additional allowances for administrative operations if essential support of programs is to be furnished.

The impact of increased workload in the administrative operations fund has been particularly heavy in the automatic data processing (ADP) activity. Work formerly imposed upon program staff is being progressively channeled to the administrative operations area by applications of ADP to the respective program activities.

The growth of GSA's programs in the past few years made it essential that ways be found to handle an ever-growing volume of paperwork and to reduce the unit cost of operations. After study, electronic computer applications are now being utilized and many advantages are being gained from converting existing punchcard electrical accounting systems to medium and large scale computer systems. GSA has installed medium scale computers (RAMAC) in five regions, a large scale computer in one region, with further expansion in the number of large scale computers anticipated for the future.

The applications currently being placed on these computers include such program operations as (a) order processing and inventory management for the Federal Supply Service, (b) inventory control for the \$8.5 billion stockpile programs, and (c) space management in Government owned and leased buildings. As program managers have become more knowledgeable of the capabilities of ADP equipment, their requests for more effective and speedier management data have correspondingly increased. Long-range plans include automation of data in all program areas of GSA that generate large volumes of paperwork. In addition to purely program operations, other GSA applications being performed or scheduled for ADP include accounting, payroll, personnel statistics, etc.

The automatic data processing activities in particular, as well as other areas of staff services such as legal, administrative services, and business service centers will be seriously handicapped by the reduction proposed by the House, and it will be impossible to continue to perform services at an adequate level in 1962.

With improved and more efficient support rendered to service programs at lower unit costs, and with the continuing objective of more effective and economical staff services as evidenced by the fact that a very modest increase in the number of positions is requested for 1962, it is essential that the full amount requested in the budget estimate be granted and the reduction of \$595,100 restored to the administrative operations fund.

GSA Amendment No. 36

WORKING CAPITAL FUND

PROPOSED AMENDMENT

On page 24, after line 12, of the bill as reported to the House, insert

"WORKING CAPITAL FUND

"To increase the capital of the working capital fund established by the Act of May 3, 1945 (40 U.S.C. 293), \$150,000."

BUDGETARY DATA

1962 budget estimate.....	\$150,000
1961 appropriation in annual act.....	0
Change 1962 from 1961.....	+150,000
1962 bill as reported to House.....	0
(Change from budget estimate).....	(-150,000)
Restoration proposed by this amendment.....	+150,000
Bill as changed by this amendment.....	150,000

LEGISLATIVE HISTORY

GSA budget justifications.—Pages III-S1 to III-S4.

House hearings.—Part 1, pages 1228 to 1230.

House Report No. 449.—Page 12.

“Working capital fund.—The committee has denied the request for \$150,000 to increase the working capital fund to establish four field printing plants in addition to the present plant in Washington, D.C., as it is not convinced of the necessity for establishing these plants.”

JUSTIFICATION OF THE AMENDMENT

Continued expansion of PBS activities and increased activities of FSS created a reproduction workload almost impossible to meet in those GSA regional office cities having no GPO field printing plant. Commercial printers in these cities were unable to meet the deadlines of GSA programs essential to efficient operations.

In view of this situation, the Joint Committee on Printing authorized field printing plants at Boston, Mass., August 21, 1959, and at Atlanta, Ga., Kansas City, Mo., and Dallas, Tex., October 28, 1959. In accordance with the wishes of the Joint Committee these plants were placed in operation as quickly as possible and certain minimum additional printing equipment was procured. These plants are operated through the GSA working capital fund established for this purpose with all costs recovered from customers, and profits returned to Treasury.

This appropriation for equipment is a nonrecurring item since the equipment will be depreciated and charged as cost of services furnished GSA programs and other Government agency activities, and replaced as required from such recoveries.

These plants have proved to be efficient and economical. In a letter dated August 26, 1960, to the Administrator, GSA, the chairman, Joint Committee on Printing stated that material benefits had already been demonstrated by the operation of these four field printing plants.

Apparently it was not made clear to the House subcommittee that the printing plants are already in operation, and that proposed purchases of additional equipment are based on specific approvals of the Joint Committee on Printing. Additional equipment authorized in 1960 to establish the plants amounted to \$51,857, and it is estimated that \$51,400 and \$49,000, respectively, will be required for equipment in 1961 and 1962.

Unless the additional financing requested is obtained, sufficient working capital will not be available to adequately perform necessary operations.

GSA Amendment No. 37

GENERAL PROVISIONS (FOR GCA)

PROPOSED AMENDMENT

On page 26, after line 3 of the bill as reported to the House, insert the following paragraph:

“Not to exceed 2 per centum of any appropriation made available to the General Services Administration of the current fiscal year by this Act may be transferred, to any other such appropriation, but no such appropriation shall be increased thereby more than 2 per centum: *Provided*, That such transfers shall apply only to operating expenses, and shall not exceed in the aggregate the amount of \$2,000,000.”

BUDGETARY DATA

None applicable.

LEGISLATIVE HISTORY

GSA budget justification.—Page I-9.

House hearings.—Not discussed.

House Report No. 449.—Not mentioned.

JUSTIFICATION OF THE AMENDMENT

This paragraph has been included in GSA general provisions of the Independent Offices Appropriation Acts each year since 1958. Transfers have been effected between operating expense items under this authority during 1958, 1959, and 1960 to finance expanded workload in the receiving appropriation, which could not be anticipated at the time the budget estimates were prepared. This authority gives the Administrator an extremely limited degree of flexibility in administering funds appropriated in annual acts, is consistent with the authority vested in him for control of all funds made available to GSA, and is a practical means by which prescribed functions and unavoidable workloads can be accomplished in the year then current without the necessity of requesting supplemental funds.

It is therefore recommended that this paragraph be restored.

GSA Amendments Nos. 38 and 39

INDEPENDENT OFFICES—GENERAL PROVISIONS, SECTION 102

PROPOSED AMENDMENT

On page 40, line 4 of the bill as reported to the House, strike out "or", and on line 6, change the period to a comma and insert "or to payments to interagency motor pools where separately set forth in the budget schedules."

BUDGETARY DATA

None applicable.

JUSTIFICATION OF THE AMENDMENT

The Bureau of the Budget prescribed a major change in object classification structure effective July 1, 1961, and brought within the object class for "Travel and transportation of persons" payments to the General Services Administration for interagency motor pool services. Heretofore, such payments had been classified generally as other contractual services rather than "travel" and accordingly had not been considered as falling under established travel limitations.

In its circular No. A-12, dated July 22, 1960, the Bureau of the Budget recognized the problem created by this change by stating "In determining subclasses for administrative use, agencies may maintain such distinctions as they deem appropriate, including a separate subclass for rental of vehicles from interagency motor pools. Agencies may propose specific exclusions of such payments from travel limitations."

In letters to the chairmen of the House and Senate Appropriations Committees dated January 19, 1961, the Director of the Bureau of the Budget said:

"In order to avoid disturbing unduly the limitations on travel which Congress has imposed on the independent offices appropriation act, payments to interagency motor pools have been set forth in a separate subcategory in certain agencies covered by that act, and section 102 of the act has been changed to make the limitations inapplicable to such payments where they are thus set forth separately."

Interagency motor pools were established pursuant to section 211 of the Federal Property and Administrative Services Act and have provided an economical and efficient system for local transportation of Government personnel and property. The number of Government-owned vehicles is continually being reduced to achieve the objective of operating the minimum number of vehicles necessary for transaction of public business. Acceptance and utilization by Government agencies of motor pools is evidenced by the estimated \$19 million in sales of such services in fiscal year 1961.

To include payments to interagency motor pools on travel limitations in 1962 would (1) include items which heretofore had been excluded, (2) tend to discourage the use of motor pool services, and (3) nullify economies achieved inasmuch as affected agencies would have to establish additional accounting controls to cover shuttle-bus services and intermittent use of vehicles on projects. It is believed that the related accounting would cost more than the services involved.

It is, therefore, considered essential to the continued successful operation of interagency motor pools and the economies resulting from their operation that the language in the proposed amendment be reinserted in the bill.

HOUSE ACTION

Senator MAGNUSON. And I would presume that much of this is directed to that \$41 million.

Mr. BOUTIN. It is, sir.

Senator MAGNUSON. Now, you have a short statement, and we would be glad to hear from you.

Mr. BOUTIN. Mr. Chairman, and members of the committee, the budget estimate for the fiscal year 1962 as contained in the President's budget was \$552,170,000. H.R. 7445 as reported to the House by Report No. 449 provided for \$535,390,000 and as passed by the House \$510,390,000, or a reduction of \$41,780,000 in our budget estimates.

Senator MAGNUSON. When you are speaking of your budget estimates for 1962 you are speaking of your amended estimates?

Mr. BOUTIN. Yes, sir.

The amendments to the House bill contained in the document now before this committee would provide for \$553,230,000 or \$1,060,000 more than the original request. This document details 39 proposed amendments to the House bill, and we have another one separate which we are presenting this morning, and fund changes are summarized in the attached tabulation.

As indicated in this tabulation, no amendments are being sought from House action for the following items: "Payments, public buildings purchase contracts"; "Operating expenses, FSS (proceeds from sales)"; "Operating expenses, NARS"; "Operating expenses, TPUS"; "Salaries and expenses, Office of Administrator"; "Allowances, etc., former Presidents"; and "RFC liquidation fund (limitation.)"

Senator MAGNUSON. Now, dollarwise, these would be eliminated, and as I understand, you can live with the House fund in these particular items?

Mr. BOUTIN. That is correct, sir.

Senator MAGNUSON. Now, there would be some of these matters we want to discuss as to policy.

But we will go back to that later.

Mr. BOUTIN. Yes, sir.

Amendments to the House action are being requested only in those instances where we believe that the changes are justified and are necessary to the continued proper management and operation of GSA.

PUBLIC BUILDINGS SERVICE

For the Public Buildings Service, we are requesting restoration of reductions made in funds for operation and maintenance of public buildings; for restoration of authority and funds for fallout shelters both in existing Government-owned buildings and in new Federal buildings to be constructed; restoration of the 5 percent across-the-board fund reduction for construction of public buildings; and restoration of the Denver GSA stores depot project.

SITES AND EXPENSES

For "Sites and expenses," we are requesting restoration of the \$5 million requested in our original estimate. The House Appropriations Committee had recommended \$25 million for this item but it was subsequently stricken on the floor of the House on a point of order.

Senator MAGNUSON. I think we had better—because so many of these items are complex and complicated, we had better start right in with the first one, your Public Buildings Service, instead of finishing your statement. We will, however, place the entire statement in the record.

(The statement referred to follows:)

DEPUTY ADMINISTRATOR'S GENERAL STATEMENT ON ESTIMATES OF APPROPRIATIONS, 1962, FOR GENERAL SERVICES ADMINISTRATION

Mr. Chairman and members of the committee, the budget estimate for fiscal year 1962 for GSA as contained in the President's budget was \$552,170,000. H.R. 7445 as reported to the House by Report No. 449 provided for \$535,390,000, and as passed by the House \$510,390,000, or a reduction of \$41,780,000 in our budget estimates.

The amendments to the House bill contained in the document now before this committee would provide for \$553,230,000 or \$1,060,000 more than the original request. This document details 39 proposed amendments to the House bill, and fund changes are summarized in the attached tabulation.

As indicated in this tabulation, no amendments are being sought from House action for the following items: Payments, public buildings purchase contracts; operating expenses, FSS (proceeds from sales); operating expenses, NARS; operating expenses, TPUS; salaries and expenses, Office of Administrator; allowances, etc., former Presidents; and RFC liquidation fund (limitation).

Amendments to the House action are being requested only in those instances where we believe that the changes are justified and are necessary to the continued proper management and operation of GSA.

For the Public Buildings Service, we are requesting restoration of reductions made in funds for operation and maintenance of public buildings; for restoration of authority and funds for fallout shelters both in existing Government-owned buildings and in new Federal buildings to be constructed; restoration of the 5-percent across-the-board fund reduction for construction of public buildings; and restoration of the Denver GSA stores depot project. For "Sites and expenses" we are requesting restoration of the \$5 million requested in our original estimate. The House Appropriations Committee had recommended \$25 million for this item, but it was subsequently stricken on the floor of the House on a point of order.

For the Federal Supply Service we are appealing fund reductions made in our accelerated item reduction program, in our supply depot operations, and in the general supply fund capital.

Our amendment for the strategic and critical materials program proposes the restoration of an amount less than the reduction effected by the House. Changes in the rotation program since submission of our original estimates make this lower request possible.

Additional capital for the working capital fund is essential if we are to operate effectively the printing plants authorized by the Joint Committee on Printing. Restoration of our original budget estimate is requested.

Centralized staff services for all GSA programs are provided through financing under the administrative operations fund. Each appropriation or fund contributes its proportionate share to the administrative operations fund for these services. In developing our appropriation requests, the amount of staff services is directly related to the work to be performed for the program involved. Therefore, if program funds and activities are increased, related staff costs must be increased.

The ratio of staff costs to program costs have historically shown a decrease as a result of improved methods of operation and better management. This trend was reflected in our estimates. The House, however, granted increases in various programs for 1962 but reduced the requested limitation amount for administrative operations to the 1961 level. Restoration of the House reduction in the limitation amount is requested since we believe that our original estimate is the minimum amount needed if we are to render the basic services required by operating programs.

These amendments, we believe, are sound and well justified and the approval of your committee is solicited.

We appreciate the opportunity of appearing before your committee and are ready to answer specific questions on the amendments contained in the document now before your committee or on any other elements of our appropriation requests for 1962.

Status of estimates of appropriations, 1962

[In thousands of dollars]

Appropriation Items	1962				
	Budget estimates	House bill (passed)	Change in House bill	Recommended	
				Restoration	Total
Operating expenses, PBS.....	\$176,000.0	\$170,000.0	-\$6,000.0	\$6,000.0	\$176,000.0
Repair and improvement.....	60,000.0	58,000.0	-2,000.0	2,000.0	60,000.0
Construction, public buildings projects.....	181,325.0	171,600.0	-9,725.0	12,246.0	183,846.0
Fallout shelters (included above).....	(6,270.0)	0	(-6,270.0)	(6,270.0)	(6,270.0)
Sites and expenses, public buildings projects.....	5,000.0	0	-5,000.0	5,000.0	5,000.0
Payments, public buildings purchase contracts.....	5,200.0	5,200.0			5,200.0
Construction, Federal Office Building No. 7, Washington, D. C.....	26,175.0	23,700.0	-2,475.0	2,475.0	26,175.0
Operating expenses, FSS.....	(7,672.0)	(7,385.0)	(-287.0)	(287.0)	(7,672.0)
Direct appropriation.....	3,737.0	3,450.0	-287.0	287.0	3,737.0
Proceeds from sales.....	(3,935.0)	(3,935.0)			(3,935.0)
Expenses, supply distribution.....	29,374.0	27,375.0	-1,999.0	1,999.0	29,374.0
General supply fund (additional capital).....	8,000.0	4,000.0	-4,000.0	4,000.0	8,000.0
Operating expenses, NARS.....	14,159.0	14,000.0	-159.0		14,000.0
Operating expenses, TPUS.....	2,500.0	2,475.0	-25.0		2,475.0
Strategic and critical materials.....	40,000.0	30,000.0	-10,000.0	8,683.0	38,683.0
Salaries and expenses, Office of Administrator.....	250.0	290.0	+40.0		290.0
Allowances, etc., former Presidents.....	300.0	300.0			300.0
Working capital fund.....	150.0	0	-150.0	150.0	150.0
Administrative operations fund (limitation).....	(14,864.0)	(14,268.9)	(-595.1)	(595.1)	(14,864.0)
RFC liquidation fund (limitation).....	(42.5)	(42.5)			(42.5)
Total.....	552,170.0	510,300.0	-41,780.0	42,840.0	553,230.0

¹ \$25,000,000 eliminated on floor of House by point of order.

OPERATING EXPENSES, PUBLIC BUILDINGS SERVICE

Senator MAGNUSON. The first amendment is on page 11 which the committee members will find in their gray book.

Page 15, line 25, you strike out \$170 million and insert in lieu thereof \$176 million.

Now, tell us about that.

Mr. BOUTIN. If I may, Mr. Chairman, I would like to have Colonel Wallace—

Senator MAGNUSON. Whoever you wish.

Mr. BOUTIN. I would like to have Colonel Wallace speak to that. He is the Commissioner of Public Buildings Service.

Senator MAGNUSON. Come right up here, Colonel.

PUBLIC BUILDINGS SERVICE

Mr. WALLACE. The effect of the reduction of \$6 million in this fund would seriously handicap our operations for these reasons. We will start operating 29 new buildings this year and next, which will require \$4½ million.

Senator MAGNUSON. \$4½ million plus.

Mr. WALLACE. \$4½ million plus.

Our increase in rents, on renewal of leases that expire, will run \$1.1 million.

The increased cost in utilities due to air conditioning, electronic data processing machines and increased consumption generally, will run \$1.2 million.

The House apparently allowed only \$800,000 for these purposes, which will leave a net deficit of \$6 million.

The question the House raised, was why couldn't we give up more leases. We will pick up around 3 million square feet in new construction. This will enable us to give up 1,200,000 feet of space, about half leased and half Government-owned. Other agencies will give up about 600,000 square feet that they were financing.

In other words, we will gain in space about one-third of 3 million square feet to provide for expansion in the agencies.

HEW AND NASA

To illustrate my point, HEW and NASA are now in Government-owned buildings. We intended that when they moved to Federal Office Building 6, we would assign other activities to the Government-owned space and reduce lease space. They have expanded now to where we cannot move them out of Government-owned space, must retain the leased space in the District of Columbia.

TOTAL SPACE LEASED

Senator MAGNUSON. Let's get this in perspective. Can somebody either tell us now or put in the record how many square feet the Government leases under your shop?

Mr. BOUTIN. Total?

Senator MAGNUSON. Total.

How many square feet have come into being by new buildings since 1961 budget, fiscal 1961, or will be there by next year?

Mr. WALLACE. We are now leasing 22,935,000 square feet.

Senator MAGNUSON. That is all over the country?

Mr. WALLACE. Yes, almost 23 million.

SPACE LEASED IN DISTRICT OF COLUMBIA

Senator MAGNUSON. And have somebody break down for us how much of that is in the District of Columbia. If you haven't got it right here you can put it in the record.

Mr. WALLACE. We have it, sir. In the District, 2,832,000 square feet.

Senator MAGNUSON. Of the 23 million?

Mr. WALLACE. Yes, sir. And in 1962 we will have 22,305,000 square feet of leased space, with no change in the District.

Senator ALLOTT. What is that fraction, 22 what?

Mr. WALLACE. 22,305,000 of which 2,832,000 square feet are in the District, and 19,473,000 outside the District of Columbia, the decrease from 1961 is outside the District.

Senator MAGNUSON. The decrease is from new buildings coming into being or consolidation or other factors outside the District?

Mr. WALLACE. That is right.

Senator MAGNUSON. The District leasing will remain the same, according to your estimates.

Mr. WALLACE. That is right.

Senator MAGNUSON. Proceed to tell us, if you have got 2 million square feet less in the leasing space why you need this extra amount for operation.

Mr. WALLACE. When we take over the operation of those new buildings—

Senator MAGNUSON. It costs you just the same?

I mean, then the operating expenses fall to us rather than the lessor?

Mr. WALLACE. That is right.

Senator MAGNUSON. And that is why you need this extra amount?

Mr. WALLACE. Yes, sir.

Mr. BOUTIN. Also, Mr. Chairman, as other leases expire and we negotiate a renewal, because of increased costs the leases are at a higher rate, which is a contributing factor.

Senator MAGNUSON. We are just talking about operating expenses now, let's stick to that, because, as I say, it gets pretty complicated unless we do.

So that in operating expenses you are asking for the \$6 million more?

Mr. WALLACE. Yes, sir.

Which would include the operating expense, plus the increased utilities, plus the increased cost of leases.

Senator MAGNUSON. Well, the House says, the estimates include \$4.2 million to operate newly constructed buildings in 1962, but they reflect only a \$2,500,000 decrease for released space.

Mr. WALLACE. Yes, sir. They gave us credit for that in their estimates.

Senator MAGNUSON. They gave you credit for that—the released space is the lease space that you are releasing?

Mr. WALLACE. They took the \$2,500,000 credit for released Government owned and leased space.

Senator MAGNUSON. But you feel—now, what would be the total leasing operating—the total space occupied by the Government in 1961 as compared to what you are going to have in 1962?

Mr. WALLACE. In 1961 it is 86 million square feet, roughly—I can give you the exact figures when I add them up—in 1962 it will be about 88 million plus.

Senator MAGNUSON. Five million more?

Mr. WALLACE. Maybe we had better get the exact figures here.

Senator MAGNUSON. Yes.

Mr. WALLACE. Government-owned space, 62,382,000 square feet for 1961.

Leased space, 22,935,000.

Senator MAGNUSON. It adds up to roughly 85.3.

That is 1961.

Mr. WALLACE. Yes, sir; exclusive of lease-purchase space. On the same basis for 1962 there is 64,955,000 square feet in Government-owned buildings and 22,305,000 square feet of leased space.

Senator ALLOTT. 87,260,000.

Mr. WALLACE. Yes, sir; for both Government owned and leased space.

LEASE-PURCHASE BUILDINGS

Then we have a line item for lease-purchase buildings in addition to that figure, which would be 1,049,000 square feet in 1961.

Senator ALLOTT. 1,049,000?

Mr. WALLACE. Yes. And in 1962, 1,269,000.

Senator MAGNUSON. So you had close to 89 million square feet for 1962—88 plus, and in 1961 you had 85, and you have got 3 million more square feet to take care of, whether it be Government-owned or the expenses of leasing and that sort of thing?

Mr. WALLACE. Yes, sir.

Senator MAGNUSON. Now, is that due to added employees, or just added space?

Mr. WALLACE. Partly to added employees, and partly to some improved working conditions.

Senator MAGNUSON. Storage?

Mr. WALLACE. Yes; and other activities.

Senator MAGNUSON. We hoped when we spent a lot of money for new buildings that they are a little better spacewise than some of the old ones.

SPACE FOR ELECTRONIC DATA PROCESSING

Mr. WALLACE. And a lot of it goes to electronic data processing, which requires a lot of room.

Senator ALLOTT. As the picture develops, as I see it, despite the new buildings construction, the leasehold is increasing?

Mr. WALLACE. No, sir—

Senator ALLOTT. And what is the actual increase between 1961 and 1962 in leased space?

Mr. WALLACE. 630,000 square feet decrease.

Senator ALLOTT. Decrease?

Mr. WALLACE. Yes, sir; in square footage.

Senator ALLOTT. And how much have you increased by way of construction?

Mr. WALLACE. In construction cost?

Senator ALLOTT. No, in footage.

Mr. WALLACE. It is 2,903, less 566,000—

Senator ALLOTT. I don't know what you mean by those figures. What do they mean, 2,093, or 2 million?

Mr. WALLACE. 2,557,000 net square feet made up of 2,903,000 square feet in new buildings and 220,000 square feet in lease-purchase space, less 566,000 square feet released in Government-owned buildings.

Senator ALLOTT. What I am trying to get at, in other words, you say you have decreased the lease holdings by 610,000.

Mr. BOUTIN. 630,000 square feet. And you have increased the area in Government-owned buildings by how many?

Mr. WALLACE. 2,557,000 net square feet.

Senator ALLOTT. So despite the fact that you have increased the space available by 2,600,000 feet, you are still running out of space for the Government?

AGENCY EXPANSION

Mr. WALLACE. That is right, sir.

That is partly due to the Post Office Department moving out of old buildings which they have operated into the new buildings. The old buildings are either converted or disposed of. Also, there is a time lag in moving from the old to the new buildings, and some agency expansion, particularly in the CIA, NASA, FAA, and the courts. We contemplated that the new buildings would take care of all their needs, and the space they would give up in Government-owned space could be reassigned and that we could cancel more leases.

But they have expanded now to where we cannot give up as much leased space as was contemplated.

Senator MAGNUSON. You are asking for 6 million to take care of 3 million more new responsibilities that you have?

Mr. WALLACE. That is right.

MAINTENANCE COSTS

Senator MAGNUSON. So that is \$2 per square foot per year for maintenance? Is that a little high or low?

Mr. WALLACE. About \$1.50, I figure.

Senator MAGNUSON. Is that high or low compared to private ownership?

Mr. WALLACE. We think it is a little low, based on 80 percent of our standard. A 100-percent standard is based upon what industry uses according to the Building Owner and Managers Association. So we think that \$1.50 is conservative.

Senator MAGNUSON. That is all maintenance?

Mr. WALLACE. Yes.

Senator MAGNUSON. So if the building costs \$15 a square foot the maintenance costs in 10 years would be the cost of the building?

Mr. WALLACE. Well, that is the operating cost.

Senator MAGNUSON. If the life of the building is 30 years, you would have to figure that the operating cost plus the construction cost would come to three times—I don't know whether that is high or low or whether that is good real estate figures.

Senator ALLOTT. It seems to me it is a pretty high cost of maintenance.

Senator MAGNUSON. Of course some of these figures have got to be discounted, because there are some older buildings that cost more to maintain.

Mr. WALLACE. That is right.

Senator MAGNUSON. I appreciate that.

But even at a dollar, the maintenance would eat up the 30-year life of the building twice over the cost of the building

you have decreased the leaseholdings by 610,000.

Mr. WALLACE. Mr. Chairman, that would be the same situation in leased space. In some cases we have got to lease buildings and the owner will not operate them, so we have got to operate them.

Senator MAGNUSON. There are some leases which you make which you take over the whole operation?

Mr. WALLACE. That is right.

Senator MAGNUSON. I don't know whether that is high or low, but it is interesting.

Mr. WALLACE. Mr. Rantzow will take over on that.

Mr. RANTZOW. According to the Building Owner & Managers Association, in 1960 their cost of operation, which included utilities, cleaning, elevator operation and maintenance, was \$1.60 per square foot as compared to our budget of \$1.50 per square foot for the new buildings.

Senator MAGNUSON. Of course they have to add insurance.

Mr. RANTZOW. No, sir, this was just the operating cost.

Senator MAGNUSON. Well, maybe that is a good figure. I wouldn't want to compare that with the operating cost per square foot of this Capitol. That never ends.

We are glad to have that comparison, because I do think that the Government has some advantages in these things and they should be under the private operation and maintenance.

REPAIR AND IMPROVEMENT OF PUBLIC BUILDINGS

Now, let's go to the next item, "Repair and improvement of public buildings."

The committee has approved—

I am reading from the House report—

\$58 million to renovate public buildings, which is the same level as 1961.

The committee has disallowed again the request for 2 million to make alterations to existing buildings to provide fallout shelters.

Now, what—are there amendments on that, too?

Mr. WALLACE. On that one item.

Senator ALLOTT. On the fallout?

Mr. WALLACE. Yes.

Senator MAGNUSON. The first amendment was on page 15, line 25, which we just were discussing, is that correct?

Yes, that is \$6 million we were just discussing.

Mr. WALLACE. Yes, sir.

Mr. TURPIN. Mr. Chairman, the first amendment just deals with "Operating expenses, Public Building Service," and that does not involve the fallout.

Senator MAGNUSON. That is right.

FALLOUT PROTECTION IN EXISTING BUILDINGS

And the next amendment involves GSA amendment, suggested amendment No. 2 on page 16, line 15, after the semicolon, add construction of fallout shelters, and increase the bill by \$2 million.

Mr. BOUTIN. Mr. Chairman, if you will refer to page 13—

Senator MAGNUSON. I am on page 13.

Senator ALLOTT. He is referring to the page in the bill. We have to work with the bill.

Mr. BOUTIN. I see. Mr. Chairman, on this item of \$2 million—

Senator MAGNUSON. Senator Allott has asked the question first, where is this going to be spent, if it is going to be spent?

Mr. BOUTIN. We have asked for the restoration of this item at the request of the Director of the Office of Civil Defense Mobilization, Mr. Ellis, and because it is, of course, in line with the President's address of May 25, 1961 to the joint session of Congress.

Senator MAGNUSON. I see. Mr. Ellis is here. We will be glad to hear from him on this.

Mr. ELLIS. Yes, sir.

Senator MAGNUSON. Do you want to address yourself to that, Mr. Ellis?

Mr. ELLIS. I would be very grateful for that, Mr. Chairman.

Members of the committee, may I read a very short statement in the record, if the Chairman pleases?

A few days ago I had the privilege to be here to discuss the 1962 appropriation for the Office of Civil and Defense Mobilization.

Now, my purpose in returning today is to discuss with you a subject which I consider, and the President considers, of vital importance to the shelter program, that is the provisions in the independent offices appropriation for fallout shelters in Federal buildings.

Now, there are three requests included in the amendments requested by GSA. The \$60 million which GSA requests for repair and improvement of Federal building, \$2 million of which is for the purpose of making alterations in certain existing Federal buildings to provide fallout shelter.

HOUSE ACTION

The House disallowed the \$2 million requested in spite of the President's specific request in his address to the joint session of May 25, 1961, that this program be initiated.

The second shelter request appears under "Construction public buildings projects," and I would like to deal with that at the same time. I think it would save the time of this committee.

In this appropriation, GSA requested \$181,325,000 of which \$6,270,000—

Senator MAGNUSON. I was going to suggest that we separate these items.

Mr. ELLIS. I will, sir. Shall I separate them and not discuss that at the present time?

Senator MAGNUSON. I think we ought to discuss your request for \$2 million on existing facilities, and then we will go to the new ones.

Mr. ELLIS. I might say that the same general remarks that I would make would apply to shelters in both new and existing buildings.

Senator MAGNUSON. The general remarks would be applied to both.

Mr. ELLIS. To all of these requests, and they are three in number, including, as I just pointed out, the \$6,270,000 for construction of new Federal buildings, and the \$1,227,000 which applies to Federal Office

Building No. 7 of GSA's requested appropriation, wherein they seek the installation of a fallout shelter in the proposed White House Office Building, which is to be constructed.

Senator MAGNUSON. That is, just for the sake of the record, is over at No. 7, that is that long argument that we have had about that.

PREPARED STATEMENT

Mr. ELLIS. Yes, sir. Mr. Chairman, I would like to submit my prepared statement for the record.

(The statement referred to follows:)

STATEMENT BY MR. FRANK B. ELLIS, DIRECTOR, OFFICE OF CIVIL AND DEFENSE MOBILIZATION

Mr. Chairman and members of the committee, there are three specific requests for shelter funds in that part of the bill concerning the General Services Administration. The General Services Administration is requesting \$60 million for repair and improvement of Federal buildings, \$2 million of which is for the purpose of making alterations in certain existing Federal buildings to provide fallout shelter. The House disallowed the \$2 million requested in spite of President Kennedy's specific request, in his address to the joint session of Congress on May 25, 1961, that this program be initiated.

The second shelter request appears under "Construction, public buildings projects," wherein GSA requested \$181,325,000, of which \$6,270,000 was for the purpose of incorporating fallout shelter in 16 of the new buildings to be constructed. The sums requested will provide shelter in every appropriate new building for which construction funds are being sought. The House disallowed the total amount requested for shelter.

The third shelter request appears under the item for the "Construction of Federal Office Building No. 7," wherein GSA requested a total of \$26,175,000, of which \$1,277,000 was for the purpose of incorporating fallout shelter. The House disallowed the amount requested for shelter.

I am here to urge restoration of these shelter funds so as to initiate without delay the program called for by the President.

The requests for shelter funds by GSA were not made at or by the request of OCDM, but were made in order that we may carry out the administration's program.

Moreover, I believe these requests are in concert with the desires of the American people. Both before and after the President's statement, my agency—not to mention State and local civil defense offices, has been deluged by letters from private organizations and citizens from all walks of life supporting the President's position on shelter, requesting information on what they can do, and looking to the Federal Government for leadership in this matter. The people are beginning to realize the wisdom and good commonsense of shelters against the possibility of enemy attack.

Put yourselves in their place. What would be your reaction when urged by the Federal Government to build a shelter when the Government itself has not provided shelter in its own facilities. Let me point out that these shelters will be available to the public and not just for Government workers.

How can we expect the American public to take us seriously when in their eyes we fail to practice what we preach?

More important than dollars spent or lives saved in these few shelter projects is the impact that they would have on the people, the example they would set for others.

There will be later requests by the President concerning shelter. He is not attempting, by the small amounts requested in this bill, to give merely token lipservice to the matter of shelters. Rather, he is asking that we not pass up

any opportunity to set an example by including shelter in every appropriate Federal building under construction or improvement. If funds are to be denied for these shelters merely on the grounds of economy, or on grounds that the shelters may never be needed, I say to you that this is as foolish as eliminating fire doors, sprinkler systems, extinguishers, and all other methods of preventing and combating fires in these buildings. There may never be a fire but can we afford to take the chance? Similarly, there may never be an attack; or, even if there should be one, these particular buildings may not be affected. But they might be, and I think we have the responsibility to protect against that possibility as we do against the possibility of fire.

Let's face facts, we must have shelter in all types of buildings and it will be far cheaper to provide those shelters before the buildings are built rather than afterward. Including shelter in the initial plans reduces the cost still further. This we intend to do from now on.

Gentlemen, let me summarize briefly my argument for restoration of these funds:

1. Whether it is probable or not, a nuclear attack upon this country is possible;
2. Such an attack could not be completely repulsed by our military forces;
3. The resulting destruction of life and property could, but not necessarily would, mean the end of our national existence;
4. A determining factor for national survival would thus be the ability of the people to survive and recover;
5. To assure their survival they must be protected against attack effects;
6. The greatest danger faced by most people in a nuclear attack would be radioactive fallout;
7. Fallout shelters offer the best means of protecting the greatest number of people;
8. It is imperative, then, that we, as a nation, provide this essential form of protection;
9. This is a responsibility of everyone, for only by the combined efforts of all levels of government and the people themselves can adequate protection be achieved;
10. To convince the public of the necessity for fallout protection requires more than logical argument; it requires firm leadership and example;
11. The most immediate effective way of providing this example is the inclusion of shelters in Federal buildings; and
12. Therefore, the fundamental purpose for this request is to start action on a basic part of the Government's effort to strengthen our civil defense and our ability to survive.

Before I close my statement, I must raise one other issue, namely section 303 of this appropriations bill. This states that no part of this appropriation can be used for shelter construction unless specifically provided. Therefore, merely restoring the shelter funds which the House deleted would not permit the Government to provide shelter in these buildings. To enable construction of these shelters the Senate must do one of two things. First, it can specifically provide for shelter construction in the wording of those sections of the bill dealing with these buildings. This is done in the amendments proposed by GSA. Or second, it can simply delete section 303.

If the section is retained and the GSA amendments accepted, I would ask that specific wording permitting shelter also be added to those parts of the bill providing for other Federal construction. These apply to construction projects of the Federal Aviation Agency, the National Aeronautics and Space Administration, and the Veterans' Administration.

I suggest, however, that it would be far simpler and better merely to delete section 303, and I recommend this for your consideration. For this section might well inhibit other agencies, not a part of this bill, from providing shelters in their new buildings, thus in effect contradicting the administration's entire effort to provide the badly needed leadership and example for this shelter program.

Again I ask you to restore these shelter funds, to support the President's request and to reassure the American people that the Congress is not remiss in its responsibility to provide for common defense.

(Discussion off the record.)

REPAIR AND IMPROVEMENT OF PUBLIC BUILDINGS

Senator MAGNUSON. I think we understand the problem.

There is a special item here—GSA amendment No. 2-A and 2-B, on page 16, line 18, of the bill, you add—

and buildings under the control of another department or agency where alteration of such buildings is required in connection with the moving of such other department or agency from buildings then, or thereafter to be, under the control of General Services Administration—

and I understand that this is a problem in Fort Worth, Tex. You can address yourselves to that.

Mr. BOUTIN. Mr. Chairman, in Fort Worth, we have our supply depot and records center in rented space. The space is inadequate. We have got to move somewhere. To build a new building would cost approximately \$7 million. We would like to go on a permit basis into the Fort Worth General Depot where, for a much smaller amount of money, we can remodel the buildings to fit our needs. But in order to pay certain expenses in connection with that, we have been advised by GAO, that this language is required.

Senator MAGNUSON. That doesn't add anything dollarwise, in fact it saves money.

Mr. BOUTIN. We are going to save an estimated \$5 million by the move.

Senator MAGNUSON. All right.

CONSTRUCTION, PUBLIC BUILDINGS PROJECTS

Senator MAGNUSON. Now, GSA No. 3, on page 17, line 3, of the bill, deals with fallout shelters in new buildings, buildings under construction; is that correct?

Mr. ELLIS. Yes, sir; that is correct. And it is to be read in connection with the—

Senator MAGNUSON. And on page 16—

Mr. TURPIN. Mr. Chairman, amendment 3 is really a technical change in the language.

Senator MAGNUSON. That is a language amendment which would be needed if we carry out amendment No. 4, is that correct?

Mr. TURPIN. That is correct, sir.

Senator MAGNUSON. Let's go to page 16, amendment No. 4.

Now, these are buildings—are they under construction or to be constructed, or what is this list on page 16? These are all new construction?

Mr. BOUTIN. These are new buildings to be constructed, that is correct.

Senator MAGNUSON. Now, you have got the construction cost, and you have got the sites and expenses previously funded. What about the fallout situation there of the shelter?

That is on page—on the next page, the difference in the cost.

Mr. BOUTIN. Fallout protection totals \$6,270,000.

BUILDINGS UNDER CONSTRUCTION

Senator MAGNUSON. Well, before we get to that, let's take a look at the new buildings under construction. They amount to \$171 million, the construction cost, approximately \$3 million for sites and expenses previously funded, and I understand we are to expend the total of \$174,538,000 next year, but you are asking for—this is what the House gave you—is that correct?

Mr. BOUTIN. \$171,600,000 for construction.

ANALYSIS OF GSA AMENDMENT No. 4

Senator MAGNUSON. And you are asking for \$189,448,000, and on page 18 you have listed the new projects that the House did not agree to, is that correct?

Mr. TURPIN. We have listed the revised amount, yes, sir, for each project that the House did not agree with.

Mr. BOUTIN. Each of those projects were reduced 5 percent, Mr. Chairman, with the exception of the New York project where there was an increase, and the fallout was deleted.

Senator MAGNUSON. Let's get this straight. On page 16 the list of the new buildings for fiscal 1962 to start—this is what the House gave you, and on page 18 you are asking for these additional projects.

Mr. TURPIN. Mr. Chairman, on page 17 and 18 it is the same list of projects, but it shows the amount as passed by the House, and then the additional amounts for each project that are being requested for the restoration of the amount for fallout of \$6,270,000, for the restoration of the 5 percent cut that the House made, totaling \$5,783,050, and for the one warehouse building in Denver, Colo., in the amount of \$5,795,000, that was eliminated by the House, making a total for this appropriation of \$189,448,050. And on page 18 you will notice that a deduct item has been indicated of \$5,601,500, leaving a net that is being requested in this appropriation of \$183,846,000. The deduct item was an amount previously appropriated for a project in Philadelphia that has now been abandoned. We are suggesting that this amount, since it is not needed for that project, be made available to finance some of the projects included in this request.

TOTAL HOUSE ALLOWANCE

Senator MAGNUSON. The total the House gave you is \$174 million, is that correct?

Mr. TURPIN. \$171.6 million for construction costs.

Senator ALLOTT. What is the \$174 million in the last column then?

Mr. BOUTIN. That is the total of what was previously funded for sites and expenses, plus House allowances in this bill for construction.

Senator ALLOTT. That includes the sites and expenses item—

Mr. BOUTIN. Previously funded.

Senator MAGNUSON. And you are asking for approximately \$12.5 million more?

Mr. BOUTIN. \$12,246,000, Mr. Chairman, for construction.

Senator MAGNUSON. And that is for what, the new buildings listed on 18?

Mr. BOUTIN. That would include the one single project that was deleted by the House for Denver, Colo., for our stores depot, the restoration of the 5 percent where it was cut from some of the projects, and the fallout shelters.

SUPPLY DEPOT, DENVER, COLO.

Senator ALLOTT. May I ask a question. The House cut out that storage depot at the Federal center. Do you know what the justification was or what occurred in the House to do that?

I don't find any—I notice that you have included it, but what I would like to know—do you know why they cut it out?

Mr. TURPIN. Senator, that is specifically covered in a later amendment, but there was no specific reason other than the House said they didn't think it was feasible to construct it at this time.

Senator ALLOTT. Feasible or necessary?

Mr. TURPIN. I believe the word they used was feasible.

PROJECTED PROGRAM

Senator ALLOTT. How long a construction program have you projected down at GSA?

Mr. BOUTIN. Through 1965, Mr. Chairman.

Senator MAGNUSON. And could you submit that list to the committee?

Mr. BOUTIN. We can submit it to the committee, Mr. Chairman, what we have under construction, and what we project for construction in fiscal years 1962 and 1963, and what is now pending before the Senate Public Works Committee that would be for 1964.

Senator MAGNUSON. I think if you would just go to 1963, what is under construction now, and to be constructed, and then your projections up to the time of your appropriation authorizations.

Mr. BOUTIN. We will be glad to put that in the record, Mr. Chairman.

FALLOUT PROTECTION

Senator SCHOEPEL. Could I ask a question at this point here? The Chairman asked the question or made the statement that in this new construction program in the construction of these new buildings—is it or is it not true that in the design of those buildings they have taken, are taking into consideration this matter of proper reinforcement and adjustment to carry out some of the protective features with reference to the fallout and all those things, these shelters, is or is not that true?

Mr. BOUTIN. Mr. Hunter, do you want to answer that?

Mr. HUNTER. Our legislation last year did not permit us to spend any of the funds appropriated for the design or the use of built-in fallout shelters. Consequently, we are only going so far as we can design into these buildings protection without added cost.

Senator SCHOEPEL. In other words, now, in your new construction you feel you have been inhibited or prevented from designing these newer buildings to take care of this type of project, and yet when you go in and tear into these buildings at a later period to readjust them to that, you are going to run into a terrific expense, aren't you?

Mr. HUNTER. It could be much more costly then, than to do it originally, sir.

Senator SCHOEPEL. You say your opposition has come from the legislative angle, also?

Mr. HUNTER. Section 303 of Public Law 86-626 did not permit us to spend funds for the design or construction of fallout shelters.

Senator SCHOEPEL. If we are going to go to a fallout shelter and a construction program is going to eliminate that feature of the thing, it seems to me to be rather shortsighted, because if we are going to go into the program that has been suggested here by the Civil Defense Administration with your department, all of which is going to cost a lot of money, we are going to triple and quadruple these original adjusting costs in these buildings that you are not permitted now to design to take care of it.

DELETION OF PROVISION FOR FALLOUT SHELTERS

Mr. BOUTIN. If you will notice, Senator, in this list on pages 17 and 18, that for almost all of the buildings we have provision for fallout. But these have been deleted in the past.

Senator SCHOEPEL. I wanted to get that clear.

Some of us know when we have studied the bill that reconstructing and tearing into some of these buildings costs a whale of a lot of money.

Senator ALLOTT. Just so I understand the situation, of your figure that you have requested here of 174—

Mr. TURPIN. \$183,846,000.

Senator ALLOTT. Of 183—have you included the roughly 5 percent in that figure which would provide the basic foundation and basic construction of the new buildings for protection against fallout?

Mr. TURPIN. That is correct, sir, and that total is \$6,270,000.

Senator ALLOTT. And you are still operating on the basis of a general 5 percent increase?

Mr. TURPIN. A little less than that.

Senator ALLOTT. In cost?

Mr. TURPIN. That is right, sir.

SCOPE OF PROGRAM AS COMPARED TO 1961

Senator MAGNUSON. But you are actually asking for a program of \$189 million for next year. And you are cutting out \$5.6 million from the Philadelphia project. So the actual cost, even though the program would be \$189 million, would be \$183.8 million?

Mr. BOUTIN. That is correct, sir.

Senator MAGNUSON. How does that compare with last year's new building program? Is it higher or lower?

Mr. TURPIN. For 1961 there was appropriated for new construction, \$165,441,000.

Senator MAGNUSON. So that this program is enlarged to the extent of approximately \$19 million?

For the next year?

Mr. TURPIN. Approximately, yes, sir.

Senator ALLOTT. Did you say 1965?

Mr. TURPIN. For 1961, \$165,441,000.

Senator ALLOTT. And you decrease this by 5 million, so that makes it 19 million?

Mr. TURPIN. Yes, sir, approximately.

Senator MAGNUSON. And these projects listed are the going projects under construction, and they are going to submit to us the projects up to 1963, or up to the point where they haven't been authorized?

Mr. TURPIN. This list includes some of the projects for which sites and expenses have been previously appropriated, the sites acquired and the drawings and specifications completed, and which will be ready for construction contract.

LIST OF PRIORITIES

Senator MAGNUSON. What Congress wants to know, I think, is what we plan now for the next year. We have got this for 1962. What about fiscal 1963 and 1964 up to the point where you are dealing with projects that have been authorized or sites and things that have been done? In other words, what we run into up on the floor of the House is the priorities, "Why isn't my project in when you are doing this?"

And we want to have that complete list.

Mr. BOUTIN. We would be able to give you, Mr. Chairman, a complete list after next Monday for the record. We have met with the House Public Works Committee and expect to meet with the Senate Public Works Committee Monday afternoon. We will then be able to give you a complete listing.

Senator MAGNUSON. Give us the best information you have on that.

Mr. BOUTIN. I would be very glad to.

Senator MAGNUSON. All right.

(The material requested follows:)

GSA CONSTRUCTION OF PUBLIC BUILDINGS
Summary status of program as of June 19, 1961

[See following schedules for details]

Schedule	Number of projects	Improvement cost
(a) Projects completed and occupied.....	48	\$59,239,534
(b) Projects under construction.....	31	228,100,802
(c) Projects funded as to improvement cost not yet under construction.....	19	46,977,150
(d) Construction starts proposed for 1962 in GSA Amendments to Senate....	20	217,623,050
(e) Phasing of starts on remaining authorized projects:		
1963.....	35	278,049,000
1964.....	36	232,827,500
Subtotal.....	189	1,062,817,036
(f) Buildings purchased.....	21	37,374,781
Total currently projected program.....	210	1,100,191,817

GSA PUBLIC BUILDINGS PROJECTS

SCHEDULE A.—Projects completed and occupied

	Actual or estimated improvement costs	Date completed
1. CONSTRUCTION, PUBLIC BUILDINGS PROJECTS		
Alabama:		
Camden, PO etc.	\$266,102	Sept. 28, 1959
Livingston, PO etc.	268,600	Oct. 3, 1960
Arkansas: Hot Springs, PO CT	1,293,800	Nov. 30, 1960
Florida:		
Monticello, PO etc.	278,640	June 30, 1960
Ocala, PO CT	1,170,000	May 1, 1961
Georgia: Milledgeville, PO etc.	537,200	Nov. 28, 1960
Hawaii: Wailuku, PO etc.	677,000	Feb. 6, 1961
Kansas:		
Emporia, PO etc.	532,800	Sept. 1, 1959
Leavenworth, PO CT	850,906	June 25, 1960
Louisiana:		
Lafayette, PO etc.	984,176	Oct. 5, 1960
Minden, PO etc.	289,133	Oct. 1, 1960
Minnesota:		
Bemidji, PO etc.	987,641	Nov. 21, 1960
Brainerd, PO etc.	559,474	Sept. 1, 1960
Moorhead, PO etc.	480,516	Nov. 21, 1960
Missouri: Moberly, PO etc.	488,900	Apr. 18, 1961
New York: Jamestown, PO CT	1,848,397	Dec. 6, 1960
Pennsylvania: Beaver, PO etc.	329,000	Nov. 1, 1960
Tennessee:		
Carthage, PO etc.	280,430	Dec. 11, 1959
Lafayette, PO etc.	264,230	Oct. 5, 1959
Texas:		
Daingerfield, PO etc.	209,813	Jan. 8, 1960
Orange, PO etc.	527,700	Oct. 1, 1960
San Marcos, PO etc.	388,750	Oct. 1, 1960
Victoria, PO CT	1,168,900	Apr. 5, 1961
Virginia:		
Abingdon, PO CT	676,500	Dec. 14, 1959
Portsmouth, PO etc.	2,782,200	Apr. 29, 1961
Waynesboro, PO etc.	326,600	Feb. 25, 1960
West Virginia: Ronceverte, PO etc.	236,896	Dec. 1, 1959
Subtotal (27 projects)	18,704,304	
2. SITES AND EXPENSES		
Illinois: Breesee, PO etc.	239,640	June 1, 1959
Tennessee: Smithville, PO etc.	231,088	June 27, 1959
Subtotal (2 projects)	470,728	
3. LEASE-PURCHASE PROJECTS¹		
Georgia:		
Atlanta, CDC	10,150,948	June 10, 1960
Brunswick, PO CT	1,005,588	Oct. 15, 1959
Illinois: Benton, PO CT	810,744	Sept. 11, 1959
Iowa:		
Burlington, PO etc.	1,180,427	Aug. 26, 1959
Council Bluffs, PO CT	1,432,822	Sept. 1, 1959
Kansas:		
Kansas City, PO CT	1,983,892	Oct. 28, 1959
Sedan, PO etc.	198,340	Apr. 25, 1959
Mississippi:		
Biloxi, PO CT	926,863	Oct. 29, 1959
Greenville, PO etc.	1,017,301	Jan. 27, 1960
Laurel, PO etc.	709,908	Mar. 1, 1960
Nebraska: Omaha, PO CT	7,597,691	Oct. 8, 1960
New Hampshire: Durham, PO etc.	375,220	May 28, 1959
New Mexico: Albuquerque, FOB	4,441,693	Mar. 31, 1960
South Carolina: Manning, PO etc.	249,687	Aug. 7, 1959
Tennessee: Kinsport, PO etc.	741,983	Oct. 5, 1959
Texas: Gainesville, PO etc.	515,906	June 26, 1959
Vermont: Burlington, PO CT	2,482,800	Jan. 23, 1960
West Virginia: Huntington, FOB	2,819,850	Dec. 4, 1959
Wisconsin: Greenbay, PO etc.	1,422,833	Nov. 3, 1959
Subtotal (19 projects)	40,064,502	
Grand total (48 projects)	59,239,534	

¹ Excludes 9 buildings purchased during fiscal year 1960 and listed on schedule F.

SCHEDULE B.—*Projects under construction*

	Estimated improvement cost	Target date for completion
1. Construction, public buildings projects:		
Arizona, Phoenix, CT FOB.....	\$5,800,000	July 1, 1961
Arkansas:		
Helena, PO CT.....	792,800	Sept. 1, 1961
Little Rock, FOB.....	6,279,400	Sept. 14, 1961
California: San Francisco, CT FOB.....	34,137,600	May 18, 1963
Connecticut: Hartford, CT FOB.....	6,600,000	Sept. 3, 1962
Illinois: Chicago, CT FOB (demolition and substructure).....	6,050,000	Sept. 8, 1962
Iowa: Fort Dodge, PO CT.....	1,662,800	Aug. 1, 1961
Louisiana: New Orleans, PO, etc.....	14,205,293	Sept. 1, 1961
Maryland: Denton, PO, etc.....	414,300	Nov. 1, 1961
Minnesota: Minneapolis, CT FOB.....	4,042,430	Aug. 1, 1961
Missouri:		
St. Louis, FOB.....	8,532,000	Nov. 3, 1961
St. Louis, RC.....	5,475,400	Sept. 1, 1961
New Mexico: Albuquerque, GSA, Strs. Dep. An.....	500,000	Oct. 1, 1961
New York: Brooklyn, CT FOB.....	14,367,100	June 27, 1962
North Dakota:		
Dunseith, BS.....	241,840	July 1, 1961
Grand Forks, BS.....	285,650	Aug. 1, 1961
Ohio: Toledo, FOB.....	4,247,000	July 21, 1962
Oklahoma: Oklahoma City, CT FOB.....	5,202,405	Nov. 17, 1961
Tennessee: Memphis, CT FOB.....	8,938,637	Oct. 8, 1962
Texas: Houston, CT FOB.....	9,265,000	Mar. 1, 1962
Virginia: Richmond, FOB.....	6,085,000	Dec. 1, 1961
West Virginia:		
Charleston, CT FOB.....	2,803,200	Sept. 1, 1961
Martinsburg, PO CT.....	1,232,000	Nov. 1, 1961
Parkersburg, CT FOB.....	2,466,000	Dec. 3, 1961
Washington, D.C.:		
FOB No. 8, FOB.....	12,823,440	Mar. 10, 1962
FOB No. 9, FOB.....	14,152,000	Mar. 23, 1963
FOB No. 10, FOB.....	27,850,900	Oct. 17, 1963
Subtotal (27 projects).....	204,452,165	
2. Construction, U.S. Mission Building, New York, N.Y.....	3,750,000	May 15, 1961
3. Construction, FOB No. 6 Washington, D.C., FOB.....	12,600,000	June 26, 1961
4. Sites and expenses: Iowa, Keosauqua, PO, etc.....	316,000	Aug. 1, 1961
5. Lease purchase project: California, Sacramento, CT FOB.....	6,982,637	Nov. 1, 1961
Total (31 projects).....	1,228,100,802	

¹Includes \$6,050,000 for demolition and substructure, Chicago, Ill., CT FOB.

SCHEDULE C.—*Projects funded as to improvement cost not yet under construction*

	Estimated improvement cost	Target date for award of construction contract
CONSTRUCTION, PUBLIC BUILDINGS PROJECTS		
Arkansas: Camden, Po, etc.....	\$633,250	September 1961.
California: Maywood (Cheli) EC.....	300,000	August 1961.
Florida: Miami, FOB.....	7,076,250	November 1961.
Georgia: Thomasville, PO CT.....	1,094,000	September 1961.
Maine:		
Jackman, BS.....	289,850	November 1961.
Van Buren, BS.....	284,750	April 1962.
Vanceboro, BS.....	254,150	Do.
Massachusetts: Hingham, Strs. Depot & RC.....	2,636,000	October 1961.
Michigan: Detroit, Ins. HQ.....	874,650	November 1961.
Minnesota: St. Paul, PO CU.....	8,012,000	September 1961.
Missouri: St. Louis, (NOIRP) E&C.....	1,015,000	February 1962.
Montana: Sweetgrass, BS.....	686,500	December 1961.
North Carolina: Hickory, PO, Etc.....	967,800	June 1961.
North Dakota: Bismarck, PO CT.....	3,224,050	October 1961.
Texas: El Paso, BS.....	1,055,700	February 1962.
Utah: Salt Lake City, FOB.....	9,240,000	October 1961.
Washington:		
Auburn, RO, Strs. Depot & RC.....	2,776,000	August 1961.
Dayton, PO, Etc.....	282,200	November 1961.
Washington, D.C.: U.S. Court of Claims and Court of Customs and Patent Appeals Building.....	6,375,000	March 1962.
Total (19 projects).....	46,977,150	

SCHEDULE D.—Construction starts proposed for 1962 in GSA amendments to the Senate

	Estimated improvement cost	Target date for award of construction contract
Alabama: Decatur, PO, FOB.....	\$1,443,000	February 1962.
California:		
Los Angeles, CU, FOB.....	30,271,000	October 1961.
Long Beach area, CU.....	2,000,000	June 1961.
Colorado:		
Denver, CT, FOB.....	20,055,000	October 1961.
Denver, GSA stores depot.....	5,795,000	Do.
Georgia:		
Statesboro, PO, etc.....	595,000	February 1962.
Winder, PO, etc.....	525,000	October 1961.
Illinois: Chicago, CT, FOB (increase).....	33,710,000	Do.
Michigan: Wyandotte, PO, etc.....	424,000	December 1961.
New Mexico: Sante Fe, PO, FOB.....	2,606,000	November 1961.
New York: New York, CU, CT, FOB.....	60,917,050	December 1961.
North Carolina:		
Bryson City, PO, CT.....	833,000	February 1962.
Thomasville, PO.....	362,000	November 1961.
North Dakota: Pembina, BS.....	203,000	February 1962.
Ohio: Cincinnati, FOB.....	19,267,000	October 1961.
Oregon: Medford, PO, etc.....	1,910,000	June 1962.
Pennsylvania:		
Johnstown, PO, etc.....	1,302,000	March 1962.
Lebanon, PO, etc.....	807,000	Do.
Vermont: Derby Line, BS.....	296,000	February 1962.
Washington, D.C.:		
GPO field plant.....	1,627,000	June 1962.
FOB No. 8 (increase).....	¹ 6,000,000	January 1962.
Small projects outside the District of Columbia.....	500,000	Unselected.
Subtotal (19 projects and 2 increases).....	¹ 191,448,050	
Construction, FOB No. 7, Washington, D.C.....	26,175,000	April 1962.
Total (20 projects and 2 increases).....	¹ 217,623,050	

¹ Includes \$2,000,000 previously appropriated.

SCHEDULE E.—Phasing of starts on remaining authorized projects ¹

	Construction award capability	Estimated improvement cost	Construction funds required	
			1963	1964
1. Projects approved through 86th Cong., previously funded as to site and expenses:				
Alaska: Juneau, P O, CT.....	June 1962.....	\$12,692,000	\$12,692,000	-----
Arizona: Nogales, BS.....	May 1962.....	1,379,000	1,379,000	-----
California: Bakersfield, FOB.....	February, 1962.....	1,434,000	1,434,000	-----
Connecticut: Wallingford, P O, etc.	January 1962.....	924,000	924,000	-----
Delaware: Wilmington, CT, CU, FOB.	November 1962.....	5,854,000	5,854,000	-----
Florida:				
Gainesville, P O, CT.....	May 1962.....	2,381,000	2,381,000	-----
Tampa, FOB.....	April 1962.....	2,481,000	2,481,000	-----
Hawaii:				
Honolulu, P O, CT.....	January 1963.....	22,230,000	22,230,000	-----
Honolulu, quarantine station and clinic.	June 1962.....	1,730,000	1,730,000	-----
Idaho: Boise, CT, FOB.....	July 1962.....	7,724,000	7,724,000	-----
Illinois: Chicago, FOB.....	1964.....	49,620,000	-----	\$49,620,000
Indiana: Seymour, P O, etc.....	February 1962.....	560,000	560,000	-----
Maine: Augusta, P O, FOB.....	June 1962.....	2,680,000	2,680,000	-----
Maryland: Baltimore, FOB.....	October 1962.....	20,944,000	20,944,000	-----
Massachusetts:				
Boston, FOB.....	September 1962.....	29,412,000	29,412,000	-----
Webster, P O.....	January 1962.....	429,000	429,000	-----
Mississippi:				
Clarksdale, P O, CT.....	March 1962.....	1,281,000	1,281,000	-----
Tupelo, P O, etc.....	October 1961.....	872,000	872,000	-----
Missouri: Kansas City, FOB.....	May 1962.....	31,826,000	31,826,000	-----
Montana: Billings, CT, FOB.....	July 1962.....	5,904,000	5,904,000	-----
Nebraska: North Platte, P O, CT.	February 1962.....	1,556,000	1,556,000	-----
Nevada: Reno, CT, FOB.....	April 1962.....	3,579,000	3,579,000	-----
New Mexico: Albuquerque, P O, CT.	June 1962.....	7,572,000	7,572,000	-----
Ohio: Cleveland, CT, FOB.....	November 1962.....	42,745,000	42,745,000	-----
Oklahoma: Tulsa, P O, FOB.....	July 1962.....	8,095,000	8,095,000	-----
Pennsylvania: Pittsburgh, FOB.....	Immediate.....	21,858,000	21,858,000	-----
Rhode Island: Westerly, P O, etc.	April 1962.....	519,000	519,000	-----
South Carolina: Charleston, FOB.	February 1962.....	2,880,000	2,880,000	-----
South Dakota:				
Pierre, FOB.....	June 1962.....	2,734,000	2,734,000	-----
Sioux Falls, P O, etc.....	June 1962.....	2,820,000	2,820,000	-----
Tennessee: Dyersburg, P O, etc.....	November 1961.....	997,000	997,000	-----
Texas: Austin, P O, FOB.....	May 1962.....	10,233,000	10,233,000	-----
Utah: Ogden, CT, FOB.....	June 1962.....	4,967,000	4,967,000	-----
Vermont: Montpelier, P O, CT.....	December 1961.....	1,386,000	1,386,000	-----
Washington: Richland, P O, CT.....	April 1962.....	8,215,000	8,215,000	-----
Wyoming: Cheyenne, P O, CT.....	May 1962.....	5,156,000	5,156,000	-----
Subtotal (36 projects).....	-----	327,669,000	278,049,000	49,620,000

See footnotes at end of table, p. 394.

SCHEDULE E.—Phasing of starts on remaining authorized projects¹—Continued

	Required for sites and expenses	Estimated improvement cost	Construction funds required	
			1963	1964
2. Projects approved during 87th Cong., unfunded:				
California: *Calexico, BPS.....	\$56,000	\$319,000	-----	\$319,000
*Long Beach Area, CU.....	1,010,000	2,240,000	-----	2,240,000
Florida: *Jacksonville, FOB.....	1,758,000	7,815,000	-----	7,815,000
*Marianna, PO, CT (CR).....	87,000	546,000	-----	546,000
*St. Petersburg, FOB.....	922,000	4,403,000	-----	4,403,000
Georgia: Macon, PO, FOB.....	802,000	3,532,000	-----	3,532,000
*Idaho: Porthill, BS.....	24,000	128,000	-----	128,000
Iowa: Des Moines, FOB.....	1,333,000	9,002,000	-----	9,002,000
*Kentucky: *London, CT, FOB (CR).....	29,500	250,500	-----	250,500
*Louisville, FOB.....	1,898,000	11,202,000	-----	11,202,000
*Louisville, PO, CT, CU (CR).....	114,000	1,095,000	-----	1,095,000
*Owensboro, PO, CT (CR).....	42,000	295,000	-----	295,000
Louisiana: *New Orleans, PO, CT (CR).....	243,000	3,629,000	-----	3,629,000
*New Orleans, FOB (CR).....	125,000	1,290,000	-----	1,290,000
*Maine: Houlton, BP Sec. Hq.....	58,000	352,000	-----	352,000
Michigan: *Detroit, PO, CT (CR).....	313,000	4,315,000	-----	4,315,000
*Grand Rapids, PO, CT (CR).....	94,000	737,000	-----	737,000
*Sault Ste. Marie, BS.....	42,000	270,000	-----	270,000
Minnesota: *Pigeon River, BS.....	41,000	310,000	-----	310,000
*St. Paul, CT, FOB.....	1,553,000	10,120,000	-----	10,120,000
*Nebraska: Grand Island, PO, CT (CR).....	42,000	322,000	-----	322,000
New Hampshire: Concord, PO, CT.....	516,000	3,520,000	-----	3,520,000
North Carolina: Fayetteville, PO, CT.....	455,000	2,235,000	-----	2,235,000
*North Dakota: Grand Forks, PO, CT (CR).....	45,000	325,000	-----	325,000
*Oklahoma: Oklahoma City, PO, CT (CR).....	85,000	794,000	-----	794,000
*Oregon: Roseburg, PO, etc. (CR).....	42,000	394,000	-----	394,000
Pennsylvania: *Harrisburg, CT, FOB.....	465,000	7,005,000	-----	7,005,000
*Philadelphia, CT, FOB.....	2,300,000	40,380,000	-----	40,380,000
Texas: *Del Rio, BP Sec. Hq.....	52,000	483,000	-----	483,000
*Del Rio, BS.....	42,000	300,000	-----	300,000
*Fort Worth, FOB.....	3,977,000	16,623,000	-----	16,623,000
*Houston, PO, CT (CR).....	125,000	1,393,000	-----	1,393,000
*Virginia: Charlottesville, HEW Bldg.....	162,000	2,171,000	-----	2,171,000
*Washington: Spokane, CT, FOB.....	1,482,000	7,212,000	-----	7,212,000
*District of Columbia, FOB No. 5.....	3,800,000	38,200,000	-----	38,200,000
Subtotal (35 projects).....	24,134,500	183,207,500	-----	183,207,500
Grand total (71 projects).....	-----	510,876,500	\$278,049,000	\$232,827,500

¹ Except for projects indicated by an asterisk (*), which were pending before the Senate Public Works Committee on June 19, 1961, all projects are fully authorized.

² 35 projects.

³ 36 projects.

Prospectuses for additional projects will continue to be developed pursuant to the Public Buildings Act of 1959. These, together with several projects still before the House Public Works Committee, will be programmed after approval.

(See later report on projects approved during 87th Congress, p. 1338.)

SCHEDULE F.—Buildings purchased

1. Purchase of privately owned buildings:	
Los Angeles, Calif. (FBI Bldg.)	\$950,000
Menlo Park, Calif., Geological Survey Center	1,558,426
San Francisco, Calif., warehouse	3,000,000
Atlanta, Ga., FOB (Peachtree Baker)	5,075,000
Boston, Mass., FOB (Ipswich St.)	612,000
Greensboro, N.C., FOB (South Ashe St.)	1,325,000
Portland, Oreg., FOB (Lloyd Bldg.)	5,584,540
Charlottesville, Va., FOB	462,500
Parkersburg, W. Va., FOB (Dills Bldg.)	1,090,000
Washington, D.C.:	
1724 F St. FOB	559,235
119 D St., FOB	1,651,193
1717 H St., FOB (Matomic Bldg.)	9,900,000
	<u>31,767,894</u>
2. Lease purchase contract prepaid:	
Rock Island, Ill.	1,553,047
Jonesboro, La.	288,988
Lake Charles, La.	1,474,304
Redwood Falls, Minn.	390,017
Marshfield, Mo.	274,196
Sisseton, S. Dak.	415,499
McKinney, Tex.	293,057
Terrell, Tex.	306,175
Mount Hope, W. Va.	611,604
	<u>5,606,887</u>
Total (21 buildings)	<u>37,374,781</u>

SMALL PROJECTS OUTSIDE DISTRICT OF COLUMBIA

Now, GSA Amendment No. 5 is, for the record, "On page 17 of the bill, lines 5 and 6 as reported to the House, strike out ", sites and expenses for." Explain that.

Mr. BOUTIN. I would like to have Mr. Turpin talk to that, if I might, Mr. Chairman.

Mr. TURPIN. Mr. Chairman, the House included authority in the construction appropriation for sites and expenses and construction of small public building projects outside the District of Columbia to be selected by the Administrator of GSA, and in total not to exceed \$500,000. This requested amendment merely deals with the language.

We are suggesting that the sites and expenses language for these small projects be eliminated from this appropriation and then we would be permitted to provide the sites and expenses costs from our regular appropriation for "Sites and expenses" from which that type of expense is incurred for all construction projects.

It merely would make the financing of the site and expenses for these small projects on the same basis as for the larger ones without affecting the amount of money that is included in the bill for that purpose.

Senator MAGNUSON. In other words, you take care of sites and expenses on these projects in a different budget?

Mr. TURPIN. Different appropriation, yes, sir.

Senator MAGNUSON. What kind of projects are these, just briefly for the record?

Mr. TURPIN. This item was added by the House in the bill, and it was only specified to be for small public buildings projects outside of the District of Columbia, to be selected by the Administrator. As of this time, there have been none selected, Mr. Chairman.

Senator MAGNUSON. Would it be a \$10,000 post office in a small town, or something of that kind, small locality?

Mr. TURPIN. It would be for small buildings, probably including space for post offices.

Senator MAGNUSON. Something of that nature?

Mr. TURPIN. That is correct, sir.

Senator MAGNUSON. Now, also, when you bring up the buildings, how many are left under lease-purchase? Put that in.

Mr. BOUTIN. Twenty under lease purchase—

Senator MAGNUSON. We will put that in the record as provided for above. Twenty still under lease-purchase?

Mr. BOUTIN. Yes, sir.

Senator MAGNUSON. Because, as you know, we are phasing out of lease-purchase and we want to know what progress we are making.

All right, I think we understand GSA No. 5.

PROJECT COST LIMITS

Now, you have GSA Amendment Nos. 6 through 26.

Mr. BOUTIN. This is a group of companion amendments to amendment No. 4 that restores the 5 percent that was cut by the House, with the exception of the New York project where the amount was increased because it was not felt the amount in the budget was sufficient to accomplish the project, restores fallout, and the Denver Supply Depot.

Senator MAGNUSON. This breaks it down into separate amendments?

Mr. BOUTIN. Yes, sir.

Senator MAGNUSON. If we should decide to restore the amount to bring it up to \$183 million these amendments would be necessary to attach to each particular item?

Mr. BOUTIN. Yes, it would, sir.

Senator MAGNUSON. So that we have an individual veto of these items?

Mr. TURPIN. Yes, sir.

DENVER PROJECT

Senator MAGNUSON. No. 9 is the Denver project, is it not?

Mr. BOUTIN. Yes, it is.

Senator MAGNUSON. Tell us about that.

Mr. BOUTIN. On that, Mr. Chairman, if I might, I would like to have our Commissioner of Federal Supply, Clarence Bean, speak to the need for this.

Senator MAGNUSON. We will be glad to hear from you. You are at the end of the table, and you will have to talk a little loud so we can hear you.

Mr. BEAN. Mr. Chairman, when we first opened the Denver center, we had an inventory in our building of \$3 million. At the end of fiscal year 1962, it will be \$6.5 million, and at the present time we can no longer contain the inventory in the building and are actually using outside storage space with tarps on goods which should be under covered space.

If we do build this building, then the building which we are now occupying which has 367,000 square feet will all be fully reoccupied by other agencies on the ground who have already applied for that space. It will have the added advantage, too, if they are able to move into this building, they will be able to get some needed expansion.

And so for this reason, and the reason that our business is constantly growing we need this building. As a matter of fact, we had an \$8 million annual sale from this depot when the Federal center was first started, and next year we expect this to be \$18,500,000, and the year following, \$21 million. This is because of expanded support to the military services.

These are arrangements which we have had with the Air Force, primarily; our business with the Air Force has more than doubled during this period, and that is the reason why this space is needed.

CONSOLIDATION INTO DENVER DEPOT

Senator MAGNUSON. In other words, you are consolidating. The trend has been the consolidation into the Denver depot, but which has increased the sales due to the military installations in the area?

Mr. BEAN. That is correct, sir.

Senator ALLOTT. I would like to ask one question which I would like cleared.

There is in Pueblo a large, fireproof, bonded warehouse, the space of which has been available for leasing for at least 4 years, to my knowledge.

Now, it would not begin to cover the additional space that is justified here, but I note that they talk about the great costs of backhauling supplies to Denver from—where is it—Clearfield, Utah?

Now, why, in a situation like this, is it not practical to rent available space which is right on a four-lane highway, and I mean right on, not a block off, of a four-lane highway, and within 2 hours actual transportation time of Denver?

Mr. BEAN. Unless there is enough activity to warrant the operation of a warehouse within its own environment, and a complete range of stock which we provide, it is uneconomical for the reason that we have to have duplication of supervision and things of that kind.

When we have our activity in one building so we have one set of supervisors; we can apply automation and things of that kind and bring our costs down considerably.

Senator ALLOTT. I understand that. I do not think you understood my question.

But here the justification is made that they are storing things out at Clearfield, Utah, and I must confess I do not know where that is—does anybody know?

Mr. BEAN. Yes, that is right at Ogden.

Senator ALLOTT. At Ogden, all right.

That is 530 or 540 miles distance from Denver by truck and at least a 12-hour haul.

Now, if you have space available for leasing in Colorado—and this apparently is being used in Utah only for temporary storage because they say they have to backhaul it to Denver—why is it not practical to lease a substantial amount of storage that is available immediately to them and 2 hours by truck, rather than 12 hours by truck?

CLEARFIELD, UTAH, DEPOT

Mr. BEAN. First, let us discuss Clearfield. We have 33,000 square feet only.

In this location we have some bulk and heavy goods which we distribute to Ogden, Salt Lake, and that environment, where it is cheaper for us to send it clear through to this location, less freight, than if we put it in Denver and then reshipped it.

It is only 33,000 square feet, which is a very small amount of space. The thing we are talking about is that if we had to expand our space and take several thousand square feet more, then it would become uneconomical and we would have to backhaul. Now we are not backhauling.

Senator ALLOTT. You say in your justification here—

Mr. BEAN. This is the only Government-owned space that is available to us now. We have just completed a survey of all Government-owned space in that territory, and the only Government-owned space that is available to us is in Clearfield.

Senator ALLOTT. But you say here in your justification:

Accordingly, GSA will be forced to temporarily increase its reliance on the Clearfield installation, despite the heavy added costs incurred for backhauling supplies to Denver for normal distribution.

Mr. BEAN. This is only on a temporary basis. Now, if a building is available close by on a temporary basis, that would certainly be more economical.

Senator ALLOTT. What is your name, sir?

Mr. BEAN. Bean.

Senator ALLOTT. I would like to discuss this matter with you.

Mr. BEAN. I will be very happy to do so.

Senator ALLOTT. I think, without question, the Denver situation is needed, but I cannot see the practicality of storing at such an extended distance away from Denver, and then incurring the heavy transportation costs which I am sure would almost soak up, in themselves—

Mr. BEAN. That is correct.

Senator ALLOTT (continuing). The additional storage space which I know is available in Pueblo.

Mr. BEAN. We do have a temporary serious situation and I think, if we can get space on a temporary basis, it would relieve that serious situation.

Senator ALLOTT. I think you can get it.

In fact, I have beaten my brains out, and you can put that in the record, for about 4 years to find out why we could not utilize this space.

Mr. BEAN. I will be very happy to talk to you, Senator.

Senator MAGNUSON. You also say:

Careful review of all potential available space at suitably located military installations has disclosed none having acceptable space condition area, and so forth.

Mr. BEAN. That is correct.

We have looked at every military space in that part of the country, and the Clearfield space is the only one that is of any size, and that can be used some time in the future for a stopover in transit.

Senator MAGNUSON. What space was that?

Mr. BEAN. The Clearfield space.

Senator MAGNUSON. Clearfield.

Mr. BEAN. Which is clear at the edge of the territory, but we expect to be able to use some of that space in the future for freight in transit stopover where we are going clear through to the west coast.

CLOSING OF MILITARY INSTALLATIONS

Senator MAGNUSON. I do not know whether you have caught up with the military or not, but they are closing about 316 installations in the whole of the United States.

Mr. BEAN. Yes.

Senator MAGNUSON. Every State in the Union has got some big ones being closed with warehouse space in them, and all you need do is drive around any part of the United States and you see vacant military buildings, and you will see more.

Mr. BEAN. Yes, and I have a little later on here to speak about some money to transfer our stocks from our present locations to such locations. We have six of them in mind.

Senator MAGNUSON. I want to talk to you about Auburn when we get through.

Mr. BEAN. We hope to be able to move there soon.

Senator MAGNUSON. And they are closing Mount Rainier Ordnance Depot which has got all kinds of storage space out there, phasing it out.

Mr. BEAN. Auburn will take care of us for the foreseeable future.

Senator MAGNUSON. Auburn will take care of it but now your fellows do not want to move to Auburn. They want to live in Seattle out at Sand Point out there where the rich folks live. A Republican precinct there, incidentally.

Senator ALLOTT. I am glad to hear we have got some.

Senator MAGNUSON. But the point I do make seriously is that there are going to be—and I think you ought to keep close liaison—there is going to be a great number of closures in the United States. Some of them are not very good buildings, but there are some fine ones.

Mr. BEAN. We receive from the Department of Defense every declaration so that we do have them in mind.

Senator MAGNUSON. All right, I think we understand the Denver situation.

PHILADELPHIA PROJECT

And now GSA Amendment No. 27. For the record that is on page 19, line 8, of the bill.

You ask to be inserted:

Provided, further, That funds in the amount of \$5,601,500 appropriated—

oh, this is the Philadelphia project.

Mr. BOUTIN. That was appropriated in 1961.

Senator MAGNUSON. Yes.

Mr. BOUTIN. And we are recommending that the funds be applied against the appropriation for 1962.

Senator MAGNUSON. In this case you had some problem, you mentioned here, with the bids, is that not correct?

Mr. BOUTIN. That is correct, sir.

Senator MAGNUSON. And so no award has been made.

Are you going to call for new bids?

Mr. BOUTIN. No, we have submitted a new prospectus. After re-examining the project, we have developed a new prospectus which has already been approved by the House Public Works Committee and will be considered by the Senate committee next week, for a completely new project, complete change.

Senator MAGNUSON. And this is where you are using the \$5 million?

Mr. BOUTIN. No, sir—

Senator MAGNUSON. In the other projects until you get this straightened around?

Mr. BOUTIN. Yes, sir.

Senator MAGNUSON. Would that be a fair analysis of it?

Mr. BOUTIN. After that is approved by the Senate committee, if it is, that eventually will come in for construction funds separately.

Senator MAGNUSON. Later on?

Mr. BOUTIN. Later on.

Senator MAGNUSON. All right.

SITES AND EXPENSES

Amendment No. 28 for the record on page 19 of the bill, following line 10, insert the following, and this deals with sites and expenses?

Mr. BOUTIN. Yes, sir.

Senator MAGNUSON. And you are asking for how much there, total?

Mr. BOUTIN. \$5 million is what we had in our original budget, and which we are asking be restored. That was submitted to the House but was recommended by the House Appropriations Committee at \$25 million. The whole \$25 million was stricken on a point of order.

Senator MAGNUSON. How can you get along with \$5 million for sites and expenses in the building programs?

Mr. BOUTIN. That was only to take care of the most urgent of the prospectuses that were being submitted.

Senator MAGNUSON. I do not see what a building program such as we have got going of 180 some million for next year alone, I do not see how you can get along with \$5 million for sites and expenses, because just to me this is pennywise and pound foolish because if we wait much longer, they just go up all the time.

The more the people know about the fact that there may be a Federal building moved in there, there is almost a conspiracy that goes on to raise the property values.

Mr. TURPIN. Mr. Chairman, that was the amount included in the budget for the highest priority projects. The House, in reporting

the bill, did report a larger amount, and apparently that was done in view of the fact that there were then a number of projects before the Public Works Committees in the House and Senate.

Senator MAGNUSON. That had not been authorized?

Mr. TURPIN. Yes.

Senator MAGNUSON. And a point of order was made on that?

Mr. TURPIN. Yes.

Mr. BOUTIN. Subsequently, Mr. Chairman, the House committee, of course, did meet, both the subcommittee and full committee, and authorized projects involving sites and expenses costs in excess of \$24 million, which will be presented to the Senate committee on Monday.

Senator MAGNUSON. I think you ought to keep us advised as to what happens there because if we are going to try and get the \$5 million back, I mean try and get any of it back, we might have some justification if the committees have acted and authorized, because I think you have to go ahead with these things, if you are going to go ahead.

We are not going to save anything. It may cost us more.

Mr. TURPIN. Mr. Chairman, there were five projects that were approved by the House committee the other day that were previously authorized by the Senate, and those five total \$7,083,000 for sites and expenses. The remaining sites and expenses requirements of \$17 million are for the 30 projects which will be considered by the Senate committee next week.

Senator MAGNUSON. Is that seven in addition to the five?

Mr. TURPIN. No, sir. Let me say this: That all of the funds, all of the projects that were previously authorized, are fully funded with respect to sites and expenses.

Senator MAGNUSON. So up to that point—

Mr. TURPIN. So all we are talking about are those projects that had not been fully authorized at the time our budget was submitted which total about \$24 million.

Senator MAGNUSON. And these are projects that, since the time the budget was submitted, either the House or the Senate committees have acted upon them, or authorized them, or maybe by Monday, in some cases both.

Mr. TURPIN. Yes, sir.

Mr. BOUTIN. We expect both by Monday, sir.

Senator MAGNUSON. I think we ought to have that information because it just delays everything, and I do not think we save anything.

It probably costs us more, when we know they are going to be authorized and we know they are going to be ultimately built.

I think we understand that amendment.

As of now, of course, we are technically committed, limited to five.

Mr. TURPIN. Yes, sir.

CONSTRUCTION, FOB No. 7, WASHINGTON, D.C.

Senator MAGNUSON. Now, GSA amendment No. 29. This is, for the record, on page 20, line 5, of the bill. Strike out "\$23,700,000" and insert in lieu thereof "including fallout protection, \$26,175,000."

Mr. BOUTIN. This restores the 5-percent cut and the fallout shelter.

Senator MAGNUSON. On the Lafayette Square project?

Mr. BOUTIN. Yes, sir; FOB 7.

STATUS OF PROJECT

Senator MAGNUSON. What is the up-to-date status of that project now?

Mr. BOUTIN. I would like to have Mr. Hunter talk to that, if I may, Mr. Chairman.

Mr. HUNTER. Mr. Chairman, we have architects on the project. It is proceeding very well. Our goal for completion of the plans is the third quarter of 1962.

Senator MAGNUSON. The planning?

Mr. HUNTER. Yes.

Senator MAGNUSON. No bids have been let?

Mr. HUNTER. No, sir.

DEMOLITION CONTRACTS

Senator MAGNUSON. What about the demolition contracts?

Mr. HUNTER. Demolition will be a part of the general—

Senator MAGNUSON. The general contract?

Mr. HUNTER. Yes, sir.

Senator MAGNUSON. For the purpose of the record, as I understand it now, just to visualize this in my mind's eye, you are going to leave the Decatur House?

Mr. HUNTER. The Decatur House will remain, yes, sir.

Senator MAGNUSON. And the Grange will be moved around the corner?

Mr. HUNTER. Back of the Decatur House on H Street.

Senator MAGNUSON. Back of the Decatur House?

Mr. HUNTER. Yes, sir.

Senator MAGNUSON. And then everything from the Decatur House up to the old Court of Claims corner is going out with the exception of the Blair House?

Mr. HUNTER. And Blair Lee House.

Senator MAGNUSON. And Blair Lee House?

Mr. HUNTER. Yes, sir. There is some talk of saving the two old buildings located on the southeast corner, which the Civil War Commission now occupies. We have not made that decision yet.

Senator MAGNUSON. Which ones are those?

Mr. HUNTER. The two old, red brick houses standing on the southeast corner, which would match, as far as color goes, and mass, the Decatur House on the other corner.

Mr. BOUTIN. It is right next to the Blair—Blair Lee House.

Senator MAGNUSON. That is in the far corner. My directions are not very good.

Mr. HUNTER. Toward the White House, the nearest corner to the White House, those two old red brick buildings.

Senator MAGNUSON. Which about on Pennsylvania?

Mr. HUNTER. Yes, sir.

Senator MAGNUSON. The Court of Claims?

Mr. HUNTER. No, about the Blair—Blair Lee House.

Senator MAGNUSON. Yes.

What would they be used for?

Mr. HUNTER. We have not decided yet, sir. The Fine Arts Commission has asked us to give consideration to using them probably for additional guest facilities.

Senator MAGNUSON. And the rest would be used, are planned for White House Executive office?

Mr. HUNTER. Executive office building, right.

Senator MAGNUSON. Is the old War-State building all filled up?

Mr. HUNTER. Yes, sir; more than filled up.

Senator ALLOTT. May I ask this question, Mr. Hunter. Speaking not from the viewpoint of the Fine Arts Commission, but from the viewpoint of the welfare of the Government, is it practical to leave these buildings in there without constructing a hodgepodge there which is not what the Government really needs?

RENOVATION OF BUILDINGS

Mr. HUNTER. We think that these buildings can be renovated at a reasonable cost. They are fairly good structures.

Senator ALLOTT. When they are renovated, you have given up this valuable office space, have you not, for some purpose of God knows what, later on?

Mr. HUNTER. It was never intended that FOB 7 actually come down that far on the site.

Senator ALLOTT. It was not?

Mr. HUNTER. No, sir; not for office space. We at one time had a platform there with landscaping. The proposal would put a structure on the southeast corner which would more or less balance the Decatur House on the northeast corner.

Senator MAGNUSON. We used to have a picture of what they planned up there. I do not know whether they have still got it or not.

Mr. HUNTER. It showed a building on the corner, the picture you had, Senator.

Senator ALLOTT. Thank you.

Mr. ELLIS. Mr. Chairman, might I make one brief remark about this matter, since it relates to fallout shelter; that it is estimated that this fallout shelter constructed in the White House office building would, in times of emergency, take care of between 8,000 and 10,000 persons protectively, and would be an office building which would house approximately 2,300 or 2,400 individuals.

I wanted to make that a matter of record.

Senator MAGNUSON. Do the plans include a tunnel under the street?

Mr. HUNTER. Yes, sir. It will be connected with the old State, War, and Navy Building.

Senator MAGNUSON. And then in the White House area?

Mr. HUNTER. Yes, sir.

PROVISION OF PARKING SPACE

Senator ALLOTT. May I ask another question. What plans are made for parking?

Mr. HUNTER. There is a garage area, Senator, under a portion of FOB 7, which provides for parking between 200 and 300 cars.

Senator ALLOTT. And how many employees will there be in the building?

Mr. HUNTER. Between 2,300 and 2,400.

Senator ALLOTT. Is this not just a rather short approach to this matter, when you have got that many employees? You have already got a highly congested area. What are you going to do with these people and their cars?

Mr. HUNTER. There have been studies made, sir, for improving the transportation system and for downtown parking areas. We feel that we have put the maximum in this building we can afford to put in and not give up valuable office space.

Senator ALLOTT. I am very concerned about this particular matter because of the fact that the traffic situation in Washington is getting worse.

All we do is talk about it, and even despite the extensive and expensive study that has been made by the District of this matter, I cannot see any great progress on mass transportation, and it appears that we are going to have more and more cars with us.

I do not know where these cars are going to go, but it seems to me that this has to be a necessary part of any structure we put up.

I know it adds to the expense, but you have got to do something with it.

PROVISION OF PARKING SPACE

Mr. HUNTER. We have made it a practice of providing about 1 car space for each 10 occupants of the building. Of course, that is very minimum. I think the average city would require more than that.

Senator ALLOTT. We will discuss this matter later.

Senator MAGNUSON. The committee will recess until 2 o'clock.

(Whereupon, at 11:50 a.m., the hearing was adjourned, to reconvene at 2 p.m., of the same day.)

AFTERNOON SESSION—FRIDAY, JUNE 16, 1961

LETTERS FROM SENATORS

Senator MAGNUSON. The committee will come to order.

While we are waiting for the other Senators, we have letters here from several of the Senators making inquiry about Federal buildings in their own particular States.

Here is one from Senator Moss asking about the construction fund or the status of the Federal building at Ogden, Utah.

That would be in our list, would it not?

Mr. KNOTT. That is right. It would be.

Senator MAGNUSON. This is the Long Beach that we have got in our bill?

Mr. BOUTIN. This is included in our list of projects pending in the Senate bill now.

(The letters referred to follow:)

U.S. SENATE,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
June 8, 1961.

Senator WARREN G. MAGNUSON,
Chairman, Independent Offices Subcommittee, Senate Appropriations Committee,
Washington, D.C.

DEAR MAGGIE: I understand your subcommittee will open hearings on the independent offices budget requests for the fiscal year 1962, including requests of the General Services Administration, next Monday morning. This is to request that when officials of this agency appear before your subcommittee they be

questioned about the advisability of including in the bill your subcommittee will report construction funds for the new Federal Building at Ogden, Utah.

The architect-engineer contract for the building has been awarded. The scheduled completion date for the design is February 1962, which would permit the award of a construction contract in April or May of 1962 if construction funds are available for that purpose. The site at Kiesel Avenue and 25th Street has already been chosen.

Construction funds should be immediately available as soon as the design is completed so advantage could be taken of the warm spring, summer, and fall months in Utah to move on with work on the building. The estimated cost of the building, exclusive of site, design, and supervision, is approximately \$4,967,000, which includes \$237,000 for the provision of fallout protection facilities.

The new Federal building in Ogden is urgently needed. It will provide improved and expanded quarters in which to house all Federal agencies requiring general purpose space in Ogden, except the post office and U.S. courts. These activities will continue to be housed in the existing post office and court house buildings. Among the agencies which will be housed in the new building are regional and local offices of the Department of Agriculture, Civil Service Commission, Department of Commerce, Department of Defense, Federal Aviation Agency, General Services Administration, Department of Health, Education, and Welfare, Interior Department, Justice Department, Railroad Retirement Board, Selective Service System, Treasury Department, Veterans' Administration, and the U.S. attorney and marshal. Most of these are now in leased space at a high annual rental to the Government.

I will be glad to testify personally before the subcommittee and to provide any additional information, but in an effort to save your time I am approaching the matter in this way first. I strongly recommend that construction funds for the Ogden Federal Building be included in the appropriation bill for the fiscal year 1962.

Sincerely,

FRANK E. MOSS,
U.S. Senator.

U.S. SENATE,
Washington, D.C., April 4, 1961.

HON. CARL HAYDEN,
Chairman, Appropriations Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Congress authorized a Federal building in Los Angeles, designated as a customhouse, and the current budget contains an item of \$31 million for this project. The building as planned is for several types of Federal offices, so the designation as a customhouse is a misnomer. The plans and specifications call for between 15 and 20 percent of the building to be allocated to customs activities. The General Services Administration has selected a site in civic center in downtown Los Angeles.

The people of Long Beach, San Pedro, and Wilmington—that is, the harbor area of Los Angeles—strenuously object to the customs facilities being located 22 miles from the waterfront in downtown Los Angeles. The people of downtown Los Angeles assert that the customs activities have always been centered around civic center and that continuing the activity in the new building in civic center will simply be the continuation of 40 years of practice.

The Government presently pays the cost of transporting the goods for inspection from the harbor area to downtown Los Angeles, where customs clearance is presently scattered in several locations. This is an expensive business and the centering of activities in the new building in civic center would, of course, make it permanent. I am inclined to believe that this is an expense that ought not to be imposed upon the Government, and I have grave doubts about the fairness of asking importers to carry their goods 22 miles over a crowded Los Angeles freeway into downtown civic center for customs clearance.

I believe that this controversy is serious enough and the consequences of a mistake on this particular aspect of the building so costly to the Government and so inconvenient to importers that I would like to request you to assign one of your staff investigators to make a trip to the Los Angeles area for the purpose of investigating the situation. I believe that such an investigation may be very helpful in saving the Federal Government a good deal of money—and in getting the customs facilities in the right place.

My file on this matter is available for perusal by you or by any of your staff people. Your favorable attention to this request will be very much appreciated.

Sincerely yours,

CLAIR ENGLE, *U.S. Senator.*

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
June 19, 1961.

HON. WARREN G. MAGNUSON,
U.S. Senate, Washington, D.C.

DEAR MAGGIE: The House, during its consideration of the independent offices appropriations bill (H.R. 7445), cut approximately \$1 million from the total funds. Included in this is the sum that was to be allocated for the construction of a Federal building in Wallingford, Conn.

The General Services Administration has stated that there is a critical need for the construction of this building in Wallingford to provide space for the post office and other Federal offices. In view of this I would like to request that you and the other members of the subcommittee give serious consideration to the possibility of restoring these funds to the Senate version of the bill.

I hope that you will be able to act favorably in this matter.

Sincerely yours,

THOMAS J. DODD.

O. E. LEE & Co.,
Billings, Mont., December 13, 1960.

SENATOR CARL HAYDEN,
*Chairman, Senate Appropriations Committee,
Senate Office Building, Washington, D.C.*

DEAR SENATOR HAYDEN: I am writing to you to protest the construction of the proposed Government office building in Billings, Mont. As one of the private individuals who now rent office space to the Government, I feel that I am qualified to discuss the subject of rentals and to state that I believe the Government would be unfair to Billings office building owners if it were to construct an office building at this time.

I had entered into a contract with the General Services Administration to construct an office building for the Forest Service and construction was well underway when the announcement was made that General Services Administration was considering a Federal building for Billings in the near future. This was contrary to any information which had been given to me by the General Services Administration while negotiating this lease with them. Under the circumstances it has been next to impossible to obtain any financing for this building and I have all of my own capital invested therein. If it were possible to obtain a 70 percent loan on this structure, I could reinvest the balance of my risk capital in other ventures which would help strengthen the economy. It appears that I have planted this capital for the next 20 years and showing a below market return on my investment. I fully realize that the Government takes no responsibility for financing and that this lease was not represented as a long-term one; but the past history of Government rentals indicated that I could safely count on at least 10 years of occupancy of the building provided I conformed to the specifications for maintenance and service required by the General Services Administration.

Billings businessmen have consistently tried to be of service to the Government and whenever a request for additional space is received there has been an active group of bidders competing to supply said space and at a reasonable rate I might add. Personally I do not feel that the Government can build comparable space and operate it for any less than private enterprise is now doing. In addition to this the Government now collects income taxes as well as real estate taxes on these office buildings and this would not be the case if they were Government owned. I realize that this is not of serious consequence in the minds of many but it certainly contributes to the tax base of our city and county.

At this time Billings is suffering from an economic recession and therefore a great deal of office space is for rent. To throw this vast additional amount of office space on the market would bring virtual chaos and severe economic loss to Billings investors.

I sincerely ask that you do all within your power to see that these facts are presented to the proper authorities and that serious consideration be given before construction is undertaken of an office building by the Government in Billings, Mont.

Sincerely,

DON LEE.

ROBERT JAYSON MANUFACTURING Co.,
Dallas, Tex., March 1, 1961.

HON. CARL HAYDEN,
Chairman, Senate Appropriations Committee,
New Senate Building, Washington, D.C.

DEAR SIR: I oppose appropriation of public funds for construction of the new proposed Federal center in Dallas, on the grounds that the acquisition of the present designated site was acquired by procedure which is improper, immoral, unethical, unlawful, and without procedure or justice.

The site was offered to the Government without the consent of the individual property owners, which action is contrary to procedure of the General Services Administration, in acquiring sites for Federal buildings.

A local real estate syndicate, who did not own the property of the above site, devised a conspiracy and plan to induce the Government to condemn the property, thereby bargaining away the individual property rights of the taxpaying citizens—the result of which was to enrich the syndicate by multimillions of dollars, at the expense of the individual property owners, by enhancing the syndicate's property values which they own in the immediate adjacent area.

The above procedure is un-American and discriminatory, and this injustice needs a thorough investigation.

The attached enclosures are for your attention.

Yours very sincerely,

ROBERT JAYSON.

SITES AND EXPENSES, PUBLIC BUILDING PROJECTS

Senator BRIDGES. Could I ask a question?

Senator MAGNUSON. Surely.

Senator BRIDGES. Mr. Boutin, on your item for site, as I understand it, the Bureau of the Budget recommended \$5 million?

Mr. BOUTIN. That is correct, Senator.

Senator BRIDGES. And the House committee put in \$25 million.

Mr. BOUTIN. That is correct.

Senator BRIDGES. And it was stricken out on a point of order on the floor?

Mr. BOUTIN. That is correct.

Senator BRIDGES. So it comes to us with no money for that item?

Mr. BOUTIN. That is correct, sir.

Senator BRIDGES. Now on the projects that have been approved, how much money would it actually take for the preliminary site selection work on the projects that have been approved by both the Senate and the House?

Mr. BOUTIN. Well, by both the Senate and the House, \$7,083,000.

For the ones that the House has approved and which are coming before the Senate on Monday to do all of these projects, which would include the Concord, N.H., project, we would need \$24,134,500.

Senator BRIDGES. Then, actually, after the Senate acts, which will be next week, we will know whether the Senate, in its authorization, concurs in the total figure you have mentioned?

Mr. BOUTIN. Right, sir.

Senator BRIDGES. Now it is a \$7 million item that you want approved by both Houses, but in your judgment, both Houses will probably concur in the total amount, which is \$24 million plus.

Mr. BOUTIN. On the \$24 million plus, that is as to projects to be approved by the Public Works Committees only, they are the ones that will go before the Senate Public Works Committee on Monday.

Actually, all we have in the budget that we may appeal is the \$5 million. But to do everything that we will have on hand, if the Senate Public Works Committee concurs with the House, it would be \$24 million plus, that is correct, Senator.

Senator BRIDGES. And if additional money is approved for these projects—I know there is one for Concord, N.H.—it would include funds for preliminary site selection and plans for Concord, would it not?

Mr. BOUTIN. It would, Senator.

Senator MAGNUSON. Senator Bridges, it was pointed out this morning that if this can be worked out—we do not save anything by not going ahead; as a matter of fact, we might lose money, because we know we are going to go ahead with these buildings, and we might as well get the sites as soon as possible.

And if we can do something to get them up to that figure, I think we should.

TRANSFER OF FUNDS

Senator ALLOTT. While we are here, Senator, I would like to ask another question about the sites.

Mr. Turpin, in your testimony previously this year on the supplemental, page 201, you said:

We had to borrow \$14 million from our other appropriations for several months toward the end of the year. That really is not too desirable a practice, except in an emergency, where we did not have much choice.

And later, in response to questions by Senator Magnuson and Senator Bridges, you said:

I would say we do not have clear authority to do that. We can do it to the extent that we do business with one of these appropriations out of the general supply fund; in these cases we could rationalize that it is a temporary advance.

Rationalizing on these transfers of funds is not a very good practice is it?

Mr. TURPIN. No, sir. It is not actually a transfer of funds.

In the case you refer to it was only a temporary advance just for a matter of a week or 10 days, because we had advances from other agencies of the Government which are proper and are authorized, which they had requested be returned just prior to June 30.

They were going to reestablish those advances to us after July 1.

Senator BRIDGES. They were doing the finagling?

Mr. TURPIN. So just for the week or 10-day period we needed cash in order to pay our creditors under the general supply fund. It was just a temporary advance for that short period.

Senator ALLOTT. I just wanted to be sure that we are not getting into the practice here of taking line items and transferring them, or closing our eyes to borrowing or transferring the funds that have been appropriated.

Mr. TURPIN. No, sir.

As we assured the committee, we certainly want to avoid situations like that.

Senator MAGNUSON. We put some language in the third supplemental.

Mr. TURPIN. In the report, yes, sir.

Senator BRIDGES. If Senator Magnuson happened to do it right at that time—and you have complied with the language in that report since that time—

Mr. TURPIN. Yes, we have.

Senator BRIDGES (continuing). And as June 30 approaches, you are not going to be a party to any more such transfers?

Mr. TURPIN. No, sir. But we will be coming to an item in a minute involving capital for the general supply fund where I was going to allude to the admonition the committee gave us before on that.

OPERATING EXPENSES, FEDERAL SUPPLY SERVICE

Senator MAGNUSON. The next amendment is No. 30, which, for the record, on page 20, line 9 of the bill, as was reported to the House, strike out "\$3,450,000," and insert in lieu thereof "\$3,737,000," for an addition of \$287,000.

Now, this is part of the DOD air program. First of all, why do you need \$3,737,000 for these items?

Mr. BOUTIN. Mr. Chairman, I would like to ask Commissioner Bean to speak to that, if I may.

Senator MAGNUSON. All right, Commissioner.

Mr. BEAN. Mr. Chairman, we are presently working with the Department of Defense. Their exercise encompasses the study of 5 million items. For the first time they will get all classes together and determine what is the makeup of them.

In general supplies, industrial supplies, and construction supplies, automotive supplies, they now have appointed a single manager in those four broad classifications, and they are starting their study in these areas.

These areas cover 1,160,000 items. They have criteria—

Senator ALLOTT. This says here 1,630.

Mr. BEAN. Well, all together, the DOD is covering 1,160,000 items.

And then we get a portion of these—in other words, they have criteria that certain items like strictly military items, R. & D. items, mobilization reserves, they keep; all other items are offered to us. And during this period of the next year and a half or 2 years, they will give to us, we estimate, about 280,000 items.

These we must review one at a time in order to determine whether or not they are suitable for any type of distribution in any kind of a system.

The thing we are finding is that for the first time when these are brought together from the several services, there is a great amount of duplication, similar items. And so this air program is to reduce the number of those items down to the bare minimum.

We are finding that the number of items can be reduced about 50 percent on the kinds of items we have seen.

Senator BRIDGES. How do you proceed when you find similar items?

Mr. BEAN. The procedure then is to review them with the interested parties and reduce them down to one, if there are five or six of a similar type item.

Senator BRIDGES. Who makes the decision?

Mr. BEAN. We are working with the Department of Defense, we are making a joint decision that we can use this ashtray instead of six ashtrays.

Some of this thing is, we are going to have half the number of items which we have to buy and store and issue, and the savings in this thing, the savings potentials are very tremendous, enough to pay for the program.

But we could not take into our system six ashtrays and six of everything else, because the system is not big enough to hold it.

But we can take in the one item which is a sound item and which will serve our needs.

And the discards of these duplicate items is the thing that this is designed to handle.

Senator MAGNUSON. All right.

EXPENSES, SUPPLY DISTRIBUTION

Amendment No. 31 adds \$1,999,000 on page 20, lines 23 therein and 24, of the bill. And the purpose of that, in your justification, that item is in the expenses, supply distribution.

Who can speak to that?

Mr. BOUTIN. I would like to have Commissioner Bean again talk on this, Mr. Chairman.

Senator MAGNUSON. All right.

Mr. BEAN. In the past 5 years our sales have more than doubled. This is because of the fact that we have expanded our line, we have improved our service, and we have been supplying the Air Force.

These are the principal reasons for the increase.

This year our business will be up 20 percent, and the amount of money which is allotted to us in this appropriation will not take care of the amount of money for the coming year's business. We had estimated next year's business as being about a 15 percent increase without any additional supply support to the armed services, and this estimate is very conservative, since we have done equally as well, or better, in each of the previous 5 years.

But the purpose that we are going to use this money for is to take care of an increased amount of inventory and business.

Last year we had an inventory of \$52 million. At the end of next year, our inventory will be about \$70 million.

Senator ALLOTT. \$70 million?

Mr. BEAN. \$70 million, yes, sir. And this will require additional space.

To acquire this additional space, we are taking over Government-owned space in Auburn, Wash.; the Fort Worth General Depot, Shelby, Ohio; Albany, Ga.; and Albuquerque. In order to do this we have to move, and these moving expenses, together with installation of fixtures, labor, and supplies, are going to cost about \$750,000.

In addition to that, we have three locations where we have leased additional space. This is in Washington, D.C., Atlanta, and Chicago. And the balance of the items which make up this increase of \$1,311,600 is in utilities, janitorial services, guard and fire department equipment.

So this is just a matter of taking care of our inventory and doing the moving that is necessary to take advantage of Government space.

GENERAL SUPPLY FUND

Senator MAGNUSON. Now, amendment No. 32. This is the old story of the amount to be in the general supply fund. And the main request there for your increase, which would bring it up to 113—

Mr. BOUTIN. \$123,750,000.

Senator MAGNUSON. \$123,750,000, as I understand it, to bring the capital up to that amount.

Mr. BOUTIN. I would like to have our comptroller, Mr. Turpin, speak to that, Mr. Chairman, if I may.

Senator MAGNUSON. All right.

Mr. TURPIN. Mr. Chairman, the General Supply Fund is a revolving type fund; all expenditures made from this fund are fully recovered. There is financed from this fund the inventories for the supply operation that Mr. Bean just referred to.

Also, the financing of accounts receivable, and the financing of equipment, for both the supply distribution operation and for the motor pool operation. The estimate of the \$8 million in the original budget is the minimum amount necessary to support the increasing volume of store sales and the other activities financed through this fund.

As a matter of fact, this particular estimate of \$8 million was based on a volume of business of about \$380 million for 1962, and the indications are now that the figure will be closer to \$400 million.

I merely mention that to demonstrate the conservative basis on which this \$8 million request was developed.

Senator MAGNUSON. Your sales?

Mr. TURPIN. Yes, sir.

So we need the restoration of the reduction of \$4 million that was made by the House.

This is the fund where we experienced some difficulty last year and to which you and Senator Allott referred a while ago—

Senator MAGNUSON. And that is where you had to borrow?

Mr. TURPIN. Yes, sir. And we certainly want to avoid those situations.

Senator MAGNUSON. And you get all this back anyway to keep it available?

Mr. TURPIN. Yes, sir.

Senator MAGNUSON. I think we understand that. We go over that every year.

Now, we come to strategic and critical materials.

MOTOR POOL OPERATIONS

Senator ALLOTT. Before we leave this, this motor pool program worries me, and it has always worried me. Who can speak to the operation of this motor pool?

It seems to me that every other car I see on the streets of Washington is a chauffeured car belonging to somebody, I do not know whether to you or not. I do not think they all do. But let us get into this a little bit.

I am not raising this because it is a new administration, because I have raised it plenty of times before, and I am never going to quit.

Mr. BOUTIN. Senator, I would like to have Mr. Bean again speak to this. It is under his charge.

Mr. BEAN. Of course, in the city of Washington our activity is limited, and the total number you see are certainly not all from the motor pool.

In the case of heads of agencies in town, those are mostly rented cars, not from the motor pool. They rent them, and sometimes they are bought from appropriated funds given for that purpose.

Many of these, of course, that are used by the heads of agencies are chauffeur-driven. The Department of Defense has a number of chauffeur-driven cars. But most all of the cars from the motor pool are at lower levels, the people who are actually out doing work in Washington and nearby.

Senator BRIDGES. What makes do you have in the motor pool?

Mr. BEAN. The kind of cars we have, we have some compact cars, some Fords, some Chevrolets, and some Plymouths. Those are the only things we can buy with our limitations, the small, inexpensive cars, and they are strictly workhorses.

Now, we operate these at about 7.5 cents a mile, as compared to an average of 11.3 cents a mile when they are not in motor pools, and so on a mileage basis we save the Government a lot of money on these cars.

Senator ALLOTT. Do you supply chauffeurs with any of these cars?

Mr. BEAN. We do not, sir. There are no chauffeurs at all.

Senator ALLOTT. Do you assign cars permanently to any person or persons?

Mr. BEAN. We might assign a car to an agency if we have a sufficient demand.

However, the basis on which you are able to make money is to make that car run 8 hours a day, and if they want four cars where there are only three cars needed, we take it back and put it to work someplace else.

IMPROPER USE OF CARS

Senator ALLOTT. If a car is used by a person in an agency for their personal use, and if it is driven home at night and driven down in the morning for personal transportation, do I understand you to say that this is the responsibility of the head of that agency, and out of your immediate control?

Mr. BEAN. Motor pool cars are not used for that purpose.

Senator ALLOTT. Well, I have heard this statement many times before, and I am willing to take issue with it. I assume that it is not your intention at least.

Mr. BEAN. No, sir; it is not.

And there is this consideration which is given—

Senator ALLOTT. Will you answer the other question first, Mr. Bean. If this is done, if these cars are used improperly, what you are saying is that, having been assigned to this agency, particular agency or department, that this misuse of a car is the responsibility of the head of the agency and not under your control?

Mr. BEAN. That is correct, sir, and it is a violation of the regulations governing that car. And wherever we find out such a situation, we call it to the attention of the head of the agency.

Senator BRIDGES. What action is then taken?

Mr. BEAN. Why, we can, according to our regulations, take the car back and put it in the pool, relieve them of the car entirely.

Senator SMITH. Do you do that?

Mr. BEAN. Or the person can be fired. We have not found it necessary so far.

One exception which sometimes causes difficulty, if a man is, say, an inspector and goes to various manufacturing plants, and it is closer for him to take a car home at night and then start from his home, going in the direction opposite from his office to a plant, then the regional commissioner of that region gives him permission to take that car home for the night, because it is a savings to the Government; the car travels less in order to arrive at the point and saves time, as well.

This is the only exception that is made.

Mr. BOUTIN. We have very, very few violations actually. We get reports like Mr. Bean is referring to, where somebody will say, "Well, I saw a motor-pool car outside of somebody else's home all night."

But when we check it out, we find that they had permission to do it and it was actually saving the Government money by doing it that way, because it was on a special mission.

IDENTIFICATION OF MOTOR-POOL CARS

Senator BRIDGES. How is a motor-pool car identified from another Government car? How would we know, if we saw it, that it was a motor-pool car?

Mr. BOUTIN. Right on the side of the car it is labeled, "Interagency Motor Pool, General Services Administration, for Official Business Only."

Mr. BEAN. And it has a special Government license plate on it, with a number. And that number, if related to us, tells us exactly where the car is being used.

Senator ALLOTT. Do you mean a special license plate?

Mr. BEAN. It is a U.S. Government special license plate.

Senator ALLOTT. It has a certain series on it?

Mr. BEAN. It has a certain series of numbers and letters on the front of it.

Senator ALLOTT. Thank you.

Senator MAGNUSON. All right.

STRATEGIC AND CRITICAL MATERIALS

Strategic and critical materials, on page 22 of the bill, lines 18 and 19 of the bill, as reported to the House, after the word "Acts," delete "provided said leasehold interests are at nominal cost to the Government."

Mr. BOUTIN. May I have Mr. Turpin speak to that, Mr. Chairman?

Senator MAGNUSON. Yes. That is amendment No. 34. That is a language amendment; is it not?

Mr. BOUTIN. Yes; it is, sir.

Mr. Turpin?

Senator BRIDGES. Are you skipping amendment 33?

Senator MAGNUSON. Wait a minute, I have missed 33. Let us go back to 33.

On page 22, line 11 of the bill, as reported to the House, strike out "\$30,000,000" and insert in lieu thereof "\$38,683,000." And this is on strategic and critical materials. The House report: "The committee recommends an appropriation of \$30,000,000 for the stockpiling program instead of \$40,000,000, as requested."

The bill also allows \$3 million for operating expenses instead of \$3,015,000, as the agency proposed.

The House committee reduced the request for appropriations to carry out the Stockpiling Act from \$40 million to \$30 million. Now, tell us about that.

Mr. BOUTIN. I would like to have the Assistant Commissioner, Mr. Harlan, speak to that, if he may, Mr. Chairman.

Senator MAGNUSON. All right.

Mr. HARLAN. Mr. Chairman, inasmuch as the bulk of our budget consists of fixed, recurring storage costs, if the House—

STATUS OF NATIONAL STOCKPILE

Senator MAGNUSON. Before you get into these fixed costs, what is the value of our stockpile now?

Mr. HARLAN. \$8.5 billion, sir.

Senator MAGNUSON. \$8.5 billion?

Mr. HARLAN. That is right.

Senator BRIDGES. And how close is that to the total requirements which are set as the strategic requirements of this Nation?

Mr. HARLAN. Requirements are about \$4.5 billion.

Mr. BOUTIN. We are running about \$4 billion in excess, are we not?

Mr. HARLAN. That is right.

What you want to know is how much have we got to go to fulfill all of our objectives, as I understand it, is that correct?

Senator BRIDGES. Yes. If we should have a war next fall, what would we be lacking in strategic materials?

Mr. HARLAN. Materials costing about \$30 million, Senator.

MATERIALS BELOW OBJECTIVES

Senator BRIDGES. And what would we be lacking in strategic items?

Mr. HARLAN. We are short of our objective on 13 commodities.

Senator BRIDGES. And what are the 13?

Mr. HARLAN. I have a list of them right here.

Mr. BOUTIN. While he is getting them, Senator, our problem is, on some items we are way over the objective; on a few we are below.

Mr. HARLAN. In fact, we are over on all except these 13 items.

Senator BRIDGES. This is not classified information?

Mr. HARLAN. No; it is not classified. There are parts of this table which are classified, but I would not refer to them unless you wish it, in which case I would have to give it to you later on.

We are short on antimony; amosite asbestos; chrysotile asbestos; bismuth; celestite; chrome, refractory grade; diamond dies, small; iodine; jewel bearings; manganese, chemical grade, type B; sapphire and ruby; selenium.

Senator MAGNUSON. Now, is there any money in this bill to pick up that shortage?

Mr. HARLAN. There is, sir.

Senator MAGNUSON. That is \$30 million, or \$40 million?

Mr. HARLAN. It is a part of \$30 million; that is right, sir.

Senator MAGNUSON. But you asked for \$40 million?

Mr. HARLAN. Right.

Senator MAGNUSON. To pick up this shortage, and to maintain the stockpile?

Mr. HARLAN. That is right, sir.

Senator MAGNUSON. It is part of the whole thing?

Mr. HARLAN. It is part of the whole thing.

Senator MAGNUSON. The House cut you to 30?

Mr. HARLAN. That is correct.

Senator MAGNUSON. Would the 30 allow you to pick up these items to the degree that OCDM figure—

Mr. HARLAN. We would give that priority, yes.

EFFECT OF HOUSE REDUCTION

Senator MAGNUSON. And what would the cut of the \$10 million do, where would that be applied?

Mr. HARLAN. It would affect our rotation program, Senator. We have 77 million pounds of cordage fiber which will reach a storage age of 7 years in fiscal year 1962.

Now, our experience has indicated, and our research has indicated, that when cordage fiber has been in storage as long as 7 years it begins to deteriorate insofar as its usefulness for the purpose for which it is stored is concerned. So under the law and under the principles of good stockpile management, we sell that material and replace it with fresh material.

In order to do that we would need the \$18 million which we initially requested—I beg your pardon—it would be \$16.6 million for cordage fiber.

So the reduction would have to come out of rotation, Senator, and it would mean that if the cut stands, I would be able to rotate only about 25 to 30 million pounds of fiber instead of 77 million pounds.

Senator MAGNUSON. How much would you get for the fiber if you could do the complete rotation, how much would you get back?

Mr. HARLAN. The net cost of that complete rotation would be about \$2.8 million. That is the difference between what I sell it for and the price I have to pay for the fresh fiber.

Senator MAGNUSON. Between what you sell it for and what you have to pay for the new 77 million pounds?

Mr. HARLAN. That is right, sir.

Senator MAGNUSON. So if you don't have the full amount, you don't recover as much either?

Mr. HARLAN. That is correct, sir. And if we don't rotate it this year, if we have to rotate it at some future date, the older it gets, the more we lose.

COMPLETION OF STOCKPILE OBJECTIVES

Senator BRIDGES. May I ask you one question more?

Of the 13 strategic commodities which are in short supply in relation to your stockpile requirements on, in the future are you going to establish priorities among the 13?

Mr. HARLAN. Yes, sir. The priorities are established by the Office of Civil and Defense Mobilization, and they give us a directive to purchase against those. We are purchasing against only three of those commodities and hoping to obtain our requirement on the balance through the barter program.

STATUS OF BERYLLIUM

Senator ALLOTT. What is the situation with respect to beryllium oxide? I notice you did not name it as 1 of the 13. Do you actually have your stockpile requirements on that now?

Mr. HARLAN. We do, sir.

Senator ALLOTT. Or you simply contract it, which?

Mr. HARLAN. No, sir; we have the stockpile requirements. As you know, we have an open program for buying beryl, hand-cobbed beryl ore. Yes; we are in excess of our objective on beryl.

STATUS OF MANGANESE

Senator MAGNUSON. Now, we get back to an old test run. How is your manganese pile?

Mr. HARLAN. It is fine, except that somebody out there is putting phosphate dust on top of it, and I am having trouble with its getting contaminated.

Senator MAGNUSON. Of course we have the same request here about all the people in the business about the problem of upgrading. I think something should be in the record about it. We have conflicting testimony as to the deterioration or lack of deterioration of these open piles. And you people have always claimed that they do not deteriorate, and these people have claimed that even if they do or they don't—they think they do—that we ought to spend some money to upgrade it and put it in the second phase, and then we would have it in good shape, and it would be there all the time and wouldn't deteriorate. And you are going to do that if you are going to use it anyway.

Mr. HARLAN. As you know, we have looked into this question of deterioration in the past, and our experts tell us that the material is not deteriorating. As far as the question of upgrading is concerned, our friends in OCDM have considered this question of upgrading manganese ore, and have determined and found that we have sufficient quantities of the upgraded forms of this material in the stockpile now.

So that there is no real justification for paying for upgrading this material.

Senator MAGNUSON. In other words, you are not about to ask for money to upgrade it unless somebody asks you to?

Mr. HARLAN. That is right.

Senator MAGNUSON. General Services.

You just act as agents in this matter?

Mr. HARLAN. That is right.

Mr. BOUTIN. Custodians.

Senator MAGNUSON. We will put these telegrams in the record again. And where this request should really come from is OCDM.

(The telegrams referred to follow :)

BUTTE, MONT., June 12, 1961.

HON. WARREN G. MAGNUSON,
U.S. Senate Office Building, Washington, D.C.:

We urge that you, as chairman of Independent Offices Subcommittee of Senate Appropriations Committee, do everything possible to include in independent offices appropriation bill spelled out provisions for upgrading chrome and manganese stockpiles. Such inclusion will result in curing much economic depression in numerous mining communities and will revitalize two sick industries. House passed bill greatly needs clarifying. Your past efforts, particularly of 2 years ago, along these lines, greatly appreciated.

MINING ASSOCIATION OF MONTANA,
M. G. MALONEX, *Secretary-Manager.*

SPokane, WASH., June 12, 1961.

WARREN G. MAGNUSON,
Senate Office Building, Washington, D.C.:

Your past efforts, as chairman of the Industrial Office Subcommittee of the Senate Appropriations Committee in regard to upgrading chrome and magnesium stockpile is greatly appreciated. House passed bill needs clarifying. Inclusions to stockpile chrome and magnesium will help our areas economic depression. We will appreciate your further help.

AUSTIN SMITH,
Subdistrict Director, United Steel Workers of America.

BUTTE, MONT., June 14, 1961.

Senator WARREN G. MAGNUSON,
Senate Office Building, Washington, D.C.:

Understand H.R. 7445, independent office appropriation bill passed the House June 7 and is now before your committee. It has been suggested to your committee that \$15 million be appropriated for the upgrading, beneficiation, and/or conversion of chrome and low-grade manganese ore or concentrates into a more usable form. We would appreciate greatly if you will give this suggestion consideration. We are familiar with House Report 449, pages 11 and 18, but prefer a straight appropriation. Whether a straight appropriation stated that payment in kind or other method of payment it should be definitely stated that manganese and chrome will be upgraded, the tonnages named, and the time required for so doing. In the case of manganese and chrome, of which over 90 percent is produced in foreign countries at a much cheaper cost than it can be produced in the United States, it would almost be impossible for a producer of manganese or chrome to market either product at this time. Therefore legislation should provide that a contractor should be paid in an orderly, businesslike fashion without price-cutting and dumping whether payment is in kind or in a combination with different material or materials now in the national stockpile in the form of finished product.

DOMESTIC MANGANESE AND DEVELOPMENT CO.,
By JOHN H. COLE.

SANTA FE, N. MEX., June 14, 1961.

Senator WARREN G. MAGNUSON,
Senate Office Building, Washington, D.C.:

Re H.R. 7445, department of appropriations, independent office appropriations bill. We feel that this bill should specifically call for upgrading manganese stockpiles. Should also clarify method and manner of payment more fully. Your help in this area in past greatly appreciated by mining industry.

WILLIAM F. DARMITZEL,
New Mexico Mining Association.

AUTHORITY FOR LONG-TERM LEASES

Now, we go to the language on page 22, lines 18 and 19 of the bill. And tell us what that is about. After the word "acts" you want to delete "provided said leasehold interests are at nominal cost to the Government."

The House put that in.

Mr. BOUTIN. May we have Mr. Turpin speak to that?

Senator MAGNUSON. All right.

Mr. TURPIN. Mr. Chairman, the appropriation for maintaining and operating the stockpile prior to this year was appropriated on a no-year basis; in other words, the funds were available until expended. With an appropriation of that nature, there was authority for entering into some long-term leases for the storage of some of this material. This is for outside storage.

Incidentally, on these leases there are some very favorable terms, because most of them are located at plant sites, and most provide for nominal rental costs, such as for a dollar a year. This year, when the appropriation was placed on a 1-year basis, it presented us with a legal problem in exercising renewal rights that we had under these leases, because the renewal options were mostly for 5-year periods.

In order to take advantage of these favorable terms, we proposed in the language that we be permitted to enter into long-term leases extending beyond 1 year.

The House, in acting on it, gave us the authority, but they added the words "provided said leasehold interests are at nominal cost to the Government."

We testified at the House that most of these cases are at nominal cost.

We have about 35 such leases that are for a dollar a year, but we do have 18 that run from a dollar a year plus taxes, up to a high of \$8,276 year.

We are afraid that with the language "provided said leasehold interests are at nominal cost to the Government," we may be in difficulty on some that are in excess of a dollar a year, because we may get into a legal argument as to what is "nominal cost."

That is the reason for our request, that the limiting proviso be eliminated.

Senator ALLOTT. Just as a matter of information, who has that \$8,000 contract?

Mr. TURPIN. It is the Indiana Harbor Belt Railroad, Hammond, Ind.

Mr. HARLAN. The fair rental estimates value on that property is \$37,000, so even at \$8,000 it is a good deal.

Senator MAGNUSON. Now, most of this stuff is stored, is it not, at, in, or near the plants that might be called upon to do the work in case we needed to use the product?

Mr. HARLAN. That is right, sir.

Senator MAGNUSON. Right in their own yards?

Mr. HARLAN. That is right. And wherever it is in their yards we usually get a rental agreement of a dollar a year. But once in awhile where there isn't space available to them we have to resort to railroads and city property or something like that, and then we have to get above a dollar to cover taxes or minimum charges on the property. And that is where we are going to get into trouble on this if we are not careful.

Senator MAGNUSON. But they are not about to let that stuff get out of there.

Mr. HARLAN. But it places us in continual jeopardy if we have to rebargain every year.

Senator MAGNUSON. But you do have some cases where you have got to renegotiate?

Mr. HARLAN. That is right.

Senator MAGNUSON. I think we understand that.

ADMINISTRATIVE OPERATIONS

Now, amendment 35, page 24, line 8, of the bill, you ask for an increase of \$595,000 in the administrative operations fund.

This provides for the administrative, financial, legal, and other general support for the GSA program. That is your general administration, isn't it?

Mr. BOUTIN. That is correct; the Comptroller's Office, the Office of Administration, the Office of the General Counsel, Legislative and Business Services, and Field Supervision.

Senator MAGNUSON. Now at this point we are going to—you and Mr. Moore have to come back here some time when he is available so that we can talk about this legal division on the transportation and public utilities, we didn't bring that up today.

That would be in here, wouldn't it?

No, that is a separate item.

Mr. BOUTIN. We aren't appealing anything there.

Senator BRIDGES. Why do you need additional assistance, personnel?

Mr. BOUTIN. We are appealing the cut, Senator, of \$595,100 that we need to support all of our programs in GSA.

Senator BRIDGES. By supporting them, do you mean additional personnel to administer them?

Mr. BOUTIN. Mr. Turpin, would you speak to that? You are an expert in this field.

Mr. TURPIN. Senator, this covers all of the staff services, as the chairman indicated, to support the various programs in GSA. They include such things as the comptroller staff, legal staff, the personnel staff, and some of the activities that are normally thought to be overhead type operations.

They also include all data processing activities which are directly related to the programs.

When the volume of business for these programs increases, we must have an increase in this fund in order to handle them.

I would like to cite just one example of the increased business, under the supply distribution program that Mr. Bean referred to. We anticipate that the business in 1962 will call for 800,000 more line items of supply than was processed in 1961. That puts a workload on the staff financed from this administrative operations fund in processing the orders, the shipping documents, the picking tickets, the billing accounting and so forth.

The 800,000 item increase is about 15,000 line items per week, which is equivalent to the total workload that one of our larger regions is now handling.

So with that kind of an increase in 1962 over 1961, we are going to be in a bad way unless we get the full amount of the estimate in this account. I would like to insert for the record a tabulation which compares administrative operations increases with certain program increases for 1958 and 1962.

(The material referred to follows:)

Comparison of administrative operation costs versus selected program operations, fiscal years 1958 and 1962

[Dollar amounts in millions]

	1958 actual	1962 estimate	Percent change from 1958
Staff support:			
Administrative operations.....	\$13.8	\$17.7	28.3
Selected program operations:			
Surplus real property disposals.....	\$121.6	\$817.0	572
Construction (new obligational authority).....	\$69.0	\$212.5	208
Supply system sales.....	\$261.2	\$397.8	52
Supply schedule purchases.....	\$411.3	\$700.0	70
Personal property utility transfers ¹	\$138.0	\$350.0	154
Motor pools activated..... number	33	75	127
Records administered..... million cubic feet	4.1	6.73	64
Records Reference Service..... thousands	1.9	5.3	179
Stockpile inventories.....	\$6,460.9	\$7,111.3	10
DPA inventory.....	\$1,140.1	\$1,540.0	35

¹ Approximately 18 percent for Pay Act increases, 1958 and 1960.

² Acquisition cost.

It is significant that while costs for administrative operations support have increased 28.3 percent from 1958 to 1962, program operations and workload in numerous instances have increased more than three or four times in scope. The smaller growth of administrative operations compared to program operations has been made possible through new and/or streamlined methods, particularly the application of automatic data processing techniques.

LIMITATION ITEM

Mr. TURPIN. I might mention that this is a limitation item on the amount of funds included in other items that we could use for this purpose.

It is not additional money in this particular item.

Senator ALLOTT. How much of this would actually go into data processing machines?

Mr. TURPIN. Well, I can—

Senator ALLOTT. Roughly.

Mr. TURPIN. I would like to say, Senator—if I could just preface it first—of this total \$595,100 increase, almost all of it is related to the supply program. The increase is essential if we are to handle the increased supply business.

The number of additional man-years of employment that we are asking for is only about 35 or 40 in total, 1962 over 1961.

I would say that about two-thirds of the increase would be for rental of equipment and purchase of cards and forms that are used, and about one-third of it for personal services.

Senator BRIDGES. In making purchases, let us refer to stenographers' desks, for example, how much do you pay in relation to the normal wholesale or retail price?

Mr. BOUTIN. Mr. Bean, could you answer that?

Mr. BEAN. I would say roughly that we purchase them for 15 to 20 percent less than wholesale.

Senator BRIDGES. Does that hold true on most items?

Mr. BEAN. It is actually a conservative figure, because some of them are very much higher than that.

ADDITIONAL PERSONNEL

Senator MAGNUSON. Why do you need 35 extra people?

Mr. TURPIN. Although we are asking for 42 additional man-years, mainly for key punch operators, in terms of number of positions, we are requesting only four more to handle all of the source documents, including purchase orders to vendors and requisitions that we receive from other agencies which we, of course, have to punch into cards. Also an important and essential element of automatic data processing is continuing systems and programing work to improve the output for purposes of management.

Senator MAGNUSON. I know, but a machine would eliminate some jobs, would it not, it would eliminate some jobs that are now doing that same work? So, therefore, you ought to have a saving in personnel.

Mr. TURPIN. Mr. Chairman, it does enable—

Senator MAGNUSON. Or is it just like Parkinson's law?

Mr. TURPIN. No, sir. It does enable the Commissioner of Federal Supply to do his job with less people than he would otherwise need. But in the activity that is financed from this fund, the data processing activity, it actually takes us a few more people to operate the machines and to prepare the basic material that comes in. I can cite—

Mr. BEAN. The higher volume is part of it.

Mr. TURPIN. I can cite one example—

Senator MAGNUSON. You have three people here doing the work, and if you buy a machine, one key puncher can do the work of those three, and we ought to have a minus two here.

Mr. TURPIN. Mr. Bean should give me a little bit of support here. But I can give you one example, if I may—

Mr. BEAN. I think the Senator is actually right. But you have to take into consideration that our business is running more than a 20-percent increase. So that factor also gets in to the picture. If the business stayed level you could possibly do that.

Senator MAGNUSON. You have grown 10 percent?

Mr. BEAN. No, we have grown over 100 percent. In the past 5 years we have grown more than 100 percent, about 20 percent a year.

TOTAL PERSONNEL

Senator MAGNUSON. How many people did you have 5 years ago working for you?

Mr. BEAN. Well, I can tell you. We had—

Senator MAGNUSON. You have doubled your people, I am pretty sure of that.

Mr. BEAN. We had 1,752 people 6 years ago. And we have 2,055 people now—that might be off, but just a very few.

Senator BRIDGES. All over the country?

Mr. BEAN. Yes, central office and all over the country. And this is because the fact that in the Comptroller's office we have automation and improved systems, and we have brought down the cost of the operation consistently as it also went up in volume.

Senator MAGNUSON. But you have an increase personnelwise?

Mr. TURPIN. I have the figures here, Mr. Chairman.

Senator MAGNUSON. When you say you have increased 100 percent, how do you mean?

Mr. BEAN. Volume of business.

Senator MAGNUSON. In volume, yes. But it doesn't take any more to buy a hundred tons of whatever you are buying for the stockpile than it does to buy 17 gross of pencils, does it, any more work?

Mr. BEAN. It takes more work, and it takes more work to pack it and ship it to a great many locations.

Senator BRIDGES. Do you do the packing?

Mr. BEAN. Out of our warehouse, we do; yes.

TOTAL ITEMS SUPPLIED

We supply from the warehouses about 12,000 items. Then we ship direct from the manufacturer, we handle another 50,000. That part we do not do the packaging on. But the part that comes from the warehouse, we do the packaging on that.

Mr. BOUTIN. If you will give us the time, we would like to have—

Senator MAGNUSON. You say that your business has increased 100 percent. But in dollar figures, in making out a slip for a diamond there is no more work than making out a slip for a piece of rock. And you have that in our 100 percent.

Mr. BEAN. No; we only have the common use items, and they are the same items as there were before.

Senator MAGNUSON. Don't get Parkinson's law working.

Mr. BEAN. No, we are not; we haven't added many people.

Senator MAGNUSON. Now, whether this occurs or not, as you take over more functions as you move along there should be a corresponding reduction in the other departments. For instance, in your archives things here you are adding more people, but you have absorbed a great deal of the record centers for the Department of Defense and other people, and they should show relief. But I think if you will look closely at their budget you will find that there is no relief at all.

Mr. BEAN. The Bureau of the Budget is sitting on this very closely, and I think they are going to see that the relief comes.

BUSINESS SERVICES

Senator SMITH. Mr. Chairman, before you leave that item, talking about this increase in business, I note in your business services quite a similarity to some of the job descriptions and the expenditures and the requests with various offices under the Commerce Department, and Small Business. Take, for instance, the Director of Business Services in Small Business. Will you tell the committee just what the function is of that office, and how it differs from the business services in Commerce?

Mr. BOUTIN. Well, our business service centers are directly related both to our Public Building Service and to our Federal Supply Service. Actually, we have, very, very few people in those positions.

We have, I think far less than 50 people nationwide. And these people have the responsibility of aiding particularly small business to do business with the Government in procurement, in contracts, going out in the field, and helping them to prepare their bid forms.

Many of these firms don't have the staff in order to do it. We maintain and provide current information on all supply bidding opportunities, repair and construction contracts, surplus property disposal offerings, leasing contracts, mailing list forms, and so forth. We offer a focal point for all business concerns interested in participating in GSA's diversified programs. Actually, we don't think we are doing enough in this area, although we are showing some great results with what we are doing—making many more people knowledgeable about the opportunities to do business with the Government.

Senator SMITH. But that is exactly what the Small Business Administration is supposed to be doing, and, also, apart from what the Commerce Department is asking for in funds.

How do your business clinics differ from the ones that the Commerce Department, the BDSA schedule, and the Small Business agencies?

Isn't there quite a bit of overlapping there?

Mr. BOUTIN. I don't think there is, Senator. Our people, of course, are directly concerned only with GSA. They are not out like they are, I presume at Commerce with business as a whole. All we are trying to do is to help people as we grow and as our source of funds in the Federal Supply Service and demands grow, we try to help people to do business through the General Services Administration with the Government.

Now, we do cooperate, of course, very closely with the Small Business Administration, largely on the point of set-asides. On covering the Department of Commerce we do not have as close a relationship at present.

Mr. Bean, you might want to expand further on that, if I have left any thing out.

Mr. BEAN. There needs to be a single point in each of our regions where businessmen can come and ask questions: Do you buy this or do you not, and when are you going to buy some other kind of an item? How do you do business with the Government? What is an invitation to bid and how does it operate? What is the governing specification and what does it mean? They have many questions on Public Buildings repair contracts, surplus disposals, leasing opportunities, stock-pile disposals, etc.

All of these things which many businessmen do not understand, they can come to this one office in each of our regions and find out these things, so that then they are in a position to make a bid and participate in Government contracting.

LIAISON WITH OTHER AGENCIES

Senator SMITH. But do you have any liaison between your office and BDSA, and Small Business on the clinics, for instance?

Mr. BEAN. On clinics we cooperate and have worked together at some locations and discussed ways and means of doing business with the Government.

Theirs is on a broader base, ours is on a very specific base, because we are actually buying items and executing contracts every day.

Senator SMITH. But if you are going into a State, for instance, you plan to set up a clinic in a State, do you contact Small Business or BDSA to determine whether they are having a clinic that could join yours?

Mr. BEAN. We do not go into States for that purpose unless we are asked by BDSA.

Senator SMITH. If you are asked to, what do you do?

Mr. BEAN. We cooperate with them in every way if it is possible.

Senator SMITH. If it is possible. Do you have any way of checking as to whether you are duplicating what someone else is doing, or someone else is duplicating what you are doing?

I am for the program, and I think it is excellent, and I would like to know how you prevent duplication.

Mr. BEAN. In regard to having offices in the States, SBA is the one who takes the leadership in this—

Senator ALLOTT. Who does it?

Mr. BEAN. Small Business Administration, they take the leadership in these conferences, and then they ask our organization and they ask the Commerce organization to join with them. And usually many of them are inspired by the Congressmen and Senators here on the Hill where they have distressed labor areas, and they ask these people to go in and help them with those.

Senator SMITH. Mr. Chairman, this is practically the same testimony and the same information that we had last week in the Commerce Committee, with the same reasons given for asking for increases.

Senator MAGNUSON. The Small Business conducts these so-called clinics around the country?

Mr. BEAN. Yes.

Senator MAGNUSON. Of course, I presume that your people talk about things that the General Services are going to purchase.

Mr. BOUTIN. That is right, sir.

Senator MAGNUSON. The Small Business clinics are supposed to—well, they get more into Defense contracts than anything else, actually. But there is some duplication. Small Business ought to do this, it seems to me, or Commerce, one or the other, and take in what these fellows have to do.

Senator SMITH. At least they ought to get together and have someone coordinate the program so that they wouldn't all go into one State or one area and try to perform the same work.

Mr. BEAN. We never go in unless Small Business requests it.

Senator SMITH. Unless Small Business requests it?

Mr. BEAN. Yes.

Senator SMITH. You don't go in if the chambers of commerce or the local treasury associations ask you?

Mr. BEAN. No, we consider that a Small Business prerogative, and we only cooperate with them.

Mr. BOUTIN. Another thing I would like to point out is that these people—and we have very few—they serve another great use for us, a very useful purpose, and that is, they are the focal point for people coming in off the street, who want to know about our defense materials work, or our Federal supply work, or public buildings; it is like an information center for them, too.

CONGRESSIONAL AND PUBLIC AFFAIRS

Senator SMITH. Now, Mr. Chairman, from the information that has been supplied to me, I notice in your budget you have the following positions: (1) Assistant Administrator for Congressional and Public Affairs; (2) confidential assistant; (3) congressional public affairs officers; (4) assistant to the Assistant Administrator for Congressional and Public Affairs; (5) Deputy Assistant Administrator for Congressional and Public Affairs. In other words, there is an Assistant Administrator, a Deputy Assistant Administrator, a confidential assistant to the Assistant Administrator, and an assistant to the Assistant Administrator, and a just plain officer, all for the same title of congressional and public affairs.

Are any of these new positions this year?

Mr. BOUTIN. I don't think any of those are. I don't believe any of these are new positions.

Senator BRIDGES. Are they all new personnel?

Mr. BOUTIN. There are two vacancies. There are four that are new. And then there are four that are the same.

Senator SMITH. Will you name those for the record, please?

Mr. BOUTIN. The new appointments are Robert Griffin, who is the Assistant Administrator for Congressional and Public Affairs.

Senator BRIDGES. Is he here in the room?

Mr. BOUTIN. No; he was here this morning.

Senator MAGNUSON. He was here this morning. I saw him.

Mr. BOUTIN. And then Dorothy Frye—this is a secretarial position, confidential assistant to Mr. Griffin, she is new.

Senator SMITH. She is confidential assistant?

Mr. BOUTIN. Yes.

Senator SMITH. What does "confidential" mean?

Mr. BOUTIN. Well, it is confidential secretary; that is really what it is. But she does handle a lot of congressional liaison work, telephone work, and questions and so forth.

Mr. Gilmore is new. He is in congressional liaison. Both Mr. Griffin and Mr. Gilmore were with the agency before; they were promoted into these jobs.

Mr. Davis, who is the legislative officer, has been in this position for some time.

Then we have a vacancy in the assistant to the Assistant Administrator for Congressional and Public Affairs. We have a vacancy as legislative assistant. This is intended to be a trainee position.

Mr. Byrne is new.

The Deputy Assistant for Congressional and Public Affairs—this is really the information officer of General Services Administration.

CONGRESSIONAL LIAISON

Senator BRIDGES. What is their job? You seem to have an abundance of people with congressional titles. What are they supposed to do? For instance, are they supposed to keep members of this committee informed, this committee that you have to deal with, and the comparable one in the House, the same as do the liaison people with the Defense Department, for instance?

Mr. BOUTIN. Yes. Mr. Griffin's responsibility and people working under him, are responsible for informing Members of Congress on things happening at General Services, contracts, and so forth, answering questions. And we have a multitude of phone calls from congressional people all the time on the status of this project or the status of something else, coming up here to the Congress to discuss any problems that any particular Congressman or Senator might have.

Then Mr. Davis keeps us informed on legislative matters. Every day we get the reports of what has transpired in the House and Senate. It is to be noted that in this session of Congress 840 bills have been forwarded to GSA for agency comment. These bills all affect programs of GSA. Mr. Davis and two clerical assistants are responsible for this workload in addition to GSA's own legislative program.

Mr. Davis actually has the primary responsibility in that field for coming in to us with recommendations.

Senator BRIDGES. Is Mr. Griffin, for example, called on by the chairman here of the committee or the Senator from Colorado—

(Discussion off the record.)

Senator SMITH. Have there been any increases in these positions this year?

Mr. BOUTIN. Salary increases?

Senator SMITH. Yes.

Mr. BOUTIN. Not that I know of.

Senator SMITH. Would you know?

Mr. BOUTIN. Mr. Angel tells me that there have not been.

Mr. Angel is our Administrative Director.

Mr. ANGEL. I will check that.

Senator SMITH. And whether there are any anticipated under this present request.

Senator MAGNUSON. Before we finish this, I would hope that Mr. Griffin and his secretary there would let it be known to Members of Congress that they are available for not only problems of constituents, but General Services is spread all over the country, whether it is as a landlord, or these things that affect different areas in the cities. So that, just as the Defense Department—we get reams of letters about defense matters, but we have an assistant right in the building, liaison, and instead of calling up the Defense Department we give it to him, and he goes down and sees about it and brings it back.

Mr. BOUTIN. This is the other point that I wanted to make, Mr. Chairman, that Mr. Griffin and the people in his shop have the responsibility, too, of congressional mail, and the volume of congressional mail that we have is unbelievable.

Senator BRIDGES. But what we were talking about here is that with your Department, which is one of the very important departments in Washington, and liaison contacts with Members of the Senate and House. Insofar as I know and from the reports coming to this committee—GSA's congressional liaison has not been too effective.

Mr. BOUTIN. We will check into that fact.

Senator BRIDGES. It is to your interest to have it done, and Mr. Moore's interest, and Mr. Turpin's and Mr. Bean's interest to have it done, just as it is from our side of the fence.

Senator SMITH. Do you plan to fill the two vacancies?

Mr. BOUTIN. Yes; we do.

Senator SMITH. What grades are those?

Mr. BOUTIN. We have a grade 13 and a grade 9.

Senator SMITH. At the same salary?

Mr. BOUTIN. At the same salary.

PUBLIC INFORMATION

Senator SMITH. Will you please outline the division between the congressional relations operations of your office and the public information operations?

Mr. BOUTIN. Well, actually; all of this comes under Mr. Griffin, as Assistant Administrator.

Mr. Byrne has the responsibility of public information, preparing any press releases involved—

Senator SMITH. Give us the description of each, both the congressional relations and the public information.

I would like to know what the difference is between them.

Mr. BOUTIN. Well, in Mr. Byrne's work, his work is not in congressional liaison at all, he hasn't the responsibility of coming up to Congress or meeting the people in the Senate and the House and knowing their thinking, and so forth, his responsibility is getting out the information relative to the agency itself, contracts that are let, new programs that are started, authorizations that GSA receives peculiar to itself—this type of work.

NOTICE TO MEMBERS OF CONGRESS

Senator SMITH. Then, on the release of such information that you have mentioned, on press releases, is it your policy to inform the newspapers first or the Members of Congress?

Mr. BOUTIN. The Members of Congress first. And that comes under congressional liaison.

Senator SMITH. And whose responsibility is that?

Mr. BOUTIN. That is Mr. Griffin's responsibility.

Senator SMITH. Inasmuch as you can't inform the two Senators and the Congressmen of the district at the same time, in what order do you inform them?

Mr. BOUTIN. I don't know that, I am sorry, Senator.

Senator SMITH. Shouldn't you? This is very, very important.

Mr. BOUTIN. Well, Mr. Griffin is responsible for it.

Here is what I know we try to do. What we try to do, if it is at all possible—and we have staff limitations that make this sometimes completely impossible, and we catch it because of that—we try to have the people called directly.

Senator SMITH. In what order?

Mr. BOUTIN. Well, we hope to have enough people, and we do in many instances, where they can be called almost simultaneously.

Senator SMITH. And you do it by seniority, or by political party?

Mr. BOUTIN. I am not sure of the exact procedure they follow.

Senator SMITH. Mr. Chairman, I think perhaps if Mr. Boutin doesn't know about this we should have someone in who does, because I have some very specific questions that I want answered and some very specific illustrations that I think need to be clarified.

Senator MAGNUSON. Senator Smith, we are going to have Mr. Moore, the Administrator, back here. Unfortunately, he has some serious illness in his family. And we have got two or three other matters to take up.

And Mr. Boutin can come with him.

Mr. BOUTIN. We will be glad to have Mr. Griffin here. This is within his area of specific responsibility.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

Senator SMITH. Do you have any policy about the time of day, when the offices are called?

Mr. BOUTIN. As soon as the information is available, Senator, this is supposed to go out. In other words, we are set up so that in any division if something comes up and has news value to it, it goes directly to Mr. Griffin's office, and it is handled from there. It doesn't go out from the individual services, nor does it go out from the Administrator's office.

Senator SMITH. Mr. Chairman, I will withhold the rest of my questions, because I think this is as important to Mr. Moore and Mr. Boutin as it is to the Congress and Mr. Griffin.

And I think that if anything like this is going on—as I could illustrate by specific examples—in my office, I would expect to be responsible for it and I would expect to hold Mr. Moore responsible for it. The thing that I am trying to get to is, I read a great many items, in fact I have read items in the Maine newspapers that I have not heard anything about until they have been published. And I have had calls as late as 5:30 o'clock, and, of course, no one can expect an office to be open at 5:30 and 6 on to take news, especially when the other members of the delegation have had it earlier and have had a chance to get it to the press. I have called the press, for instance, to give them news, and they have already received it from another of your people or from other members of the delegation.

Mr. BOUTIN. You mean there has been a direct press release made by GSA prior to your notification?

Senator SMITH. There have been calls.

Senator BRIDGES. Few things would irritate a Senator or Congressman more than to learn of an announcement by the news media of something in connection with the Member's own constituency before the Member has been advised.

Senator MAGNUSON. Well, we have all had that experience. I have had it—I can list 50 of them in the Defense Department, and so can Senator Jackson, in my State. But what Senator Smith, I think, is trying to say is that this should be some uniform stable policy so that we know what it is.

Senator SMITH. If we know that the other Senator, if one Senator is to be given preference an hour in advance of the other, if we know it we can handle it. We on Appropriations ought to be able to handle some of this anyway.

Senator MAGNUSON. When Mr. Moore comes back, Mr. Griffin can come up.

Mr. BOUTIN. Fine.

Senator ALLOTT. I have just one further question.

LAWYERS ON PUBLIC UTILITY WORK

On the second page of your justification here, you say, as well as other areas for staff service as well as legal. Does that cover your general staff services?

Mr. TURPIN. Yes, sir.

Senator ALLOT. In other words, I don't want to get into this matter until Mr. Moore gets here, would this include the area of legal services involved in your public utility appearances?

Mr. BOUTIN. We have Mr. Macomber here, our General Counsel. Hervey, would you answer that, please?

Mr. MACOMBER. Yes, Senator, that includes the Office of General Counsel, which includes those lawyers who are engaged in the representation work.

Senator ALLOT. All right, just so that we know what we are dealing with we will go into this particular matter later.

Senator MAGNUSON. Maybe when we discuss this you had better come, too.

WORKING CAPITAL FUNDS FOR PRINTING PLANTS

Amendment No. 36 involves the question of four printing plants outside of the District of Columbia, the House cut it out.

Mr. BOUTIN. Could I have Mr. Angel, our Director of Administration, speak to that, please?

Senator MAGNUSON. Go right ahead.

Mr. ANGEL. I am Herbert Angel, Director of Administration—

Senator MAGNUSON. For the purpose of the record, the amendment is on page 24, and from line 12 of the bill, as reported by the House, to insert "Working capital funds" an increase of \$150,000.

Mr. ANGEL. Yes, sir.

Senator MAGNUSON. All right.

Mr. ANGEL. Several years ago we obtained permission from the Joint Committee on Printing to establish printing plants in four cities where the Government Printing Office does not have an establishment of its own. This was in order that we could provide adequate printing services for the different elements of the General Services Administration. In order to operate these plants, which are functioning under a working capital fund, we need additional funds to obtain the printing presses, papercutters, and other kinds of equipment which the Joint Committee on Printing authorizes piece by piece.

We have not only those four plants which are now in existence, but a similar one here in Washington, D.C. In order to take care of the workload which these plants have, we need the additional working capital funds.

Senator MAGNUSON. And these plants are in operation, they are authorized by a law?

Mr. ANGEL. That is right.

And because of the increases elsewhere in the organization, such as in Federal supply, I think we need them.

Senator MAGNUSON. I think we understand that.

Senator ALLOT. For the sake of refreshing my recollection, will you tell me again where those four plants are?

Senator MAGNUSON. Washington, Boston, Atlanta, Kansas City, and Dallas.

Mr. ANGEL. That is correct, sir.

TWO PERCENT TRANSFER AUTHORITY

Senator MAGNUSON. All right, No. 37, for the record, on page 26, line 3 of the bill, insert the following paragraph:

Not to exceed 2 percent of any appropriation made available to the General Services Administration of the current fiscal year by this act may be transferred to any other appropriation, but no such appropriation shall be increased thereby more than 2 percent: *Provided*, That such transfer shall be applied only to operating expenses, and shall not exceed in the aggregate the amount of \$2 million.

Mr. BOUTIN. I would like to have Mr. Turpin speak to that. This is the transfer authority you are talking about.

Mr. TURPIN. Mr. Chairman, that authority has been included in our appropriations act each year since 1958. It is a limited amount of flexibility that has proved to be very helpful.

Senator MAGNUSON. Well, I will tell you, I understand this item. And apparently it wasn't discussed over in the House, and it isn't discussed in their report, and I think we understand what it is.

Mr. TURPIN. We have used it two or three times, but very sparingly, and in those instances to avoid having to come in for a supplemental.

Senator MAGNUSON. I, for one, think you have got to have some flexibility in this.

TRAVEL LIMITATION—LANGUAGE AMENDMENT

Now, on on the last two, 38 and 39, on page 40, line 4 of this bill, you suggest certain language amendments, strike out "or" and on line 6 change the period to a comma and insert "or to payments to inter-agency motor pools where separately set forth in the budget schedules."

Now, you will have to explain that. I don't understand it.

Mr. TURPIN. All right sir.

The Bureau of the Budget this year prescribed a major change in the object classification structure which is to be effective this coming July 1. Heretofore, the reimbursement to the motor pool had been charged to object class 07, other contractual services, by a number of agencies. Under the new classification structure motor pool charges are included under the same heading as per diem and transportation expense where people perform travel. To avoid including motor pool reusals as travel, since they had not previously been included, this amendment is proposed. This being the first year of the new object structure, if reimbursements to the pool are subject to the limitation it may discourage agencies from participating in motor pool operations, or agreeing to have their vehicles incorporated in future pools.

Senator MAGNUSON. All right, I think we understand that. Now that concludes the suggested amendments.

INVENTORY OF GOVERNMENT PROPERTY

Now let me ask you, have you completed your inventory on Government personal property?

Mr. TURPIN. You mean the Government personal property or stock-pile?

Senator MAGNUSON. No. Didn't you conduct an inventory on all Government personal property?

Mr. TURPIN. On—

Senator MAGNUSON. Or was it real estate?

Mr. TURPIN. That is real property; yes, sir.

Senator MAGNUSON. And is that completed?

Mr. TURPIN. That is a continuing active project each year, Mr. Chairman. There is an inventory made of all Government-owned real property and all leased real property, and a report published as of each June 30.

Senator MAGNUSON. Will that be ready in June?

Mr. TURPIN. The report for last June 30 was published in February, 1961. The report as of this coming June 30—

Senator MAGNUSON. Will be published—

Mr. TURPIN. Will be published next February.

Senator MAGNUSON. That is what I am getting at. Have you been directed to make an inventory of personal property owned by the Government?

Mr. TURPIN. No, sir; we have not.

Senator MAGNUSON. That would be awfully hard to do.

Mr. TURPIN. I think it would be extremely difficult and costly.

Senator MAGNUSON. What was last year's total of Government ownership, if you recall? I mean what the Government owns.

Senator ALLOTT. You mean all Government property?

Senator MAGNUSON. Yes; everything we own. I remember the figure, but I want it in the record.

Mr. TURPIN. The total figure as of June 30, 1960, for real property was \$52 billion made up of \$46 billion in the United States, \$1.8 billion in the U.S. territories and possessions, and \$4.5 billion in foreign countries.

Senator MAGNUSON. This includes acreage in different places and everything?

Mr. TURPIN. Yes, sir.

Senator MAGNUSON. We have a release here. It came out in February of 1961.

Mr. TURPIN. Yes, sir. The amount included is the acquisition cost.

Senator MAGNUSON. Yes. Would it be the present acquisition cost?

Mr. TURPIN. No, sir.

Senator MAGNUSON. The acquisition cost—

Mr. TURPIN. At the time it was bought or acquired.

Senator MAGNUSON. So if I made a statement that that figure is low, I would be correct, would I not, because we acquired a lot of Government-owned land at very reasonable prices sometimes.

Mr. TURPIN. I think that would be a reasonable statement, Mr. Chairman. Of course, there would be a number of items identified in there that were constructed during the war. You know, however, that certain industrial type plants and military installations no longer have a fair market value equal to what they originally cost.

Senator MAGNUSON. Yes, but a lot of Government land was gotten sometimes for a dollar, just for a community to get a Government installation worth millions. Is that correct, sir?

Mr. TURPIN. That is correct. If the current day value was placed on it, I believe it would be in excess of that.

SURPLUS REAL PROPERTY DISPOSAL

Senator ALLOTT. Let us go to the question of these plants that are obsolescent and which have lost their value, their original value. Mr. Turpin, do you have any figures on those? In other words, how much of this stuff is the Government holding that we ought to turn loose?

Mr. BOUTIN. Mr. Knott would like to speak to that. Mr. Knott is the Deputy Commissioner of Public Buildings, sir.

Mr. KNOTT. Senator, there is a great deal of property that is in the pipeline for disposal right now. Actually, in 1960, we sold and received in cash or on credit terms \$78 million for property valued at \$76 million. We received about 109 percent of the appraised fair market value. This was made up of about 600 properties of varying sizes. Our cost recovery experience runs, over the years, about 33 $\frac{1}{3}$ percent of acquisition costs. It is running a little lower now because our inventory of high-cost industrial properties is larger. Our inventory of surplus real property is slightly over \$1 billion right now. On the other hand, we have fewer numbers of properties.

Through May of this year we had sold 258 properties with a current value of some \$65 million. We are realizing 99 percent of the appraised fair market value for this property.

Senator ALLOTT. What I am trying to get at is the value and the number of these properties which should be disposed of, which have lost their value as Mr. Turpin, I think it was, referred to it, because they were acquired and perhaps wartime plants set up and now, of course, methods have changed and it has gone into private industry. What is the number and value of these? Is there any way of setting it up?

INDUSTRIAL PROPERTY AT MORGANTOWN, W. VA.

Mr. KNOTT. No. We have a record of our industrial properties which make up the bulk of this billion dollars. Actually, about 80 properties make up the bulk of that billion dollars. Those properties are properties such as, to take one reasonably close by, Morgantown, W. Va., which we have had available for sale now for some 3 years. This property represents an investment of between \$60 million and \$80 million. However, when we first offered it for sale, the highest bid we received the first time was a half million, and that was with qualifications.

Senator ALLOTT. What was the nature of that property?

Mr. KNOTT. That was a—

Mr. BOUTIN. Chemical plant.

Mr. KNOTT. A chemical plant; methalene. Du Pont built the plant, was building it when the war came along. It completed the plant and sold it to the Government and operated it during the war. It was more recently operated by Olin-Mathieson until it became unproductive to use.

Senator ALLOTT. Now, of these 80, all of them, I assume—and I hope I assume correctly—are on the market for disposal?

Mr. KNOTT. Yes, sir. We have, I would judge, in the order of 500 properties available for sale right now. We find other Federal uses for some of them. There is a surplus industrial plant in Louisiana today that a Federal Agency has asked us to withhold from sale until they can take a look at it. We are doing a great deal to try to find other Federal use for these properties, but, by and large, the big money is invested in wartime properties that for many years were held by the military departments and leased to private enterprise so long as that was a productive enterprise. But when private enterprise was no longer interested, as in the case of the Morgantown plant and the departments were faced with either disposing of them or carrying on continuing maintenance and operating at a pretty high cost, they have released those properties to us and we have them for sale.

We have offered some of them three or four times before we could find a market for them. When we have sold them we think we have made a good recovery. As you know, in the sale of Fort Logan we made an excellent recovery because our principal value was the land. Whenever we have bare land for sale, our cost-recovery ratio is excellent because the land value index has continued to rise. But our losses come in properties that are poorly located with respect to the stream of economic development in the country today. Arizona land, bare land, California, Florida, Texas—where land which we acquired many years ago at a low cost, and it has not been substantially improved—that land, normally produces an excellent return.

Senator ALLOTT. That is not the problem?

Mr. KNOTT. That is not the problem.

Senator ALLOTT. It lies in the industrial type of thing.

Mr. KNOTT. That is right. That is our big problem, and we are in competition with well over 1,000 expert industrial realtors in the country today who are selling competing properties for private enterprise. We are in the same market.

Senator ALLOTT. Thank you for that explanation.

MILITARY SURPLUS PROPERTIES

Senator MAGNUSON. You still have charge of all the military surplus, do you not?

Mr. KNOTT. That is right, sir. And, as you know, Defense is planning to report to us a number of installations that have some 30 million square feet of storage space along with other facilities.

Senator ALLOTT. I don't know whether this is classified or not, but I would like somewhere along here to get an idea of the total surplus disposals of last year.

Mr. KNOTT. Right, sir. The figure I gave you from June 30—

Senator ALLOTT. I don't mean just real property. I mean the—

Mr. KNOTT. The entire picture, real and personal.

Senator ALLOTT. Yes.

Mr. KNOTT. All right.

(The material requested follows:)

Government-wide sales of surplus property, fiscal year 1960

[In millions]

	Acquisition cost	Sales price
Real property.....	\$320.0	\$78.0
Personal property.....	2,055.5	105.0
Total.....	2,375.5	183.0

In addition to the foregoing \$1.6 million was received by the Government during 1960 for rental of outleased surplus real property and \$62.2 million from the sale of personal property designated as "scrap."

POLICY ON DISPOSAL OF SURPLUS PROPERTY

Senator MAGNUSON. All right. Now the chairman is going to try and undo some of his own work here with you people. You will recall—not the new people but some of the others here. Last year I had language placed in the bill about surplus property in which I said that GSA should not dispose of this property until there was a comprehensive plan evolved of its disposal, not to do it just piecemeal, and this came out of a situation like some others in the country—where the military has abandoned, say, a whole fort, in this case Fort George Wright out in Spokane, and there were others, too. Of course, the city wanted it and the State educational institutions and several other people.

Senator ALLOTT. We had exactly the same problem with Fort Lyon.

Senator MAGNUSON. And we put that language in, and now we find that the General Services are better off without that language, and they have suggested that we put in this bill or we repeal that provision in the Independent Offices Act. This is last year, 1961, regarding the disposal of surplus real property, because they are in a better position to work out an agreement with cities or counties if that provision is not in. Would that be a correct statement?

Mr. KNOTT. That is right, sir. It is so broad in its application that it doesn't leave us with the judgment and discretion that we think we need to move on with that which would not be available to them anyway.

Senator ALLOTT. This wouldn't mean that in working out the disposal of such a thing; let us talk about Fort Logan because I happen to know it. You wouldn't, in disposing of it, attempt to work out an overall plan, a logical plan of disposal before you started selling off chunk by chunk or something like that.

Mr. KNOTT. Well, we would, while we were developing our plan for disposal, notify these agencies, State and local, of the availability of the property and give them a reasonable period within which to come in and tell us one way or the other.

Since the law has been in effect, we have spelled out specific time limits for the public agencies to come in with acquisition plans. We think we have a better understanding with public agencies if we tell them, "You have 30 days in which to come and tell us what your plan is." We will give them more to implement plans, but we want to know within 30 days whether they have any interest.

Senator ALLOTT. Then your answer to my question is "Yes."

Mr. KNOTT. That is right.

Senator ALLOT. This would not prevent you from working out logical plans for the disposition of the whole.

Mr. KNOTT. Right, sir.

Senator ALLOTT. And not just selling it off chunk by chunk.

Mr. KNOTT. Right. And we would not propose with the repeal of this legislation to change our regulations at all. This brochure outlines the way in which public agencies are notified.

Section 2 spells out the procedure which we will continue to follow, notwithstanding the action taken with respect to this legislation.

Senator ALLOTT. I think we should make reference to their document, "Disposal of Surplus Real Property, for Public Use, for Private Use."

NOTIFICATION TO SENATE COMMITTEES

Senator MAGNUSON. And the Senate Committee on Government Operations has been notified of this, and they have asked us to do this, as shown by the correspondence.

(The correspondence referred to follows:)

MAY 15, 1961.

HON. JOHN L. McCLELLAN, *Chairman,*
Committee on Government Operations,
U.S. Senate, Washington, D.C.

DEAR SENATOR McCLELLAN: With your letter of May 8 you attach copy of a letter addressed to the President of the Senate dated March 27, 1961, transmitting a draft bill prepared by General Services Administration to repeal a certain provision in the Independent Offices Appropriation Act, 1961 (74 Stat. 434), regarding the disposal of surplus real property, which was referred to your committee.

I am advised by Senator Magnuson, chairman of the Subcommittee on Independent Offices Appropriations, that the purpose of the provision referred to is now being resolved, and at his request I am referring this matter to his subcommittee for consideration and recommendation in connection with the hearings on the independent offices appropriation bill for 1962, which are scheduled to begin in the near future.

I thank you for your courtesy in referring the matter to this committee.

Yours very sincerely,

CARL HAYDEN, *Chairman.*

U.S. SENATE,
COMMITTEE ON GOVERNMENT OPERATIONS,
May 8, 1961.

HON. CARL HAYDEN,
Chairman, Committee on Appropriations,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Attached is a copy of a letter addressed to the President of the Senate under date of March 27, 1961, with which is transmitted a draft bill prepared by the General Services Administration to repeal a certain provision of the Independent Offices Appropriation Act, 1961 (74 Stat. 434), regarding the disposal of surplus real property, which has been referred to this committee for introduction and consideration.

Before submitting the proposed legislation to the Senate, it would be helpful to this committee if you would give us the benefit of your views relative to the points raised in the Administrator's letter. You will note that on pages 3 and 4 he states that because of inherent obscurities in the latter provision which are in no way clarified by the legislative history of the Independent Offices Appropriations Act, he anticipates encountering difficulties and controversies in the administration of the new law.

The Administrator also contends that the act contains no definition of "local governmental units," no criterion for the determination of a "reasonable period of time" is set forth in the act, and that the General Services Administration and

other disposal agencies will incur increased administrative costs in carrying out the notification requirements inherent in the amendment to the 1960 act in many cases where it is obvious that local governmental units would have no interest in acquiring the property.

In view of the fact that the amendment was adopted upon recommendations of the Appropriations Committee, I feel that it is only proper that your committee should (a) either give consideration to the recommendations of the Administrator of General Services and, if in agreement with his recommendations, include the necessary language in the Independent Offices Appropriations Act for fiscal year 1962, to overcome any deficiencies or complications in administration that have resulted, or (b) if you prefer that this committee act on the proposal, it would be most helpful if you will give us the benefit of your views before any further action is undertaken.

With kind regards, I am,

Sincerely yours,

JOHN L. MCCLELLAN, *Chairman.*

SUMAS PROJECT

Now I have a letter from the Office of the Secretary of the Treasury in which the Bureau of Customs and the Treasury have requested that the Public Buildings Service of the GSA build a truckhandling facility, dock, and warehouse at Sumas. They say this project is being handled by the regional office of GSA. The contract for construction is scheduled to be let in June, but no construction or expansion of custom facilities is included in the 1962 Customs appropriations bill as passed by the House.

Does anyone have knowledge of that?

Mr. KNOTT. Where is this location?

Senator MAGNUSON. Sumas, Wash. That is the border town.

I can say for the record that I know a little bit of the reason for it. Sumas was a relatively quiet border station up until 4 or 5 years ago when they built the freeway between Bellingham and Vancouver, British Columbia. So all of the trucks—this is parallel off about 30 miles. All the trucks have been going in and out of Canada through the Sumas area rather than the regular Blaine entrance, and they haven't been able to handle it.

Well, I will give this to you and you can run this down. The Treasury is anxious that the amount be put in the bill. I think it is somewhere in the nature of \$50,000.

Mr. KNOTT. Mr. Chairman, the Customs Service has authority within certain limits, and, as I recall it, \$50,000 is within that limit, to proceed without—

Senator MAGNUSON. Let's run it down because this comes from the Treasury Department.

Mr. KNOTT. Right, sir, we will advise you of the facts by letter.

COAST AND GEODETIC SURVEY, SEATTLE FACILITIES

Senator MAGNUSON. Now I wanted to have another thing brought up. The Coast and Geodetic Survey, the headquarters in Seattle, their lease is up and apparently the Milwaukee Railroad owns—they have to expand a little bit. The Milwaukee Railroad does not wish to renew the lease, and they have to have additional facilities and the port of Seattle and the city have very able facilities, but would the responsibility be in the Public Buildings Division of the GSA to do the negotiating?

Mr. KNOTT. For the sale of this parcel?

Senator MAGNUSON. No. For the new, acquiring the new.

Mr. KNOTT. Yes.

Senator MAGNUSON. Otherwise they won't have any quarters. Of course they are enlarging due to the enlargement in oceanography and the availability of the University of Washington School of Oceanography.

Mr. KNOTT. The only question I have is: Is this a special purpose facility, and, if it is, the Corps of Engineers can handle it.

Senator MAGNUSON. I don't know.

Mr. KNOTT. I can run it down.

Senator MAGNUSON. I can give you this and you can run it down.

Mr. KNOTT. All right, sir.

Mr. BOUTIN. We have with us, Mr. Chairman, our new regional commissioner for region No. 10, Mr. H. A. Abersfeller.

Senator MAGNUSON. Do you know about that?

Mr. ABERSFELLER. No, sir.

Senator MAGNUSON. You can run this down. I think we have got a little time on it, but it will become an emergency matter because they can't renew their lease. A letter will do.

AUBURN AND SAND POINT, WASH., PROJECTS

Gordon, I don't like to burden you with local problems, but we have another one up in Auburn.

Senator ALLOTT. I might bring in a few myself. I have got—

Senator MAGNUSON. You have got that Denver thing.

Senator ALLOTT. I have got another besides that.

Senator MAGNUSON. Mr. Turpin, you submitted to the committee here a memorandum on the movement of the GSA activity from Seattle to Auburn, and then you point out the background of the thing, and then I understand that the GSA has an alternative to go out to Sand Point and ask the Navy to take a building out there for part of your operations.

Now is this correct? The cost at Sand Point proposed by you people for 510,000 net square feet, this is a new item, would be \$5,698,000. Is that correct?

Mr. BOUTIN. That was the original estimate at the time that was submitted; that is right.

Senator MAGNUSON. To go to Sand Point?

Mr. BOUTIN. That was for new construction.

Senator MAGNUSON. At Sand Point?

Mr. BOUTIN. Was it—

Mr. ABERSFELLER. Let me clear it up. It is not exactly Sand Point. It is along Sand Point way. It is Government-owned property there.

Senator MAGNUSON. All right. And if you went to Auburn you would get 730,000 square feet but you would have to do some new construction which would only cost \$2,700,000. Is that correct?

Mr. ABERSFELLER. Yes, sir.

Senator MAGNUSON. It will cost \$3 million more if you go out to Sand Point.

Mr. ABERSFELLER. No, sir; not under the counterproposal, Senator. May I say this: Our plan, the plan that we are proposing here, has

to do with only the administrative office space. It is still our plan to use the warehouse facilities at Auburn as initially planned and scheduled in the proposal submitted last year. The administration building at Auburn is not adequate in size to house the administrative offices.

Senator MAGNUSON. You have to build new facilities, some new.

Mr. ABERSFELLER. Yes, sir. We would have to duplicate what exists. This would cost an estimated \$1,251,000. Let me get the cost first and then I will go on to some of the other points.

It is our proposal that we renovate an existing building at Sand Point Naval Air Station.

Senator MAGNUSON. How much would that cost?

Mr. ABERSFELLER. \$653,000.

Senator MAGNUSON. So the cost—one is \$700,000, and one is \$1 million.

Mr. ABERSFELLER. Yes, sir. We would save on that alone a half million dollars. In addition, if we had to move out of Seattle entirely, we would have to build at Auburn, at an estimated cost of a half million dollars, a fireproof, fire resistant at least, building for the National Archives and Records Service since none of the warehouses that are there now have that characteristic.

In addition to that, I think, as you—

FIREPROOFING EXISTING BUILDING

Senator MAGNUSON. Why do you have to build? Can't you fireproof one of the existing warehouses?

Mr. ABERSFELLER. Yes, perhaps, but from our engineering estimates the fireproofing of existing buildings is nearly as costly and actually we thought it would take away from later disposal of the property. This is approximately 200,000 square feet in size, which is substantially larger than is needed. The administration building is located roughly three-quarters of a mile from the proposed warehouse we propose to occupy at Auburn, and it is our estimate we can recover along the same line Mr. Knott talked about—a good deal of this is bare land—between \$250,000 and \$500,000, and for the purposes of discussion we are using the low figure, \$250,000, for that acreage, plus the administration building at Auburn. This then brings us to the possibility—

Senator MAGNUSON. Wait a minute. You lost me now.

The administration building in Seattle would be longer than three-quarters of a mile from the—

Mr. ABERSFELLER. I meant at Auburn, sir. We are talking now about disposing of the property if we do move to Sand Point and if this plan is agreeable. We would then be able to recover by selling that property between \$250,000 and \$500,000 which—

Senator MAGNUSON. Our Auburn property.

Mr. ABERSFELLER. In Auburn, yes, sir, which we would not otherwise be able to sell. This we hope we will be able to sell to light industry, and thereby help the economic growth in the valley there somewhat substantially better than we can do now. That is from the administrative facilities point of view. As you know, there is some light industry starting out there. The land, together with the administration building, we think is quite desirable from a selling

point of view. So, all together, what we are saying in effect is that we would effect a one-time savings of \$1,300,000 by moving our administrations building into one of those buildings at Sand Point Naval Air Station, and moving our warehouses as originally planned to Auburn.

RENOVATION OF BUILDING No. 5-D

In addition to that, if we could have savings, and we are hoping for some, we would renovate the other two floors of building No. 5-D, and get out of 130,000 feet of leased space.

Senator MAGNUSON. What would that cost?

Mr. ABERSFELLER. Roughly \$1.4 million. But, Senator, if I may, this would save us \$200,000 a year in rents. We would amortize this cost of renovating building 5-D in somewhat less than 7 years. I think this is a good investment. We get out of some high-priced space in downtown, the Norton Building, at \$5 a square foot.

Senator MAGNUSON. In the first place, I wouldn't let you spend that money at Sand Point because Sand Point has got to be disposed of sooner or later, and you are going to spend almost the same amount of money when you get through at Sand Point. Remember what I say. If you go there you will be around here asking for about the same amount of money. And then you don't know how long you can stay there.

Mr. ABERSFELLER. Well, the particular building we have in mind, Senator, is in fact salable.

Senator MAGNUSON. You say it is salable, but once Government agencies get their nose under the tent out there there will be another one who wants to come in and then another one, and pretty soon we are stuck again with the Sand Point problem, and what everybody in our community wants to do—and everybody—they want to have Sand Point declared surplus and—

Mr. ABERSFELLER. Well, Senator, as you know, we talked about this previously.

Senator MAGNUSON. I know. You fellows want to live up there.

Mr. ABERSFELLER. No; believe me.

Senator MAGNUSON. That is the most beautiful place in the country, to live up there.

Mr. ABERSFELLER. We talk about Seattle as a beautiful place to live.

Senator MAGNUSON. That area is pretty nice. And I don't blame you, but the trouble is—and if Sand Point was going to stay there and was a going Government facility, I would personally say fine. But the whole objective is to get everybody out of Sand Point.

Mr. ABERSFELLER. We thought perhaps it might be conducive to changing the atmosphere of Sand Point from a purely military one to a business one.

Senator MAGNUSON. It might be and it might not. I don't know. Well, anyway, there is no money in the bill for it.

Mr. ABERSFELLER. No, sir.

Senator MAGNUSON. And I don't think by next week we will resolve it. So, if we do resolve it, we will have to come around to a supplemental of which we will have one or two here.

Mr. ABERSFELLER. We are seeking no money for this at all, sir. In fact, we will save money by this. We will save \$1,300,000. We are not seeking any money for that Auburn thing at all.

Senator MAGNUSON. No; I know you are not. But you would want a million-something to renovate part of the Sand Point building.

Mr. ABERSFELLER. No, sir; this would be from money that has already been appropriated.

Senator MAGNUSON. From money appropriated?

Mr. ABERSFELLER. Yes, sir; money already appropriated for Auburn; yes, sir. The saving is a net saving; we are not asking for any more.

Mr. TURPIN. Mr. Chairman, it is a figure that is available and administratively has been earmarked.

Senator MAGNUSON. We have got the money in for the Auburn thing, and now you want to shift signals and get it over to Sand Point.

Mr. TURPIN. That is right. About \$653,000 of it.

Senator MAGNUSON. Well, I don't know. We have been working—Senator Jackson and I and the Congressmen and the people of the State and the area, ever since—say about 10 years—to get Sand Point, get everything out of Sand Point, and once you get back in, and I don't know about your savings; they might be there, but I doubt it. And, of course, you are going to—the University of Washington, which is experiencing growing pains that you can hear all the way downtown, they have got their eye on it. In fact, the land was originally given to the Government by the county and the university. So I don't know. Right offhand I would think that you had better think about spending your money and going down to Auburn, and you have got a permanent establishment. You know you are there then because we are going to be plagued with this 2 or 3 years from now, and I think the Defense Department is about ready to declare it surplus. I think; I don't know. I have talked about it with them.

Well, we have a little time on this. I wanted to bring it up while you were here.

Then we will notify or have the clerk call you and see what time is convenient for all of us for this.

BUREAU OF RECLAMATION SPACE, DENVER, COLO.

Senator ALLOTT. I have one short matter. There is a situation at the Federal Center in Denver where the Bureau of Reclamation has some 1,200 to 1,300 engineers. Who is qualified to speak on that?

Mr. BOUTIN. Mr. Knott would be best qualified.

Senator ALLOTT. I recently had a letter from GSA, I believe, in which they told me of plans for refurbishing this building and bringing it up to par.

Now I have been through this building myself at different times of the year. I was through it last summer and I have been through it in the winter. It is an old storehouse, as you know, and I recently had a letter also from the Secretary of the Interior that the Commissioner of Reclamation has been very interested in this matter.

The Secretary of the Interior has written me a letter in general terms that he is very concerned about the matter. The substance of the letter I received from you—and I don't have it here—was to the effect that you thought the building should be refurbished and brought up to date.

Now it is inconceivable to me—and I am not a construction man, but I have been involved with a lot of it—that this building can ever be placed in a situation where it could be considered office space. In the first place, it is spread all over. Buildings have been attached together. Have you seen it?

Mr. KNOTT. Yes, I have.

Senator ALLOTT. Have you seen it recently?

Mr. KNOTT. It has been 2 years.

Senator ALLOTT. Have you ever been out there in the summertime?

Mr. KNOTT. Yes, sir. It is hot.

Senator ALLOTT. Then you know of the circumstances of which I speak. What are the plans on this? I think it is about time to build a new building there.

Mr. KNOTT. Well, there is at least enough difference of opinion, Senator, among our own people on the very points that you have raised that we engaged a firm of engineers to look into the feasibility, from a cost standpoint, of making the alterations that would be necessary, such as we outlined in that letter, to bring it up to an acceptable standard. We expect to get that report momentarily. I think we can give you a much more definitive reply at that time. Reclamation is a large tenant out there and was there early in the use of this, but there are other buildings that are in bad shape, and if we are going to continue to house Federal employees in them, we must do something.

This means that we must go to the Public Works Committee with a prospectus.

Senator ALLOTT. Well, I just want to point out that it is impossible for me to understand how an engineer who expected to work with any degree of accuracy—I am not even talking about comfort. God knows they couldn't be comfortable in that building in the winter with the wind whistling around their ears, and in the summer with dust and sweat dripping all over their papers. It is impossible for me to understand how an engineer could possibly work accurately under those circumstances.

When you get this report I would appreciate it if you would not just write me a letter, but I would like to discuss it with you.

Mr. KNOTT. Certainly.

Mr. BOUTIN. Some of these old military installations on their reconstruction or modernization present tremendous problems. We have many like problems to this, Senator. It is a tough one.

Senator ALLOTT. The Bureau of Reclamation is going to be with us a long time, I hope. If it isn't, the Western States will be lost. And these people are very, very important to the development of the West. That is the reason I bring this matter up at this time.

Mr. BOUTIN. I was out there this spring to look at that place. I know of what you speak.

Senator ALLOTT. Were you? Then I don't think I exaggerated any, did I?

Mr. BOUTIN. I don't think so, sir.

Senator MAGNUSON. All right, if there is nothing further, we thank you gentlemen all for being here.

We will recess until 10 o'clock on Monday.

STATEMENT OF SENATOR CLAIR ENGLE, OF CALIFORNIA

Mr. Chairman, I would like to urge that the committee consider the addition of a number of high priority "new starts" to the independent offices appropriations bill that is now before you. Among these is the Federal building at Bakersfield, Calif.

The Bakersfield project is authorized. It is fully funded with respect to "sites and expenses" which means that the plans and specifications are being completed with fiscal 1961 money. It will be all ready for construction by December of this year. It ought to be started.

I understand there are a number of other proposed Federal buildings in the same category—28, I believe, in various States which would cost a total of \$146 million. Considering them on their merits, and in the light of the need for stimulating our national economy, the committee may well want to add several or all of these in the 1962 budget.

In any event, Mr. Chairman, I request that you approve an appropriation of \$1,434,000 as the fiscal 1962 construction capability for the Federal building at Bakersfield.

(Whereupon, at 3:50 p.m., Friday, June 16, 1961, the committee recessed, to reconvene at 10 a.m., Monday, June 19, 1961.)

INDEPENDENT OFFICES APPROPRIATIONS FOR 1962

MONDAY, JUNE 19, 1961

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATION,
Washington, D.C.

The subcommittee met at 10:07 a.m., pursuant to recess, in room F-37, U.S. Capitol Building, Hon. Warren G. Magnuson (chairman) presiding.

Present: Senators Magnuson and Allott.

HOUSING AND HOME FINANCE AGENCY

OFFICE OF THE ADMINISTRATOR

STATEMENT OF ROBERT C. WEAVER, ADMINISTRATOR; ACCOMPANIED BY JOHN M. FRANTZ, AGENCY BUDGET OFFICER; MILTON P. SEMER, AGENCY GENERAL COUNSEL; SIDNEY H. WOOLNER, COMMISSIONER, COMMUNITY FACILITIES ADMINISTRATION; FRANCIS X. SERVAITES, ACTING COMMISSIONER, PUBLIC HOUSING ADMINISTRATION; NEAL J. HARDY, COMMISSIONER, FEDERAL HOUSING ADMINISTRATION; WILLIAM M. SLAYTON, COMMISSIONER, URBAN RENEWAL ADMINISTRATION; AND J. STANLEY BAUGHMAN, PRESIDENT, FEDERAL NATIONAL MORTGAGE ASSOCIATION

APPEAL LETTER

Senator MAGNUSON. The committee will come to order. We will start this morning with Housing and Home Finance.

Mr. Weaver, we will put your letter in the record, and the justifications for the amendments suggested may go in as we take them up. (The letter referred to follows:)

HOUSING AND HOME FINANCE AGENCY,
Washington, D.C., June 8, 1961.

Hon. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of the Independent Offices Appropriation Bill for 1962, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your letter of June 2, 1961, with respect to the forthcoming hearings by your committee in connection with the independent offices appropriation bill for 1962, H.R. 7445.

We respectfully request the privilege of appearing before your committee in connection with some 10 amendments which we will recommend that your committee propose in the bill as passed by the House. The suggested amendments are briefly identified in the enclosed reference list; the justifications will be forwarded to the committee staff early next week.

When we appear before the committee, we shall, of course, be happy to discuss any matters connected with the fiscal 1962 budget program of the Agency, regardless of whether they are specifically involved in the recommended amendments.

Sincerely yours,

ROBERT C. WEAVER, *Administrator.*

HOUSING AND HOME FINANCE AGENCY

Summary of proposed amendments to the independent offices appropriation bill, 1962
(H.R. 7445)

TITLE I

Amendments	Union Calendar bill	
	Page No.	Line No.
Office of the Administrator:		
Salaries and expenses:		
1. Administrative expenses.....	26	24
2. Language amendment.....	27	5
3. Language amendment.....	27	8
Public works planning fund: Program appropriation.....	28	6
Urban studies and housing research: Program appropriation.....	28	16
Housing for the elderly fund:		
1. Program appropriation.....	28	19
2. Administrative expenses.....	28	20
Public Housing Administration: Administrative expenses.....	29	5

TITLE II

Office of the Administrator:		
College housing loans: Administrative expenses.....	45	14
Public facility loans: Administrative expenses.....	46	3
Federal Housing Administration: Nonadministrative expenses.....	48	19

AMOUNT REQUESTED

Senator MAGNUSON. For the purpose of the record, the 1961 appropriation was \$344,883,000, the budget estimate for January was \$409,850,000, and then the amended budget was \$445,500,000. The House gave you \$426,918,000, which is \$82,035,000 over the 1961 fiscal appropriations but \$18,582,000 under the 1962 amended estimates.

And you are directing your testimony in these suggested amendments to the restoration of some \$7,882,000. We will be glad to hear from you.

You have all this laid out here in a brochure, and we will take them one at a time.

Maybe, Mr. Weaver, we can save time by having you start on page 2, and we will put your complete statement in the record.

(The statement referred to follows:)

STATEMENT OF ROBERT C. WEAVER

Mr. Chairman and Senators, I appreciate this opportunity to appear before your committee to present the program and budget estimates of the Housing and Home Finance Agency for the fiscal year 1962, and to discuss with you certain amendments we would like to propose in the bill as enacted by the House.

The Commissioners are with me, and we are here to serve the pleasure of the committee. This is the first time we have had the privilege of meeting with you and I hope that we can satisfactorily answer any questions you may have concerning the budget needs of the Agency.

I want to stress, Mr. Chairman, that we face major increases in workload in almost all of our programs next year. For this reason, we must strengthen

our staff—particularly in the field offices—if these programs and activities are to be administered efficiently and economically and in a manner that reflects credit on the Government. I feel, frankly, that our resources will be stretched to the utmost, even if this committee approves our budget in full, as I recommend and hope that it will.

The budget estimates and detailed justifications which have been submitted contain a number of increases for 1962 over amounts available for the current 1961 year. We think that these increases are essential to meet the workload requirements of our expanding programs and activities, as well as to assure the fulfillment of the statutory objectives and public purposes that are served.

In responding to the chairman's letter of June 2, I indicated that we would propose several amendments to the pending bill. It may be helpful if I briefly introduce and comment on each amendment and then the constituent Commissioners will be glad to discuss each proposition along any lines the committee desires.

SALARIES AND EXPENSES, OFFICE OF THE ADMINISTRATOR

Senator MAGNUSON. All right, Mr. Weaver, your first amendment concerns "salaries and expenses, Office of the Administrator." We will insert the full text of your justification at this point in the record.

(The material referred to follows:)

HOUSING AND HOME FINANCE AGENCY

OFFICE OF THE ADMINISTRATOR

SALARIES AND EXPENSES

Estimate, \$13,150,000; proposed by committee, \$12,900,000; in act, \$12,900,000

(House hearings, pt. 2, pp. 929-969)

(1) Page 26, line 24, strike out "\$12,900,000" and insert in lieu thereof "\$13,150,000," the estimate, and an increase of \$250,000 above the amount allowed by the House committee.

(2) Page 27, line 5, after the words "as amended," insert "and".

(3) Page 27, beginning in line 8, strike out the following: "* * * urban planning financed through grants to State and local government agencies pursuant to title VII of the Housing Act of 1954, as amended, and reserves of planned public works financed through advances to municipalities and other public agencies pursuant to title VII of the Housing Act of 1954, as amended, * * *"

HOUSE REPORT

(Pertinent excerpts, H. Rept. 449, p. 12)

Office of the Administrator, salaries and expenses.—The revised budget estimate for this item is \$13,150,000. An appropriation of \$12,900,000 is recommended for administrative expenses of the Office of the Administrator, the Urban Renewal Administration and the Community Facilities Administration. This is an increase of \$1,885,000 over the appropriation for the current fiscal year and is a reduction of \$250,000 in the budget estimate. The expenses of the voluntary home mortgage credit program are also included in this appropriation. The amount in the bill will provide for 1,440 jobs, an increase of 260 over 1961, primarily in the urban renewal programs which are growing substantially. The committee has also amended the language which has been carried in this bill in previous years to also authorize the collection of fees in the urban planning and reserve of planned public works programs to cover the cost of services rendered.

JUSTIFICATION

(1) Salaries and expense, Office of the Administrator

The budget for the fiscal year 1962, as amended by House Document No. 157, dated May 9, 1961, contains an appropriation request in the amount of \$13,150,000 to fund administrative expense requirements for five programs or activities for which the Administrator is responsible. These programs are as follows: Office of the Administrator:

General agency supervision.

Consolidated compliance activities.

Voluntary home mortgage credit program.

Community Facilities Administration: Public works planning advances.

Urban Renewal Administration: Urban renewal programs.

The House committee recommended and the House approved an appropriation of \$12,900,000—a reduction of \$250,000 from the revised budget estimate. The amendment proposed for adoption by the Senate committee would restore the budget estimate of \$13,150,000. Enactment would permit the employment of the full staff complement proposed for the programs listed above.

General agency supervision.—The revised estimate provided for the addition of 25 during the fiscal year to the Administrator's immediate staff concerned with the Administrator's functions as head of the Agency and as the principal housing official of the Federal Government. The recommended increase is designed for the purpose of assisting the Administrator in analyzing and finding solutions to the wide range of present and emerging housing and urban redevelopment problems, and in promoting a consistent and coordinated approach to such problems in the light of national goals as identified by the Administration and the Congress.

For example, there is a substantial and growing emphasis on finding solutions to the housing problems of the Nation's aging population, and the Agency is conducting there separate and specialized programs in this area. The past year has seen a rapidly increasing concern with the problems of metropolitan areas and a growing recognition of the Federal interest in helping to develop solutions to them. Urban transportation is another area in which the demand for Federal attention and assistance has heightened during the past year, with a major focus on the extent to which present HHFA urban planning and development programs can contribute to the solution of urban transportation problems.

In addition, increased staff requirements are attributable to the generally increasing public and congressional interest in housing and community development programs during the past several years, and an anticipated further increase in this interest during the budget period. This interest produces a resultant increase in the workload of the Office of the Administrator with respect to program planning and development; legislative, fiscal, and administrative analysis in connection with existing and new and proposed programs; and the presentation and explanation of Agency policies and programs to the public, industry, local communities, and agencies, and the Congress.

Consolidated compliance activities.—The Office of the Administrator provides a consolidated compliance and investigative service for the entire Agency. The 1962 budget proposed to continue the staff now handling the substantial investigative caseload that comes before the Compliance Division. During the past 6 years, this staff has handled an average of about 2,000 cases a year. At March 31, 1961, there were 1,620 investigative cases in various stages of processing. Maintenance of the present staffing of the Division, as proposed in the budget, is essential to the conduct of this necessary activity.

Voluntary home mortgage credit program.—The Office of the Administrator provides staff and supporting services and facilities for the National Voluntary Mortgage Credit Extension Committee and the seven regional committees. The VHMCP seeks to facilitate the flow of private funds for FHA-insured and VA-guaranteed home mortgage loans into remote areas and small communities and to promote, in any area, the financing of housing available for occupancy by members of minority groups. The budget assumes the enactment of pending legislation extending the VHMCP beyond its present expiration date of October 1, 1961.

Public works planning advances.—The program of advances for public works planning, authorized by section 702 of the Housing Act of 1954, as amended, was enacted to encourage municipalities and local public agencies to prepare and maintain a current and adequate reserve of planned public works which could readily be placed under construction, and to promote economy and efficiency in planning and building public works.

The revised budget estimate for the fiscal year 1962 provided for an \$8 million appropriation to the revolving fund from which these planning advances are made. The budget request also provided for an increase of 21 persons during the budget year in the administrative staff responsible for the conduct of program operations. All but three of the indicated staff increase were proposed for assignment to the HHFA regional offices to assist in processing the expanding program workload shown in the following comparison:

	Revised estimates	
	Fiscal year 1961	Fiscal year 1962
Applications processed.....	552	653
Advances approved:		
Number (gross).....	428	550
Amount (net) (in millions).....	\$11.5	\$14.0
Plans approved.....	386	431
Repayments.....	175	200

The Agency has also recommended an amendment for the consideration of the Senate committee to increase the appropriation to the public works planning fund from the \$6 million allowed by the House to the \$8 million request of the amended budget program. This proposed amendment is discussed in section B of this volume.

Urban renewal programs.—The revised administrative expense request for urban renewal programs was \$10 million for fiscal 1962. The larger estimate stems from the fact that workload in the urban renewal programs has increased rapidly as more and more projects move into the execution stages.

As of March 31, 1961, some 483 communities were being assisted in connection with 897 title I projects and general neighborhood renewal plans. By the end of 1962, it is estimated that a total of about 615 localities, both large and small, will have more than 1,100 projects in process. Almost 750 projects are expected to be in the execution stage during 1962, compared with some 550 during the current year.

In addition, almost 1,500 municipalities and State, interstate, metropolitan, and regional agencies are associated in the urban renewal programs through their participation in the urban planning assistance program. This number is expected to grow to over 2,300.

About 1,000 cities and towns will have active local workable programs through which they may qualify for direct urban renewal assistance, for the special mortgage insurance programs of rehabilitation and relocation housing under sections 220 and 221 of the National Housing Act, or for assistance in the provision of low-rent public housing.

For all of these activities and related operations, the budget request suggested the addition of 228 persons during the year for the urban renewal programs, with some 90 percent of the additions proposed for assignment to the HHFA regional offices and field operations. The increasingly heavy volume of staff work generated by program activity is shown in the following summary of selected workload indicators:

Urban renewal programs

	Estimate, 1961	Estimate, 1962	Percent change
Program for community improvement: Certifications and recertifications.....	790	1,010	+27.8
Urban renewal:			
Planning activities during year (including community renewal plans).....	473	815	+68.7
Projects active in execution during year.....	551	746	+35.4
Project financing transactions (millions):			
Federal loans and advances.....	\$445	\$495	+11.2
Guaranteed private loans.....	\$280	\$345	+23.2
Federal grant payments.....	\$153	\$200	+30.7
Execution activities supervised:			
Parcels of land acquired.....	26,700	39,000	+46.1
Families relocated.....	35,000	50,800	+45.1
Structures demolished.....	24,600	34,700	+41.1
Acres disposed of.....	1,300	2,300	+76.9

Conclusion

Under the House bill, the "Salaries and expenses" appropriation was reduced by \$250,000 below the amended budget request. Restoration of this amount as proposed in the amendment would permit the employment of the full staff complement proposed in the amended budget estimate, thus providing the needed staff for expanding program operations in the several programs described above.

It is therefore respectfully requested that the Senate amend the pending bill to restore the administrative expense appropriation to \$13,150,000—the amount of the amended budget estimate for the fiscal year 1962.

(2) Technical language amendment

This technical amendment would insert the word "and" at the appropriate place in the language text. This amendment assumes the enactment of the next recommended amendment to delete certain language from the nonadministrative expense proviso.

(3) Language amendment (limitation on nonadministrative expenses)

The salaries and expenses appropriation text for the Office of the Administrator provides that necessary expenses of conducting site supervision and inspection and fiscal audit of certain types of projects assisted by loans or grants shall be considered as nonadministrative expenses and prescribes a monetary ceiling upon such expenses. The language as proposed in the revised budget covers the following activities:

(a) Expenses of inspections (including fiscal audit) and of providing representatives at the site of urban renewal projects being planned or undertaken under title I of the Housing Act of 1949, as amended;

(b) Expenses of engineering site inspections and fiscal audits of projects financed through college housing loans under title IV of the Housing Act of 1950, as amended; and

(c) Expenses of engineering site inspections and fiscal audits of projects financed through public facility loans under title II of the Housing Amendments of 1955, as amended.

Functions performed pursuant to this nonadministrative expense authorization are undertaken to assure compliance with the various Federal laws and regulations governing construction activities and with the provisions of the loan agreement or loan and grant contract between the Agency and the applicant. Funds to cover the required site inspection and audit functions are provided by the agencies and institutions receiving financial assistance in the form of fixed fees which in the aggregate are estimated to cover the costs of rendering site inspection and fiscal audit services.

The bill as passed by the House would revise the definition of nonadministrative expenses to expand the scope of activities to include:

(a) Urban planning assistance grants; and

(b) Public works planning advances.

Urban planning assistance.—Under section 701 of the Housing Act of 1954, as amended, the Agency makes grants to State, local, and regional planning agencies to finance a percentage of the costs of a variety of types of urban planning. In the case of urban planning assistance grants, there are no physical projects; projects, as that term is used in connection with this program, involve the preparation of a planning document or series of planning documents. Projects are therefore not of the nature to be subjected to site supervision or inspection such as in the programs heretofore included within the nonadministrative expense limitation where construction or other physical work is being undertaken. Fiscal audits are performed in this program after completion of planning work to determine propriety of application of funds in compliance with the terms of the grant. However, since the audit expense is relatively small and the administrative burden of designing and administering a system of fixed fees to cover expenses of fiscal audits would be considerable, the Agency accordingly recommends that the appropriation text not be amended as proposed in the House bill at the present time.

Public works planning advances.—Under section 702 of the Housing Act of 1954, as amended, the Agency advances funds to State and local agencies to prepare preliminary and complete plans for public works. As in the case of urban planning assistance, there are no physical projects to be inspected; the work involves the preparation of plans and specifications for projects to be initiated at some later date. Fiscal audits are not performed in connection with public works planning advances except in the few instances where the planning work

is performed by salaried employees of the entity receiving the advance rather than—as in the predominant number of cases—by private architectural and engineering firms under contract with the State or local agency. The expenses involved in fiscal audit in connection with this program are therefore minimal. The Agency accordingly recommends that this amendment not be included in the appropriation text.

SALARIES AND EXPENSES APPROPRIATION

Senator MAGNUSON. This is in the Office of Administrator?

Mr. WEAVER. Yes, sir.

The first amendment requests restoration of \$250,000 to the appropriation for "Salaries and expenses." This is in the Office of the Administrator. This appropriation provides staff expenses for three programs conducted by my immediate office—general agency supervision, consolidated compliance activities, and the voluntary home mortgage credit program—as well as for the program of public works planning advances under the supervision of the Community Facilities Administration and for the urban renewal programs administered by the Urban Renewal Administration.

The detailed justification explains the staffing requirements for these expanding programs. We think we can do a better job with the full amount of the budget request. Naturally, I feel strongly about the Administrator's direct staff, particularly in the area of program policy. I am persuaded that we cannot hope to give the proper leadership—to make the right decisions at the right times—unless we have a group of highly trained specialists who can keep constantly in touch with what is going on, evaluating the programs and their accomplishments, studying their problems, and advising the Administrator and other key staff on the great variety of problems which arise. In my judgment, we are seriously understaffed on this front at the present time.

Senator MAGNUSON. All right. Now for the purpose of the record, your first amendment is on page 26, line 24 of the bill, where you want to strike out "\$12,900,000" and insert in lieu thereof "\$13,150,000," and then you add two other language amendments.

Mr. WEAVER. Yes, sir.

GENERAL AGENCY SUPERVISION

Senator MAGNUSON. Now for the record, I think you ought to tell us what general agency supervision is, where you want the increase?

Mr. WEAVER. Yes, sir. We have, as you know, a variety of programs in this agency under my supervision, and these are programs which are constantly expanding. They expand because the longer they go, the more mature they become and the greater the workload is. What we want to do here in particular is to look at these programs, both from the point of view of where they are going, what they are trying to accomplish, whether they are accomplishing it—and then look at them from an operational point of view to see how well they are being run, to see what changes should be made in them.

ADDITIONAL POSITIONS

Senator MAGNUSON. Now, the revised estimate provided an addition of 25 people in this office.

Mr. WEAVER. Yes, sir.

Senator MAGNUSON. Under the House bill how many would you have?

Mr. FRANTZ. You see, there are five programs involved here, Mr. Chairman—

Senator MAGNUSON. Let's take general agency supervision. Let's break them down.

Mr. FRANTZ. We have not really made a determination—if the reduction made in the House bill were sustained in the final bill—as to exactly how it might be distributed among these five programs. In all probability we would have to make a smaller increase in general agency supervision than we feel is needed.

Senator MAGNUSON. What is the total increase for all five programs you are asking for in terms of jobs?

Mr. FRANTZ. In terms of jobs the increase is 270.

Senator MAGNUSON. Of which you say 25 would be placed in general agency supervision?

Mr. FRANTZ. This is correct.

Mr. WEAVER. Yes, sir.

Senator ALLOTT. May I ask a question there?

Senator MAGNUSON. Yes.

Senator ALLOTT. On your justification, near the bottom of the page A-1, you show an increase of 260 over 1961. I just want to get these figures together.

Mr. FRANTZ. I am sorry, where are you?

Senator ALLOTT. On your justification page A-1. At the bottom of the page you say the amount in the bill will provide for 1,440 jobs, an increase of 260 over 1961. How does this jibe with the figure which you just gave?

Mr. FRANTZ. The 260 is right, but it is the number allowed by the House committee, according to their report.

Senator MAGNUSON. Let's limit ourselves to the request. That would be 270 of which, in the first division, you are thinking in terms of 25 in general agency supervision?

Mr. FRANTZ. That is right.

Senator MAGNUSON. Let's take within that figure the consolidated compliance activities and the voluntary home mortgage credit program. Where is that?

Mr. WEAVER. In figures?

Senator MAGNUSON. In figures, and in a general way what you are attempting to do there. You have that on page A-4 of your justification.

Mr. FRANTZ. There is no increase in employment in either of those programs, Mr. Chairman, in the budget.

Mr. WEAVER. We would have the same number in both consolidated compliance activities and the Voluntary Home Mortgage Credit Program as we have now. In fact, there would be a slight decrease in the Voluntary Home Mortgage Credit.

COMPLIANCE ACTIVITIES

Senator MAGNUSON. What kind of cases are these compliance activities?

Mr. WEAVER. This is the whole problem of our investigatory activities. This is where we have cases where there are accusations of dishonesty, accusations of maladministration which would involve lack of integrity of the staff, questions of particular projects where there are questions as to whether or not the money has been handled correctly, and all of the scores of things of that nature in all of the constituent agencies.

Senator MAGNUSON. Do these cases cover the complaints that are made where a project or a building or a home does not come up to specifications?

Mr. WEAVER. Well, it could, if there were involved in this other than technical things. In other words, if this is a technical thing, it would come up under an operating agency—

Senator MAGNUSON. Another group?

Mr. WEAVER. Yes. But if there were a question of cutting down on specifications which involved the passage of some money or something of this kind, or influence—

Senator MAGNUSON. Or collusion between a contractor and someone else which would lower the specifications?

Mr. WEAVER. Right, yes, sir.

Senator MAGNUSON. Well, generally speaking, the technical—I want to get this straight—investigations of projects under your program are in another division, where they seek the compliance, that they build what they are supposed to build—

Mr. WEAVER. This is the responsibility of the operating agency.

Senator MAGNUSON. All right.

Senator ALLOTT. We are not going to leave that?

Senator MAGNUSON. No.

Senator ALLOTT. All right.

Senator MAGNUSON. Well, that is all I have to ask him.

VOLUNTARY HOME MORTGAGE CREDIT PROGRAM

Senator ALLOTT. Now, as I understand it, this includes your Voluntary Home Mortgage Credit Program?

Mr. WEAVER. Yes, sir.

Mr. FRANTZ. Yes, that is correct, sir.

Senator ALLOTT. Now you have asked for a reduction in the Voluntary Home Mortgage Program. Why?

Mr. WEAVER. Well, we find that the workload in this program has been decreasing somewhat. As you know, this was supposed to be a system whereby persons who could not, through ordinary channels, get desirable mortgages financed, could apply under this program. And as we improve our operations we have a lesser volume of that and the regular programs carry on.

Also, we believe this is a program in which we can effect some economies in administration. This is why we are asking for less.

REDUCTION IN PERSONNEL

Senator ALLOTT. Let me suggest something to you, Mr. Weaver. The current fiscal year budget in this area is \$250,000, and you cut it to \$225,000, which would mean cutting how many people?

Mr. WEAVER. Well, this is a matter of 4 people, I think, 29 to 25.

Senator ALLOTT. All right. Now I have been very interested in this program since it first started because in my own State, and I can only speak for my own State because I have not made any national investigation, this has a very significant impact on the building program. And the program has dropped about, as near as I can get the total, 661 loans, totaling about \$7 million. Now these, some of these, occurred in Cortez, which is way up in the southwest corner of the State. It is a bean country primarily, where they raise beans. And it also has been very successful, or helped considerably down in Huerfano County, which was formerly a very great coal area and in which, by the gradual process that has happened to all coal areas, has gone downhill.

VALUE OF PROGRAM

And it is the one possible area where perhaps the depressed areas bill might apply in Colorado. But of these 661 loans totaling about \$7 million in Colorado, 111 of these were to Spanish-American Negroes who were having difficulty finding mortgage money, although they were otherwise qualified. And the bulk of these, most of these, were arranged after the Office was set up in Denver.

In other words, as I see it, this has brought 75 families about \$75 million in financing, and some of our people in Colorado have actually gotten into this area where they have never gotten into the financing area before. And I am very concerned about anything which would tend to cut off this voluntary home financing from private sources.

I cannot see why it should be cut off, or why the emphasis should be diminished.

Mr. WEAVER. This is not, Senator, a deemphasis or cutting off in anyway. It is a matter of looking at the operation and seeing where we can avoid duplication. A great deal of this is done through correspondence. A great deal is done in ways that are now fairly well established and we believe that with a slight cut we can do as good a job—perhaps a better job—than we have done before.

We certainly have no idea of not continuing this function and continuing it as effectively as possible.

There are other aspects in addition to the ones that you present—geographic areas as well as certain ethnic groups which have difficulties. Some of the geographic areas begin to loosen up once we get into the operation. But we believe this will continue effectively, and we certainly do not intend to deemphasize it.

Senator ALLOTT. Well, I am happy to have that assurance because I know it has been very successful up in our country and has brought money to people who want homes, and who deserve homes, and have the capability of paying for them, where it could not have been brought in otherwise.

Senator MAGNUSON. The reason for that would be the reluctance of the smaller banks in those areas to go into this?

Mr. WEAVER. I think there are several things. First, there is the fact there is a geographical element, where you have a concentration of your resources in certain areas, and a concentration of your needs in other areas. So that the local resources are limited.

And secondly, there is the fact there are certain types of loans—certain elements in the population which have not been good risks in the past, according to the general folklore of the financial institutions. And here we have to spread it out over a larger area in order to get this included.

I think this is the way, Senator, it works in your area.

Senator ALLOTT. It has worked, I would say, successfully. I do not think the amount of loans is insignificant when you realize that it is bringing them to people who, for one reason or another—for example, in the Cortez situation we try to get FHA in there and get various programs started, and for technical reasons or something they could never get it going. Well, it was perfectly logical. Cortez is a very rapidly expanding town and community with fine people in it. The base is primarily agriculture, although it is getting more and more of a tourist place. In fact, it is just adjacent to what is one of the most beautiful spots in Colorado, or Southeast and Southwest, just adjacent to Mesa Verde National Park. And the whole thing is logical except that technically you could not get approval by the Housing Administration of the development that had to be done.

Now though this private money has gone to that, and these people are getting money. The same thing has happened over in Walsenburg with a very similar situation. Technically they could not comply. Private money has gone over and here are two areas, two specific areas, that have been very greatly helped by this program.

And this is the reason I wanted to ask you these questions. Because I hope this program is not deemphasized, and I hope that the cutting of \$25,000 off of this budget does not mean that this is going to be the end of trying to get private money into the housing field.

Mr. WEAVER. We shall continue this and try to make it better.

Senator ALLOTT. All right, thank you.

PUBLIC WORKS PLANNING ADVANCES

Senator MAGNUSON. Now public works planning advances. What is the program there? How many people do you have in that particular shop?

Mr. FRANTZ. We contemplate an increase of 21 in that program.

Senator MAGNUSON. An increase of 21?

Mr. FRANTZ. Yes, sir.

Senator MAGNUSON. How many do you have now? Can you furnish that for the record?

Mr. FRANTZ. We have now approximately 57 people in that program.

Senator MAGNUSON. And the House bill will allow how many added to that?

Mr. FRANTZ. Well, again, we have not made a final application of the reduction of the 250,000.

Senator MAGNUSON. But if the full amount could be granted, you would contemplate an additional 21?

Mr. FRANTZ. That is correct; yes, sir. And we would not be able to make an increase of that size if the amount is not restored.

PENDING APPLICATIONS

Senator MAGNUSON. How many applications do you have pending on public works planning advances?

Mr. WOOLNER. There are 193 pending as of the end of May, Senator.

Senator MAGNUSON. Are they mainly from small communities?

Mr. WOOLNER. Generally, yes. The experience of the first 10 months during the present fiscal year shows 60 percent were from communities of 10,000 population or less.

Mr. WEAVER. I might say, Senator, these are the communities that need this so much because they do not have the facilities for doing this. And they find themselves coming in rather rapidly with ill-conceived—

Senator MAGNUSON. That was the basis when we first put this in some years ago, there would be a lot of small communities that would not do their planning in advance, to move ahead when they needed to, as contrasted to the big urban renewal programs. And the concept is still that, is it not?

Mr. WOOLNER. Yes; that is true. Occasionally you get a situation where a new type of sanitary district, or something of that sort, is not able to get planning money any other way. But this is essentially smaller towns.

Senator MAGNUSON. It is mainly facilities, isn't it?

Mr. WOOLNER. Yes. Some gas transmission lines.

Senator MAGNUSON. And in those particular cases it is a matching proposition, isn't it?

Mr. WOOLNER. No, we advance—

Senator MAGNUSON. You advance the money?

Mr. WOOLNER. We advance the money, yes; and that is repayable.

Senator MAGNUSON. Repayable when you start the project?

Mr. WOOLNER. That is right.

Senator MAGNUSON. It becomes part of the repayable section of the project?

Mr. WOOLNER. Yes. And we generally try not to advance for any project that would not get underway within a 5-year period. So there is a fast turnover involved.

Senator ALLOTT. What happens if it does not get underway? What becomes of the money?

Senator MAGNUSON. You just have a plan.

Mr. WOOLNER. You have a plan that may be picked up at some time. We are still picking up a few from the first and second planning programs, and the first one started in 1944-45.

Senator ALLOTT. But this is not charged the community until—

Mr. WOOLNER. Until they construct. That is right.

Senator MAGNUSON. And most of the applications are scanned? If they are not, they should be. The community may have a real, honest intent, and something beyond their control may delay them.

Mr. WOOLNER. Yes. They are all reviewed for the financial ability of the community to build.

Senator ALLOTT. They may decide not to vote the bonds.

Mr. WEAVER. There may be a change in administration, too.

URBAN RENEWAL PROGRAMS

Senator MAGNUSON. All right, urban renewal. [Reading:]

The revised administrative expense request for urban renewal programs was \$10 million for fiscal 1962. The larger estimate stems from the fact that workloads in the urban renewal programs have increased rapidly as more and more projects move into the execution stages.

As of March 31, 1961, some 483 communities were being assisted in connection with 897 title I projects and general neighborhood renewal plans. By the end of 1962, it is estimated that a total of about 615 localities, both large and small, will have more than 1,100 projects in process.

In addition, almost 1,500 municipalities and State, interstate, metropolitan, and regional agencies are associated in the urban renewal programs through their participation in the urban planning assistance program.

This number is expected to grow to over 2,300.

About 1,000 cities and towns will have active local workable programs through which they may qualify for direct urban renewal assistance, for the special mortgage insurance programs of rehabilitation and relocation housing under sections 220 and 221 of the National Housing Act.

In other words, your justification for this program is the increase in the workload?

Mr. WEAVER. Yes, sir. And the fact that this is a program which, the older it gets, the more taxing the workload becomes because more projects mature and require more attention.

Senator MAGNUSON. Now for the record, tell us just briefly how a community gets into this act? In other words, the reason I ask the question is there has been more interest created, let us put it that way, in urban renewal, and both the Senator from Colorado and I, and all other Senators and Members of Congress, constantly get queries, "Just what do we do to get into this or to take a look at it or do something about it?"

STEPS IN UNDERTAKING LOCAL URBAN RENEWAL

Mr. SLAYTON. One of the first things the city does is to prepare an application for a workable program, which indicates the work it is already doing to eliminate slums and to prevent creation of slum areas.

Senator MAGNUSON. Now let's get this clear. Would this have to be a city or a metropolitan area?

Mr. SLAYTON. This is a city—a municipality.

Senator MAGNUSON. Municipality only. Supposing it encompasses a metropolitan area. Then can the county do it?

Mr. SLAYTON. The county can do it as a local governmental agency. The metropolitan area can be helped through our planning assistance program for metropolitan planning.

Senator MAGNUSON. Metropolitan planning—

Mr. SLAYTON. I was going to come to that.

Senator MAGNUSON. All right, you go right ahead.

Mr. SLAYTON. To cover it briefly, the city initially submits its workable program to indicate that it is ready to move ahead, that there are plans to improve facilities for eliminating and preventing slums and blight including a general plan, a housing code, procedures for enforcing that housing code, and an indication of knowledge or intent to find out about the necessary relocation of people and other things of that nature.

It then prepares an application for a particular project. That application would indicate that the area is blighted—contains slums. They would ask us for an advance to prepare plans for the redevelopment.

ment of that particular area. We then must review that application, of course, and make sure it is an eligible project; that the area is actually blighted and contains slums.

The with our planning advance, the local agency will prepare what we call a renewal plan for the project area.

This plan must be in accord with the overall plan for the community, and must be approved by the city council or local governing body of the community. And we, of course, must review the plan to see that it meets the criteria for Federal assistance.

COST-SHARE PLAN

We agree to pay two-thirds of the net cost of carrying out the project. The city has to agree to pay one-third of this cost. Once the plan is approved by us, by the city council—

Senator MAGNUSON. This is two-thirds of the planning?

Mr. SLAYTON. No, sir. The cost of the project is determined in this way. The cost of the planning—

Senator MAGNUSON. Suppose the city of Seattle has a plan, and I think there is one—

Mr. SLAYTON. Yes.

Senator MAGNUSON (continuing). A general plan, and the metropolitan area has a general plan. And you people thing that is all right, you have looked at that, or you have worked on it maybe with them. So over here in one corner they have a specific project.

Mr. SLAYTON. Right.

Senator MAGNUSON. That is going to cost \$50 million to do the job.

Mr. SLAYTON. That is an expensive one.

Senator MAGNUSON. All right, say \$10 million. I am just using these figures. In a big area it could run that?

Mr. SLAYTON. Yes, it could.

Senator MAGNUSON. And you approve of this plan for this particular section, which fits in with the overall plan of urban renewal.

Mr. SLAYTON. Right.

Senator MAGNUSON. If you approve it, you give them two-thirds of that, of \$6,666,000. What strings are on that \$6 million?

Mr. SLAYTON. They have to agree to carry out that plan as it is set up. When they sell the land to private developers, the private developers have to enter into a contract that they will develop that land as the plan indicates.

There are some other strings. They have to assure us that they can relocate the families to be moved from that site—that there are decent, safe and sanitary houses available. No family can be evicted until offered a safe and sanitary house. Also, another string is that the city council has to agree to meet their one-third share of the cost. It has to indicate how it is going to produce that money.

NET PROJECT COST

Now the \$10 million is what we call net project cost. Net project cost includes the planning cost, the land acquisition, the relocation of families, demolition, site improvements, putting in new streets and utilities and things of that nature.

Senator MAGNUSON. This is getting it all ready for the builder?

Mr. SLAYTON. Yes, sir. Then you subtract the amount of money which you obtained in selling the land to the builder, and that is the net project cost.

The city pays one-third of that and the Federal Government pays two-thirds.

Senator MAGNUSON. And the builder, or builders, go down and get a loan?

Mr. SLAYTON. If it is a housing development, they have their plans approved by the city, where the project is to be built, and that area is certified for 220 mortgage insurance—FHA 220 mortgage insurance. That is certified by Mr. Weaver. Once that is certified, then they walk around to FHA, submit their plans to FHA, and are eligible for a 220 mortgage insurance loan.

RELOCATION

Senator MAGNUSON. Now on the people that are dislocated; say you move them over here while you are doing this, do they have any priority of occupancy on coming back?

Mr. SLAYTON. We have no law which requires they be given priority. As a matter of fact, they are given priority, but in many cases the economics of the new development, if it is a clearance area particularly—

Senator MAGNUSON. Might be different than their income, let's say?

Mr. WEAVER. This is one of the purposes of our new bill—to provide tools to provide housing for a wider range of incomes.

Senator MAGNUSON. But if they wanted to come back and live in better surroundings—just put it that way—get back to the old neighborhood, there is no legal priority, but you try and help them out?

Mr. SLAYTON. That is correct.

REHABILITATION PROGRAM

And, in the rehabilitation areas, particularly, this becomes much more effective as you can see. In fact, in rehabilitation, we hope we will not have displacement at all, but that the homeowner through the various aids from FHA, can improve his house to meet the standards of the redevelopment plan.

Senator MAGNUSON. And for this you have how many projects, 483?

Some of these are completed, aren't they?

Mr. SLAYTON. We have some completions. These projects take quite a while.

The significant figure is the number of cases that we will be processing during the fiscal year. We expect during this next year to have 350 new applications for projects.

Senator MAGNUSON. How much do you estimate that?

Mr. SLAYTON. On the basis of the submissions we received in the past, based upon the amount of capital grant authority that Congress has made available.

From this we have been able to chart—with some inaccuracies, obviously—but we have a general idea how many new projects will be proposed from funds made available.

Senator MAGNUSON. Do you go out, do people from your shop go out, and generate these projects or do you wait until they come to you?

Mr. SLAYTON. We wait until the city asks us.

Senator MAGNUSON. Or is it a combination of both?

Mr. SLAYTON. No, sir; we wait for the city to come and ask us. If the city asks us to come out and talk to them, obviously we go out. But we do not solicit the cities.

Mr. WEAVER. I might say, Senator, what happens here, where the programs are established, where you have these local public agencies—and I used to serve on one, so I know something about this—as they start they begin to take, and we encourage them to take, a more comprehensive view for the total city. So in the cities where you have had these local public agencies for some time, they have done their advance planning and they have an idea of the sequence in which they are going to attack this problem.

It is a built-in thing. It is not something that we have to go out and inspire. It is there once they get the activity started.

Senator MAGNUSON. And what if they say, "We are thinking about this" and they haven't an application, and they want a little advice or something like that?

I am not objecting to this, I think this should be done.

Otherwise, you can get behind 3 or 4 years because they do not know what to do.

Mr. SLAYTON. If they ask us, we send out a man.

Senator MAGNUSON. To look it over and make some suggestions?

Mr. SLAYTON. One of the things we found, Senator, recently, is the increase in the number of small cities interested in this program. And in a small city this can be a very effective action to them. But this requires on our part a great deal more technical assistance. First, the small city does not have the experienced staff as does a large city, and, second, for the same amount of money in capital grant funds we have a lot more projects. Each project requires personal attention by our field staff. So we need people who can help particularly in the small localities. And 20 percent of our cities are under 10,000, and 44 percent are under 25,000.

Mr. WEAVER. I might add, most of this money that we are asking for is not for Washington, but it is out in the field where the problem is.

LIAISON WITH BUREAU OF PUBLIC ROADS

Senator MAGNUSON. Yes. Now let's take a big project, a big urban renewal in one of our big cities. What liaison do you have with the Bureau of Public Roads in the transportation problem in regard to future planning?

Off the record.

(Discussion off the record.)

Mr. SLAYTON. We have several things that we do in this field. One, the general plan of the community has to include a transportation plan. Therefore, the project has to relate to that transportation plan. This is roads.

Then the details of the traffic circulation within that area have to be worked out before it is an acceptable plan.

Senator MAGNUSON. Do you take the word of the highway engineers, do you just take what they say and take another look at it?

Mr. SLAYTON. We find that there is some controversy at times between the people who are planning the project and the highway engineers.

Senator MAGNUSON. I have found most of the highway engineers look about this far. All they think about is how they get one car from here over to here, the fastest possible way. And it does not make any difference what happens in between.

Mr. SLAYTON. I will say we have been relatively successful in being more concerned about the planning concepts than in the highway engineering concepts. We have set up a joint committee with the Bureau of Public Roads at the national level and at our regional level, so that when a conflict or problem comes up, we have a mechanism for seeing that the two plans do jibe. And we also have joint planning activities with the Bureau of Public Roads in areas where they are planning and we are planning.

Senator MAGNUSON. Because they are only thinking about automobile traffic. And this thing 10 years from now is going to be more confused than ever if we do not do some planning.

PLANNING GRANTS TO MASS TRANSPORTATION AGENCIES

Mr. SLAYTON. In our planning assistance program the legislation permits us to give planning grants to metropolitan mass transportation agencies for planning mass transportation.

Senator MAGNUSON. Because we did something in my committee the other day, the Commerce Committee of which I am the chairman. We have always had these commuter and mass transportation problems up in that committee, and we deliberately agree to let the housing come in, the Banking and Currency Committee take this over, assume jurisdiction. Because we come more and more to the opinion that this is a most important part of urban renewal.

Mr. WEAVER. We agree 100 percent, sir.

NEW YORK AREA

Senator MAGNUSON. And it has to come together. We cannot sit up there and talk about commuter problems and you fellows have a great urban renewal project. Let's take the New York area. Unless there is some liaison it is not going to come up to what we would like to have it come up to. I am glad you have that down there because heretofore it was not as good. I do not think there was any reluctance to have it, but one thought in terms of building housing and the other thought in terms of putting a ditch from town and getting someone from here over to here. Even the traffic part of it is a feature for good living.

Mr. SLAYTON. It certainly is.

COORDINATION WITH STATE HIGHWAY AGENCIES

Senator ALLOTT. You mentioned that you coordinate this with the Bureau of Public Roads and the regional offices. Primarily the transportation, aside from mass transportation, in these areas is a matter that is under the jurisdiction of the State department of highways either with relation to the Federal primary or secondary roads. Now what liaison is carried on with the State department of highways, whatever it happens to be called in that State with respect to this?

Mr. SLAYTON. They are involved in that, too, Senator. When one of these regional committees takes up a particular area in which there is supposed to be joint planning activities between HHFA and the

Bureau of Public Roads, the State highway people come into it as well as the local people. Because our grant funds go to the local people and the State bureau of public roads is going to the State highway people, so it gets the local people together.

Senator ALLOTT. Then your State highway people come in at the level of perfecting the plan, the particular plan?

Isn't this so?

Mr. SLAYTON. Yes, sir.

Senator MAGNUSON. You see what happens is—and I know two or three cases—take an interstate highway going through a big metropolitan area, if it is within the city limits then the State is out. But the Federal Government is putting up 90 percent of the money.

The State has to put up 10 percent. But then it becomes the liaison with the city.

Mr. SLAYTON. The relationship between the State highway department and the cities varies among the States, and we have to adjust here to recognize this varying relationship. But the city does get involved, and in some places it gets more involved than others. What we try to do is two basic things. One, where we are providing planning assistance funds in planning an area, and the State highway or the Bureau of Public roads is also making planning grants, we try to work the plans jointly so that they are not in conflict and they do match.

Secondly, and this has come up just recently, we are now using these regional planning agencies of HHFA and the Bureau of Public Roads, to try to resolve conflicts that have arisen prior to the establishment of these committees. When a major highway is going to go through an urban renewal area, for instance, and there is conflict at the local level, we try to use these committees to resolve that line of question as well.

Senator ALLOTT. I just want to get this picture straight and find out for sure. The State highway people would come into it at the point, at least at the point, where the overall plan was approved, is that correct?

Because, otherwise, you could not approve an urban renewal project which had very limited means of access and egress?

Mr. SLAYTON. The responsibility is essentially ours, Senator. We will not approve a redevelopment plan unless they can show us where these major highways are going to be, unless they can show us that there is going to be adequate access from the superhighway, or whatever it is, to the project area.

Senator ALLOTT. And this is the point that you assure yourself that the State highway department has been consulted and that the plans are in conformity with the policies of the State?

Mr. SLAYTON. Yes, sir.

Senator ALLOTT. And it would also be a municipal matter, too?

Mr. SLAYTON. Where it gets to be a conflict, we try to throw it into these joint committees between the Bureau of Public Roads and the Housing and Home Finance Agency. We have had several projects we have held up because the State highway department or the city have not reached an agreement, a decision between them has not been reached, as to where a highway is to go. We have not proceeded until that decision is made.

Senator MAGNUSON. I think in some cases the Bureau of Public Roads should not proceed until you people OK it.

Mr. SLAYTON. They started a little earlier than we did, so their plans are generally more jelled. We try to work it out jointly, and I will say there has been considerable improvement in this cooperation in the past year.

EFFECT OF FEDERAL SUBSIDY

Senator ALLOTT. I would like to ask this question of Mr. Weaver. I think there is a tendency in all of our programs where we start out on a given basis and we just keep on going. I am not afraid to ask this question because I think it is a question that needs to be explored. It always seemed to me that when the Federal Government underwrites two-thirds of the net cost of these programs that you are, in fact, to some considerable extent, promoting the development of slum areas. In other words, there is no impetus for a man to say, "Well, if I ever want to realize anything out of this building that I own"—and this is not just limited to homes, old slum homes and tenements that you are taking, it also includes old business districts and that sort of thing—that since he and the rest of the people there are conscious that eventually the Federal Government is going to come in and pick up two-thirds of the check for any loss that has occurred, and in any event he is going to get the present value of his property out, there is no impetus on the individual to say to himself, and to the rest of the people in his block, for example, or in that area, "Look, if we do not expect this thing to go down the river, we have to do something about it."

So I ask this question, as to whether or not you have ever given consideration, Mr. Weaver, to the fact that this 66⅔ percent may actually help induce slum areas?

Mr. WEAVER. Well, sir, I think the answer to that is this—that there are certain areas in every city which are so far gone that they are hopeless. There are other areas which are sort of betwixt and between, if I may use that term, and there are others which can be brought up to standards without tearing them down.

Now we are deemphasizing the bulldozer approach in this administration. We feel that wherever a neighborhood can be brought up to standard through a process of rehabilitation, this should be encouraged. And where we have this type of situation, instead of the prospect of the area being torn down, the man in the area would have a feeling that he would have not only tools but impetus and encouragement to bring this building up to standards and this would be done. However, there are certain areas where there may be one or two decent buildings in a sea of blight and it would be uneconomic and unfortunate for this individual to bring his building up, because he would lose the value that he would put in, or the money or the investment he would put in there, which would not be translated into value because of the adverse environment. So it seems to me this is an administrative problem. If we get the new legislation, we will have the tools to do the rehabilitation. I think we will be able, with good judgment and administration, to preserve that which is good and deserves to be preserved, and to destroy the bad stuff within such an area and also to go into areas which, in general, have to be demolished.

Senator ALLOTT. Well, that does not answer my question, but I know it is like questioning the Bible to question the two-thirds. But I have very grave doubts as to whether or not this is a portion the Federal Government should bear, not only from the standpoint of practical economics, but also from the standpoint that I feel in some instances it does encourage the let-go process in a given area.

I have in mind a particular area in my own State where certain people have enough of an investment that they have absolutely prevented a blight in the past 2 or 3 years of an area that probably would have, by this time, been well into a slum clearance program. And, yet, if the Government is going to pick up two-thirds of the tab, and the area is pretty well far gone anyway, the man who owns the property has no incentive to invest more because he is going to get his present value out of the property when you condemn it. And he does not proceed on his own, and he does not particularly care what his neighbors do with respect to this.

Mr. WEAVER. I would think, sir, under the present program there is always this possibility. However, I would also think that if it is administered properly and imaginatively that there are certain areas which are definitely gone, and these we would concentrate on.

Senator ALLOTT. There is no doubt about that.

Mr. WEAVER. And the two-thirds is necessary. Now when we get into the peripheral areas I think this is a matter of judgment. It can have the effect that you suggest, or it can be prevented, depending on how we administer it.

PROJECT COMPLETIONS

Senator ALLOTT. Since we have had this program, how many projects have been completed?

In other words, what I am going to ask you next, just so you can go in that direction, is, What is the financial experience of the Federal Government with respect to what it has cost the Federal Government on the programs as far as we have gone? I am not talking about programs that are in the process and upon which you can give no figures.

Mr. SLAYTON. On the completed projects, we had 44 completed as of March 31, 1961. I do not have here, Senator, the amount of Federal grants for those particular projects.

Senator MAGNUSON. Will you furnish that for the record?

Mr. SLAYTON. Yes; I can. I could get it for you very quickly with a little research. You want it just on the completed projects?

Senator ALLOTT. Yes. I do not see how you could give me any intelligent answer as to the projects underway. You would just have to guess as to what the outcome will be.

Mr. SLAYTON. We have a pretty accurate estimate of what it is going to cost the Government on each of the projects.

Mr. WEAVER. We have pretty good knowledge, and we are not too far off. But we could not give you the definitive figure.

Senator ALLOTT. I would like to see a figure on projects completed so that we do know the net cost to the Government on these projects.

Mr. SLAYTON. All right.

Senator MAGNUSON. That are completed.

Mr. SLAYTON. I will furnish that for you.

Senator ALLOTT. Am I right in assuming that in order to finally arrive at these figures, the projects that might have been completed, you would have to wait until these areas were developed completely before you would finally find out where the Government is going to come out in this?

Mr. SLAYTON. The precise figure; yes, sir.

Senator ALLOTT. Because as I understand the operation—and a lot of our people do not understand this—when you have put in money for planning and helped them develop a plan, and they have adopted the plan and you have approved it, and the land has been condemned, and if necessary the buildings razed and the work done, and highways and roads, sewers, and everything put in there, when the whole plan, number of acres, is completed and sold off, then the share that the Government actually bears, ultimately, is two-thirds of the net loss, or the net cost I should say.

Mr. SLAYTON. Yes, sir.

DISPOSITION OF PROFITS

Senator ALLOTT. If it should result in a profit, what? Do you get two-thirds of the profit?

Mr. SLAYTON. We get two-thirds of the profit.

Mr. WEAVER. This is not, I do not think, a real situation today.

Senator ALLOTT. But this is correct?

Mr. SLAYTON. Yes, sir.

(The following information was subsequently submitted:)

NOTE.—The foregoing testimony is not strictly correct. Under existing provisions of law and the loan and grant contract, excess earnings or proceeds from the disposition of land are applied, pro rata, to reduce the Federal grant. If a project were closed out at a profit, there would be no obligation on the part of the Government to make any further grant in connection with the project, and the Government would be entitled to recoup the amount of any partial grant payments previously made. However, the Federal Government would not, strictly speaking, share in two thirds of such a profit. The Government's rights (respecting the project) would be limited to relief from the obligation to make a grant, plus repayment of all loans and advances made in connection with the project, including interest thereon.

However, if the locality carries out subsequent projects, the ultimate effect of the sharing formula is that the Government's contribution to all of the projects is reduced in an amount equivalent to two-thirds of the profit.

LOAN AND GRANT CONTRACTS

Senator ALLOTT. But the ultimate cost cannot be figured—

Mr. SLAYTON. Precisely. We can estimate fairly closely when we go into what we call loan and grant contracts, because at that time we have a very good estimate of what the land is going to cost.

Senator ALLOTT. On these figures that you are going to supply, since you feel you can do this, in addition to the cost to the Government will you also supply the estimated cost to the Government when the project is completed?

Mr. FRANTZ. On those that are in a sufficiently advanced stage?

Senator MAGNUSON. Yes. Those you can reasonably estimate and those that are completed and for which you have the figures.

Mr. SLAYTON. Well, we have some where we are just in the process of selling land, that we have those on what we call loan and grant contracts, a firm contract between the local agency and the Federal

Government as to the Federal Government's obligation for this particular project. There is usually a pretty accurate figure of what that project is going to cost and we can give you an estimate on those if that is what you want.

(The information referred to follows:)

Through March 31, 1961, the Federal Government had paid grants amounting to \$24.7 million with respect to 44 urban renewal projects which had been completed. For this purpose, the term "completed" means that all project land had been disposed of for new uses in accordance with the urban renewal plan, and that the final grant payment had been made; the term does not imply that all redevelopment contemplated for the land has been completed for the public or private purposes embraced in the urban renewal plan.

As of the same date, the Federal Government had made advance or progress payments against project grants amounting to \$368.3 million for 310 of the projects then in execution. The total grants estimated to be ultimately paid with respect to these projects, and other projects in execution on which no progress payments have yet been made, amount to an additional \$759.1 million.

The final value of the renewed areas cannot be determined until all redevelopment activities are completed, and probably then only by special studies. The limited experience to date, however, appears to indicate that there is a very substantial increase in the total value of and tax revenues from areas that are converted from slum or blighting use to new uses properly related to the orderly growth and development of the community.

VALUE OF COMPLETED PROJECTS

Senator MAGNUSON. Now these are the figures for which the Government holds two-thirds, which get the project ready. Let's put it that way. Then the enhancement, the percentage as to the whole value of the project after it is redeveloped is something else again.

Mr. SLAYTON. That is something else again.

Senator MAGNUSON. We might put in \$1 million in a project, and by the time we are through with it the value of the whole project might be \$50 million.

Mr. WEAVER. I was going to say, on these that have been completed, we can give you the data which will indicate what we estimated would be the Federal cost, and what was actually the Federal cost, and what was actually the value of the completed project which I think would give you a well-rounded figure.

Senator ALLOTT. In other words, what I am thinking of in this program is the best way to know where you are going is to look where you have been.

RATIO OF PRIVATE TO PUBLIC INVESTMENT

Mr. SLAYTON. As a rule of thumb we find that the private investment in these projects is about \$5 for every \$1 invested.

Senator MAGNUSON. It is about that ratio?

Mr. SLAYTON. Yes, sir.

Senator ALLOTT. Then the total cost to the Government should be zero, except for administrative purposes.

Mr. SLAYTON. No, sir. These are the private buildings—the buildings that are built on this land, the development of those buildings—the investment in those buildings is about \$5 private to every \$1 Government.

Senator MAGNUSON. In other words, for the private investment it would be approximately five times what we would experience to get the thing ready to build—

Mr. SLAYTON. Yes, sir.

LANGUAGE AMENDMENTS

Senator MAGNUSON. Now let us continue with the technical language amendments you have proposed in the "Salaries and expenses" text. The justification for these amendments has already been inserted in the record.

Mr. WEAVER. These two language amendments deal with nonadministrative expenses. They are rather technical and I would like to ask the budget officer to explain them briefly.

Senator MAGNUSON. All right, I see that the first technical language amendment would insert the word "and" at the appropriate place in the language text. This amendment assumes the enactment of the next recommended amendment to delete certain language from the nonadministrative expense proviso.

And in that amendment, the salaries and expenses appropriation text for the Office of the Administrator provides that necessary expenses of conducting site supervision and inspection and fiscal audit of certain types of projects assisted by loans or grants shall be considered as nonadministrative expenses and prescribes a monetary ceiling upon such expenses.

The language as proposed in the revised budget covers the following activities—which you list.

EFFECT OF HOUSE LANGUAGE

Now, what did the House do to that? I have it here. The bill as passed by the House would revise the definition of nonadministrative expenses to expand the scope of activities to include urban, planning-assistance grants and public works planning advances.

What does your suggested language do there?

Mr. FRANTZ. What we propose there, Mr. Chairman, is to delete the new language which the House added which would cover these two programs. And I would like to say that there is no quarrel with the House recommendation in principle on this matter; it is a practical matter entirely. As you know, it has been traditional for many years that the kind of costs involved in the physical inspection and enforcement of the Government's contract rights in federally-assisted construction is usually a part of the cost of the project itself. This is true in most of the programs. And in the three programs that are now covered by this language we physically inspect at the site the operations of the local agency to assure that the provisions of the Federal-aid contract are being complied with.

The House has now added two new programs to this language: our urban planning assistance under section 701 and our advance planning program under section 702. The distinction is that in these two new programs, as distinguished from the three existing programs that are covered by the language, there is no physical project, no physical site to inspect. The project is a thing on paper—it is a study, a plan.

So that the only activity that would actually be covered by this language would be the fiscal audit which is a relatively minor thing in this operation. The physical inspection is the dog and the fiscal audit of the books is the tail.

ADMINISTRATIVE COST OF SYSTEM TO CHARGE FEES

In connection with advance planning, there is no site to inspect and audits are only made in every exceptional cases. In connection with 701, the urban planning assistance program, there is generally an audit made, but it involves a relatively minor cost. And it is our feeling that the administrative cost of setting up a system to charge fees of the local agencies for these relatively minor costs and to bill them for them and recoup them and account for them separately simply would not be warranted by the usefulness of the results. That is the substance of our view.

Senator MAGNUSON. How much is involved here?

Mr. FRANTZ. In what sense, Senator?

Senator MAGNUSON. Well, if you do not want to expand urban-planning-assistance-grants work in that division in public works planning advances to nonadministrative expenses, how much would it cost you to continue it as administrative expenses?

Mr. FRANTZ. If the language recommended by the House remains in the bill, a minor portion of the administrative expense of these programs would be moved into nonadministrative expense and reclaimed by fees.

It would be a very small portion.

Senator MAGNUSON. Can you give us an estimate of how much?

Mr. FRANTZ. I could make one more precisely for the record. I would say off the top of my head it would probably be considerably less than 5 percent, maybe 1 percent.

Senator MAGNUSON. Well, the House gave you a ceiling of \$3 million on nonadministrative expenses.

Mr. FRANTZ. That is correct.

Senator MAGNUSON. How at this time would it affect that?

Mr. FRANTZ. It would have very little effect on it.

HOUSE RECOMMENDATION

Senator ALLOTT. In other words, what you want to do, as I gather, is to take these two categories and throw them into nonadministrative expense of the project.

Mr. FRANTZ. That is the recommendation of the House. And we are suggesting that that not be done, for the reason that there is no physical project to inspect. And we feel—for example, in the case of a public facility loan, where a water or sewer system is being built, our engineers visit the site periodically and ascertain that the construction is proceeding in accordance with the plans we have approved, and that the rate of progress justifies the advance payments we are making, if we are extending construction financing.

There are no such problems involved in these other two programs because they are not physical projects, they are merely the making of plans.

EXPENSE OF PLANNING ASSISTANCE

Senator ALLOTT. You have 483 communities which are being assisted in 1961 as of March 31. Now is there any justification for throwing the administrative expenses in connection with these upon the public at large when the individual community and the people in that community to get the primary benefit? This is what you are seeking to do, isn't it?

Mr. FRANTZ. Well, I think, Senator, that is a different question. If the Congress wished to have the community share the administrative expense of this planning assistance program, it would take different legislation. The effect of the language in the House bill, in substance, would be that the community would bear half of the expense of the closing audit made at the time the project is closed out which might be, in a typical case, perhaps \$500. So that you would be setting up a fairly elaborate piece of machinery in connection perhaps with a \$50,000 grant to get back \$250 from the community.

The language in the House bill would not have the effect of causing the local community to share any appreciable part of the administrative expense of the program.

Mr. WEAVER. I think maybe I could clear it up a little bit—I hope I will clear it up—that the technique which is involved in these amendments has been effective largely where we have had a physical inspection—engineers to see how much work has been done, if it has been proceeding according to plans, et cetera.

And where we get these planning blocks, where you get the public works advance, which are all planning advances, here you have nothing to inspect. The only thing here is an audit proceeding. So it is our feeling that the machinery required to carry this out would not be worth the return for it. It might cost you more to do it than the return, and it would be a troublesome, burdensome thing. It would not happen at all from the point of view of inspection.

SEATTLE OFFICE

Senator MAGNUSON. While we are on the Administrator's Office—this is an old matter with me, and it is a constant argument we have up in our area in respect to the designation of the Seattle area as a regional office, and I suppose Williams has more information—is he here?

Mr. FRANTZ. No, he is not here today.

Mr. WEAVER. Mr. Frantz will be able to handle it.

COMPLAINTS CONCERNING DELAYS

Senator MAGNUSON. But I get constant complaints from people involved in the Housing program about delays and confusion and redtape and the fact that you have technically moved, some time ago in 1953, the regional office from the Seattle area, that is for the whole area, to San Francisco.

Mr. FRANTZ. Yes, sir.

Senator MAGNUSON. Now as time went on and our area grew and participated actively more and more in these programs, you have moved some of this back. But the San Francisco office still has a general supervision of the Seattle office, making up the budget and personnel ceilings, which they never see, and it accounts for the fact that the Seattle office has less than 20 employees engaged in CFA work, and a comparable figure in San Francisco is 50.

DECISIONS MADE IN SAN FRANCISCO

Yet the analysis shows that we here, in this particular division, have 50 percent of the total CFA workload. The urban renewal people technically report to the Seattle director, but they are still under the authority of the San Francisco office and all decisions are made in San Francisco. And we find that it causes a lot of confusion and slows things up in urban renewal.

If anyone wants to get an answer to anything it is about 10 to 1 they will have to wait until San Francisco processes it.

I am wondering if you would now take another look at that, because it is the constant story of people in Washington forgetting about distances about the West. I have people constantly meeting me around here and saying "You are from Seattle, you must know Joe Smith from San Francisco." Well, that is only 900 miles away. They assume it is a kind of a suburb. It causes a lot of confusion.

Now, Mr. Weaver, you did take a look at this, you had your office take a look at this Alaskan situation. Now, that has helped a great deal. Because there are tremendous distances and long legs of delays and it seems to me, Washington, Oregon, Montana, northern Idaho, and Alaska, and the amount of work that is going on there, it ought to justify making this a regional office in name, rather than just transferring some of these things.

The travel time alone I think between Seattle and San Francisco and Alaska and San Francisco would well make up what you might have to put in there. It was a regional office, I think, to begin with.

Mr. FRANTZ. This is correct. It was at one time, yes, sir.

Mr. WEAVER. I might say that as you know, on July 1, we are putting the State of Alaska under the Seattle office as far as CFA is concerned. And, in fact, apparently at the present time, from what I can get, the communities facilities program, the operations in connection with that office, which are coming, out of the Seattle area office, stay in just about the same relationship to the central office as does the regional office. So we are moving slowly with deliberate speed in the direction which you suggest. We have not made that final decision, and we will analyze it from the point of view that you present to see whether or not it makes sense from a budget point of view, sir.

Senator MAGNUSON. I do not want to belabor it in this hearing, but all the people out there they tell me, and there is no complaint about the relation of the office, the Seattle people with the San Francisco people, the complaint comes from the people who are outside participating in these programs. In other words, they get along fine, but they tell me that to make it a complete regional office you would need something like maybe a half dozen people to take care of the administrative, physical, and housekeeping chores.

Mr. WEAVER. I could not answer that, sir, but we will look at it and check it very carefully.

Senator MAGNUSON. I will make a copy of these figures and send them down to you and see what can be done. Because the population growth since 1953 has been almost 30-percent increase, and there are tremendous distances involved. But I must say that the agency has done very well in kind of moving some things back where there are obviously some things that—

Mr. WEAVER. I think there has been a steady move in that direction very recently.

STAFFING SITUATION IN SEATTLE OFFICE

Senator MAGNUSON. And I suppose there is a little pride in saying we are a regional office. I think the morale of the people working there has a lot to do with that.

Mr. FRANTZ. May I say, Mr. Chairman, we have been alert to this community facilities situation in Seattle—that they are somewhat understaffed. There is just no question about it. We are running on a very tight budget this year, and we have not been able to do anything about it. I am hopeful that after the 1st of July, or after the enactment of the pending bill, that we can relieve the situation.

Senator MAGNUSON. Because I think if you even take the population figures of the two regions you will find the growth since 1953 has probably been almost 40 to 45 percent overall, the whole business. And they are taking more interest in community facilities, a thing they did not, for some reason, before pay much attention to.

In these small communities, and with Alaksa coming in, of course, they have some real problems up there.

I will appreciate it if you would take a look at it.

Mr. WEAVER. We will, sir.

PUBLIC WORKS PLANNING FUND

Senator MAGNUSON. Let us go on to your next proposed amendment concerning the appropriation for the public works planning fund. Your complete justification statement will be placed in the record at this point.

(The material referred to follows:)

PUBLIC WORKS PLANNING FUND

Estimate, \$8 million; proposed by committee, \$6 million; in act, \$6 million

(House hearings, pt. 2, pp. 946-951)

Page 28, line 6, strike out "\$6,000,000" and insert in lieu thereof "\$8,000,000", the estimate, and an increase of \$2 million above the amount allowed by the House committee.

HOUSE REPORT

(Pertinent excerpts, H. Rept. 449, p. 13)

Public works planning fund.—The committee has approved \$6 million of the \$8 million requested for payment to this revolving fund, bringing total capital in the funds to \$42 million. This is the same amount of appropriation as in 1961. A \$48 million revolving fund is authorized for making interest-free advances to State and local public agencies for the planning of local public works. The advances are repaid when the project is placed under construction.

JUSTIFICATION

The program of advances for public works planning is authorized by section 702 of the Housing Act of 1954, as amended. Its purpose is to encourage municipalities and local public bodies to prepare and maintain a current and adequate reserve of planned public works which could readily be placed under construction, and to promote efficiency and economy in planning and building local public works.

Status of program revolving fund

The program is financed by a revolving fund established by the basic statute, to which a maximum of \$48 million in appropriations is authorized. Through fiscal year 1961, \$36 million had been so appropriated; the revised budget for fiscal year 1962 requested an additional \$8 million appropriation, bringing the total revolving fund to \$44 million.

The following table shows the effect of the current year's activity and the revised budget program upon the fund:

[In thousands]

	Fiscal year 1961		1962 estimate
	11 months	Estimate	
Balance brought forward.....	\$2,788	\$2,788	\$1,000
Appropriation.....	6,000	6,000	8,000
Repayments.....	3,019	3,712	5,500
Total funds available.....	11,807	12,500	14,500
Net approvals.....	10,972	11,500	14,000
Balance carried forward.....	835	1,000	500

As the table shows, the activity in program net approvals during the first 11 months of the current fiscal year has reduced the available balance of the appropriated revolving fund to approximately \$800,000. Net approval activity during the current month of June 1961 depends upon the realization of repayments of prior advances; even so, it appears that the balance of available funds carried forward into fiscal year 1962 will be substantially less than the \$1 million assumed in the budget estimate.

Current level of program activity

Applications for public works planning advances are currently being received in Agency regional offices at a rate of approximately 70 per month. The level of net approvals is running somewhat in excess of the \$14 million level anticipated in the budget estimate. Both of these circumstances are a result of liberalization of Agency policies initiated in February: Advances for complete planning jobs are now permitted rather than the former emphasis on partial or preliminary planning. In addition, regional offices are no longer required to discourage applications from the larger cities or for major projects.

The following table summarizes application and approval trends during the last several months:

[Dollars in thousands]

	Applications received	Net approvals	
		Number	Amount
January.....	39	29	\$829
February.....	52	24	1,959
March.....	80	31	584
April.....	77	28	2,100
May.....	81	55	2,222
5-month average.....	66	33	1,537

As of early June, the backlog of applications awaiting approval was approximately \$8 million.

Effect of House action

The House bill would appropriate \$6 million to the revolving fund—a reduction of \$2 million from the revised budget estimate.

The House reduction, if permitted to stand, will reduce the funds available for approval of advances in fiscal year 1962 to approximately \$12 million (considering the probable balance of funds which can be carried forward into that year), and amount slightly less than that available for the current fiscal year.

The current level of net approval activity, reflecting the revised program policies initiated early this calendar year, has recently reached an average rate of \$1.5 million per month—an annual rate, if continued, in excess of the revised budget estimate and fully half again as high as that which could be permitted under the House-approved version of the bill. In order to conduct program operations under the House figure, steps would have to be taken to return to some of the restrictive program policies hitherto in effect, resulting in a delay in the planning and construction of needed State and local public works, a depletion of the reserve of planned public works, and a resultant negative effect upon the construction industry and the overall national economy.

Recommendation

The Agency recommends that the Senate amend the pending bill to restore the amount of appropriation requested in the revised budget estimate—\$8 million.

PUBLIC WORKS PLANNING FUND

Mr. WEAVER. The President's recent budget amendments for the Housing and Home Finance Agency proposed an appropriation of \$8 million to the revolving fund from which is financed the program of advances for public works planning. We are almost out of money for this activity and new applications for planning advances are being received at an increasing rate. As of early June, the backlog of applications awaiting approval was approximately \$8 million.

The House enacted an appropriation of \$6 million and we would recommend restoration to the full amount of the revised budget request of \$8 million. This appropriation, together with estimated repayment of advances made in prior years, would permit the Agency to meet the proposed program level for 1962 of \$14 million in net approvals.

Senator MAGNUSON. For the purpose of the record, on page 28, line 6 of the bill, you would strike out "\$6 million" and insert in lieu thereof "\$8 million," an increase of \$2 million over the House allowance in the public works planning fund.

Let's discuss that a minute.

Mr. WEAVER. Let me say a word about that, Senator. I started in Government in 1933 in the Public Works Administration, and I had the experience at that time of seeing what happens when you have a program of public works without adequate planning. This was the first time we had done it on a national scale in this country. And ever since then I have had a very strong feeling of the importance of this.

I do not think there is any better investment you can make of money than to give the money, adequately, to communities, particularly the small communities, to have them anticipate what their needs are going to be. And this is really in terms of not only what projects they are going to have, but looking at the projects to see whether or not they are going to meet the needs for the next 5, 10 or 15 or maybe 50 years, depending on what the project is.

This requires advance planning. But I will let Mr. Woolner speak to the details because he is the administrator of that program.

TOTAL CAPITAL IN FUND

Senator MAGNUSON. Well, the \$6 million will bring the total capital in the fund to \$42 million. Is that correct?

Mr. WEAVER. Yes, sir.

Senator MAGNUSON. That is the same as you had in 1961.

Mr. FRANTZ. The \$6 million is the same amount as was appropriated in 1961, yes.

REVOLVING FUND

Senator MAGNUSON. And \$48 million revolving fund is authorized?

Mr. FRANTZ. That is correct, yes, sir.

Senator MAGNUSON. And you want to bring it up a little closer to the authorization?

Mr. FRANTZ. That is correct, sir.

Senator MAGNUSON. And because there is increased activity in this field also.

Mr. WEAVER. Right. And there is a demand there.

Senator MAGNUSON. And this is all repaid?

REPAYABLE FUNDS

Mr. WOOLNER. Yes, this is all repayable. We had on hand as of May 31, Senator, some \$8 million in requested projects, and the number of requests has increased materially since January of 1961.

So if we are held to a program level of some \$12,500,000, we will simply have to go back and start rationing in terms of the projects that are approved.

Senator MAGNUSON. You have a backlog of applicants waiting approval that adds up to approximately \$8 million?

Mr. WOOLNER. That is correct, sir. Over \$88 million.

Mr. FRANTZ. There would be some fallout, of course, from that.

Mr. WEAVER. And there would be others coming in.

Mr. WOOLNER. It is an extremely active program and actually right now we are able to approve an application only on the basis of repayments that come in.

APPLICATIONS BY SIZE OF COMMUNITY

Senator ALLOTT. Mr. Woolner, there were some figures given here. I have also been interested in this program. Do you have any percentages as to the number of applications by size of the communities?

Mr. WOOLNER. I can give these to you right now. On the basis of our experience for the first 10 months of this year, Senator, in the population group of 1 to 10,000—and this is for the local community—there were 201 advances, or approximately 60 percent out of the total of 352. In the group of 10,000 to 50,000 population, there were 88. In the group of 50,000—

Senator ALLOTT. That would be what percentage?

Mr. WOOLNER. That would be a little better than 20 percent. In 50,000 to 100,000 there were 17, about 5 percent. Over 100,000, some 46, which would be about 12 or 13 percent.

Senator ALLOTT. So the bulk of your 60 percent is below 10,000. If you add 20 percent on to that for the 50,000, you would have 80 percent below 50,000?

Mr. WOOLNER. Yes. And this population group would include counties as well as local cities and towns.

Mr. ALLOTT. All right. Thank you very much.

Senator MAGNUSON. Well, I think the point here is, it seems to me, that you are slowed up now to the extent that you can only go ahead and approve of any action in this field if and when someone else over here has paid back?

Mr. WOOLNER. That is correct.

Senator MAGNUSON. And if they are a little late in getting this done, you might slow up even a more worthy project up here.

Mr. WOOLNER. Right.

Senator ALLOTT. Is this \$2 million within the revised budget?

Mr. WOOLNER. Yes. This is all within the revised budget, Senator.

URBAN STUDIES AND HOUSING RESEARCH

Senator MAGNUSON. The next program for which you have requested an amendment is urban studies and housing research. We will insert in the record your justification for the amendment, including descriptions of the proposed study and research projects.

(The material referred to follows:)

URBAN STUDIES AND HOUSING RESEARCH

Estimate, \$900,000; proposed by committee, \$450,000; in act, \$450,000

(House hearings, pt. 2, pp. 969-973)

Page 28, line 16, strike out "\$450,000" and insert in lieu thereof "\$900,000", the estimate, and an increase of \$450,000 above the amount allowed by the House committee.

HOUSE REPORT

(Pertinent excerpts, H. Rept. No. 449, p. 13)

Urban studies and housing research.—The committee has approved \$450,000 of the \$900,000 request for a program of housing studies as authorized by the Housing Acts of 1948 and 1956. The Administrator is urged to proceed with caution and to select the projects to be undertaken carefully.

JUSTIFICATION

The amended budget submitted by the President on May 9, 1961, and contained in House Document No. 157 contained a recommendation for the appropriation of \$900,000 to permit the Administrator to inaugurate a program of urban studies and housing research. This recommendation was in furtherance of the statement of the President in his housing message to the Congress that the Federal Government must play a key role, through leadership and financial assistance, in encouraging the study of problems related to the development and renewal of our cities and their environs.

The President continued:

"The Housing Act of 1948, as amended, and the Housing Act of 1956 both provide broad authority for Federal support of the market analyses and statistics needed by private industry, and for research into housing and urban problems. I shall ask the Congress to appropriate sufficient funds to carry out these programs."

The financial stake of the Federal Government in housing and community development programs is very great and each year the Congress, the administration and the Agency must make many decisions which directly affect the soundness of this public investment. The Congress and the executive branch, however, must often make these far-reaching decisions without adequate knowledge of the facts on which judgments should be made.

Our cities, towns, and suburbs represent a tremendous investment in public and private facilities of which housing alone amounts to more than \$500 billion. The Federal role in preserving and augmenting these urban investments is substantial. The programs administered by HHFA involve large commitments of the Nation's resources and must be guided by careful analysis, ade-

quate information, and sound research. For example, outstanding mortgages currently insured by FHA amount to \$33 billion. HHFA should be provided with adequate funds to obtain the facts and studies necessary to develop sound housing and urban policies and programs.

A brief summary of each of the projects proposed to be undertaken during the fiscal year 1962 and the estimated cost is included below. Taken together, these projects represent a modest beginning in selected areas specifically related to strengthening operations and decision-making in the existing programs of the Agency.

Description of specific projects

1. *Family displacement by public improvement programs.*—This project will develop improved techniques which cities and Federal agencies can use in estimating the volume of family displacement by public improvement programs and other Government actions. These improved techniques are needed to guide localities in complying with legislative requirements for Federal assistance for urban renewal and other public programs.

Estimated cost of consulting services, \$10,000.

2. *Special census data on housing conditions of the elderly.*—This project will provide cross-tabulations of 1960 census data on housing and population to provide detailed information about living arrangements, housing conditions, and rents of families and individuals in the older age brackets. HHFA needs this information to administer its elderly housing programs and to develop new programs where necessary. Tabulations would be done on a reimbursable basis by the Bureau of the Census.

Estimated cost of contract, \$125,000.

3. *Periodic statistics on sales prices and sales volume of new homes.*—This project will provide monthly statistics on new home sales prices, and on the volume of sales and the unsold inventory of new homes. Up-to-date periodic information of this kind is badly needed as a basis for policy decisions by Federal agencies, as well as by builders, materials producers, and mortgage lenders. The data would be collected by the Bureau of the Census as a supplement and followup on its monthly series on housing starts.

Estimated cost of contract for the year, \$200,000.

4. *Study of credit factors in mortgage foreclosures.*—This is a study to determine how mortgage terms and changes in family incomes and expenditure patterns have contributed to mortgage defaults and foreclosures. The results of this field study will be helpful to Government agencies and private mortgage lenders in improving their credit underwriting techniques.

Estimated cost of contract for field survey, \$50,000.

5. *Study of the creation of an effective housing rehabilitation industry.*—This is a study to determine how we can best encourage the development of a rehabilitation industry which will have organizations capable of providing a complete one-stop rehabilitation service and operate on an efficient scale. The study is urgently needed to step up progress on housing rehabilitation programs.

Estimated cost of consulting services, \$25,000.

6. *New Standards of housing and neighborhood quality.*—This is a study to devise new methods for a more effective measurement of the changes upon housing and also upon neighborhoods brought about by physical deterioration or deficiencies of structures and by the numerous environmental factors at work. Adequate measures of quantities of bad housing and slum neighborhoods are basic requirements for developing sound housing and renewal programs.

Estimated cost for consulting services and contracts for field work, \$90,000.

7. *Adaptation of migrants to city life.*—This is a sociological study to determine what methods can be used successfully by local groups in accelerating the process of adaptation of rural migrants into the urban way of life. Migration has been closely associated with substandard housing, overcrowding, and neighborhood decay, but this situation can be improved if leadership can be stimulated among the migrants themselves, with help from local civic and public officials, to adapt to accepted urban housekeeping standards.

Estimated cost of contracts for field surveys and consulting services, \$75,000.

8. *Techniques for local evaluation of nonresidential space.*—This project will develop a tested technique for cities to use in determining the quantity, quality, and price of existing private nonresidential building space in relation to future

market demands. Renewal officials need this information to assess the space needs of existing industries and anticipated new industries in planning their urban renewal operations.

Estimated cost of contract and consulting services, \$100,000.

9. *Intermunicipal approaches to planning, development, and renewal.*—This is a study of the feasibility and effectiveness of various methods of creating area-wide organizations whereby the numerous political jurisdictions within an urban area can formulate joint plans acceptable to them for the coordinated development of the area. The results of this study will be helpful to localities in advising them of the best methods and experience available for developing cooperative working arrangements with other political jurisdictions in their urban areas.

Estimated cost of consulting services, \$15,000.

10. *Study of optimum size of water and sewer facilities for various size areas.*—This study will provide an organized body of information on the economies of scale in engineering design, capital outlays, operating expenses and financing that can be achieved by areawide sewer and water systems to serve successively larger populations. The results of the study will help the Community Facilities Administration in making public facility loans and communities in planning and constructing efficient water and sewer systems.

Estimated cost of consulting services and reimbursable expenses, \$20,000.

11. *Open space and land reservation requirements.*—This is a project to develop techniques and standards which can be used by local governments in determining the amounts and characteristics of permanent open space and public land reservations for the development needed over the coming decade. The results of this study also will be helpful to the Agency for its urban planning assistance program (sec. 701) and in establishing guides for open space programs for which the Agency has proposed legislation.

Estimated cost of contracts, \$125,000.

Acting upon the recommendation of the House committee, the House enacted an appropriation of \$450,000—only half of the amount requested for the initiation of the urban studies and housing research program. If this reduction is permitted to stand, the Agency would be able to conduct only approximately half of the study and research proposals suggested above. The data and information sought would not be available for guidance in the administration and management of Agency policies and programs.

In order to permit this very necessary and desirable program of urban studies and housing research to be undertaken, it is respectfully recommended that the Senate restore the budget estimate of \$900,000 as requested for the fiscal year 1962.

URBAN STUDIES AND HOUSING RESEARCH

Mr. WEAVER. The amended budget submitted by the President on May 9, 1961, requested an appropriation of \$900,000 to permit the Administrator to inaugurate a program of urban studies and housing research under the authorities of the Housing Acts of 1948 and 1956. The pending bill provides for an appropriation of \$450,000 for this purpose, or only half the amount requested.

I strongly urge the adoption of our amendment which would restore the appropriation to the full estimate of \$900,000. I have no doubt that a much larger sum could be constructively used, but the budget request proposes a modest beginning in selected areas that are specifically related to strengthening operations and decisionmaking in our existing programs.

The financial stake of the Federal Government in housing and community development programs is very great. Each year the Congress, the administration, and the Agency must make many decisions which directly affect the soundness of this public investment—often without adequate knowledge of the facts upon which judgments should be based.

Senator MAGNUSON. All right.

For the record, on page 28, line 16 of the bill, strike out "\$450,000" and insert in lieu thereof "\$900,000."

Off the record.

(Discussion off the record.)

HOUSE REDUCTION

Mr. WEAVER. As you know, we asked for \$900,000 here and the House bill cut this in half. What we have done here is to limit these studies and direct these studies into those fields which are directly associated with the operations—

Senator MAGNUSON. Before you go on, let's turn to page C-2, and you have a description of specific projects. Take them one by one so we will have a record here.

Mr. WEAVER. I would like to say, in general, about them—each one of these studies is oriented toward our operations, or our evaluation of our programs. They are studies which will, I think, assist us in determining how to meet some of the problems that we do not yet know all the answers to—which are most of the problems—and also studies which will permit us better to evaluate what is being done in the various areas, important areas of our activity.

DISPLACEMENT BY PUBLIC IMPROVEMENT PROGRAMS

Now, the first is a study of public improvement programs and this project is to improve techniques which agencies can use in estimating the volume of family displacement.

And this, of course, not only includes our own programs, but includes other programs of the Government because our activities are part and parcel of this total displacement.

Very often we have localities which are attempting to make these estimates. They do not know the technique of how to do it and we get figures which really are unbelievably bad, and yet we have to program our activities on these very defective figures.

CONSULTING SERVICES

Senator MAGNUSON. Now you use the word "consulting services."

Mr. WEAVER. Yes, sir.

Senator MAGNUSON. Do you farm this out?

Mr. WEAVER. In this particular instance we would have a combination of our own staff working on this and then bringing in consultants to work with our staff and work with the local people in developing these projects.

Senator MAGNUSON. In other words, what this small amount will be—first of all, the local governments submit their ideas on this and then your staff reviews them, and then you bring in even a third party who sort of reviews all of them, or gives you ideas on them?

Mr. WEAVER. No; it is more. What we would try to do would be to develop techniques and methods which the local communities and governments could use in that first process, so when it comes to us it will be something worthwhile.

Senator ALLOTT. You mean so that you have definite criteria that you can then apply to whatever they have submitted to determine whether you think it is accurate?

Mr. WEAVER. And also so that we have definite suggestions that they will use before they submit it, so it will be more accurate. This is really getting back to the basic study and improving the quality of it.

HOUSING CONDITIONS OF THE ELDERLY

Senator MAGNUSON. No. 2, special census data on housing conditions of the elderly.

Mr. WEAVER. There is, within that accumulation of data of the census, a wealth of information on this subject which, because of the limitations of the census appropriation, was not tabulated and not brought up to a usable condition. Here we feel that by spending what we ask for—\$125,000—we would get about \$1 million worth of data if we went out and tried to get these data direct.

Now, as you know, this is a very important part of the total housing program, and it is one that needs accurate information. We have this gold mine of information and we want to exploit it to the maximum degree.

Senator ALLOTT. It won't do any good to exploit it 3 or 4 or 5 years from now.

Mr. WEAVER. No, sir. Unless we can get it right away it won't be much good to us.

Senator MAGNUSON. Does this duplicate any work that we are doing under the housing-for-the-elderly fund?

Mr. WEAVER. No, sir.

Senator MAGNUSON. It is separate and apart.

Mr. WEAVER. This is information which will give us some objective data on which we could evaluate what we were doing, and plan what we were doing.

Senator ALLOTT. Isn't this really, though, a proper part of the housing for the elderly?

Mr. WEAVER. Well, we feel that this is a part of the overall program and the program planning which involves all of the programs. In other words, we do not plan for each program within the operation of that program. We attempt in the central office, which is my central office, where these functions are concentrated, to do this particular job. They do the execution, the carrying out of the job. I think it is important to have two people, one set of persons who are separate from the operators looking at the program, setting the sights, and then having the operators feeding in new ideas to them by carrying it out, but not evaluating themselves.

Senator MAGNUSON. And in the so-called elderly housing field, the new bill will give you more responsibility, too?

Mr. WEAVER. Yes, sir. It will give us more money and more responsibility.

Senator MAGNUSON. All right.

SALES PRICES AND SALES VOLUME OF NEW HOMES

Now the next one is periodic statistics on sales prices and sales volume of new homes—\$200,000.

Mr. WEAVER. Here again the source of the data is similar to that in item II. The purpose of this obviously is different. We are, of course, vitally concerned with maintaining and encouraging a healthy homebuilding industry, and one of the things that we have to know,

both for that purpose and for the purpose of our own planning and our own programing, is what is happening in the homebuilding industry.

And this, of course, the precise—the price movements and the sales and the volumes are very basic data in that area.

AVAILABILITY OF INFORMATION

Senator MAGNUSON. Well now, the House always tells us that all this stuff is available anyway; all these figures are available; that the builders, the mortgage bankers, and everyone else involved has these figures: that you can reach out and grab them. Is that correct?

Mr. WEAVER. In our experience that has not been correct. There are data, but under this new proposal these would be data which would be developed periodically on a very definite schedule. They will be comparable from one period to another. It would give you an index which would let you know what is happening today, as to what the situation was 2 weeks ago, or 2 or 3 months ago. You could project trends and do some effective planning. What we have now is a series of sources of data which are not comparable, which are not continuous, and which, when you get to basic matter of projection or of evaluating, you have serious gaps. We are doing things, sir, by instinct rather than by information. And I might say that private industry, if it were in the same position we are in, instead of spending what we are asking for, would spend 50 times that amount and think it was an awfully good investment.

Senator MAGNUSON. Now would this be a service only for yourselves, or would it be available to people in the housing field?

Mr. WEAVER. This would be available to everyone. It would be available to the homebuilders; it would be available to the sources of mortgage finance; it would be available to the local communities which are very much involved; it would be available to the planners; and it would be available to Federal, State, and local agencies.

Senator MAGNUSON. But they would have to come and get it.

Mr. WEAVER. Yes, sir. We would make it available. We might have a small distribution, but certainly not a widespread distribution and if, for example, the bankers wanted their members to have it, we would give it to the central banking agencies and organizations and they would distribute it.

CHARGE FOR INFORMATION

Senator MAGNUSON. You might have a small charge for it, too.

Mr. WEAVER. If we did a widespread distribution; yes.

Senator MAGNUSON. Put a small charge on it. It won't hurt them if they want this information.

Mr. WEAVER. I think you are right, Mr. Chairman.

Senator MAGNUSON. And we might recoup most of this.

Senator ALLOTT. We will probably have a hard time with the House on this?

Senator MAGNUSON. We always do.

Senator ALLOTT. In fact, I must say that I realize the value to you of having this information available on a constant basis, that is constant in term of how it is acquired, constant in terms of how it is

evaluated, but I feel a great deal like the House, that this is available and it is just a question of putting it together for yourself.

Mr. WEAVER. It is more than that, it is a matter of extracting it. It is a matter here of collecting it. This is not just exploiting what is in the census because, if you notice the last sentence here:

The data would be collected by the Bureau of the Census as a supplement and followup on its monthly series on housing starts.

This would expand the scope of the monthly series which the Census Bureau makes, which is purely a count of the number of starts, without the other data which make this count usable.

Senator MAGNUSON. All right, I think we understand the objective of this.

CREDIT FACTORS IN MORTGAGE FORECLOSURES

Now, No. 4 is, of course, a similar item but includes a study of credit factors in mortgage foreclosures. However, again the House says you can reach down and get that information if you wish, that it is all available.

Mr. WEAVER. Much of the raw data are available. But just simply to give us statistics without any interpretation and any analysis of them, does not help you very much, Senator. We can count the number and if we want to find out what was involved in the process that created that number, then we have to have some studies. And this is what this is designed to do in this particular field. In other words, it is designed to go behind the score, as it were, in the baseball game and find out some of the plays.

Senator MAGNUSON. For instance, we find in the Veterans' Administration—who will be up here—that the foreclosures on VA houses have risen sharply, or taken back rather, but that they are still holding their own on resales and refinancing and so forth. But I would think that this would be one of the things you would want to know about.

Mr. WEAVER. Yes, sir. Just to give you a brief example of what we have in mind—this is a study of foreclosures to determine how mortgage terms and changes in family income and expenditure patterns have contributed to mortgage defaults and foreclosures. In other words, we are going back behind the numbers and trying to find out, to relate these to the economic developments in the community.

HOUSING STUDIES FUNDS

Senator MAGNUSON. The House last year, Mr. Cooper tells me, and I recall this, and you will recall it, too, Senator Allott, knocked out \$600,000 for a program on housing studies through contractual arrangements and refused to allow any amount whatsoever. This time they allowed you \$450,000. Did they pick out any particular program?

Mr. WEAVER. No, sir; they did not.

Senator MAGNUSON. Just made a flat cut?

Mr. WEAVER. Yes; they simply cut it by 50 percent.

HOUSING REHABILITATION INDUSTRY

Senator MAGNUSON. Now the next one is \$25,000 for the study of the creation of an effective housing rehabilitation industry.

Mr. WEAVER. I think this is obvious.

We have this whole problem of rehabilitation which everyone, I think, admits is terribly important in our cities.

And this has been an area in which there has not been too much experience and where we do not have too much knowledge of how to do the estimating, and how to do the costing and so forth. And what we are trying to do here is to give some aid by a study which would look into these matters and aid the people who are going into this with as much information as we can get from what is known on these problems.

Senator MAGNUSON. No. 6, new standards of housing and neighborhood quality. No. 7 is the adaptation of migrant to city life. No. 8 is techniques for local evaluation of nonresidential space.

Mr. WEAVER. Would you like me to talk to those, sir?

Senator MAGNUSON. Well, I think you have told us here what you think you should do about it. There is justification. I am afraid on No. 7 we are going to have a great deal of trouble because of the fact, as I say, there are many studies as to migrants which you can get. But I think we understand what you are trying to do here and you have a justification.

Then, No. 9, intermunicipal approaches to planning, development, and renewal. No. 10, study of optimum size of water and sewer facilities for various size areas; and 11, open space and land reservation requirements.

Now on open space, there was a great deal of discussion on the Senate floor on the housing bill on that. And I think this committee will take a look at these things, and I think we understand what you are trying to do.

HOUSING FOR THE ELDERLY FUND

Let us go on to the amendments proposed in connection with the housing for the elderly fund. We will put section D of your justification in the record in full.

(The material referred to follows:)

HOUSING FOR THE ELDERLY FUND

Program appropriation.—Estimate, \$30 million; proposed by committee, \$25 million; in act, \$25 million.

Administrative expenses.—Estimate, \$400,000; proposed by committee, \$350,000; in act, \$350,000.

(House hearings, pt. 2, pp. 973-978)

(1) Page 28, line 19, strike out "\$25,000,000" and insert in lieu thereof "\$30,000,000", the estimate, and an increase of \$5,000,000 above the amount allowed by the House committee.

(2) Page 28, line 20, strike out "\$350,000 of the foregoing amount" and insert in lieu thereof "\$400,000", the estimate and an increase of \$50,000 above the amount allowed by the House committee.

HOUSE REPORT

(Pertinent excerpts, H. Rept. No. 449, p. 13)

Housing for the elderly fund.—A \$30 million budget estimate was considered for this item and the committee has approved \$25 million. The bill also contains a limitation of \$350,000 on the amount that may be used for administrative expenses. The appropriation in 1961 was \$20 million.

JUSTIFICATION

The program of direct loans for elderly housing was enacted as section 202 of the Housing Act of 1959. The act authorizes low interest rate, long-term loans to private nonprofit corporate sponsors of rental housing and related facilities for elderly families and persons. The basic statute provides for a statutory authorization of \$50 million, \$20 million of which was appropriated in fiscal year 1961. The amended budget program requested an appropriation of \$30 million for fiscal year 1962, an amount which would utilize the balance of the present statutory authorization.

Two amendments are proposed for the consideration of the Senate committee.

(1) Program appropriation

In acting upon the amended budget request, the House committee recommended and the House enacted an appropriation of \$25 million—a reduction of \$5 million in the estimate. The first amendment proposed would restore the \$5 million reduction, thereby providing for the appropriation of the full \$30 million requested for the housing for the elderly fund.

The budget request is based upon the pressing need for providing financial assistance for eligible applicants. As of May 31, 1961, the Agency has in excess of \$55 million in applications on hand and in process, as follows:

Status of applications, May 31, 1961

	<i>Millions</i>
Projects committed.....	\$15.5
Full applications on hand.....	31.3
Initial applications on hand.....	8.6
Total.....	55.4

Enactment of the proposed amendment appropriating the balance of the statutory authorization would prevent delays in providing urgently needed rental housing for elderly families and individuals.

(2) Administrative expenses

The second amendment proposed for consideration of the Senate committee would, if enacted, restore the administrative expense limitation to \$400,000 as requested in the amended budget program. Acting upon the recommendation of the House committee, the House approved an expense limitation in the reduced amount of \$350,000.

The marked increase in workload anticipated for the fiscal year 1962 is illustrated in the following comparison:

	Estimate, 1961	Estimate, 1962
Applications received:		
Initial.....	145	155
Full.....	85	115
Approvals:		
Number.....	38	40
Amount (in millions).....	\$19.6	\$29.6
Loan agreements executed.....	16	58
Plans and specifications review.....	11	63
Construction:		
Starts.....	10	48
Completions.....	0	8

This comparison shows the very marked increase in the postapproval workload which will occur in fiscal year 1962. This workload includes: preparation and execution of the formal contract between the borrower and the Government; review of detailed plans and specifications to assure compliance with statutory requirements; site supervision by professional engineers during construction; fiscal audit of projects after completion; and loan servicing which may be quite complex in this program.

The budget request provided for the employment of a staff of 45 persons by the end of the budget year, an increase of 15 positions over estimated June 30, 1961, employment. This represents the minimum staffing level for the program workload projected in the amended budget request. Enactment of the proposed amendment would provide the staff necessary to the conduct of the program workload forecast for the budget year.

As a part of this proposed amendment, the Agency recommends the deletion of the words "of the foregoing amount" in order to simplify fiscal and accounting operations under the fund.

HOUSING FOR THE ELDERLY FUND

Mr. WEAVER. The next amendments deal with appropriations for the new program of direct loans for rental housing for elderly families and individuals. The Agency has asked for the appropriation of the \$30 million balance of the existing authorization and an administrative expense limitation of \$400,000 for staffing the program in fiscal 1962.

The House bill provides \$25 million for new loans and \$350,000 for staff expenses. Our proposed amendments would restore both items to the amounts originally requested.

I cannot emphasize too strongly how urgent and pressing is the need for housing at moderate rentals for our growing population of senior citizens. We already have more requests for funds than we could accommodate with the full \$30 million budget estimate, and I am very hopeful of the early enactment of the additional authorization for this program proposed by the President and contained in the pending Housing Act of 1961.

Mr. MAGNUSON. All right. For the purpose of the record, on page 28, line 19 of the bill, strike out "\$25 million" and insert in lieu thereof "\$30 million," which is an increase of \$5 million above the amount allowed by the House committee.

And then on page 28, line 20, you add \$50,000.

I think you address yourself to that on page D-2.

Mr. WEAVER. I would like to read the data which indicate the status of this.

Senator MAGNUSON. Let's take a 5-minute recess.

(A recess was taken.)

Senator MAGNUSON. All right, on page D-2 you have the justification. (Reading.)

The program of direct loans for elderly housing was enacted as section 202 of the Housing Act of 1959. The act authorizes low interest rate, long-term loans to private nonprofit corporate sponsors of rental housing and related facilities for elderly families and persons. The basic statute provides for a statutory authorization of \$50 million, \$20 million of which was appropriated in fiscal year 1961.

The amended budget program requested an appropriation of \$30 million for fiscal year 1962, an amount which would utilize the balance of the present statutory authorization.

Now, what is in the new bill the Senate passed?

Mr. WEAVER. \$25 million.

Senator MAGNUSON. More?

Mr. WEAVER. More. And \$350,000 for administration.

Mr. FRANTZ. No, sir; that is in the appropriation bill.

NEW HOUSING BILL AUTHORIZATION

Senator MAGNUSON. No, I meant what is the authorization of the new housing bill? Thirty million dollars?

Mr. WEAVER. Another 50, I beg your pardon.

Senator MAGNUSON. I am thinking of the authorization if the 1961 bill goes through.

Mr. FRANTZ. We have an additional \$50 million in the Senate bill, and \$100 million in the bill as reported by the House committee.

Senator MAGNUSON. Yes. So here is a program that is probably going to be beefed up in any event.

Mr. WEAVER. Yes, sir.

Senator MAGNUSON. All right, tell us why you need this extra.

Mr. WEAVER. If you will note on page D-2 we reported the status of this as of May 31, 1961, when the Agency had in excess of \$55 million in applications on hand and in process. The figure for June 14—about 15 days later—indicates that we have now in excess of \$67,800,000 in applications on hand and in process. So this gives some indication of the speed with which this is growing.

I would point out too, that of this there are 28 projects where we have commitments and reservations involving \$15,900,000. Two are under construction, involving \$680,000. And there are 55 additional projects in active process which would involve a dollar value of \$51,300,000.

Senator MAGNUSON. Are most of these applications coming from fraternal organizations for housing projects, elderly housing?

Mr. WEAVER. Well, they are coming from religious organizations—

Senator MAGNUSON. Religious or fraternal.

Mr. WEAVER (continuing). From fraternal. For example, we have one from New York City, from the Hudson Guild which is a settlement house. And labor unions also are involved in this.

LABOR UNION HOUSING PROJECTS

Senator ALLOTT. Incidentally, I read in the paper where one of our unions had undertaken—it was impossible to tell from the paper whether it was an elderly housing project or not—in Florida.

Senator MAGNUSON. Postal clerks, I think.

Senator ALLOTT. I believe it was the postal clerks. Has this awakened any memories in this area?

Mr. WEAVER. Let me look down and see if we have this.

Mr. WOOLNER. This is not in our list of applications so far, Senator.

Senator ALLOTT. Perhaps it is not meant to be an elderly housing program.

Senator MAGNUSON. It is retirement?

Mr. WOOLNER. It looked as though it were in the newspaper story, as I recall. Now there is a large program for elderly housing that is being developed for a number of the labor unions, but that has not been submitted.

Senator ALLOTT. I recall that in this area years ago the brotherhoods went down to Venice, Fla., which is a very nice little town by the way, and they sought to develop Venice along this way as a retired area for railroad workers, and the whole thing flopped.

There were very few who went down there. And the land has since, I think, been recaptured, probably through tax foreclosure. And the town in the last 3 years has developed tremendously on its own initiative. But this whole program of the brotherhood, I believe it was, in this area seemed to go down the drain.

Now I just wanted to find out whether this postal thing was—

Mr. WOOLNER. Not at this point.

Senator ALLOTT. At this point it is not. Maybe it is just simply a retirement idea rather than a housing for the elderly.

Mr. WEAVER. And they might finance it independently of our funds, too, completely of their own funds.

FRATERNAL ORGANIZATION HOUSING PROJECTS

Senator MAGNUSON. But a lot of these loans—out in my country it has been more of the fraternal organizations. I think the first one was the Sons of Norway, one of the first projects some years ago when this started.

Now there are a lot of fraternal organizations that have already established their private nonprofit retirement homes and they may want to enlarge those places. Does it include that, too?

Mr. WEAVER. Let me say, sir, that we have decided, after much pressure, we feel this is primarily intended to increase the housing supply. If they are going to add units, maybe, in contrast to refinancing an existing development, this would be eligible.

In other words, if they are going to augment the supply, and they qualify legally and otherwise, there is no reason why they could not continue. As a matter of fact, there are some advantages from our point of view, because they have had some experience and they know how to run it if they have had a successful operation, and we would welcome it.

Senator MAGNUSON. Yes.

PROMOTERS AND FRONT ORGANIZATIONS

Senator ALLOTT. May I ask this question with respect to this? I have seen at least one example where a religious organization was used as a front. After going into it myself and being in it with the previous administration, I have my grave doubts about it.

Have you had any experience with promoters? Because this is what this was, a promoter using a religious organization as a front for what I and many others and the Administrator thought was a completely impractical proposition. In other words, if you get a \$2-million or \$3-million building, a fellow makes his one way or another, either by getting control of the land beforehand or making a deal with the people.

I mean, there are 100 different ways these fellows operate. Have you had any considerable amount of this in your experience?

Mr. WEAVER. I am sure we have had some of it. I recently transferred this operation to community facilities on the basis that it seems to me impractical to set up a separate construction agency in my central office when I had one already. And in the central office we also have a planning and programing staff. Mr. Woolner has the responsibility for actually carrying it out. We have had some of this. In fact, one such case came to my attention the other day. And I am sure we will have it in a program of this type.

What we will attempt to do, I think, is take each case on its merits, investigate carefully into what is being paid for the land, who owns the land, and that type of thing, to the nature of the sponsoring group, its responsibility and its ability to carry it out.

Now, we will have cases which will be peripheral, where you will have a nonprofit group coming in with a builder who is interested in a builder's profit, which is a legitimate interest he may have. However, he will get out of it after it is constructed and it will be run by the nonprofit group.

This I think we will have and this I think is perfectly all right.

Senator MAGNUSON. This is the field that your main office has to watch all the time.

Mr. WEAVER. Yes, sir.

Senator MAGNUSON. Rather than the division handling the technical problems?

Mr. WEAVER. We have an Assistant Administrator whom we have just employed. He was formerly employed in the Senate here—Sydney Spector—and he is very knowledgeable in this field. He is responsible for this program. He is responsible for the planning of all my programs in this field. Not only in the regular ones, but in the coordination of the FHA, the direct loan, and the PHA programs. So we have three levels of income groups that we are serving.

Senator ALLOTT. I am sure in this instance the religious organization itself was completely honest in what it wanted to do, that they had been sold an expensive bill of goods beyond what the particular location supported, and in other ways, too. And I hope that we watch this very carefully because in the long run it can only serve to tear down this program which is needed very badly.

Mr. WEAVER. Mr. Woolner, have you had enough experience in this yet to comment?

Mr. WOOLNER. Well, we do get the type of nonprofit corporation sponsor that is concerned primarily with the construction. We have not run across a religious group that has a builder involved who is really the spearhead. This has not been so under our limited experience. But there is no question about the activity in some of these, and you have to check them out very carefully. First of all you have to have in mind the proper protection in terms of the project itself so that you get your costs and, secondly, you have to keep in mind if this will be an ongoing operation. Because the operation of the project is just as important as the construction.

TYPE OF PROMOTION INVOLVED

Senator ALLOTT. There is this type of promotion, I think, Mr. Woolner, that I have seen evidence of, and this is the reason I am speaking to this thing right now. That is where a person or persons

get into an organization, which is a nonprofit corporation, and they do a promotional act with him. Here is a fellow who is a great humanitarian, "I just have to do something for these people."

And what he is really looking to is a nice little side profit, maybe on the construction, but more than that a sinecure for the rest of his life operating this thing. And this is an area that I am really afraid of in this thing.

Mr. WOOLNER. We are taking a long look at the people who are involved in the application, who are the members and presidents of the organization, and we are checking them all out. And in those instances where it seems to be a closed corporation we are asking that they bring in the leading citizens in the community who can provide some background of community support so that it does not become simply a self-centered operation on the part of the promoter.

RULES OF ELIGIBILITY

Senator MAGNUSON. Now, do you seek at any time to prescribe the rules of eligibility in these projects or do you leave that up to the people?

Mr. WOOLNER. We leave it up to the people. There are basic rules spelled out in the statute in terms of age, but anything else—

Senator MAGNUSON. Other than age. But the eligibility, that is up to them?

Mr. WOOLNER. Yes.

PRIVATE NURSING HOMES

Senator MAGNUSON. Now where do private nursing homes fit into this?

Mr. WEAVER. FHA.

Senator MAGNUSON. They make a direct FHA application?

Mr. WEAVER. This, of course, is quite different. This is not restricted to nonprofit.

Senator MAGNUSON. But sometimes they are attempting to get into the nonprofit field by forming organizations, and then the man will have a salary there for as long as he runs it. But I think we have to watch that line of demarcation pretty closely.

Mr. WEAVER. Yes, sir.

Senator MAGNUSON. Because the boom in private nursing homes is terrific.

Mr. WEAVER. We are rather disturbed about this. We are going to try to make an analysis of this whole operation.

Mr. Hardy and I are both very much concerned about this particular thing.

SUCCESS OR FAILURE OF PROGRAM

Senator ALLOTT. I would like, before we leave this, Mr. Chairman, and I know the time is getting late, to ask this one question. There has been a great deal of activity in this area particularly over the last 4 or 5 years. Would you like to comment upon the general success or lack of success, or outstanding success, or outstanding failure, of these constructions to do their job? I mean, what is the impact on those people?

Are these things working out; where are the pitfalls? These are things I think we should know.

Mr. WEAVER. I think there is no question in our minds but that this program can be eminently successful. There is no question in our minds but that there is a great demand here. There is a realization on our part, however, that there are a lot of unsolved questions in this area. For example, the biggest single issue is whether or not the old people should be put off to themselves in an isolated area, or should they be integrated in an area where you have different ages, or should they be semi-isolated or a part of a large community? We tend toward the latter because it is a middleground and it seems to make sense to us. Then there are all sorts of questions about what types of facilities should be provided. Should the electric plug be up high because they do not have to stoop, or should it be low because maybe it would be better for them to take some exercise? These are unsolved questions. But there is no doubt in our minds, No. 1, there is an extremely great and growing demand in this area; No. 2, when you do a good job, as Mrs. McGuire, who is the Commissioner of Public Housing Administration did in San Antonio in a public housing project which was featured in the Saturday Evening Post, it is eminently successful. And where you get good design, good management, sound finance, good location, there is no doubt that the thing will work and work very well.

Senator ALLOTT. On the basis of experience, where you get those three things, then you would say generally this is working out the way we hoped it would work out?

Mr. WEAVER. I think there is no question, despite the fact we have under this program only two projects under construction. And I think we could safely say this thing is going to succeed because we see the quality of the people who are being involved, and the fact that they have a built-in effective demand for their product.

Senator ALLOTT. Thank you very much.

PUBLIC HOUSING ADMINISTRATION

Mr. MAGNUSON. All right, Mr. Weaver, your next amendment deals with administrative expenses of the Public Housing Administration. The full text of the justification may be placed in the record at this point.

(The material referred to follows:)

PUBLIC HOUSING ADMINISTRATION

ADMINISTRATIVE EXPENSES

Estimate, \$14,150,000; proposed by committee, \$13,968,000; in act, \$13,968,000

(House hearings, pt. 2, pp. 1006 ff.)

Page 29, line 5, strike out the figure "\$13,968,000" and insert in lieu thereof "\$14,150,000", the estimate, and an increase of \$182,000 above the amount allowed by the House committee.

HOUSE REPORT

(Pertinent excerpts, H. Rept. No. 449, p. 14)

Public Housing Administration.—The bill provides \$165 million for payment of annual contributions to local public housing authorities. This is an increase of \$25 million over the amount appropriated for fiscal year 1961 and a reduction of \$4,300,000 in the budget estimate. There will be 491,902 units in occupancy on June 30, 1961, requiring annual contributions and 30,000 more will become

occupied during the year. The bill also provides \$13,968,000 for administrative expenses, an increase of \$100,000 over the current year and a reduction of \$182,000 in the budget estimate.

Two years ago the Public Housing Administration on an experimental basis offered to waive its contractual right to review local housing authority budgets in advance, and to audit the accounts of such authorities. There are no local funds in these operations, with few exceptions, and the Federal Government foots the entire bill. Since the Government is obligated to make subsidy payments, which are reduced only by any amounts remaining after operating expenses, it is obvious that the only possible way to reduce Government expenditures for subsidy payments is in careful scrutiny of local housing authority budgets and adequate audit checks to assure that expenses are reasonable and necessary. The committee strenuously objects to any relaxation of the budget review and auditing of the local housing authorities by the Public Housing Administration. There have been substantial abuses, as in the payment of legal fees and other expenses. Instead of relaxing any of its opportunities to save money they should be increased.

JUSTIFICATION

The Public Housing Administration requests the restoration of \$182,000 for administrative expenses. This amount, which is the amount of the reduction proposed by the House, is needed to permit the establishment of 20 new positions. Approval of the proposed amendment would provide a total appropriation of \$14,150,000, the amount of the budget estimate.

The House Appropriations Committee, in House Report No. 449, emphasized the importance of review by the Public Housing Administration of local housing authority budgets and operations to insure economy and efficiency in both the planning and the execution of project management activities and by so doing to avoid the Federal subsidization of extravagant practices. The 20 positions in question are all, without exception, for this specific purpose. All 20, if they become available, will be distributed among the seven PHA regional offices, an average of less than three positions to each office; none of the positions will be established in the central office in Washington.

Real estate and financial management specialists

Six of the twenty positions are for real estate and financial management specialists whose primary responsibilities will be reviewing project budgets and inspecting the general management policies and practices at the project sites. A basic purpose of both of these responsibilities is to promote economy and efficiency in the operation of the projects.

Maintenance engineers

Nine of the twenty positions are for maintenance engineers who will review local housing authority proposals to incur expenses for project maintenance and conduct periodic inspections of the plants and structures. The purpose is to insure that housing standards are adequately maintained and that the interest of the Federal Government in the physical plant is adequately protected. Special emphasis is placed on preventive maintenance measures such as the installation of cathodic protection to prevent corrosion of underground piping and the control of condensation to prevent rot and corrosion in crawl spaces and roof structures. The increasing age of the projects makes this function increasingly important. As major repairs become necessary, the savings that can be realized through a well planned and efficiently executed maintenance program become very substantial indeed.

Occupancy auditors

The remaining five positions are for occupancy auditors. In addition to performing duties which ensure that federally subsidized housing is used exclusively to house families of low income, these auditors will perform a very important function in connection with the financial management of the projects, namely, to make sure that rents charged are not only proper in terms of the rent-paying abilities of the occupants but also sufficient to ensure financial solvency.

Each of the three groups of specialists is of vital importance to accomplish the purposes emphasized in the House report, and all of the positions requested in each group are necessary if these purposes are to be fully achieved.

The PHA workload involved in reviewing the plans and performance of local housing authorities increases each year as additional projects are completed and placed under management. From June 30, 1957, to June 30, 1960, for example, the number of projects in management increased over 20 percent—by 448 projects. During the same period, the management staffs in the regional offices increased by five employees—less than 2 percent. It is estimated in the 1962 budget that over 500 additional projects will be completed and added to the management workload during fiscal years 1961 and 1962, of which 140 were completed as of April 30, 1961. For these reasons, the need for the additional positions is now imperative. The additional positions will more than pay for themselves by insuring a more economical operation of the projects.

ADMINISTRATIVE EXPENSES, PUBLIC HOUSING ADMINISTRATION

Mr. WEAVER. The Public Housing Administration has requested an appropriation for administrative expenses amounting to \$14,150,000 for the administration and management of the low-rent public housing program during 1962. The House bill provides \$13,968,000—a reduction of \$182,000 in the request. We recommend favorable consideration of the proposed amendment to restore the appropriation to the full amount of the budget estimate.

Restoration of this amount would permit the employment of 20 additional management specialists, maintenance engineers, and occupancy auditors that are considered necessary to review project budgets, to inspect local housing authority management policies and practices, to review project maintenance practices and proposals, and to conduct occupancy audits. These activities are essential to the efficient and economical management of the low-rent public housing program.

Senator MAGNUSON. All right. That involves your audit. Is that a preaudit that you are talking about, or an audit after the project is completed?

Mr. SERVATTES. The audits we are talking about are periodic audits throughout the life of the project. They are postaudits.

Senator MAGNUSON. That involves 20 people?

Mr. SERVATTES. That is correct, including review of project budgets.

Senator MAGNUSON. I think we understand that.

COLLEGE HOUSING LOANS

Mr. MAGNUSON. The next amendment is for college housing loans, and we will insert the full justification at this point in the record.

(The information referred to follows:)

LIMITATION ON ADMINISTRATIVE EXPENSES

OFFICE OF THE ADMINISTRATOR

COLLEGE HOUSING LOANS

Estimate, \$2,100,000; proposed by committee, \$1,900,000; in act, \$1,900,000

(House hearings, pt. 2, pp. 978-983)

Page 45, line 14, strike out "\$1,900,000" and insert in lieu thereof "\$2,100,000", the estimate, and an increase of \$200,000 above the amount allowed by the House committee.

HOUSE REPORT

(Pertinent excerpts, H. Rept. No. 449, p. 13)

College housing loans (limitation on administrative expenses).—The revised budget limitation for this item is \$2,100,000. The bill provides \$1,900,000, which is an increase of \$320,000 over the amount available in the current fiscal year and \$200,000 less than the estimate. The increase in 1962 will provide 34 of the 58 additional positions requested, or a total of 210 in this program, to meet the impact of the new authorization enacted last September.

JUSTIFICATION

The college housing loan program is authorized by title IV of the Housing Act of 1950, as amended. It provides for direct long-term loans at low interest rates to assist colleges and universities in meeting their needs for dormitory and other housing accommodations for students and faculty members. The Housing Act of 1957 extended eligibility to hospitals for housing facilities for student nurses and interns. The program is financed by a borrowing authorization amounting to \$1,675 million at the present time; the revised budget estimate for 1962 assumes enactment of legislation to provide an increase of \$350 million during fiscal year 1962.

Estimated workload

The revised budget estimate assumes processing of 365 full applications during fiscal year 1962, compared with 271 estimated for the current year, as follows:

	Actual 1960	Estimate, 1961	Estimate, 1962
Full applications received.....	180	380	300
Processing:			
Withdrawals and rejections.....	17	11	5
Loans approved (gross).....	202	260	360
On hand, end of year.....	61	170	105

In addition to full application processing as indicated in the schedule above, the administrative elements associated with the program include (1) an increase in construction and bond development activity and (2) the management of a large and growing portfolio of loans expected to exceed \$1 billion by the end of fiscal year 1962.

Much of the increased activity anticipated in fiscal year 1962 stems from the enactment of Public Law 86-788 early in fiscal year 1961. The timing of this enactment, which increased the program authorization by \$500 million, resulted in a deluge of preliminary applications in fiscal year 1961 and a corresponding workload peak in the full application stage late in 1961 and in 1962. Administrative expense funds available during the current year proved to be insufficient to permit expeditious disposition of the large volume of cases arriving in regional offices during the last few months of the current year, resulting in a substantial carryover of applications for complete processing in fiscal year 1962.

The revised budget estimate of \$2,100,000 would provide for total employment of 234 at the end of 1962 and permit Agency regional offices to handle the full application workload and other administrative activities, thereby reducing the backlog of applications on hand for processing to more normal dimensions.

The reduction in the limitation on administrative expenses from \$2,100,000 to \$1,900,000—a cut of \$200,000 or approximately 10 percent—will reduce the number of employees working on this program at the end of 1962 from the 234 requested to only 210. The Agency does not consider a staff of this size to be adequate to achieve the program set forth in the revised budget without extending the period of time required to process and approve applications for college housing loans with consequent delays in the provision of required housing accommodations at applicant colleges and universities. In light of the estimate that college enrollments are expected to increase from 3 million in 1950 to over 6 million in 1970, imbalances which may now occur between current program objectives and administrative funds will ultimately result in making more difficult the achievement of the long-range Federal role in the college housing field.

Conclusion

The Agency recommends that the Senate amend the pending bill to restore the limitation on administrative expenses to the amount included in the revised budget—\$2,100,000.

COLLEGE HOUSING LOANS

Mr. WEAVER. The next amendment would restore the administrative expense limitation for the college housing loan program from the \$1,900,000 allowed by the House to the amount of the amended budget estimate of \$2,100,000.

The Community Facilities Administration is struggling with the largest workload in the history of the college housing program. Last September, the loan authorization was increased by \$500 million to help meet the unprecedented demands for financial assistance. Most of these funds have now been committed and the processing workload is building up. We had to work under a deficiency apportionment this year and the biggest impact will hit us during fiscal 1962.

In addition, the amended budget forecasts a larger new authorization for next year than did the budget estimate submitted by the previous administration. In contrast to only \$100 million of new lending authority proposed in the January budget, the President recommended and the pending Housing Act of 1961 contains a new authorization for loans amounting to \$350 million for fiscal 1962.

We recommend your favorable consideration of this amendment.

Mr. MAGNUSON. For the purpose of the record, on page 45, line 14, of the bill, you strike out "\$1,900,000" and insert in lieu thereof "\$2,100,000," which is an increase of \$200,000 over the House allowance.

The college housing loans revised budget limitation for this item is \$2,100,000. This is the limitation on administrative expenses.

Now I think what you ought to put in the record is—there is only one justification for the increase—and that is the amount of increase in the applications in college housing loans. How far are you behind and are you up to date with them, or can you give us some of those figures?

Mr. WOOLNER. As of May 31, Mr. Chairman, there were some 45 applications on hand for about \$42 million in construction amount. What actually has been happening is that our input rate has dropped off just a bit in the last couple of months in anticipation, I am sure, of a possible slight reduction in interest rate, under the existing statutory formula, after June 30.

Senator MAGNUSON. On the new bill?

Mr. WOOLNER. Yes; in anticipation of the additional funds, too.

Senator MAGNUSON. I see.

FINANCIAL SITUATION

Mr. WOOLNER. But, generally, this program as you know, has been extremely active following the additional authorization of \$500 million last fall.

As of the end of May we had only some \$29 million left in the revolving fund with which to handle this program.

What is happening here, of course, is this: We have committed a very large amount of money during this fiscal year. We made net

fund reservations of some \$498 million. The bulk of the processing of these applications will come during this coming fiscal year because fund reservation is a simple process of looking at the project and seeing if it is eligible. But the detail in terms of negotiating the basis of the bond purchase is the second step, and this is where a great deal of activity is coming in in the coming fiscal year. I think you have some of that detail on page F-2.

Senator MAGNUSON. Yes.

LOAN APPROVALS

Mr. WOOLNER. So that you will notice that the loan approvals there will jump from 260 in 1961 to 360 in 1962.

In addition to that, there are a number of other factors, such as starts, which will go from 240 in 1961 to 300 in 1962. There will be a very heavy workload in terms of the bond proceedings, which will practically double. This will go from 177 in fiscal 1961 to 381 in fiscal 1962.

What is happening in this program is that whereas about four out of every five applications represent a college that we have done business with before, the problem in terms of the financial negotiation gets a little more severe every time you handle another loan because the available resources are perhaps getting a little thinner as more revenue has been pledged in the beginning for the first several projects. So that the more loans we make to a single institution, sometimes the stickier the financial problem becomes. And this has a direct reflection in terms of the workload.

Senator MAGNUSON. And the college enrollment for the next 10 years is a little bit startling in this field.

Mr. WOOLNER. Yes. Our best projection indicates that between now and 1966 there will be another million students enrolled in colleges and by 1970 there will be approximately double the present number of college students.

So that the authorization requested in the present housing bill, we feel, will just carry this program for the next 4 or 5 years.

We hope to stay even with the need.

PARTICIPATION OF SMALLER COLLEGES

Senator MAGNUSON. I know this is a general question, but it is always one that has bothered me and we run into grants under the National Science Foundation, where we find that the larger colleges are more apt to qualify under these provisions financially and the smaller colleges are not participating as much as they should and, therefore, the trend has been to concentrate more on the larger colleges because of the housing situation than the smaller. Now what would be generally the breakdown of your figures as between the large universities as against smaller colleges?

Mr. WOOLNER. I do not know that I can break this down directly, but I can break it down for you in terms of public institutions versus private, and I think this generally follows. In terms of the number of applicants for the present fiscal year, the private institutions represent 63 percent of the number and the public institutions 37 percent. In the amounts approved they split 50-50. So that I think we can say generally that the private institutions are getting their fair share.

We have adopted no rationing process at all, except as it is necessary when you run out of funds. But this is not done on the basis of serving public or private.

Mr. WEAVER. Senator, it may be true, too, that the public institution, because of its source of revenue may be better able to expand, or absorb a larger proportion than the private institutions which are in a very difficult position, most of them financially. And expansion sometimes does not mean helping them because every time you take more students you have to have more subsidy. None of these students are self-supporting. So this may reflect in some degree the absorption capacity of our education system.

Senator MAGNUSON. Of course, what we are trying to do generally is keep the spread here as far as possible, and we have had to do that, the Senator from Colorado and I had to be very specific in that, in fellowship grants.

We found that one year 87 percent of all the grants went to nine schools. So we had to deliberately turn the thing around. This was not deliberate on the part of Waterman and his group, it just happened that way. So we had to deliberately turn around and place more emphasis on grants into the smaller colleges.

TRINIDAD JUNIOR COLLEGE, COLORADO

Senator ALLOTT. I think one actual experience in this thing might not be inadvisable as a part of the record here. About a year ago last spring, this last spring, as I recall my dates, the Trinidad Junior College made an application under this for housing. Is that Texas they deal through?

Mr. WOOLNER. Yes, sir. Fort Worth.

Senator ALLOTT. Fort Worth, Tex. And after making innumerable trips down there and having their plans revised and everything else by these people, they finally threw up their hands in disgust and in one week went out and financed it privately, and financed it at a better rate of interest than they could get from you.

That is an actual documented experience in this field. And this is one reason I think the chairman asked this question. Because there has been some feeling that there is too much emphasis put on the places that are already getting too much emphasis.

We know that this happens in schooling, in the selection of schooling, and you know the great efforts that have been made in the past 2 or 3 years, particularly, to distribute the college load among schools which are essentially sound and fine schools except that they are small.

And he has told you about NSF experience. So I hope that your figures that you have given to us continue to hold true.

Mr. WOOLNER. There certainly should be no intent to make this as difficult as possible because this would achieve nothing.

Senator ALLOTT. I was in this particular case a half dozen times talking with the President by phone and attempting to advise him, to get in touch with whoever it was at Fort Worth.

Mr. WOOLNER. We do feel that college housing should not be an ornate structure. But beyond that—

Senator ALLOTT. I assure you in this community they will not be ornate.

Mr. WOOLNER. Not in Trinidad.

Senator ALLOTT. Not in Trinidad, no. That is all I have on that, Mr. Chairman.

PUBLIC FACILITY LOANS

Mr. MAGNUSON. All right. Now we come to the expense limitation for public facility loans. The justification for your proposed amendment will be inserted in the record at this point.

(The information referred to follows:)

LIMITATION ON ADMINISTRATIVE EXPENSES

OFFICE OF THE ADMINISTRATOR

PUBLIC FACILITY LOANS

Estimate, \$750,000; proposed by committee, \$650,000; in act, \$650,000

(House hearings, pt. 2, pp. 984-988)

Page 46, line 3, strike out "\$650,000" and insert in lieu thereof "\$750,000", the estimate, and an increase of \$100,000 above the amount allowed by the House committee.

HOUSE REPORT

(Pertinent excerpts, H. Rept. 449, p. 13)

Public facility loans.—The bill provides \$650,000 of the \$750,000 requested for administrative expenses in connection with the program of loans to finance construction of specific public works. This is an increase of \$112,500 over the allowance for the current year.

JUSTIFICATION

The public facility loan program, authorized by title II of the Housing amendments of 1955, was enacted to assist State and local governments or their agencies to finance construction of specific public works projects. Financed by a statutory borrowing authorization of \$150 million, the program is designed primarily to assist small municipalities which are unable to market their local obligations at reasonable rates to finance basic public works for which there is an urgent and vital need. The amended budget assumes enactment of pending legislation to increase the statutory borrowing authorization by \$50 million to a total of \$200 million.

The amended budget request also proposed a limitation on administrative expenses amounting to \$750,000—an amount which is \$212,500 over the limitation available for the current year and which would provide for an increase of 30 positions in yearend employment. The larger administrative budget and the additional positions requested result from the overall increase in workload activity projected for the fiscal year 1962. The following comparison of principal program statistics shows this workload at key stages:

	Estimate, 1961	Estimate, 1962
Applications received.....	157	200
Loans approved:		
Number (gross).....	114	155
Amount (net, in millions).....	\$33.4	\$57.0
Construction starts.....	82	150
Bond proceedings initiated.....	74	145

As indicated in the table, there are substantial increases in workload forecast for the budget year. The anticipated expansion of the public facility loan program will result from the liberalization of former restrictive policies concerning eligible applicants and types of facilities, as well as from the reduction in interest rates charged borrowers seeking assistance.

Restoration of the full amount of the expense limitation proposed is recommended so that the Agency will be able to employ the staff necessary to meet the budgeted workload levels without lengthening processing time and without reducing the level of technical services rendered to applicant communities.

PUBLIC FACILITY LOANS

Mr. WEAVER. The administrative expense limitation for public facility loans was proposed in the amended budget program at \$750,000 in order to provide additional staff to handle the substantial increase in workload projected for the budget year 1962. The anticipated expansion is expected to result from the liberalization of former restrictive policies concerning eligible applicants and types of facilities, as well as from the reduction in interest rates charged borrowers seeking assistance under the program.

The House bill contains an expense limitation of \$650,000. Our proposed amendment would raise the limitation to the \$750,000 recommended in the amended budget estimate.

Senator MAGNUSON. All right. For the record, on page 46, line 3 of the bill, you strike out "\$650,000" and insert in lieu thereof "\$750,000," an increase of \$100,000. This is again the administration of the applicants for specific public works projects, State and local governments, that we discussed a little bit in the planning end.

Mr. WOOLNER. Yes; this is the next step.

Senator MAGNUSON. And from your workload which you placed on page G-2, it shows an increase in that activity.

PROJECTS IN SMALL COMMUNITIES

Mr. WOOLNER. Yes. These projects generally, Mr. Chairman, are in small communities. In fact, historically, some 87 percent of the public facility loan has been made in communities of 3,000 population and less, and 60 percent have been made in communities of 1,000 population and less. So that we are getting into the very small towns and villages. The workload that we anticipate will go up very considerably. On page 2 these figures indicate about one-third increase in applications and about the same increase in approvable loans. This is an area in a small community, of course, where the local officials may have had very little experience in this type of project. They have never gone into the bond market before and to some extent we act as a lender of last resort.

Where they cannot get a reasonable interest rate, we then stand ready to buy their bonds. Actually, we spin our wheels a little bit in this program because we lose a percentage of these applications.

Each applicant must advertise and go into the market, and about 13 percent of our applications are lost because the community gets a better interest rate. And this is fine, this is what we are after, although in terms of the net achievement record it simply shows up as a lost project.

BORROWING AUTHORITY

Senator MAGNUSON. Now your borrowing authority there is \$150 million now?

Mr. WOOLNER. Yes, and the new bill has \$50 million more.

Senator MAGNUSON. Making it \$200 million.

Mr. WOOLNER. That is right.

Senator MAGNUSON. In this particular field?

Mr. WOOLNER. Yes. As of May 31, we have some \$43 million in projects on hand—applications on hand.

FEDERAL HOUSING ADMINISTRATION

Senator MAGNUSON. Now, the last item you have here is for non-administrative expenses, Federal Housing Administration. Section H of the justification which deals with this amendment may be placed in the record in full.

(The information referred to follows:)

LIMITATION ON ADMINISTRATIVE AND NONADMINISTRATIVE EXPENSES, FEDERAL HOUSING ADMINISTRATION

Nonadministrative expenses.—Estimate, \$62,300,000; proposed by committee, \$58 million; in act, \$58 million.

(House hearings, pt. 2, pp. 793-872)

Page 48, line 19, strike out "\$58,000,000" and insert in lieu thereof "\$61,300,000", a decrease of \$1 million in the estimate, and an increase of \$3,300,000 above the amount allowed by the House.

HOUSE REPORT

(Pertinent excerpts, H. Rept. 449, p. 14)

Federal Housing Administration.—The committee recommends \$9,600,000 for administrative and \$58 million for nonadministrative expenses related to processing workloads of mortgage insurance applications, or total operating expenses of \$67,600,000. This is a \$589,000 increase in the current limitation on administrative and \$5,012,000 more for nonadministrative expenses. The increased limitations will provide funds for about 500 new jobs to handle the increasing work, most of them in the field offices. The agency had requested an 18-percent increase for 1962, but the workload does not warrant an increase of this magnitude.

JUSTIFICATION

The Federal Housing Administration nonadministrative budget for fiscal year 1962, as originally presented, requested an 18-percent increase in operating expense limitation, for an estimated 16-percent increase in insurance initiation workload, and a 57-percent increase in insurance claims and property acquisition workload.

Important developments have occurred since the original estimates were prepared. Some of these were discussed with the House Independent Offices Appropriation Subcommittee at hearings. Others are more recent. Taking all of these developments into account, some of them having the effect of increased expenses and some of them having the effect of decreases, it now appears that a nonadministrative limitation of \$61.3 million is the least that should be authorized if FHA is to be in position to provide the minimum of service paid for by home buyers and if FHA is to discharge adequately its role in the housing market. This would be \$1 million less than originally requested but \$3.3 million more than the House has allowed.

The revised estimate of \$61.3 million would provide an 11.2-percent increase in insurance initiation expense to cover a 15.2-percent increase in unit applications for mortgage insurance, and would provide a 32.2-percent increase in maintenance and settlement expense principally to cover a 134-percent increase in mortgage insurance claims and property acquisitions.

The following pages outline more fully the workload and expense changes lying behind the revised request and explain the differences in cost as compared with earlier years.

BASIS OF ORIGINAL REQUEST

The fiscal 1962 nonadministrative budget for the Federal Housing Administration expressed the need for an expense limitation of \$62.3 million, 18 percent more than the \$53 million (including Pay Act supplemental) available for the current fiscal year. As presented to Congress in January, this budget was based upon the following assumptions:

1. That 1 million unit applications for mortgage insurance would be received in fiscal 1962. This would be 16 percent above the 860,000 then expected to be received in the current fiscal year. As this fiscal year draws to a close, unit applications being received have risen to a seasonally adjusted annual rate of about 873,000. (As demonstrated by the seriously backlogged condition of the FHA field offices, this rate of receipts is more than 20 percent above FHA's capacity to process properly and promptly; and supplemental expense authorization has been requested in H. Doc. No. 162 to alleviate the situation insofar as possible this late in the year.)

2. That 150,000 fee appraisal assignments (fee services by outside independent appraisers) costing \$3 million would be used in fiscal 1962 during peak periods to avoid excessive additions to the FHA permanent staff. (Under the current limitation the Agency has had to almost eliminate the use of such fee services.)

3. That insurance claims and property acquisitions resulting from mortgage defaults, foreclosures, and insurance claims, the rates of which already had multiplied many times beyond all earlier estimates, would continue to rise sharply. Speaking of one- to four-family properties only, which represent the greater portion of this class of work, the estimate made in January was for 9,000 in the current year (although this year's budget had been based upon about 3,000) and for 12,000 in fiscal 1962. This would be a 33½-percent increase on top of a 300-percent increase in workload that had already occurred without any corresponding increase in expense authorization.

Thus, as presented, the request for an 18-percent increase in expense authorization, fiscal 1962 over 1961, was based upon a 16-percent increase in unit applications (with \$3 million for the resumption of fee appraisal services) and a 400-percent increase over the funded level of claims and property workload.

Revisions at time of House hearings

By the time of hearings on the FHA budget in the House of Representatives on May 8, the more recent trends indicated certain significant changes in the above assumptions:

(1) Although improvements in the housing market were producing about the expected increases in applications for mortgage insurance on existing homes, insured mortgage sales on new homes were not increasing as rapidly as had been forecast last January. Accordingly, at the hearing the FHA Commissioner presented a downward revision of 25,000 in total unit applications for fiscal 1962, pointing out as he did so, however, that the \$750,000 in cost that would be avoided by this development would be offset by further increases in costs attributable to even greater increases in claims and property acquisitions than had been forecast previously.

(2) At the time of hearing the home mortgage claims received and properties acquired during the current year already had far surpassed the estimate for the whole year to an extent indicating a new total of nearly 13,000 for the current year. The then current rate of acquisitions and claims, together with the rate of defaults from which future acquisitions and claims will come, dictated an upward revision of the 1962 estimate from 12,000 to 16,000, a further increase of 33½ percent, over and above the previously estimated increases of 400 percent beyond the level that the agency has been budgeted to handle. It was this further one-third increase that indicated the need for an additional expense authorization of \$750,000, offsetting the reduced rise in new applications for mortgage insurance.

Developments after House hearings and appeal for restoration

The House committee recommended and the House approved a cut of \$4.3 million, or 7 percent from the requested amount. For reasons which will be explained below, it is believed possible to absorb \$1 million of the recommended reduction, but it is urgently necessary to request that the remaining \$3.3 million be restored. Several facts enter into this determination, some of them not known at the time of hearings in the House.

(1) With the rate of unit applications received on the upturn and with market conditions and the general state of the economy improving, the agency can see no basis for reducing this estimate of volume more than another 25,000. This would mean a total of only 950,000 unit applications in 1962, nearly 125,000 less than were received in fiscal 1959 and only 77,000 above the current seasonally adjusted annual rate as the agency and the economy emerge from a bad year. In fact, allowing for the inescapable costs of handling the claims and property acquisitions at the now evidently understated level presented to the committee, the expense authorization remaining out of the amount recommended by the House would pay for an insurance processing staff commensurate with a volume of only 835,000, which is 38,000 less than the current rate.

Thus, it is felt that 950,000 is the lowest level of new business that the agency should be equipped to handle. This would be 50,000 less than the original estimate, representing \$1.5 million that could be cut from the budget.

(2) However, in recent weeks the rate of claims and property acquisition again has exceeded even the revised estimate of that date. It now is evident that nearly 14,000, rather than 13,000, home units will have been acquired this year and it would now be necessary to add at least another 1,000 to the estimate for 1962, despite the fact that the rate of increase still is expected to slow down late in that year.

Thus, at this time, based upon the latest facts, home acquisitions and claims will have reached more than 450 percent of the budgeted level for the current year.

Despite all that could be done within the expense authorization available, the agency will end this fiscal year nearly a year behind schedule in the issuance of debenture payments in response to insurance claims; and this represents nearly \$100 million of private-industry money that otherwise could be at work in the economy.

Similarly, the new estimate of 17,000 home acquisitions for 1962 would be more than 550 percent above the presently budgeted level. This latest addition of 1,000 to that estimate represents \$250,000 in operating expense requirements not heretofore known; and this would be in addition to the \$750,000 attributable to the 4,000 revision in the 1962 acquisitions already discussed with the committee, thus making \$1 million beyond the original estimate needed for acquisition and claim work in 1962, over against the reduction of \$1.5 million that could be related to the lower estimate of new applications for insurance.

(3) With the lower estimate of unit applications for fiscal 1962, it now would appear feasible to reduce the estimate of fee-appraisal services to be used, from 150,000 to 100,000 at a net saving of \$500,000.

Summary of feasible deductions and necessary additions

Thus, the \$1.5 million that could be cut from the nonadministrative budget as a result of a reduced estimate in the expansion of new business would be offset to the extent of \$1 million by the necessary increase in the estimate of acquired properties and insurance claims, leaving \$500,000, to which can be added \$500,000 from fee-appraisal services, for a net reduction of \$1 million, which it is believed could be sustained without undue risk to sound operations and service.

Comparison with earlier years

While the amount requested for the fiscal year 1962 may seem high in relation to earlier years, it is pointed out that the cost of FHA fee appraisals and of fee services used by mortgages under the certified Agency program now must be charged against the FHA operating expense limitation. Prior to 1961 they were not so charged and did not appear as FHA operating expenses. Equally important is the cost of the tremendously increased workload in insurance claims and property acquisitions. In addition, there have been significant increases in costs resulting from the pay raise of 1961 and from increased per mile compensation for official travel and other factors.

The table below compares the 1962 estimated expense with the actual expense for fiscal 1959, the last year in which a similar volume of applications for mortgage insurance was received:

	<i>In millions</i>
Fiscal year 1962 nonadministrative estimate.....	\$62.3
Fiscal year 1959 nonadministrative expense.....	45.9
	<hr/>
Difference to be accounted for.....	16.4
	<hr/>
Differences in fiscal year 1962 costs:	
Cost of pay raise.....	3.2
Additional personnel benefits (mainly health insurance).....	.7
Increase in per mile travel allowance.....	.3
Fee appraisals 150,000 (not formerly chargeable).....	3.0
Reserve for fees under certified Agency program (not formerly chargeable).....	.8
Increased maintenance and settlement expense (costs of higher levels of insurance in force, claims, and acquired properties not reflected in above items).....	5.5
	<hr/>
Total.....	13.5
	<hr/>
Difference not accounted for by adjustment.....	2.9

Thus, when adjustment is made for purposes of comparison, the fiscal 1962 estimate of \$62.3 million was the equivalent of only \$2.9 million above the 1959 level, a difference allowing for the quality and promptness of processing that was not possible under the seriously understaffed conditions of 1959.

As now revised on the basis of the new forecasts of volume for 1962, discussed above, the amount now requested, \$61.3 million, is only \$1.9 million above the 1959 level.

Conclusion

Facts in support of the budget request as revised at the time of House hearings are reflected in the record of those hearings and in the justification presented earlier. With respect to the further adjustment of workload estimates justified by developments since the House hearings and discussed herein, three attached tables are presented, one showing the trend of defaults and acquisitions, another showing the trend of unit applications for mortgage insurance, and the third summarizing the revisions of the nonadministrative budget estimates since the original submission to Congress.

For the reasons outlined here, the restoration of \$3.3 million of the \$4.3 million cut by the House, making a fiscal 1962 nonadministrative expense authorization of \$61.3 million, is respectfully requested.

Defaults and property and mortgage acquisitions

	1- to 4-family homes				Multifamily housing		
	Total defaults	Property acquisitions		Ratio of acquisitions to mortgages in force		Property and mortgage acquisitions	
		Total	"203"	Total	"203"	Projects	Units
Calendar year:							
1957.....	10,333	2,657	910	0.0012	0.0005	68	4,286
1958.....	14,455	2,271	1,328	.0009	.0006	73	6,720
1959.....	16,970	3,613	1,828	.0013	.0007	76	6,925
1960.....	26,861	7,114	5,082	.0024	.0019	118	10,441
Fiscal year 1961 by month:							
July.....	21,260	446	350	.0018	.0016	5	148
August.....	21,883	643	530	.0026	.0024	13	1,136
September.....	22,470	703	485	.0028	.0022	7	1,031
October.....	23,674	509	390	.0020	.0018	8	1,141
November.....	24,714	807	590	.0031	.0026	17	2,281
December.....	26,861	1,178	988	.0046	.0044	10	1,279
January.....	28,555	1,175	968	.0045	.0043	3	254
February.....	30,463	1,375	1,110	.0053	.0049	20	2,569
March.....	32,095	1,454	1,251	.0056	.0055	6	360
April.....	33,490	1,517	1,158	.0058	.0051	7	984
May.....	1 33,500	1 1,470	1 1,240	.0056	.0054	6	223

1 Preliminary.

Unit applications received, fiscal year 1961

	Home mortgages				Total project mortgages	Total project and home mortgages 1	Seasonally adjusted rate
	New	Existing	Total	Seasonally adjusted rate			
July.....	19,637	38,199	57,836	693,000	6,599	64,435	772,000
August.....	22,913	43,684	66,597	695,000	7,956	74,553	790,000
September.....	20,113	38,786	58,899	688,000	4,276	63,175	739,000
October.....	18,345	36,663	55,008	690,000	8,532	63,540	792,000
November.....	14,771	33,815	48,586	703,000	6,525	55,111	781,000
December.....	13,170	27,831	41,001	703,000	8,088	49,089	800,000
January.....	14,347	33,233	47,580	722,000	8,245	55,825	821,000
February.....	16,884	36,782	53,666	707,000	6,472	60,138	785,000
March.....	23,969	50,249	74,218	749,000	8,071	82,289	846,000
April.....	20,779	47,393	68,172	762,000	4,396	72,568	815,000
May.....	23,877	57,098	80,975	783,000	7,468	88,443	873,000
June (estimated).....	25,195	59,267	84,462	860,000	7,372	91,834	950,000
Total.....	234,000	503,000	737,000	-----	84,000	821,000	-----

1 Excludes 4,500 beds under section 232.

Summary of developments on nonadministrative budget estimates, fiscal year 1962

	Unit appli- cations received	Fee appraisal assignments	Property acquisitions		Reserve for CAP	Total limita- tion, in millions	Remarks
			1- to 4-family properties	Multifamily units			
Original estimate to Congress... Revision made during House hearings.	1,000,000 975,000	150,000 150,000	12,000 15,000	8,950 8,950	\$800,000 800,000	\$52.3 62.3	The reduction of 25,000 unit applications was offset by the increased cost (\$750,000) resulting from the increase of 4,000 acquisitions. House action would permit initiation operations at less than the current rate (\$75,000) and the handling of only 12,000 1- to 4-family acquisitions. Unit applications decreased by 50,000, cost -\$1,500,000; claims increased by 5,000 cases, cost +\$1,000,000; and a cutback of 50,000 in fee assignments, net cost -\$500,000.
Effect of House Appropria- tions Committee recommen- dation.	835,000	150,000	12,000	8,950	800,000	58.0	
Proposed appeal to Senate.....	980,000	100,000	17,000	8,950	800,000	61.3	

FEDERAL HOUSING ADMINISTRATION

Mr. WEAVER. The last amendment which we have to recommend concerns the nonadministrative expense limitation for the Federal Housing Administration for next year. The budget estimate of \$63,300,000 was reduced by the House to \$58 million. We are requesting the Senate to increase the limitation to \$61,300,000—an increase of \$3.3 million above the amount allowed by the House, but a decrease of \$1 million from the original estimate.

I would like to state briefly the reasons for the proposed restoration and, then, you may wish to discuss with Commissioner Hardy the additional details in support of our recommendation.

First, the FHA is faced with a rising volume of defaults and claims. The situation is not serious in proportion to the total volume of mortgage insurance, or in terms of FHA reserves. But it is a heavy burden for the staff that was not contemplated in the budget request. It involves curing defaults, if possible, the issuance of debentures in payment of claims, and the management and sale of properties that must be acquired.

Second, many of the FHA insuring offices are seriously backlogged at the present time. Naturally, we hope that the indicated upturn in housing construction will continue and this will bring more mortgage insurance business into these same offices. They need staff relief to provide for prompt and efficient processing.

Mr. MAGNUSON. Commissioner Hardy also has a prepared statement which we will include in the record in full, and then he can tell us about it.

(The statement referred to follows:)

STATEMENT OF NEAL J. HARDY, COMMISSIONER, FEDERAL HOUSING ADMINISTRATION

Mr. Chairman and members of the committee, I am grateful for the opportunity to discuss our budget requirements with you and explain the amendment we are requesting in the action taken by the House on our nonadministrative budget limitation for the fiscal year 1962.

It is in the nature of FHA's business that our workload shifts and fluctuates radically and rapidly from month to month and year to year, especially in times of economic change. There have been several significant changes since our budget was submitted for this year. One of these changes is the sharp increase in claims and the attendant workload of default servicing, issuance of debentures in payment of the insurance claims, and the management and disposition of properties acquired as a result of such claims. While this increase in claims is not in any sense alarming in relation to our insurance in force or the insurance reserves of the Federal Housing Administration, it is a very heavy increase in workload which was not anticipated in the budget estimate. On the other hand, while there has been an overall increase in the volume of applications for mortgage insurance, applications for new homes have not kept pace with the increase in other types of applications, and as a result we feel warranted at this time in a downward adjustment in our budget estimate for this phase of the work. The net effect of these changes is a reduction of \$1 million from our original nonadministrative expense estimate of \$62,300,000 for the fiscal year 1962.

I recognize, of course, that our 1962 nonadministrative budget is a substantial increase over the budget for the current year or for other years in the recent past. Our justification explains these differences in terms of rising workload, pay increases, and other rising costs which make our request for the fiscal year 1962 in fact comparable to those of other recent years. In 1959, for example, \$5,660,000 worth of fee appraisal services was used by FHA, and the equivalent of more than \$675,000 of fee services was used by certified agency lending institutions in behalf of FHA (or a total of more than \$6,335,000

in outside services) at no charge against the FHA expense limitation. Appropriation act language now requires that all such fees be charged against our expense limitation. As originally estimated this would have meant \$3,800,000, and as now estimated \$3,300,000 in fiscal 1962.

The Government-wide pay increase of last year accounts for another \$3,200,000 of increased costs over earlier years. The employee health insurance provisions and related personnel benefits account for another \$700,000 of increased annual costs.

An increase in the mileage reimbursement for official automobile travel represents a difference of another \$300,000 in operating expenses. Rising costs of supplies and equipment result in additional minor differences.

The most significant difference of all, however, is an increase of \$5,500,000 attributable to servicing the increasing volume of insurance in force, the settlement of rapidly rising insurance claims, and the attendant property acquisition and disposition activity. All of these factors are separate and distinct from the processing of applications for mortgage insurance. Mortgage insurance applications have been rising and are expected to be substantially greater next year than in the current fiscal year.

Moreover, we are seriously backlogged at the present time, both in the payment of claims and the processing of mortgage insurance applications. As of last week our field offices, on the average, had accumulated nearly a month's backlog of insurance applications awaiting processing. Several offices, using all of the full-time, overtime, and part-time help that we could afford, had from 5 to 9 weeks of new applications on hand. This means that builders are having to wait from 30 to 60 days to start construction and put people to work on their projects because we cannot process their applications and issue insurance commitments enabling them to secure advances of construction funds any sooner. It means that sales of existing homes are being held up similarly and that home buyers are not getting the service from us that they are paying for and have every right to expect.

Moreover, in our insurance settlement activity, we are nearly a year behind schedule in the payment of insurance claims, tying up private funds that otherwise could be at work in the economy. We are unable to attend promptly and properly to the properties being acquired in ever-increasing numbers—properties now representing an investment of about \$500 million.

Let me summarize in closing our total revised request. Our justification has requested restoration of \$3,300,000 of the cut made by the House. This would make a total nonadministrative budget of \$61,300,000, and would provide an 11.2-percent increase in insurance initiation expense to cover an estimated 15.2-percent increase in unit applications for mortgage insurance. It would also provide a 32-percent increase in maintenance and settlement expense mainly to cover a 134-percent increase in insurance claims and property acquisitions.

We are not requesting any adjustment in the House action on our administrative expense budget.

Thank you.

LIMITATION ON NONADMINISTRATIVE EXPENSES

Senator MAGNUSON. For the record, on page 48, line 19 of the bill, you ask for an increase of \$3,300,000 above the amount allowed by the House, which was a decrease of \$4,300,000 in your estimate in this particular field. That is the limitation on nonadministrative expenses.

CHANGES IN ESTIMATE

Mr. Hardy, your statement is in the record, but you tell us about this briefly.

Mr. HARDY. Yes sir. The easiest way I can summarize—the changes that have been made stem directly from anticipated workload next year. We have revised downward the expected applications for mortgage insurance to a figure of 950,000 as compared with an initial estimate when this budget was prepared of 1 million.

We feel that this reduction makes sense in terms of the general level of unit applications which we are now receiving, which on a seasonally adjusted basis are now running at about 950,000. This would reduce the budget by \$1½ million. We have, however, had to revise upward, on the basis of actual experience during the current fiscal year, our estimate as to the acquisition of properties and the insurance claims which we will have to pay.

PROPERTIES ACQUIRED THROUGH DEFAULT

We are now going to end this fiscal year, having acquired some 14,000 properties—

Senator MAGNUSON. Is this exclusive of the VA?

Mr. HARDY. Yes, that is correct, sir.

Senator MAGNUSON. They have their own problem in this field?

Mr. HARDY. That is right.

When the budget was first prepared we estimated, if I recall correctly, we would acquire only 3,000 home properties during this current fiscal year. In the next fiscal year, for which this budget is estimated, we now estimate—

Senator MAGNUSON. Well now, for the purpose of the record here, because we are interested in this, 14,000 is your estimate for next year?

Mr. HARDY. No, for this current year. It is 17,000 for next year.

Senator MAGNUSON. For next year. Has this constantly been moving up, this figure?

Mr. HARDY. Yes. There is a table which is attached to the justification which will give it to you at a glance, on page H-11.

Senator MAGNUSON. Yes, I see. That is in the record.

Mr. HARDY. It shows the defaults for 1957, 1958, 1959, and 1960 and by months for the current fiscal year.

Senator MAGNUSON. What success are you having in salvaging these places in the way of refinancing or resale or any other way?

Mr. HARDY. Property disposition is moving ahead at a good rate, sir, and reserves are quite adequate to take care of such losses as may be incurred in connection with the resale or refinancing of properties. We obviously have a much larger workload than the agency has ever had in the past.

Senator MAGNUSON. This is in FHA?

Mr. HARDY. That is correct, sir.

PERCENTAGE OF LOSSES SUSTAINED BY GOVERNMENT

Senator MAGNUSON. Can you put in the record what percentage of losses the Government has sustained, overall, in the program?

Mr. HARDY. I would be glad to supply it, sir. It is much less than 1 percent.

(See later statements.)

Senator MAGNUSON. That is what we want. We want that figure because we will be asked this when we get to the floor, just how much is the Government losing, or how stable has this program been, despite the fact that the foreclosures and reclaiming have gone up.

Mr. HARDY. That is correct. It still represents only a very modest amount in relation to the total and showed liability which is outstanding.

Senator MAGNUSON. Yes.

TOTAL DEFAULTS

Senator ALLOTT. Looking at your chart on page H-11, in order that I am sure that I interpret this correctly, these figures in the first column are cumulative?

Senator MAGNUSON. Total defaults.

Senator ALLOTT. In July there were not 21,260 total defaults?

Mr. HARDY. That is cumulative. No; these would be the number of defaults in existence at the end of the year.

Senator ALLOTT. At the end of the year.

And then your July, August, and so forth will be cumulative as of that time?

Mr. HARDY. Yes; as of the end of each month.

Senator ALLOTT. This column does not represent new defaults, then; it is cumulative of all up to that time?

Mr. HARDY. Just the number outstanding as of the dates.

RATIO OF ACQUISITIONS TO MORTGAGES IN FORCE

Senator ALLOTT. That would show, as it may then, in the ratio of acquisitions to mortgages in force, you would have a total of fifty-six ten-thousandths?

Mr. HARDY. That is correct.

Senator MAGNUSON. One-half of 1 percent.

Senator ALLOTT. And that is in the 1-to-4 family.

Senator MAGNUSON. You have broken this down as to projects and units, which is the homes and which is the projects?

Mr. HARDY. Well, on your 1-to-4 family homes, you have your acquisitions under the column headed "Total" which gave you for 1960, for example, 7,114, and then by months throughout the year. Under your multifamily housing, we have given you projects with both projects and units included.

Senator MAGNUSON. In the projects?

Mr. HARDY. That is right. Taking the figure for May, we had acquired 6 projects for a total of 223 units in those 6 projects. It is a much more erratic trend line, as you can see, on the projects. There are not very many, so the figures jump about a bit by months.

Senator ALLOTT. Well then, in your second column of figures, where you get down to fiscal year 1961 by month, these figures here represent new acquisitions that month?

Mr. HARDY. That is correct, sir.

Senator ALLOTT. And they are not cumulative as the first column is?

Mr. HARDY. That is right.

Senator ALLOTT. Thank you.

Mr. HARDY. I have here, if I may insert it at this point—

REFINANCING PROBLEM

Senator MAGNUSON. I wanted to ask this, too. On some of these units, like the one we were discussing the other day, the prospects of refinancing become sort of remote where you have a different interest rate?

Mr. HARDY. This is correct, sir. In a case of this sort where a property, for example, is acquired and may have an old mortgage at a low-interest rate, unquestionably in terms of its resale, if it requires refinancing as most of them would, we probably would have to sell it. We always sell on a bid basis but the bid, in figure, at a higher mortgage interest rate, would probably mean a loss on the property. I can give you, if you wish, the figure here now on the total cumulative losses.

Senator MAGNUSON. All right.

FHA LOSS EXPERIENCE

Mr. HARDY. As of June 30, 1960, we had written almost \$64 billion worth of insurance, of which \$32 billion was still outstanding. Losses amounted to \$139 million or twenty-two hundredths of 1 percent.

Senator ALLOTT. That is cumulative as of June?

Mr. HARDY. Cumulative from the very beginning.

Senator MAGNUSON. Of course, we are at a point now where some of the mortgages are being paid off in full, and we are starting to make this cycle?

Mr. HARDY. That is right. That is evidenced by the fact we now have outstanding just a little more than half of the total which has been written.

FHA BACKLOG IN CALIFORNIA

Senator MAGNUSON. The Senator from California has sent a letter to me in which he says he has received repeated complaints about the delay in processing applications with the FHA because of the large backlog of cases accumulated through personnel shortages. He says there have been many instances where desired impetus to local economy has been denied. He says delays in the processing of applications run from 60 to 90 days. He said:

I wish to bring your attention to the comment of a leading member of the real estate industry in one California city who takes the view that the use of hired fee appraisers is the most economic means of reducing FHA backlog.

Then he quotes the letter. I will just give this to you and you can put it in the record with some answers.

Now unless you have something to add, we will put your statement in the record in full. And we have requested certain figures and we will keep the record open.

We would like to get this done this week because we want to get this bill on the floor.

Mr. FRANTZ. Senator, did I understand you want the letter and a comment on it in the record?

Senator MAGNUSON. Well I think you can send a comment to me as chairman. There is no use cluttering the record.

Mr. FRANTZ. All right.

Senator MAGNUSON. He is a member of the Appropriations Committee but he could not be here today because we have hearings going on all over the building.

All right, if there is nothing further, we thank you gentlemen. We got through this morning and you won't have to be back this afternoon.

COMMITTEE RECESS

We will recess until tomorrow at 10 a.m., at which time we will have the Federal Aviation Agency.

(Whereupon, at 12:20 p.m., Monday, June 19, 1961, the committee recessed to reconvene at 10 a.m., Tuesday, June 20, 1961.)

The first part of the report deals with the general situation of the country and the progress of the war.

The second part deals with the military operations and the progress of the army.

The third part deals with the naval operations and the progress of the navy.

The fourth part deals with the air operations and the progress of the air force.

The fifth part deals with the economic situation and the progress of the economy.

The sixth part deals with the social situation and the progress of the social reforms.

The seventh part deals with the political situation and the progress of the political reforms.

The eighth part deals with the international situation and the progress of the international relations.

The ninth part deals with the cultural situation and the progress of the cultural reforms.

The tenth part deals with the religious situation and the progress of the religious reforms.

The eleventh part deals with the scientific situation and the progress of the scientific reforms.

The twelfth part deals with the artistic situation and the progress of the artistic reforms.

The thirteenth part deals with the literary situation and the progress of the literary reforms.

The fourteenth part deals with the musical situation and the progress of the musical reforms.

The fifteenth part deals with the theatrical situation and the progress of the theatrical reforms.

The sixteenth part deals with the cinematographic situation and the progress of the cinematographic reforms.

The seventeenth part deals with the radio situation and the progress of the radio reforms.

The eighteenth part deals with the television situation and the progress of the television reforms.

INDEPENDENT OFFICES APPROPRIATIONS FOR 1962

TUESDAY, JUNE 20, 1961

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:05 a.m., pursuant to recess, in room F-37, U.S. Capitol Building, Hon. Warren G. Magnuson (chairman) presiding.

Present: Senators Magnuson, Monroney, Allott, Saltonstall, Schoepel, and Bridges.

FEDERAL AVIATION AGENCY

STATEMENT OF NAJEEB E. HALABY, ADMINISTRATOR, ACCOMPANIED BY ALAN L. DEAN, ASSISTANT ADMINISTRATOR FOR MANAGEMENT SERVICES; CLARKE HARPER, BUDGET OFFICER; OSCAR BAKKE, DIRECTOR, BUREAU OF FLIGHT STANDARDS; D. D. THOMAS, DIRECTOR, BUREAU OF AIR TRAFFIC MANAGEMENT; J. H. TIPPETS, DIRECTOR, BUREAU OF FACILITIES AND MATERIAL; J. D. BLATT, ACTING DIRECTOR, BUREAU OF RESEARCH AND DEVELOPMENT; DR. J. L. GODDARD, CIVIL AIR SURGEON; G. W. HOBBS, DIRECTOR, BUREAU OF NATIONAL CAPITAL AIRPORTS; GEORGE C. PRILL, DEPUTY DIRECTOR, BUREAU OF FLIGHT STANDARDS; BRIG. GEN. P. T. PREUSS, MILITARY ADVISER TO THE ADMINISTRATOR; AND R. B. MALOY, CHIEF, OFFICE OF INTERNATIONAL COORDINATION

APPEAL LETTER AND JUSTIFICATION

Senator MAGNUSON. The committee will come to order.

Today we have the Federal Aviation Agency. For the purpose of the record, the 1961 appropriations were \$707,424,000. The first budget estimate of January was \$716 million, then the amended budget that came up later was \$744,300,000. The House recommended \$723,500,000, which is, \$16,076,000 over the 1961 appropriations but \$20,800,000 under the 1962 estimates. And the restoration is \$21,100,000 which the Director of the Agency, the Administrator, will direct himself to.

We will put your letter and the justifications, Mr. Halaby, in the record in full.

(The letter and justification referred to follow:)

FEDERAL AVIATION AGENCY,
Washington, D.C., June 14, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Appropriations Subcommittee on Independent Offices,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: Reference is made to your letter of June 2, 1961, regarding the action of the House of Representatives on H.R. 7445, the Independent Offices Appropriation bill, as it affects the Federal Aviation Agency. This bill, as approved by the House, includes \$723.5 million in appropriations for the Federal Aviation Agency, a reduction of \$20.8 million from the \$744.3 million requested by the President. The House included in its allowance \$6 million to construct a hangar for the additional Washington airport which was not formally requested but is urgently needed and supported by the Agency. The House, therefore, reduced our request for other programs by \$26.8 million, of which we request, in the public interest, restoration of \$21.1 million.

The funds requested of the Congress for the 1962 fiscal year were given the most careful review within the executive branch and provision was made for only essential programs. I have reviewed the programs and dollar levels proposed for 1962, and believe that with limited exceptions the funds requested by the President are needed if we are to carry out our responsibilities effectively. For several programs we believe that through resourceful management and program adjustments we can carry out our responsibilities with somewhat less than was originally requested. It is important, however, that we obtain the total amounts requested for restoration.

To determine the effect of the House allowance on our 1962 programs and to comply, where feasible, with the intent of the House as stated in its report, we have reexamined our requirements. We have concluded that we urgently need the restoration of: (1) \$12.6 million of the \$13 million deleted for the operations appropriation; (2) \$5 million of the \$6 million reduced from the "Facilities and equipment" appropriation; (3) \$1.5 million of the \$5 million deleted from the "Research and development" appropriation; and (4) the \$2 million disallowed for "Civil supersonic aircraft development." The levels of the appropriations approved by the House of "Construction and development," additional Washington Airport; "Operation and maintenance," Washington National Airport; and "Operation and maintenance," Washington National Airport; and "Operation and maintenance," Dulles International Airport are adequate to meet the requirements of the Agency.

In addition, we request changes in the House approved language of several appropriations. The language of the "Operations" appropriation limits the 1962 cost of the aviation medical research program to \$1.5 million and 120 positions. This restriction needs to either be eliminated from the language or increased to \$3 million and 150 positions. Of these 150 positions, 120 would be in our Civil Aeromedical Research Institute at Oklahoma City, Okla. The "Facilities and equipment" appropriation language prohibits the construction of a new fire test wind tunnel which is needed to reduce the hazards of aircraft fires. Additionally, the language for "Operation and maintenance," Washington National Airport and "Operation and maintenance," Dulles International Airport need to be amended to authorize us to buy two and three passenger-carrying vehicles, respectively.

OPERATIONS APPROPRIATION

The request for the "Operations" appropriation was thoroughly screened and found to be basically sound, well-conceived and reflecting the minimum needs to carry out our current program. This appropriation, which finances the bulk of the operations of the Agency, provides primarily for—

- (1) The operation on a 24-hour daily basis of a national air traffic-management system.
- (2) The maintenance of a national system of aids to traffic control and air navigation, and the direction and engineering for the establishment of air navigation facilities.
- (3) The direction, evaluation and administration of the research and development program.
- (4) Flight standards activities to assure airworthiness of aircraft, safety of air operations and the development and compliance with the civil air regulations.

(5) The administration of a program of financial assistance to State and local governments in the development of a national system of safe and adequate airports.

(6) The development of standards, rules and regulations governing the physical fitness of airmen, and the direction and administration of an aviation medical research program.

We requested 41,048 positions and \$441 million for 1962, which is an increase of 2,204 positions and \$50,685,000 over the funds appropriated for 1961. The requested increase included \$23,156,000 to finance the program authorized on a part-year basis during 1961, for a full-year during 1962, and new program items costing \$27,529,000. We are requesting a restoration of \$12.6 million of the \$13 million reduced by the House as its action will defer or delete approximately 45 percent of the new program items planned for 1962. The 1962 program represents a careful balance between the several phases of the FAA program and therefore it will probably be necessary for us to take a reduction of this magnitude across the board in all major program areas.

We cannot absorb this reduction without deferring planned program items. We made a sharp reduction in our estimate prior to submitting it to Congress, and a new regional headquarters is being established. We had planned to attempt to absorb most of these costs by improving management and streamlining our procedures.

Specifically, the application of workload formulas used to operate and maintain our airways facilities would support 1,400 to 2,000 more positions than we originally requested, and we are establishing a Southern region requiring a new field headquarters at Atlanta, Ga. We cannot hope to achieve these objectives with less funds than requested in the President's budget.

We have not provided in either our 1962 estimate or our current planning for financing other important programs which are required to handle many of the current problems associated with high-speed aircraft. One program involves the establishment of radar handoffs between the air route traffic control centers and airport traffic control towers. Another program would provide traffic controllers at high activity facilities with the necessary time during the daily work tour to keep current on the local conditions and improved techniques and equipments, which require daily training and briefings. This will also provide relief from the pressure of active control for a portion of each day.

We will operate all of the facilities and provide services authorized by the Congress for the 1961 fiscal year, as these are the highest priority activities. It will, therefore, be necessary for us to defer until fiscal year 1963, or later, services that are within our capabilities of performing and are currently needed to provide for improved safety and dependability in aviation. Some of the following new programs will be affected:

(1) Commissioning of 300 new air navigation and air traffic management facilities and services previously authorized by the Congress.

(2) Technical training of air traffic controllers and maintenance personnel.

(3) Communications between FAA facilities for relaying air traffic control information.

(4) The flight checking of our air navigation facilities at the intermediate and jet altitudes to assure their reliability. These are the altitudes primarily used by turbine engine air carrier aircraft.

(5) The training of FAA inspectors in jet aircraft so that they may effectively carry out their responsibilities in working with the air carriers.

(6) Increasing our activity in the safety related program of promulgation and administration of safety standards, regulations and rules applicable to the aircraft and airmen of all U.S. civil aviation throughout the world.

The requirement for these activities becomes increasingly critical as more and more civil jet aircraft are coming into service and the general aviation activity increases.

In summary, the House action on our "Operations" appropriation will cause a retardation of the Agency's program for closing the gap between the civil and military aviation requirements and our capability of providing the necessary services to enhance aviation safety. We possess the ability and facilities to carry out the programs presented in our 1962 estimates, but with the House allowance essential services cannot be performed.

FACILITIES AND EQUIPMENT

The House allowance for the "Facilities and equipment" appropriation was \$120 million, which is \$6 million less than the \$126 million requested. Our request as submitted was \$45.6 million less than the 1961 appropriation for the activities financed under this appropriation.

The principal items reduced by the House were a wind tunnel estimated to cost \$4,550,000 and \$423,000 required to help assure continuity of operation at air traffic control centers and flight service stations during an emergency. We are requesting restoration of \$5 million of the \$6 million reduction approved by the House. There is an urgent requirement to test aircraft powerplants under conditions simulating inflight fires so that we may effectively assure that the engines may be safely used and appropriate regulations and standards may be established. To accomplish this, a fire test tunnel need be constructed at our test facility as no adequate tunnel is currently available for our use. There are many types of jet engines that have not been sufficiently tested under wind tunnel conditions. The House report stated that we could remodel an existing Government-owned wind tunnel. After complete coordination with the Department of Defense and the National Aeronautics and Space Administration, we have not been able to find a suitable available tunnel which could be modified to meet our fire test needs.

The funds requested for constructing air route traffic control centers and flight service stations provided for radiological protection required to assure continuity of our operation during an emergency.

This is essential to the effective accomplishment of the Agency's military mission. All of our new air route traffic control center buildings have been constructed with this protection at a nominal cost and the elimination of this item will weaken our capability of responding to defense requirements in an emergency.

RESEARCH AND DEVELOPMENT

The President's budget included \$65 million for the "Research and development" appropriation and the House reduced this by \$5 million. We request the restoration of \$1.5 million to provide an effective civil aviation medical research program. Even more serious is the limitation placed in the language of the "Operations" appropriation limiting this program to \$1.5 million and 120 positions for 1962. This limitation needs to be removed or increased to \$3 million and 150 positions.

I advised the House Appropriations Subcommittee on Independent Offices that we were prepared to reduce the number of positions requested for the Civil Aeromedical Research Institute from 200 to 120, and the \$1.5 million limitation imposed by the House will only finance this portion of our total medical research program. There are two other important elements in the Agency's total medical research effort which will cost \$1.5 million and require 30 positions in addition to the \$1.5 million and 120 positions needed for the Civil Aeromedical Research Institute. First, we have an essential clinical research activity at Georgetown University in Washington which provides essential support for our airman examination program. All of our research in pilot aging is, for example, being performed in cooperation with the staff of Georgetown University. Second, we do a substantial part of our medical research through contracts with qualified organizations. Such contracting is more economical than using our own resources when the facilities or technical knowledge required is readily available outside of the Agency and would be duplicated by any effort to do the work with our own staff.

CIVIL SUPERSONIC AIRCRAFT DEVELOPMENT

The President's budget included \$12 million to finance the initial phase of this program and the House reduced this request by \$2 million. The objective of this program is for U.S. industry to produce the world's first economically competitive supersonic transport aircraft possessing safety and reliability characteristics at least equivalent to those found in the existing transport aircraft. Such a development is essential to continued U.S. leadership in commercial aviation and is of increasing importance to our national prestige and security. Our plans provide for joint industry/Government financing of this program.

The \$12 million requested is the minimum amount required to support competitive airframe and engine analytical studies and research by industry during

the 1962 fiscal year and represents a substantial scaling down of estimates originally developed in the Agency. The initial stages of development will be financed over a 2-year period at which time we will carefully evaluate the advisability of our proceeding with the complete development of this aircraft. The \$2 million reduction by the House will retard this program and require us to either reduce the number of companies competing to find the best solutions or have the work done in less depth than is advisable. Either course of action endangers the critical time element involved in the effort by increasing the risk of not having sufficient information at the required decision time.

We are confident that after you have examined the effect of this reduction on the Agency's program you will support restoration of the amount proposed. As I have mentioned before, I have been selective in our request for restoration even though all of the funds originally requested could be effectively used by the Agency. It is important, therefore, that the entire amount requested for restoration be provided the Agency. Otherwise, programs that we could accomplish and are urgently needed will be deferred. I have enclosed more detailed justification and I shall furnish any additional information you may require.

Sincerely,

N. E. HALABY, *Administrator.*

FEDERAL AVIATION AGENCY

Summary of 1962 estimates, House reductions and requested restoration

[In thousands]

Appropriation title	Budget estimate	House		Requested restoration
		Allowance	Reduction	
Operations.....	\$441,000	\$128,000	-\$13,000	\$12,600
Facilities and equipment.....	126,000	120,000	-6,000	5,000
Grants-in-aid for airports (liquidation of contract authorization).....	70,000	70,000		
Research and development.....	65,000	60,000	-5,000	1,500
Operation and maintenance, Washington National Airport.....	¹ 3,425	3,225	-200	
Operation and maintenance, Dulles International Airport.....	¹ 2,575	1,975	-600	
Construction, Washington National Airport.....	4,200	4,200		
Construction and development, additional Washington Airport.....	20,100	26,100	+6,000	
Civil supersonic aircraft development.....	12,000	10,000	-2,000	2,000
Total.....	744,300	723,500	-20,800	21,100

¹ Included in estimate submitted to the Congress in the amount of \$6,000,000 under the appropriation head "Operation and Maintenance, National Capital Airports."

HOUSE REPORT

The committee considered budget estimates totaling \$744,300,000 for this Agency and recommends appropriations totaling \$723,500,000, which is an increase of \$16,076,000 over fiscal year 1961 and a reduction of \$20,800,000 in the budget estimates.

OPERATIONS

(House hearings pp. 105-164)

Page 10, line 18, of H.R. 7445:

	<i>In thousands</i>
1961 appropriation (adjusted).....	\$390,315
1962 budget estimate.....	441,000
Increase (+) or decrease (-) 1962 estimate over 1961 appropriation (adjusted).....	+50,685
1962 House allowance.....	428,000
House reduction from 1962 estimate.....	13,000
Restoration requested.....	12,600

AMENDMENTS REQUESTED

- (1) On page 10, line 25, delete "\$428,000,000" and insert "\$440,600,000".
- (2) On page 10, lines 25 and 26, and page 11, lines 1, 2 and 3, delete "Provided, That total costs of aviation medicine research for the Federal Aviation Agency, whether provided in the foregoing appropriation or elsewhere in this Act, shall not exceed \$1,500,000 or include in excess of 120 positions."

HOUSE REPORT

Operations.—The bill contains \$428 million to operate the national system of air traffic control and other facilities and programs of FAA next year. This is a \$39,836,000 increase over the 1961 appropriation for this purpose and \$13 million less than the budget estimate. It will provide an increase of approximately 1,087 new jobs. No funds have been included in the bill for building up staffs in overseas areas and the Agency is urged to rely, whenever possible, on commercial people already there.

During the past year the Agency has made arrangements to obtain additional space for a Civil Aeromedical Research Institute by entering into a long-term rental contract for a building to be constructed to its specifications. The method the FAA is using to finance such construction is very expensive. In the long run it would be better for the Government to build its own buildings on its own land for its agencies, and the committee will expect to be advised in advance of any divergence from this policy in the future.

The Administrator, since the committee held its hearings, has reviewed the program for medical research in civil aviation to determine what he would recommend as being necessary. The budget estimate originally proposed a staff of 200, almost a 250-percent increase over 1961. On the basis of his assurance that a staff of 120 will do the job the committee is providing \$1,500,000 to expand the program to this extent and it is to be held at this level in the future, nor is any work of other agencies to be duplicated by the FAA.

JUSTIFICATION

The principal programs financed from this appropriation are: Operation and maintenance of a national system of air traffic management and air navigation serving both civil and military aviation; assurance of public safety as it is affected by civil flight operations accomplished by establishing and administering rules and standards for airmen, aircraft manufacturers, aircraft operation, and maintenance procedures; establishment and administration of rules and regulations governing the physical fitness of airmen; direction, evaluation, and administration of a research and development program; and the development of a national system of airports.

The program of the Federal Aviation Agency is in response to the requirements of air defense and the growth in civil aviation which have overloaded the capacity of FAA facilities and services. The introduction of jet-powered civil aircraft, the growing public demand for air transportation and the military requirements make it necessary for the Agency to have the manpower and funds requested if we are to carry out our responsibilities.

An increase of \$50,685,000 and 2,204 positions was requested for this appropriation for 1962. The increase requested will provide \$23,156,000 to finance the full-year costs in 1962 of the programs approved on a part-year basis for fiscal year 1961. For new program items and increased emphasis on our existing programs, \$27,529,000 was requested. Restoration of \$12.6 million of the \$13 million deleted by the House is needed to finance approximately 45 percent of the program expansion planned for the 1962 fiscal year. We must maintain a program balance between the several activities of the Agency. We also need to continue our present level of effort on existing programs. The restoration requested is, therefore, required to fully utilize the facilities and technical skills of the entire Agency. The estimate as submitted included \$400,000 for rental of facilities which, based on a revised construction schedule, will not be available until the 1963 fiscal year.

Air traffic management and facilities maintenance

These activities provide for the operation and maintenance of a system of air traffic management and air navigation facilities on a 24-hour basis to provide the services required to assure safety, reliability, and regularity of all-weather

flight operations. A single, integrated, common civil/military system of such facilities is fundamental to the economic provision of these services.

The House action will reduce the planned programs for these activities by approximately 900 positions and \$10 million. A decrease of this magnitude will require us to defer until 1963 the commissioning of many of the following new facilities that will be available for service during 1962 which cost over \$100 million to procure and install.

Air route traffic control center.....	1
Long-range radars.....	12
Radar beacons.....	12
Airport traffic control towers.....	24
Surveillance radars.....	9
Precision approach radars.....	12
Omnidirectional radio ranges.....	16
Distance measuring equipments.....	162
Instrument landing systems.....	3
Airport approach lights.....	18
Sequence flashing lights for airports.....	53

We have emphasized for the past several years the importance of providing sufficient funds to operate new facilities authorized for construction by the Congress in previous years. All of the facilities that will be available for operation during 1962 are essential to the program started in 1957 to modernize and improve the Nation's airways. Congress has provided substantial appropriations since 1957 to finance the first stages of this program. These facilities will add substantially to safety in aviation and leaving them idle once they are constructed at a substantial cost defeats the very purpose for which they were constructed.

Part of the increase requested for the facilities maintenance program is required to obtain economical and safe use of Agency-owned aircraft. There is a need to increase the scope of the facility flight check program, particularly at the intermediate and jet altitudes, which are used primarily by the air carriers and the military. There is also a requirement to increase the program for flight training for air carrier inspectors. The Agency has recently procured several jet aircraft to carry out these programs.

If the funds reduced by the House are not restored we will not only retard important programs required to provide for increased safety in aviation, but we will be unable to get full and effective use from many expensive equipments.

Flight standards

The funds requested under this activity are required to finance the issuance of airman, aircraft, and airworthiness certificates; the registration of aircraft; and, most importantly, the development and enforcement of air safety rules, regulations, and standards as they are applicable to—

- (1) The design, manufacture, and maintenance of aircraft, powerplants, propellers, and other aircraft components.
- (2) Flight operation and technical facilities of air carriers, other aircraft operations, airman, flight, and ground schools and other air agencies.
- (3) Technical competency of airmen.

The House action will require a reduction of about 160 positions and \$2.3 million in this program. Our original emphasis on closing the gap between our capability and the requirements of civil and military aviation was on strengthening our air traffic management and air navigation facilities programs. Recently, with the help of the Congress, we have started to bring the programs financed under this activity in balance with our other efforts. This was necessary if we were to realize the full benefits of our air traffic management capability.

We have an urgent need to improve our safety rules, standards, and enforcement activities related to aircraft, airmen, and air carrier operations. Recent experience has highlighted the need for closer surveillance of the certification of jet and turbine type aircraft, and the air carriers using these types of equipment. Aircraft are becoming far more complex with higher speeds, higher operating altitudes, and greater carrying capacity and continue to require greater effort on our part in engineering and inspection work to assure compliance with safety standards.

The control of quality in the process of manufacturing turbine-powered aircraft is substantially more critical than for piston-powered aircraft. This is due to their more complex system and equipment which require closer tolerances

through material processes and fabrication techniques. These factors, together with the extensive subcontracting to subsidiary manufacturers by prime companies, substantially increases our workload.

The number of aircraft in the turbine-powered fleet of the scheduled air carriers will increase by 66 percent in the 2-year period of July 1961 to July 1962. The fleet of turbine-powered aircraft operated by general aviation will begin to expand rapidly in 1961.

The actual operation of jet aircraft has proven to be much more critical and less forgiving of even the smallest error than was originally anticipated. Only as a result of unusual concentration upon the problems of introduction of these aircraft into scheduled operations have Government and industry attained an excellent safety record.

The types of aircraft that have recently come into service, namely the pure jets, turbo jets, and helicopters, with which we have had little experience, have geometrically added to the complexity of assuring airworthiness and safety of operation.

The House allowance for 1962 will, therefore, require the Agency to curtail important safety activities and reduce current minimum inspection standards.

Medical standards

The medical standards activity finances the Agency program designed to assure the medical fitness of airmen, air traffic controllers, and other personnel whose health and well-being are directly related to providing the highest practicable degree of public safety in flight operations. This includes the development and promulgation of rules and regulations on mental and physical fitness of airmen and others whose health affects air safety, and the direction of the research program required to resolve aeromedical problems.

An increase of \$1,389,000 and 70 positions has been requested for this program. Of this amount, \$887,000 and 24 positions are required to strengthen our medical certification and environmental health programs. This increase is needed to effectively supervise 4,100 designated medical examiners that have been appointed to perform and report to the FAA on the 250,000 medical examinations of airmen, and to effectively analyze and use the data provided through the medical examinations. The House action would not enable us to effectively supervise the designated examiners or make effective use of the important data being developed through these examinations.

An increase of 46 positions and \$502,000 has been requested to provide medical research direction, to supervise our Civil Aeromedical Research Institute, and to maintain a new building to house this activity. The House placed a limitation in the language for this appropriation limiting the cost of our aviation medical research program to \$1.5 million and 120 positions. This program is financed from this appropriation and the "Research and development" appropriation. We included \$810,000 and 68 positions in this appropriation and \$2,850,000 and 159 positions in the "Research and development" appropriation for this important aviation medical research program. The 1961 approved program for medical research authorized \$1,289,400 and 79 positions, and the full-year cost in 1962 for the program authorized for 1961 is \$1,478,000. The limitation of \$1.5 million placed on this program by the House will hold this program to essentially the 1961 level.

Medical research, as it relates to civil aviation, has been badly neglected for a number of years. Until recently such a program was nonexistent. Only a nucleus program has been established during the current fiscal year. The program proposed for 1962 is needed to effectively use our available resources. There is a need to identify and eliminate the physical, physiological, and psychological factors that may jeopardize safety in flight. The major areas that we need to stress in the immediate future are—

- (1) Medical certification of airmen and air traffic controllers.
- (2) Development of medical standards relating to the certification of airmen.
- (3) Control of environmental hazards that may affect the health of air crews, passengers, and air traffic controllers.

Our research program makes full utilization of the knowledge developed through other medical research groups, both within and outside the Federal Government, through effective liaison with the military departments, the National Institutes of Health, the National Aeronautics and Space Administration, and industry groups.

It is clear that no other medical research group is directing its attention to many of the problems of civil aviation, including—

- (1) The causes and effects of fatigue and stress on air traffic controllers.
- (2) The effects of the aging process on pilot performance.
- (3) The investigation and analysis of medical factors in aircraft accidents.
- (4) The effects of tranquilizers and other medications on the performance of pilots, air traffic controllers, and other personnel.
- (5) The evaluation and improvement of physical standards for certification of airmen.

We realize that the increases requested over the 1961 program appear large in terms of percentages, but in total dollars it is a relatively small price to pay for the improved safety in aviation that we anticipate will be achieved through this program.

We have reevaluated our requirements for this program along with our capability for expanding in a prudent and orderly manner. As a result, we are asking for 150 positions and \$3 million for all medical research activities (of which 120 positions will be at the Civil Aeromedical Research Institute). This is 77 positions and \$660,000 less than we originally requested for 1962. The \$3 million requested includes \$519,000 under the "Operations" appropriation and \$2,481,000 under the "Research and development" appropriation.

You are requested to remove this limitation from our appropriation language as it will not permit us to respond to changing situations and is costly to administer. If you do not believe it is advisable to remove this limitation, you are then requested to increase the limitation to \$3 million and 150 positions.

FACILITIES AND EQUIPMENT

(House hearings, pp. 251-270)

Page 11, line 8, of H.R. 7445:

1961 appropriation (adjusted).....	\$171,630,000
1962 budget estimate.....	126,000,000
Increase (+) or decrease (-) 1962 estimate over 1961 appropriation (adjusted).....	-45,630,000
1962 House allowance.....	120,000,000
House reduction from 1962 estimate.....	-6,000,000
Restoration requested.....	5,000,000

AMENDMENTS REQUESTED

- (1) On page 11, line 18, delete "\$120,000,000" and insert "\$125,000,000".
- (2) On page 11, lines 23, 24 and 25, delete "Provided further, That no part of the foregoing appropriation shall be available for the construction of a new wind tunnel."

HOUSE REPORT

Facilities and equipment.—The committee has approved \$120 million for new facilities and equipment. This continues the stepped-up program of modernization started a few years ago. An unobligated balance of \$107,273,000 will also be carried forward into 1962. The request to construct a fire-test wind tunnel at a cost of \$4,550,000 has been denied, as has \$423,000 for fallout shelters in various installations. The Agency may use a reasonable amount of the funds provided for remodeling 1 of the 70 or more existing wind tunnels already owned by the Government.

JUSTIFICATION

The House denied \$6 million of the \$126 million requested for this appropriation which finances the procurement and installation of our major facilities and equipments. Our 1962 request is \$45,630,000 less than the funds appropriated for this program for 1961.

We are requesting a restoration of \$5 million of the \$6 million reduced by the House. Our request for restoration includes \$4,550,000 to construct a fire test wind tunnel, and \$423,000 to provide radiological protection for several operating facilities that have been approved for construction within the House allowance.

There is a requirement to simulate in-flight fires for high performance aircraft powerplants so as to develop methods of preventing and extinguishing

aircraft fires. This requirement is not currently being met effectively for either civil or military aircraft and it is one of the most important phases of improving safety in aviation.

To accomplish this effectively, a fire test wind tunnel of sufficient size to handle large powerplants is required. We have made a comprehensive study of all industry and Government-owned wind tunnels. Existing wind tunnels are either too small, fully utilized, or their modification would cost more than a new wind tunnel. We request that the funds for this program be restored and the limitation be removed from the appropriation language which prohibits us from constructing a new wind tunnel. The House report authorized the remodeling of an existing wind tunnel but this would be more costly than a new tunnel.

The House report denied \$423,000 for fallout shelters in various installations. Here again, we did not effectively explain our requirements to the committee. We do not propose to construct fallout shelters as such but rather to provide radiological protection in air route traffic control centers and flight service stations so that we can actually perform the services to which we are committed in support of the national defense during an emergency. This is an operational requirement. By careful design, we are able to provide a substantial amount of protection and enhance our ability to be responsive in an emergency at a relatively low cost. It is, therefore, essential that we be permitted to continue our present practice of providing fallout protection in any new construction of operational buildings. As an example, the cost of providing radiological protection for two air route traffic control centers is only \$115,000, or less than 3 percent of the cost.

The Federal Aviation Act of 1958 requires that the Administrator "give full consideration to the requirements of national defense" in the establishment and improvement of air navigation facilities. This requires appropriate design of buildings in which essential air traffic control and aeronautical communications operations are to be conducted in support of military air operations during a national emergency. The Department of Defense has advised us and, in the hearings on the Federal Aviation Act, the Congress that the continuity of such services is essential to the national defense. The Agency has directed the operating personnel of these facilities to remain at their posts of duty in a national defense emergency.

In view of the directives contained in the Federal Aviation Act of 1958, which require the Administrator to make plans for the effective discharge of the Agency's functions in wartime, to give full consideration to the requirements of national defense, to provide for the security control of air traffic, and to operate, establish, and maintain a common system on which both civil and military aviation can rely in peace and war, the Agency must provide a system of facilities capable of uninterrupted operation under attack or postattack conditions.

The removal of this restriction prohibiting us from protecting operational facilities and the restoration of the funds needed will be necessary if we are to assure the military of our ability to support their requirements in an emergency.

GRANTS-IN-AID FOR AIRPORTS (LIQUIDATION OF CONTRACT AUTHORIZATION)

(House hearings pp. 270-277)

Page 12, line 1, of H.R. 7445:

1961 appropriation.....	\$80,000,000
1962 budget estimate.....	70,000,000
Increase (+) or decrease (-) 1962 estimate over 1961 appropriation.....	-10,000,000
1962 House allowance.....	70,000,000
House reduction from 1962 estimate.....	0
Restoration requested.....	0

AMENDMENT REQUESTED

None.

HOUSE REPORT

Grants-in-aid for airports (liquidation of contract authorization).—The committee has approved the \$70 million budget estimate for payment of Federal matching grants to municipalities for airport construction projects as authorized

by the Federal Airport Act. The terminal date for making new grants is June 30, 1961, under provisions of present law. These funds are to liquidate earlier grants as the projects are constructed.

RESEARCH AND DEVELOPMENT

(House hearings pp. 161-241)

Page 12, line 7, of H.R. 7445:

1961 appropriation (adjusted).....	\$55,299,000
1962 budget estimate.....	65,000,000
Increase (+) or decrease (-) 1962 estimate over 1961 appropriation (adjusted).....	+9,701,000
1962 House allowance.....	60,000,000
House reduction from 1962 estimate.....	-5,000,000
Restoration requested.....	1,500,000

AMENDMENT REQUESTED

On page 12, lines 12 and 13, delete "\$60,000,000" and insert "\$61,500,000."

HOUSE REPORT

Research and development.—The committee recommends an appropriation of \$60 million for research and development activities in 1962, which is \$4,480,000 less than the appropriation for 1961 and \$5 million under the budget. An unobligated balance of \$16 million will be carried over into fiscal year 1962, which will be additional to the amount provided in the bill.

JUSTIFICATION

The 1962 estimate for this appropriation, which finances the direct research and development effort of the Agency, is \$65 million, which the House reduced by \$5 million. Restoration of \$1.5 million is requested to enable us to expand our aviation medical research program to a level that is consistent with our requirements and our capability of prudently expanding this effort. This program has been discussed in some detail under the "Operations" appropriation as it is jointly financed from these two appropriations.

A civil aviation medical program was nonexistent until the establishment of the FAA and we have been progressing cautiously in formulating a program that will meet the needs of civil aviation and still not be duplicatory of other medical research being conducted by other Government agencies and industry. There are certain areas of aviation medical research which need be explored that do not have the attention of any other medical research group. For each dollar spent, one of the most fruitful areas of improving safety in aviation is in the medical research field.

Our rules and regulations are frequently based on limited knowledge in terms of the physical, physiological, and psychological factors that may jeopardize safety in flight. The increase over the 1961 program level may appear substantial if viewed in terms of percentage relationships but in terms of dollars of investment, the \$1.5 million requested for restoration is a small price to pay to permit us to correct an identified weakness in our ability to assure safety in aviation.

In addition to the restoration of the \$1.5 million, you are urgently requested to either remove the limitation in the "Operations" appropriation or increase it to \$3 million and 150 positions.

We are not requesting restoration of the additional \$3.5 million reduced by the House. We are currently having a scientific and engineering study made of our program and anticipate a report in the near future. After this report has been carefully considered, we will be able to more effectively evaluate our program for research and development and may need more than the \$65 million requested by the President for this program. We are confident that we have a requirement for at least the amount authorized by the House for other than medical research and could effectively use the total funds requested, but we are not sufficiently sure of our program to appeal the House action.

OPERATION AND MAINTENANCE, WASHINGTON NATIONAL AIRPORT

(House hearings pp. 277-284)

Page 12, line 14 of H.R. 7445:

1961 appropriation (adjusted)-----	¹ \$3, 293, 000
1962 budget estimate-----	² 3, 425, 000
Increase (+) or decrease (-) 1962 estimate over 1961 appropriation (adjusted)-----	+132, 000
1962 House allowance-----	3, 225, 000
House reduction from 1962 estimate-----	-200, 000
Restoration requested-----	0

¹ Includes \$63,000 transferred from "Operation and maintenance, Dulles International Airport," pursuant to Public Law 87-14.

² Included in estimate submitted to the Congress under the appropriation head "Operation and maintenance, National Capital Airports."

AMENDMENT REQUESTED

On page 12, line 18, after the word "including" insert "purchase of two passenger motor vehicles for police-type use which may exceed by \$300 the general purchase price limitation for the current fiscal year;"

HOUSE REPORT

Washington National Airport.—An appropriation of \$3,225,000 is recommended for operation and maintenance of Washington National Airport, a reduction of \$5,000 below the 1961 appropriation and \$200,000 less than the 1962 budget estimate. This will provide a \$198,050 increase over the cost of continuing the program level of 1961. The committee has also approved the \$4,200,000 request for construction of various items to expand and modernize the facilities at the airport including completion of an access road, expansion and modernization of taxiway and apron systems, modernization of sewer and water systems, paving an area for helicopter operations, and replacing and relocating certain air cargo facilities.

JUSTIFICATION

The House action reduced our request for this appropriation from \$3,425,000 to \$3,225,000. We are not appealing this item and will make an effort to operate this airport effectively within the funds allowed by the House. We could use the total funds requested to a good advantage but do not believe the House action is sufficiently serious to warrant an appeal.

We are, however, requesting you to insert authority in the appropriation language to procure two passenger vehicles which are included in the estimate. There is no indication from the report that the House intended to specifically eliminate these vehicles (one of which is a replacement vehicle) and are required for our police work at the Washington National Airport. The House allowance will finance these vehicles but specific authority in the appropriation language is needed.

OPERATION AND MAINTENANCE, DULLES INTERNATIONAL AIRPORT

(House hearings, pp. 277-284)

Page 12, line 20 of H.R. 7445:

1961 appropriation (adjusted)-----	¹ \$2, 387, 000
1962 budget estimate-----	² 2, 575, 000
Increase (+) or decrease (-) 1962 estimate over 1961 appropriation (adjusted)-----	+188, 000
1962 House allowance-----	1, 975, 000
House reduction from 1962 estimate-----	-600, 000
Restoration requested-----	0

¹ Excludes \$63,000 transferred to "Operation and maintenance, Washington National Airport" pursuant to Public Law 87-14.

² Included in estimate submitted to the Congress under the appropriation head "Operation and maintenance, National Capital Airports."

AMENDMENT REQUESTED

On page 12, line 24, after the word "including" insert "purchase of three passenger motor vehicles;"

HOUSE REPORT

Dulles International Airport.—The committee is disappointed to learn of the slow progress being made in completing this airport which now will not open until October 1962. A revised budget estimate of \$20,100,000 was submitted during the course of the hearings for additional construction requirements at this airport including \$4,597,000 for 10 small projects and \$15,503,000 for the added cost of contractor claims, inflationary factors and underestimation of construction costs. The Administrator has informed the committee that since even the revised estimates were prepared it has become evident that it will be necessary for the Government to finance the construction of at least one 4-bay hangar at \$6 million before the airport can be used. Earlier plans anticipated that the airlines would build these additions to the basic facility.

After reviewing the problem carefully, the committee is recommending \$26,100,000, including funds for the hangar which will bring total appropriations to date for this airport to \$111,070,000. Estimates on these construction items have not been reduced because in no circumstances will any more overruns be considered. The FAA is also expected to provide customs facilities at the airport within available funds. The committee wants to impress upon the Agency that all fees and rentals for this airport, hangars, and facilities should be at a figure that is sufficient to amortize the entire cost of acquiring land, construction, maintenance and interest over a reasonable period of no longer than 20 to 25 years, and that escape clauses should be in all contracts whereby the Government can reevaluate them every 3 years or less.

The committee has included language in the bill to provide separately for maintenance and operating costs of the new facility. Due to the delay in construction the committee has allowed \$1,975,000 for this purpose instead of \$2,575,000 as requested, a reduction of \$600,000 in the estimate.

JUSTIFICATION

The House action reduced this appropriation by \$600,000. This action is concurred in by the Agency as the estimate as originally submitted was based on opening the airport at an earlier date than is currently planned so that the \$600,000 is not required during 1962. The funds allowed by the House are needed to recruit and train personnel to provide fire and police protection, to finance certain utilities and other preopening costs, and to procure operational equipment.

You are requested to amend the appropriation language to authorize the procurement of three passenger vehicles. The House allowance will finance these vehicles but specific authority in the appropriation language is needed.

CONSTRUCTION, WASHINGTON NATIONAL AIRPORT

(House hearings—No reference)

Page 13, line 1, of H.R. 7445:

1961 appropriation	\$4,500,000
1962 budget estimates	4,200,000
Increase (+) or decrease (—) 1962 estimate over 1961 appropriation	—300,000
1962 House allowance	4,200,000
House reduction from 1962 estimate	0
Restoration requested	0

AMENDMENT REQUESTED

None.

HOUSE REPORT

Washington National Airport.—An appropriation of \$3,225,000 is recommended for operation and maintenance of Washington National Airport, a reduction of \$5,000 below the 1961 appropriation and \$200,000 less than the 1962 budget estimate. This will provide a \$198,050 increase over the cost of continuing the

program level of 1961. The committee has also approved the \$4,200,000 request for construction of various items to expand and modernize the facilities at the airport including completion of an access road, expansion and modernization of taxiway and apron systems, modernization of sewer and water systems, paving an area for helicopter operations, and replacing and relocating certain air cargo facilities.

CONSTRUCTION AND DEVELOPMENT, ADDITIONAL WASHINGTON AIRPORT

(House hearings, pp. 76-81; 284-292)

Page 13, line 5, of H.R. 7445.

1961 appropriation	0
1961 budget estimate	\$20,100,000
Increase (+) or decrease (-) 1962 estimate over 1961 appropriation	+20,100,000
1962 House allowance	26,100,000
House reduction from 1962 estimate	+6,000,000
Restoration requested	0

AMENDMENT REQUESTED

None.

HOUSE REPORT

Dulles International Airport.—The committee is disappointed to learn of the slow progress being made in completing this airport which now will not open until October 1962. A revised budget estimate of \$20,100,000 was submitted during the course of the hearings for additional construction requirements at this airport including \$4,597,000 for 10 small projects and \$15,503,000 for the added cost of contractor claims, inflationary factors, and underestimation of construction costs. The Administrator has informed the committee that since even the revised estimates were prepared it has become evident that it will be necessary for the Government to finance the construction of at least one 4-bay hangar at \$6 million before the airport can be used. Earlier plans anticipated that the airlines would build these additions to the basic facility.

After reviewing the problem carefully, the committee is recommending \$26,100,000, including funds for the hangar which will bring total appropriations to date for this airport to \$111,070,000. Estimates on these construction items have not been reduced because in no circumstances will any more overruns be considered. The FAA is also expected to provide customs facilities at the airport within available funds.

The committee wants to impress upon the agency that all fees and rentals for this airport, hangars and facilities should be at a figure that is sufficient to amortize the entire cost of acquiring land, construction, maintenance, and interest over a reasonable period of no longer than 20 to 25 years, and that escape clauses should be in all contracts whereby the Government can reevaluate them every 3 years or less.

The committee has included language in the bill to provide separately for maintenance and operating costs of the new facility. Due to the delay in construction the committee has allowed \$1,975,000 for this purpose instead of \$2,575,000 as requested, a reduction of \$600,000 in the estimate.

CIVIL SUPERSONIC AIRCRAFT DEVELOPMENT

(House hearings, pp. 81-91; 293-297)

Page 13, line 10, of H.R. 7445.

1961 appropriation	0
1962 budget estimate	\$12,000,000
Increase (+) or decrease (-) 1962 estimate over 1961 appropriation	+12,000,000
1962 House allowance	10,000,000
House reduction from 1962 estimate	+2,000,000
Restoration requested	2,000,000

AMENDMENT REQUESTED

On page 13, line 15, delete "\$10,000,000" and insert "\$12,000,000".

HOUSE REPORT

Civil supersonic aircraft development.—The committee has approved \$10 million instead of the \$12 million requested in a revised budget estimate for a feasibility study of the development of a civil supersonic aircraft. The study is expected to require 18 months to 2 years to complete. The committee will expect the Administrator to hold down the total cost and do a complete job for not more than \$20 million.

JUSTIFICATION

The President requested \$12 million for the initial effort in developing a civil supersonic aircraft. The development and production of this airplane is essential to continued U.S. leadership in commercial aviation. Government financial assistance is required since industry cannot finance the development alone. It is anticipated that the aviation industry will finance a portion of the costs during development stages and, in addition, a substantial recovery of the Government-financed costs can be realized by means of royalties paid by private purchasers of these transports. The initial research and evaluation will take approximately 2 years, at which time we will carefully evaluate the advisability of continuing with this project.

It is, therefore, important that a thorough examination of all phases of this program be made in these first 2 years. In addition to the \$12 million requested for 1962, an additional appropriation will be required during 1963 to complete this. The House report states that we are expected to complete the feasibility study for \$20 million or less. We will keep our costs to a minimum but we cannot achieve our objective for \$20 million. We should, however, be able to limit our cost of this phase of the program to \$50 million.

The \$10 million allowed by the House will not finance during 1962 adequate competitive airframe and engine analytical studies and research by industry on a timely basis. We are, therefore, requesting the restoration of the \$2 million deleted by the House.

The FAA, with the assistance and cooperation of the Department of Defense and the National Aeronautics and Space Administration, has devoted considerable time and effort to a study of this question. The FAA has recently completed meetings and discussions with top officials of leading U.S. aircraft and engine manufacturers, as well as with officials of U.S. air carriers. In order to fully understand the need for the \$12 million appropriation in fiscal year 1962 and the importance of these funds to the national interest in a commercial supersonic transport aircraft, the following considerations which have emerged from our study and analysis of this problem are important.

(a) The development of a commercial supersonic transport aircraft appears certain. The question is whether this aircraft will be developed by the United States, by one of our allies, or by Russia.

(b) Due to the tremendous productivity of such an aircraft, the free world market is limited to probably 200 aircraft. The first country to develop a safe, reliable, and economically competitive supersonic transport aircraft will undoubtedly capture this free world market.

(c) The technical feasibility of a civil supersonic aircraft is established by U.S. research and experimental and military aircraft. The problem is to assure development of a civil supersonic aircraft that has the safety, reliability, and economic characteristics required for satisfactory commercial service. Analytical studies and research by Government agencies and industry are required to advance the "state of the art" to provide an adequate technical basis for a decision that the required safety, reliability and economic characteristics can be achieved.

(d) Industry normally finances development of commercial transport aircraft. The magnitude of the development program and present financial health of the U.S. manufacturing industry preclude an undertaking of such a program alone on a timely basis. Government financial assistance is therefore required.

(e) A program of this nature has never been undertaken in the United States. The concept is one of Government assistance to industry while at the same time retaining to the maximum degree possible the traditional free enterprise element of competition.

(f) Competition is vital to assure maximum ingenuity in solving critical problems in independent analysis of problem solutions.

(g) The \$12 million requested for fiscal year 1962 is less than the amount recommended by the technical staff personnel studying this problem. It is considered the minimum amount required to adequately fund the first year effort of analytical study and research by qualified U.S. aircraft and engine companies at a level required to make a final decision on a timely basis.

(h) Reduction in the \$12 million request will force either a limitation on the number of companies participating in the competitive efforts of industry or in the amount of work performed. The United States could then be placed in the position of either making a decision with insufficient information or delaying the decision, thus giving undue advantage to our competitors.

PREPARED STATEMENT

Senator MAGNUSON. You have a statement here, and we will be glad to hear from you.

Mr. HALABY. Thank you, Mr. Chairman.

If you will prefer, I would be glad to leave this in the record and hit the highlights.

Senator MAGNUSON. Yes, why don't you do that? We will put this in the record in full, and then you can discuss the highlights.

(The statement referred to follows:)

STATEMENT BY NAJEEB E. HALABY, ADMINISTRATOR, FEDERAL AVIATION AGENCY

I appreciate the opportunity to present to you the Federal Aviation Agency's program and fund requirements for the 1962 fiscal year. We are here to help you evaluate the needs of our Agency and to set forth the reasons why certain of the reductions approved by the House should be restored.

When we testified before the House Appropriations Subcommittee for Independent Offices, I advised the committee that I believed the Federal Aviation Agency's 1962 budget was basically sound, but stated some reservations since I had not had the time to become fully familiar with its details. In the 2 months since these hearings, I have been able to learn much more about the program requirements of the Agency, and am prepared to state that the amounts requested for restoration are needed if we are to close the gap between our capabilities of providing services and the needs of civil and military aviation. This gap, which has been widening for the previous 15 years, is just now beginning to be filled.

The House of Representatives has approved appropriations for the Federal Aviation Agency totaling \$723.5 million. The President's budget requested \$744.3 million. This is an actual reduction of \$26.8 million, since the House allowance includes \$6 million for an urgently needed hangar at the additional Washington Airport, which was not formally requested by the President.

We are gratified that the House supported many of our new and expanded program needs. We believe that the House made a conscientious effort to understand and support the essential activities of the Agency, and on the whole we regard the House action as reasonable and constructive. For this we are most appreciative. Because this was the case, we have carefully reexamined our requirements and have endeavored, wherever feasible without hazard to aviation safety or jeopardy to the public interest, to comply with the intent of the House of Representatives in acting on our appropriations bill. We have, therefore, been quite selective in determining the amounts we are appealing. We will, however, need \$21.1 million of the \$26.8 million denied by the House if we are to make full use of facilities that cost over \$100 million and are already authorized, and are to move ahead with essential programs in 1962. In addition, several restrictions have been placed in our appropriation language and several statements have been included in the House report, which would seriously retard our program if they were to be imposed on the Agency during the coming year.

In my letter to the committee, dated June 14, 1961, I explained in more specific detail the impact the House actions would have on our planned 1962 program. Therefore, with your concurrence, my opening remarks will be directed primarily to a review of some of the actions that have been taken to improve the operation and management of the Agency and to assure that the resources made available to it are efficiently used.

MANAGEMENT REPORTING AND CONTROLS

One of the most encouraging things I discovered on returning to the Federal service was that there in the FAA there are some management tools as good and in many ways better than those found generally in private industry. There is available to the Administrator a monthly report of deficiencies and major accomplishments. Each quarter we review the status of all major Agency programs to compare progress against established objectives. At the same time, the priorities in the use of the Agency's major appropriations are reexamined to make certain that the greatest possible benefits to aviation are being achieved with available funds. A management information center has been established next door to my office to keep me and all top management continuously advised of important trends and developments involving more than 90 Agency activities. This is a center for directing unity and economy of action. Associated with the center is the preparation of a daily bulletin to alert the Administrator and principal officials of important developments within a matter of hours. These things are mentioned, Mr. Chairman, to emphasize that the Agency is determined to manage its human and financial resources well and to use vigorously the most modern machinery to make this possible.

ADVICE SOUGHT ON FAA PROBLEMS

As a part of the job of assuming the direction of the Federal Aviation Agency and determining what it needs to do, advice has been sought from many qualified sources. The views of all individual airmen have been solicited. I have met with representatives of many aviation groups and associations, including the flight engineers, aircraft owners and pilots, airline pilots, and air traffic controllers. I have sought the counsel of former Administrators of the Federal Aviation Agency and the Civil Aeronautics Administration. I have visited four of our six FAA regions, as well as the aeronautical center and our national aviation facilities experimental center, to get at the problems where they originate and should be solved. A special reexamination of the Washington International Airport project has been made by experts in airport construction and operation; and I have met with officials of other agencies with programs related to or impinging on those of the Federal Aviation Agency. Of particular value has been a 3-day session last month at the national aviation facilities experimental center, in which the top Washington and field officials of the Agency intensively considered present and future needs of Agency programs and management.

As you know, we wish also to take the fullest possible advantage of the knowledge which this committee has gained in its review of the Federal Aviation Agency's program and budget estimates. I will welcome your comments and suggestions during these hearings and such subsequent views as the committee may present. I will be happy at any time to meet further with the chairman or members of the committee in an effort to clear up any questions which may not be fully resolved in the course of these hearings.

Three major studies designed in part to provide a better basis for determining how the Federal Aviation Agency can make the most effective contribution toward safety and efficiency in aviation have been launched. With well-defined, long-range objectives, greater unity and economy in Government will result. With a practicable systems plan, we will achieve the most national capacity for safe operations with the least outlay of public funds.

NATIONAL AVIATION GOALS STUDY

The first of these studies is concerned with the development of a statement of national aviation goals for the period between now and 1970. Shortly after my designation as Administrator of the Federal Aviation Agency I informed the President of my strong belief that a clearer definition of goals and objectives for aviation was essential if the parts of the executive branch and the Congress were to work together effectively in developing a national aviation system. The President, on March 3, asked me to proceed with such a study, which has been designated "Project Horizon." To assist in carrying out the President's directive I have established a task force under the chairmanship of Mr. Fred Glass of New York. It will define the objectives of the Federal Government through the board spectrum of aviation. These goals are to be based on foreseeable technical and financial capabilities and formulated in terms of the appropriate role of aviation in the Nation's total transportation system. This group is not con-

cerned with current programs or operations. They look at and over the horizon.

Within a short time I expect to present to the President a report which sets forth national aviation goals with sufficient definiteness to facilitate practicable, long-range planning. Once that report is available it will be possible for the executive branch and the Congress to push on with the development of aviation with even greater confidence.

SCIENTIFIC AND ENGINEERING REVIEW

It has also seemed to me to be essential that there be undertaken a scientific and engineering review of our aviation facilities and our related research and development effort and that there be prepared a long-range plan to assure efficient and safe control of air traffic within the United States. The President, on March 8, approved such a review, which we are calling Project Beacon, and requested me to work in close cooperation with Dr. Wiesner, Chairman of the President's Science Advisory Committee, and with the task force on national aviation goals. We have established a scientific advisory group under the chairmanship of Dr. Jerold Zacharias to assist in this study.

A Project Beacon task force under the chairmanship of Mr. Richard R. Hough of Ohio has been given the responsibility for preparing a plan for an orderly and economic evolution of the present system of air traffic control in pace with continuing advances in technology and national needs. As a result of this review I soon expect to present to the President a report setting forth a well-conceived plan for managing air traffic now and in the future. We are continuing to look hard while we are working forward and this plan may or may not require supplemental appropriations.

RULEMAKING AND ENFORCEMENT PROCEDURES

An element of the Agency's program that has been highly controversial has been the procedures involved in rulemaking and enforcing. It, therefore, seemed necessary to have a thorough review made of this portion of our program. This task has been assigned to a four-man consultant group and this program identified as Project Tightrope. Members of this group are prominent attorneys and pilots with extensive experience in administrative law and aviation problems and are operating under the chairmanship of Mr. Lloyd N. Cutler, a prominent attorney in the District of Columbia.

Their review will include the methods utilized to satisfy the requirements of the Federal Aviation Act and the Administrative Procedure Act as they apply to the rulemaking activities of the Agency.

STUDIES

In addition to these three important projects by task forces and consultants from outside the Agency, there are a number of important studies underway within the Agency designed to improve our operation and management.

Two of the most comprehensive studies currently being conducted within the Agency are: (1) An analysis of the Agency's air navigation facilities maintenance function which we hope will lead to better use of skilled maintenance personnel and increased employee productivity. We call this Project Searchlight. (2) The reevaluation of the supply system of the Agency (Project Pipeline) which should point the way to substantial future savings and better service through the modernization of supply practices.

AGENCY REORGANIZATIONS

We recently adopted plans for strengthening Agency management by centralizing the development of plans and programs in Washington and delegating operational responsibilities to the regional offices. This will be an evolutionary program which will begin on July 1, 1961. We must have more responsive and better coordinated service in the field and stronger general management in Washington. There is also an urgent need for a sense of unity of purpose in the Agency so that all elements can work together constructively in serving aviation and the public. The new organization will permit us to make important progress in meeting these needs.

Our plans to decentralize the authority from Washington to the field and within the field involve broadening the authority of the regional officials. The programs of the Agency are so interrelated that we must think and operate as

a single unit rather than several independent programs. We also need to be able to act quickly and decisively at the field level. To make this possible each region will shortly be placed under the supervision of a Federal Aviation Agency Assistant Administrator for the particular area. The assistant administrator for the eastern region has been selected and he will be responsible for operating all programs (except our test facility at Atlantic City) in the area of the formerly designated region 1, with headquarters in New York. Other appointments of assistant administrators for regions will be announced soon.

In Washington there are currently 13 offices and bureaus reporting directly to me. In order to reduce this span of supervision, I am appointing three deputies in Washington who will be responsible to me for planning and directing the operations of the Agency. The statutory Deputy Administrator, who will serve as Acting Administrator in my absence, will be the general manager of the Agency's operations. He will coordinate the activities of the regional offices and the operating programs in Washington. The Deputy Administrator for Plans and Development will direct and coordinate long-range planning, research, and development for the Agency. The Deputy Administrator for Administration will plan, direct and coordinate the administrative management of the Agency, including budgetary, personnel, and management services functions. The Office of General Counsel, the Office of Congressional Liaison and the Office of Public Affairs will continue to report to the Office of the Administrator.

I am also appointing a Board of General Advisers to enable us most effectively to secure the advice and help of senior, experienced personnel of the Agency. Additionally, a scientific advisory group of outstanding scientists from outside the Agency will soon be established.

As the result of a thorough staff analysis, we have determined that an additional region is required for the administration of the Agency's field activities. This region will serve seven Southern States east of the Mississippi River now under the supervision of our Southwest region, which has its headquarters at Fort Worth, Tex. The new regional headquarters will be at Atlanta, Ga. Studies of Agency field administration have made clear that there is need to reduce the span of supervision of the officials at the Fort Worth regional headquarters. In addition, there is a need to have a region identified with an economic and cultural area as important as the Southeastern States. We must develop a better understanding of the communities service, particularly if we are to improve our coordination with the States, local communities, and industry.

In establishing the Atlanta office, we propose to design its staffing to the absolute minimum consistent with effective supervision of the new region. I am convinced that we can, through skilled management, reduce our regional headquarters costs. We expect the lessons learned in setting up this regional headquarters on a deliberately lean basis will enable us to improve services and administration in other regions and save us money in the long run.

ADDITIONAL SPACE FOR AGENCY ACTIVITIES

The House report expressed concern over our entering into long-term rental contracts for buildings constructed to our specifications. We are to advise the Independent Offices Appropriations Subcommittee in advance regarding any future long-term space rental contracts that we plan to make.

We will be pleased to advise the Appropriations Committee whenever we plan to enter into this type of contract. It is evident, however, that we did not make it sufficiently clear that the long-term rental contracts for the Civil Aeronautical Research Institute and other facilities at our aeronautical center are just as favorable to the Government as would be direct Federal construction. We would not enter into such a contract if the rents were excessive or if other aspects of the arrangement were disadvantageous to the Government.

The expansion of the programs of the FAA over the past several years has generated a need for additional space to house its activities. Wherever practical we want to locate our activities near aviation facilities and operations. We have a positive program for evaluating all alternative methods of acquiring space and for consistently using the method that is most advantageous to the Federal Government. This program has been carried out in coordination with the General Services Administration and has involved three main methods of acquiring space, namely:

- (1) Through securing space in Government buildings constructed and maintained by GSA, as in the case of Washington headquarters buildings.

(2) Government construction with funds appropriated to FAA primarily for operations buildings such as air route traffic control centers.

(3) Through leases ranging from 1 to 5 years, generally negotiated by the GSA.

(4) Through long-term leases negotiated by GSA where the terms of the lease compare favorably to Government construction in terms of cost. This latter policy has been used primarily at the FAA Aeronautical Center at Oklahoma City where the land is owned by the city, and where local officials have arranged financing at low interest rates and provide facilities on a nonprofit basis.

There is currently being constructed a Civil Aeromedical Research Institute building at the aeronautical center to give us the modern laboratory facilities required to carry out our important aviation medical research program of the Agency.

Our current program also includes several other buildings at the aeronautical center for which we are tentatively committed. There are no funds in this estimate for rental of these buildings as they will not be completed until fiscal year 1963. These buildings are all urgently needed to provide space for the following activities: (1) Training center headquarters and training space; (2) aircraft and airmen records recently transferred from Washington; and (3) base maintenance shops. We will shortly present to both Appropriations Subcommittees on Independent Offices our plans for these additions to the aeronautical center plant.

CONSTRUCTION AND DEVELOPMENT, ADDITIONAL WASHINGTON AIRPORT

There is a need to clarify certain statements in the House committee report, which pertain to the recovery of the Government's investment in the airport. We fully concur with what we believe is the intent of the House committee; namely, that fees and rentals should be established which assure recovery of interest and depreciation upon the Government's investment over the period of the useful life of the airport. To accomplish this objective we plan that recovery of investment will be achieved through applying the same principles currently in effect at other major airports. However, a strict interpretation of the House statement would prevent our doing this. First, the House report, when strictly interpreted, requires the recovery of the entire cost of the airport. At other major airports funds supplied by the Federal Government under the Federal-aid airport program are not recovered. At Chantilly we do not contemplate recovering that part of the investment which is comparable to Federal financing actually received by major airports under State or local government ownership. By so doing, the airport is placed in a true comparable operating position with other major airports within the United States. Further, the House report can be interpreted to urge recovery of the cost of acquiring land. Consistent with common practices, recovery would be made only of interest on land investment on the premise that land does not depreciate in value. The House committee has also stated that recovery is to be realized "over a reasonable period of no longer than 20 to 25 years." We believe interest and depreciation are more properly placed upon the period of useful life of the particular airport facility. For example, certain equipment and facilities may be expected to depreciate over 5- and 10-year periods and such costs should be recovered accordingly. Conversely, other facilities, such as the terminal building, may have a realistic depreciation period of as long as 40 years. Your acceptance of the foregoing interpretation will greatly assist us in planning for the operation of the airport.

The House report makes it clear that we are to construct an operational airport with the \$111,070,000 that will be available if the amount allowed by the House is appropriated by the Congress and that no cost overruns will be considered. We are confident that we can construct an airport that will contain all of the features included in our budget estimate for this amount, although it will lack some facilities such as those required for air cargo. When the activity at the airport increases beyond the traffic- and passenger-handling capability now being provided, further expansion will be needed, just as it has been necessary for all major airports to expand their facilities to accommodate increase in demands for service. I want to make the record clear that we plan to construct an operational airport within the funds allowed by the House, but that additional capital investments will be required if the activity at this airport increases substantially.

OVERSEA ACTIVITIES

The House report states that no funds have been provided for building up staffs in oversea areas and urges us to rely on commercial people already there. Our plans do not include any oversea activities that could be conducted by industry representatives. Last year we requested funds to train several civil air attachés for transfer to the State Department during oversea assignments. This request was denied and we have not used any of our current funds for this purpose nor have we included funds in the 1962 estimate for this program.

We do, however, have an operational need for personnel at oversea assignments. We currently have 59 employees located overseas to carry out the responsibilities of the Federal Aviation Agency, primarily to inspect American-flag carriers operating on a worldwide basis. Our 1962 estimate includes six additional positions for this purpose and it is not believed that the use of our funds to carry out our basic responsibilities regarding the safety of the users of American-flag carriers throughout the world is inconsistent with the intent of the House report.

CIVIL AEROMEDICAL RESEARCH

The action of the House in placing a limitation of \$1.5 million and 120 positions on our aviation medical research program probably results from an inability on our part to present clearly enough the basis and scope of this activity. The House allowance will actually do little more than finance the full-year costs of our 1961 program. We requested 227 positions and \$3,660,000 for the entire medical research program, of which approximately 200 positions and \$2.2 million would have financed the operation of the Civil Aeromedical Research Institute at the aeronautical center. Subsequent to our House appropriations hearings, I reevaluated these requirements, the priorities involved, and the scheduled target dates. By adjusting priorities and target dates, we decided to reduce our request for the Civil Aeromedical Research Institute from 200 to 120 positions. The limitation placed on this program by the House provides for the 120 positions and \$1.5 million needed to finance the Civil Aeromedical Research Institute. However, the appropriation language is not limited to the Civil Aeromedical Research Institute, and no provision has been made for the operation of an important research facility at Georgetown University in Washington, for directing the total medical research program, and for a limited amount of contract research. To support these important programs, I urgently request you to eliminate the restrictive language or increase the limitation placed on this program to \$3 million and 150 positions. I will assure you that the Civil Aeromedical Research Institute ceiling of 120 positions will be carefully observed throughout the 1962 fiscal year.

CIVIL SUPERSONIC TRANSPORT PROGRAM

We requested \$12 million for the first steps in a program to develop a civil supersonic transport aircraft. I firmly believe that this program must be started immediately. This is the minimum step necessary to compete with the rest of the world in development of heavy transport aircraft. The House supported the concept of this program but reduced our request from \$12 million to \$10 million. I can assure you that the \$12 million requested had already been substantially reduced below the amount technically competent members of my staff believed should be spent for this program in the first year. I am convinced that we can, through prudent management, begin several airframe and engine studies during 1962 with \$12 million. However, any lesser amount will reduce the effectiveness of the studies we plan to conduct during 1962 and 1963 to determine the feasibility of continuing with this program.

An appropriation will be required during 1963 to complete the first phase of this program and the House instructed us to contain these costs within \$20 million. I do not believe that the necessary data can be developed for this amount. In my judgment we should limit our costs to less than \$50 million for the first 2 years.

CONCLUDING REMARKS

In concluding, I must add a word of caution with respect to the adequacy of the appropriation which we are seeking for the coming fiscal year. The studies which I have referred to, pending bills such as those to extend the Federal Airport Act, and the need to improve air traffic control operations may result in a requirement for supplemental appropriations in the very near future.

I shall be pleased to answer any questions which you may have concerning our request.

GENERAL STATEMENT

Senator MAGNUSON. I suppose you could direct yourself to your justification here.

Mr. HALABY. I think the matter is summed up well in the first and second pages of the appeal letter, and if I may, I can just read those.

Senator MAGNUSON. All right, go ahead.

Senator ALLOTT. Is that the June 14 letter?

Mr. HALABY. Yes, sir.

RESTORATION REQUESTED

To sum up, we concluded in the Federal Aviation Agency that we urgently need the restoration of \$12.6 million of the \$13 million deleted for the "Operations" appropriation of the Agency.

Senator MAGNUSON. Let's take these one at a time. Tell us a little about that. That is the \$400,000 item which you are asking for restoration.

Mr. HALABY. Right. In other words, of the \$13 million deleted by the House Appropriations Committee, we seek restoration of \$12.6

Senator MAGNUSON. I see, \$12.6 million of the \$13 million deleted. million.

Now in your operation and maintenance, that is a divided item, too. You have operation and maintenance of Washington National Airport and operation and maintenance of Dulles International Airport. Now where does your operations come in—that is over on the other side here. This is general operations.

ESTIMATE 1962 AND HOUSE ALLOWANCE

Mr. HALABY. The budget estimate was \$441 million and the House allowed \$428 million, reducing it by \$13 million. We request \$12.6 million be restored.

Senator MAGNUSON. Just a minute, because we have our sheets here. For the purpose of the record, in this case your appropriation operations as general administration—salaries and expenses and operation; is it not? General administration.

Mr. HALABY. That is right.

Senator MAGNUSON. In 1961 you have \$388,164,000. The January budget was \$441 million. The amended budget was the same. The House gave you \$328 million, which is \$39,836,000 over the 1961 appropriations but \$13 million less than the 1962 estimates. Both budgets were the same. And you are asking for restoration in this particular case of \$12.6 million.

Mr. HALABY. Yes, sir.

Senator MAGNUSON. All right, go ahead on that item.

Mr. HALABY. We are not aware of the reasoning behind the cut of \$13 million. We are quite convinced, however, that this request for operations was sound, well conceived, austere, and represents minimum needs to carry out the current program plan.

Now just to highlight the purposes for which this operations money is requested, it is for the 24 hourly daily operation of an air traffic management system, that is, traffic control.

Senator MAGNUSON. How many people are employed in that? How many last year, and how many are you asking for this year?

INCREASE IN PERSONNEL

Mr. HALABY. The cost of continuing the 1961 program, in terms of manpower—18,631 people—for 1962 we are asking 19,446, or an increase of 815 personnel.

Senator MAGNUSON. Will you tell the committee whether or not that increase of 800 plus is due to the coming into operation of new installations, or is it 800 plus for the same number of installations?

Mr. HALABY. The total personnel requirement is based on continuing those facilities we have had in effect during the course of the present fiscal year and adding 815 positions related to bringing into being additional facilities previously approved in our construction program.

It is not, I have to say at this point, a final figure because, as a result of the safety hearings in your Commerce Committee, Aviation Subcommittee, we have been experimenting with improving techniques for handling aircraft off the radarscopes from one center to another, and we are likely to come to you for a supplemental appropriation that will provide for additional people doing new jobs, using new techniques in the near future. So as of the time this budget was prepared the 815 positions were to man the additional facilities that were authorized in last year's appropriation.

Senator MAGNUSON. And the additional facilities that you had planned, the so-called orderly planning, at the time you presented this. Now since that time the Senate Commerce Committee has had some hearings on additional safety factors which may cause this figure not to be adequate.

Mr. HALABY. That is right, sir.

Senator MAGNUSON. But you are not anticipating that we should discuss that now until you get that into being?

Mr. HALABY. Yes, sir.

Senator MAGNUSON. Or get a plan?

Mr. HALABY. That is right.

Senator MAGNUSON. The Senator from Oklahoma is here who conducted those hearings.

FATIGUE PROBLEM IN BUSY AIRPORTS

Senator MONRONEY. You are also experimenting, aren't you, on the fatigue problem in the busy airport terminals, and going to a shorter workday?

Mr. HALABY. There are two principal experiments, Senator, which derive from work within the Agency and the disclosures in the unfilled mint of ideas developed during your hearings on safety late last winter.

One is technique for passing an airplane which is on one radarscope in one sector of the airspace over to another, and to assure that there is a continuous control in the process of flow of that aircraft.

POSITIVE RADAR HANDOFF

Senator MONRONEY. Positive radar handoff.

Mr. HALABY. Positive radar handoff, as it is called. What that means is to provide additional personnel to enable one radar position, one radar control, to positively identify a particular radar target to another, and insure the handing off of radar control to the second position before ending his own surveillance.

RELIEF OF CONTROLLERS

The second major improvement that we are contemplating is to give more relief to these relatively overworked controllers by having them 6 hours on duty at the control boards and 2 hours in training and other related activities.

This would mean that there would be more personnel required. Two-eighths of each man's time would be unavailable to the air traffic control center for actual control work. So as a result of these two improvements, radar handoff and the 6-2, 6 hours on and 2 hours off relief provision, we will very likely be coming back with a supplemental appropriation.

The experiments to prove out these techniques have only just been completed. We were not able to put those in this request and therefore, Mr. Chairman, we are not asking for and justifying today what we will probably have to before the session is over.

ADDITIONAL PERSONNEL

Senator MAGNUSON. But what you are saying is that in any event, with the new experiments coming along and the new added duties, that you are going to need, regardless of that, these extra 800-plus men?

Mr. HALABY. Yes, sir.

Senator MAGNUSON. In other words, that is the minimum you are going to have need of as of now?

DEMANDS DUE TO NEW FACILITIES

Mr. HALABY. That is right. And I think your specific point was whether the commissioning of new facilities made this increased number of people absolutely essential, and the answer is that you provided last year in the order of \$100 million in new facilities, 1 air route traffic control center, 12 long-range radars, 12 radar beacons and similar equipment which have to be manned, and some of these 815 people would man those.

Senator MAGNUSON. They are coming into being?

Mr. HALABY. Yes, sir. And if they are not provided, we cannot bring these equipments and facilities into full operation as we have programed. So it is a real cut into the operations area.

FACILITIES AND MEN TO CLOSE RADAR GAP

Senator MONRONEY. This will close the gap between the Rocky Mountains and the west coast. It has been almost without radar. Is that correct? I mean, when you have these long-range radars in from this year's appropriation, with the men.

Mr. THOMAS. Senator, the long-range radars to close that gap are in the program. A part of the 800-odd positions requested here is for advanced training. Some of those new facilities will not be in operation in 1962, but we have to start training in 1962 to man those facilities as soon as they are installed. This is part of the purpose of our request.

Senator MONRONEY. But that is a part of the 815 jobs?

Mr. THOMAS. Yes, sir. They are for new control towers, new long-range radars, new surveillance radars, some operational military approach facilities, and several operational facilities are included in this 800-position request. There are no increases for workload in existing facilities. As a matter of fact, the estimate is about 576 short of what could have been estimated for existing facilities. The request is principally for work at new facilities.

STATIONS REQUIRED FOR ADEQUATE U.S. COVERAGE

Senator MAGNUSON. Now tell us just generally, and you can put this in the record later. We have been working on this program now some time and we are hoping we can come to the number of units, number of stations, to adequately cover the United States and surrounding areas. How far along would you say generally, percentage-wise, we are to completion of the program, that is the number of installations?

Mr. HALABY. Senator, I do not think we will ever complete the program in the sense that we can equip it and stop and just do maintenance.

Senator MAGNUSON. I appreciate technical advances, and that you may make changes, but we are coming to a point pretty soon where the number of installations are adequate. Now keeping those installations up to date, and the new techniques, that is another thing and you never want to stop that. But we do hope we can see an end to the number of installations pretty soon.

Mr. HALABY. I have to give you a long answer to that if you do not mind.

Senator MAGNUSON. All right. Because you use, we are getting close of \$1 billion out of the national budget, and that is a pretty good percentage for one phase of governmental activity, as important as we think it is.

RADAR AND COMMUNICATION EQUIPMENT

Mr. HALABY. Yes, sir. I think you are referring primarily to the installations of radars and communications equipment. As you know, there are installed in this country many billions of dollars worth of military radar. They are now manned by military personnel, and their mission is to recognize, identify, and direct weapons toward incoming enemy bombers. The annual cost of maintaining that is very substantial. And a little bit, a fractional use of those military radars, is now available for civilian air traffic control. Now we have been installing, I think belatedly after 15 years of neglect, civilian radars in the FAA budget. These appropriations have increased substantially. The next question, in response to your question, is whether or not we will integrate fully the military air defense radar network with the hitherto civilian radar network, because it is possible technically to do so. However, in doing so the Congress and the

President would have to decide to change the military mission somewhat to permit civilian use of these military radars.

INTEGRATION OF CIVILIAN AND MILITARY RADAR

Now if you could integrate these two systems I think we would probably have enough radar sites, with very few exceptions, available to the United States. Now the question is, and it is a major one, Can we accept a little less complete air defense coverage, communications, and computation in order to get double duty out of the defense radar?

Senator ALLOTT. Mr. Halaby, what does the Defense Department say about this? I realize there is acceptable double duty, but on the other hand, military personnel who are assigned to defense functions cannot be diverted beyond a certain degree in the handling of commercial traffic. What does the Defense Department say about this?

REVIEW OF SAGE SYSTEM

Mr. HALABY. To get at the solution of the problem, the Defense Department is conducting a complete review of the SAGE system, the semiautomatic ground environment system, in relation to the Secretary of Defense's plans for the total air defense of the United States. We have brought in, with Secretary McNamara's complete concurrence, a group of scientists and engineers who have been working with the military. They visited General Kuter and the North American Air Defense Command, as I have recently, and this study of how and at what price, not only in terms of money but in change of mission, we could integrate military and civilian radars is just about completed. The very solid, hard-headed group of systems engineers have been looking at it, and one of the caveats we have put in this statement today is that if they come up with the answer that we cannot afford to reduce the effectiveness of the military defense radar network, then we will have to duplicate it. We will have to set up more radars, more computers—not alongside, but very close to, the national defense radar network, and the only reason for doing that is that the military could not afford to reduce their effectiveness in order to give more capacity to civilian air traffic.

POSSIBLE NEW UNITS

Senator ALLOTT. What general range of numbers would this constitute in number of units that you would have to put in?

Mr. HALABY. I cannot give you that answer because that study is not complete. But I think the principal additional units that might be needed would be in what we call computer capacity. I do not think that there would be a very large number of additional air traffic control centers, but there would have to be a substantial addition in the computer capacity available to compute the flow of traffic.

I am going to ask Mr. Thomas to supplement that.

Mr. THOMAS. Yes, sir, if I may. We have now programed 84 radars that are available to the traffic control system, either joint use or not. About 50 of them are in joint use, between the civil and military, one way or the other.

The 84 radars can cover substantially the United States except the northern tier of States from Chicago to Seattle, and along in

through there. However, the big problem is one of computer capacity. Taking the data from these radars and the other radars that the military have, and processing it in the form that is useful, both to air defense and air traffic control requires tremendous computer capacity. The two requirements are somewhat different. Many of the civil and military requirements are the same, but they do have some differing requirements.

AVAILABILITY OF COMPUTERS

The major source of inquiry here is the availability of computers and their capacity. If the capacity is present, it will not take a great deal more in the way of either computers or radars to complete the programs.

If the computer capacity is inadequate it will take a great number more computers, and may take more radars in view of the way the radar data is processed.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

CIVILIAN USE OF FACILITIES DURING MILITARY ALERT

Senator SALTONSTALL. Mr. Chairman, may I ask a question?

What would happen if there was an air alert, for instance, from Denver, an air alert is declared, and you are using for commercial purposes the radar that the military needs. Isn't that going to affect very much our security problem, the defense of our country?

Mr. HALABY. Could I go off the record?

Senator MAGNUSON. Yes.

(Discussion off the record.)

COMMON AIR TRAFFIC CONTROL SYSTEM

Mr. HALABY. I just want to point out that we are working toward a common civil military air traffic control system in carrying out the Federal Aviation Act. We have research and development leading to this system.

The military want to get this double duty out of their radars. They are not reluctant. In some instances they have pushed us in the CAA, and the FAA more than we were prepared and educated and trained to receive this capacity. So there is no lack of desire to work out just the problem that Senator Saltonstall refers to.

But the question is whether we can afford in the 1960's to divert, in their view, some of this computer capacity to civilian air traffic control. And I assure you that we have experimentation. You authorized during the last 2 years \$6 million worth of study money, and the Massachusetts Institute of Technology group, called MITRE, has been making intensive studies on how you could divert, without hurt to the military system.

FORT LEE AND SEATTLE EXPERIMENTS

Secondly, when I visited Seattle recently we established an experiment on the spot, sort of a homemade trial, whether the boys of McChord with our FAA men sitting alongside the Air Force person-

nel, could give jet advisories from the SAGE center to United Air Lines pilots at 35,000 feet—a little bit more second duty.

We have an experiment going at Fort Lee which is a first scale experiment of how we can get the civilian and military traffic controls and computer controllers working closely together.

Finally, we have the scientists and engineers whom I called in with the President's approval to study just this thing. Their report is due in the next few weeks. We hope they are going to give us some new facts.

But all I am pointing out is that this is the major problem before us today. It is a multibillion-dollar question. The military have \$3 billion worth of computer and related capacity for air defense. It costs \$400 million or \$500 million a year in their budget to man and repair and maintain these. We have a substantial amount of radar capacity and you are being asked today to appropriate for that.

VALUE OF INTEGRATED SYSTEM

If we can bring these two systems into one double-duty system, manned not by military personnel rotating every 2 years as they are drafted and returned to other pursuits, we could then have a kind of steady, economical national air surveillance system.

And I look toward the day when we can have one system which knows everything flying through the air from a flock of geese to a supersonic Russian bomber, which would ask, where it is going, where it has been, and provide for civilian purposes, separation and for military purposes, an instantaneous ability to knock it out of the air. But that is downstream and costly.

Senator MAGNUSON. Well, I think the facts you are getting together are very reassuring. And I point this out, not only in appreciating the thing you are doing, or that you need to do, or what the military is doing, but in watching this budget every year getting close to \$1 billion, it makes you wonder why we cannot make more use sometimes of the things that we have.

Mr. HALABY. I do think there is a little solace, Mr. Chairman, in the fact that we are appropriating now for things that should have been appropriated for if we as a nation had been alert enough and attentive enough as long ago as 10 years. You are really making up for lost time here in my judgment.

TEST RUN FOR COMMON SYSTEM

Senator MAGNUSON. The Senator from Oklahoma—the Senator from Kansas is here—and I went through the phase, and you will remember this even before you were down here in Government, where the military went off on one end run, and the civilians went off on another end run, and we finally had to put them together. And I think it cost us, before we were through, pretty close to \$1 million.

Senator MONRONEY. The point is, they are now training some for the first-class military air traffic control in the FAA center. They are being brought along to air traffic control techniques.

Senator MAGNUSON. That was a long time coming, to put them together.

Senator MONRONEY. This is a test run, but if it works we hope most of the military tower operators will eventually be all civilians, with

civilian air traffic control. There is evidence that the military would like to turn over to civilian air traffic controllers the control job in the military airport towers.

Senator SALTONSTALL. Mr. Chairman, may I ask one more question? I do not want to prolong this.

Senator MAGNUSON. No. I think this is important because we are dealing in terms of hundreds of millions of dollars here.

Senator SALTONSTALL. Mr. Halaby, how much interest have you outside the territory limits of the United States? In other words, assume a plane is coming from England, where do you come in on it?

Mr. HALABY. We get a flight plan on the aircraft about the time, or hopefully before, it takes off, so we have an expected arrival over the northeastern part of the United States. There are reports en route that give fixes of positions—

Senator SALTONSTALL. Are you tied in with the military on that?

Mr. HALABY. Yes. We have the radar data and we actually pick it up on our own radars. I am going to ask Mr. Thomas to go into a little more specific detail on just where we pick them up.

I think that is really what you want to know.

FLIGHT INFORMATION AND OCEANIC AIR CONTROL AREAS

Mr. THOMAS. Senator, the world is divided almost into either flight information regions, where there is no control provided, and oceanic air traffic control areas where control is provided. The North Atlantic is composed of various air traffic control areas operated by the United Kingdom, by Ireland, by Canada, and the United States. We roughly go about 100 miles out from Boston. All the aircraft, both military and civil, are under this control, international control, if you will, across the North Atlantic. All the aircraft, both military and civil, are under the control of either the United States, Canada, Ireland, or England across there, and in some routes Iceland.

Senator SALTONSTALL. I mention that, Mr. Chairman, for the simple reason that I think there is a great inefficiency, if you will, in the three services of the Defense Department—Army, Navy, and Air Force—as to their communication systems and as to possibly including their radar systems. And I wonder whether you came in on that outside of the coastline at all. You come in about 100 miles out. Do you come in on the Air Force, the Army, or the Navy or is it all one? I do not think it is all one.

Mr. THOMAS. Insofar as the control services are provided by the three nations, we are using actually our own services there. We will tie in, or had hoped to tie in, to the radar supplied by the Air Force Texas towers.

Senator SALTONSTALL. Texas towers?

Mr. THOMAS. They are not tied in now.

Senator MAGNUSON. I thought that tower was gone.

Mr. THOMAS. It is gone. I said we hoped to be in on that. It is gone.

Senator SALTONSTALL. They are obsolete, are they not, or they are becoming obsolete?

Mr. THOMAS. Well, the radar information is very useful.

Senator SALTONSTALL. Thank you, Mr. Chairman.

HOUSE LANGUAGE

Senator MAGNUSON. Well, while you are on this, the House says, on operations, which we are now discussing, and I quote from page 6 of their report:

No funds have been included in the bill for building staffs in oversea areas and the Agency is urged to rely whenever possible on commercial people already there.

What do you have to say about that?

Mr. HALABY. In the statement that we submitted for the record we explained that there are not any jobs in this requested amount for people who could be hired from commercial firms overseas. Now we have a very small oversea contingent, and they are primarily concerned with flight inspection of American carrier operations in major hubs such as Rome, Cairo, and Beirut. And the second category of oversea activity is in several aviation assistance groups which are financed by foreign aid appropriations rather than our own. For example, in the Middle East, we have six men in Cairo and three in Damascus who are helping these people, and in other countries likewise, develop their own traffic control ability, set up towers, set up air traffic control centers which will not only serve their national aviation, but international aviation. So we have the feeling that we have not done a very good job of explaining what we are up to overseas.

Senator MAGNUSON. Now the ones that you intended to add to the oversea activity, would they be included in the 800-plus that we are discussing now in this duration?

DUTIES OF ADDITIONAL PERSONNEL

Mr. HALABY. No, sir. That 815 was just for air traffic controls.

Senator MAGNUSON. Domestic?

Mr. HALABY. We have requested an additional number for maintenance and engineer personnel and a few more for Flight Standards work. The total increase was 2,204; that is the total increase in the "Operations" appropriation of which 815 were for air traffic control.

Senator MAGNUSON. The 815 are in operations proper?

Mr. HALABY. Yes, sir. And only six of those people in the Flight Standards Division would be overseas.

CIVIL AEROMEDICAL RESEARCH INSTITUTE

Senator MAGNUSON. All right. We will stick right to "Operations" here. The House also said that you had made arrangements to obtain additional space for a Civil Aeromedical Research Institute by entering into a long-term rental contract. They said:

The method the FAA is using to finance such construction is very expensive. In the long run, it would be better for the Government to build its own buildings on its own land for its agencies, and the committee will expect to be advised in advance of any divergence from this policy in the future.

Has that contract been signed, sealed, and delivered?

Mr. HALABY. Mr. Chairman, over the past several years the city fathers in Oklahoma City have developed a unique and forward working scheme for attracting to that area essential activities. It is an air-minded, air-oriented area, and they have provided what we

think is the best possible way for the Government to get good facilities at minimum cost. On a nonprofit-to-the-local-authorities basis, they have built facilities in Oklahoma City for an aeronautical center. There are several buildings already built and leased under reasonable terms. The previous administration wisely made a commitment to build a civil aeronautical medical research laboratory there, and the ground has actually been broken in anticipation of a contract. We presented a case for this, and after some very serious questioning we were authorized to proceed. We had the legal authority, we had partial funding, and we were authorized to proceed to make a lease. The Civil Aeromedical Research Laboratory is now under construction.

LEASING FACILITIES

Now we are raising with you the fact that this is a very good way to get space at a minimal cost without the full investment, full capital investment, by the U.S. Government. There are at least three or four additional buildings which we would like to permit this authority to build and have the appropriations to lease over the coming years.

I just have to say that after full consideration of it, I believe the House committee is not fully appreciative of the advantages offered by this method. Our comparative cost data show that at about \$3.50 a square foot per year, part of which is maintenance and operations cost, janitorial service, we are getting a very good deal out there. So even though some might wish full Federal investment in the construction of a building, from my point of view, as a former businessman, this is a darned good deal, and we would like to continue it through the remaining requirements for this Aeromedical Center.

Senator MAGNUSON. The Senator from Oklahoma.

HISTORY OF FACILITY

Senator MONRONEY. This facility was the result of taking over the existing facility which CAA had, was it not? It was housed in World War II barrack-type buildings, which were really fire traps. There were hundreds of millions of dollars in radar and other equipment of that type stored there.

Because of the tax-exempt status of municipal authority, they are able to issue their balance on something over 32.01 percent. They built according to your specifications, did they not?

Mr. HALABY. Yes.

Senator MONRONEY (continuing). Exactly what you said you needed, and leased it to you. What is the term of the lease?

Mr. HALABY. Well, there are various terms. On the buildings that we now have under lease, I think there is a 10-year lease, and one 5-year lease, as I recall, and on this aeromedical research building, we have entered into a 10-year lease.

Senator MONRONEY. It is strictly a special scientific lab-type of building.

Mr. HALABY. I think they would like a 20-year lease, naturally.

Senator MONRONEY. Yes, but they financed it on a 25-year bond and gambled that the facility would be satisfactory enough and the rent,

\$2.50 a square foot, low enough that you could not duplicate it elsewhere.

Mr. HALABY. That is right.

COST COMPARISON

Senator MONRONEY. How does the cost of these facilities compare with the commercially leased building, federally constructed building?

Mr. HALABY. Well, I have tried very hard to assure myself, and my colleagues, that these rental figures are less than the Federal Government could build and maintain comparable facilities for, or less than we could rent elsewhere in another place. It is very hard to compare evidence, but in my judgment we are getting this space cheaper than we could rent it elsewhere, or buy it, or build it and maintain it ourselves.

Senator SALTONSTALL. \$2.50 a square foot?

Mr. HALABY. Including everything, janitorial services, operation, maintenance, et cetera, it is \$3.50.

Senator SALTONSTALL. \$3.50?

Mr. HALABY. Yes.

Could I just make one comment on the Senator's question?

What we do have are special purpose buildings, and this aeromedical research is a highly technical laboratory-type of building. What we have done is get comparable Federal office building costs per square foot of construction, and compare this cost per square foot to the Oklahoma Airport Trust Authority costs which have averaged \$16.08 per square foot.

This compares in Helena, Ark., with a Federal building of \$20.79 per square foot; in Lafayette, La., \$21.51 per square foot; in Daingerfield, Tex., \$24.53 per square foot. In fact, of all of the costs of Federal office buildings, GSA construction, in 1959-61, that I have here, the trust authority figure is better than the lowest cost per square foot for other Federal construction.

GENERAL MAINTENANCE COST

Senator SALTONSTALL. What is the cost of the maintenance by the GSA? I forget the figures from last year.

Mr. HALABY. The average cost per square foot maintenance on buildings?

Senator SALTONSTALL. Yes. We had that figure last year.

Senator MAGNUSON. We got that figure the other day; \$1.50 it cost annually.

Mr. HALABY. Our cost at the Aeronautical Center is \$1.35 per square foot.

Senator MAGNUSON. Something like that—\$1.45 as I remember was the Government cost of maintenance per square foot annually as compared to the national average on private costs of \$1.60.

Senator SALTONSTALL. Yes.

Mr. HALABY. The building costs at the Aeronautical Center so far are: the Air Traffic Training Center, was \$16.73 per square foot; the headquarters building was \$15.75 per square foot; and on one training building the cost was only \$14.54 per square foot.

I do not come from Oklahoma, although it is a wonderful place to reside, but I just am convinced that this is a darn good deal for

the U.S. Government. These fellows out there have stuck their necks out on 25-year bonds at a low interest rate; they have had the faith in this program that this committee has, and they are willing to take a 10-year rental deal although their necks are out for 25 years.

They are renting us space for \$3.50 which includes \$1.35 for operation and maintenance, leaving \$2.15 rental at no profit to them. Comparable rates downtown in Oklahoma City average \$4.44 a square foot. And we just think they have faith and ingenuity and that this is the kind of thing that should be encouraged.

In fact, at our National Aviation Facilities Experimental Center, the local city fathers there, seeing this initiative, have offered to rebuild a World War II naval air station which is growing up on that center on the same basis. And this would avoid a Federal investment out there of maybe as much as \$50 million.

Senator MAGNUSON. Any further questions on this item?

Senator ALLOTT. I have some questions, Mr. Chairman.

Senator MAGNUSON. On this particular item?

OVERALL STAFFING

Senator ALLOTT. Well, on this particular item because it ties into a series of questions. I want to talk about the overall staffing of this.

Now, it is my recollection that your predecessor set a ceiling of 3,000 for the Washington headquarters. Now, since then, is it true you moved the Records and Certificates Division to Oklahoma City?

Mr. HALABY. Yes, sir.

MEDICAL CENTER

Senator ALLOTT. You have moved the Medical Center to Oklahoma City, with whatever cost was attendant upon the removal of each of them. There have been a certain number of research and development people moved to Atlantic City. And, for example, in the aviation medicine—and I am not talking against my adjoining neighbor here, I am talking about the growth of Topsy that has occurred in the last 2 or 3 years.

Senator MAGNUSON. Parkinson's law.

Senator ALLOTT. In 1960 in your aviation medicine there were 115 positions at \$752,500. And in 1961 you sought \$220,000 and got that. The total cost of the personnel was \$1,201,500, and actually the cost to the Government was \$1,686,340. Now in 1962, this original 115 in 1960 had jumped to 390 in this one section, at a total cost of \$2,753,944. In other words, the number of positions has increased since 1960 by 275, which is 239 percent, and the cost of the personnel has jumped 266 percent.

LIMITATION ON PERSONNEL IN WASHINGTON

Now, my recollection is that your predecessor did set, upon some insistence from Congress, a limitation in the Washington headquarters of 3,000. And yet you are seeking 3,443 for the Washington quarters in 1962. And you have already moved these three agencies, at least part of the research and development team, moved the records and certificates, in the medical to Oklahoma City.

Now someone would like to have someone comment on the personnel and expansion in this area. Because I think when we passed the FAA Act Congress did, everyone was convinced, and I know the chairman of this committee and the chairman of the Subcommittee

of the Interstate Commerce Committee was convinced, and I was, this was a necessity.

Now this Agency is just growing out of all bounds, and all you have to do is to attend any of the installations around the country to become convinced it is growing out of all bounds.

REASON FOR GROWTH

Now I would like an answer to the question, to the last, as to why the growth?

Mr. HALABY. There is a broad question and a specific one.

On the broad question, you set this Agency up 2 years ago at a time when civil, as well as military, traffic was growing in volume and in complexity. Jets were being introduced at high altitudes by the commercial airliners, mixed with military aircraft at high altitudes.

Now the Agency and its predecessor had had very little experience at all with high altitudes, high-speed operations. At the same time a large number of general aviation aircraft was coming into the system, and in all areas the number of our air operations and the number of instrument flight operations were rapidly increasing.

The new Agency was created in recognition of a problem that had been developing since 1941. And an agency had been allowed to slumber in the Commerce Department, treated somewhat not like Topsy, but like Cinderella, an orphan. This is no reflection on the Congress, this is a reflection on the whole United States. We just did not recognize this problem and provide for it in time.

So in the last 2 years, to meet a growing demand, to fill a neglected area my predecessor in the previous administration had to develop a new agency. Now that Agency has a lot more functions and different functions than the CAA had. It absorbed military functions. To the CAA functions you added some additional functions such as some previously performed by the CAB.

Growing demand, new functions, greater complexity and greater danger to be provided against by an enlarged agency is the principal reason for the growth in this Agency up to the present figure of a little over 41,000 people.

MEDICAL RESEARCH

Senator ALLOTT. Let's start with the medical research. I will go into the general later.

Mr. HALABY. Yes, sir. The medical research program is called CARI, Civil Aeromedical Research Institute, which was originated under the FAA when it was found that the military aeromedical research was no longer attending to many of the problems that had previously been considered with relation to pilots and engineers. There was a big gap in our knowledge of men in the air and around an airplane, and a medical research program was proposed.

Now this primarily relates to the medical certification of airmen and air traffic controllers, to the development of standards by which we certificate pilots and to as much control as we can get over hazards in the air traffic centers, in the cockpit, and in the cabin for the passengers.

OTHER PROBLEM AREAS

I would like to mention some of the projects that are not being attended to and that are now proposed to be funded and in some respects have already started: One is the cause and effects of fatigue and stress on the air traffic controllers. If you have been in a center recently you have seen a swarm of men under very great stress trying to separate an increasing number of aircraft through a remote control radar and communications.

Another area is that for the first time the World War I pilots are reaching their late fifties and early sixties. That was our first big crop of pilots. Then many of our World War II pilots, who went on the airlines, are also reaching their fifties and sixties, and we have a pilot problem that was not recognized in time to get all the data necessary.

Now we are trying to study the physiological effects of aging on civilian pilots in civilian airline operations, which is quite different from military pilots in military operations. We are trying to investigate and analyze physical factors in accidents. Until very recently there were very few, if any, autopsies of pilots and crewmen after a fatal accident.

We did not know whether some catastrophic or sudden personal illness might have contributed to what appeared at first to be a strictly mechanical failure, or whether it was pilot error or pilot sickness.

So this work is being done. Until very recently we did not have many tranquilizers and antihistamines in the society of the United States. Now we are finding some very peculiar effects, or indications of peculiar effects, a day or so after the use of an antihistamine or tranquilizer. We have to pin that down because it might be necessary to change the rules on the health standards relating to those who pilot fast jet aircraft after the use of tranquilizers or histamines.

DUPLICATION OF NIH WORK

Senator ALLOTT. Nevertheless, all of this is duplicated studies. For example, what is going on in NIH is duplicated to a great extent in what is going on in the Air Force, and it is duplicating what is going on in other areas.

INCREASE IN PERSONNEL COST

For example, in 1961 the total cost of the personnel was set up at \$1,201,500, and it jumped \$484,840. Now where did this money come from that jumped \$484,840? Now where did this money come from that the Federal Aviation Agency appropriated for this particular item?

Mr. DEAN. Would you state that again, Mr. Allott?

Senator ALLOTT. Yes. In 1961 there was \$1,201,500 appropriated for 222 personnel, and you employed 222 personnel but it cost you \$484,840 more to hire these people. Now where did that money come from?

Mr. HALABY. I am going to ask Mr. Dean, who is Deputy for Administration, and later Dr. Goodard, who is Director of Aviation Medicine, to respond to that if I may since it is history that I am not familiar with.

Mr. DEAN. Mr. Chairman, when we present our justifications for the operations and for the research and development appropriations we set forth the general size of the program, the number of positions that are expected to be involved, and the amounts of money required to support it.

In the time between the preparation of the President's message and the hearings and the actual administration of a program during a fiscal year, there is some variation in cost, either up or down. Generally for the Agency as a whole, in fact, the cost varies downward. For example, at the end of this fiscal year we will return to the Treasury around \$3 million representing a reduction in the actual programmed amount of money that we justified to this committee last year.

However, certain of the programs do, when the total balance sheet is drawn, run somewhat greater than the estimates. But this is within our authority. We make these adjustments and we try to hold to the positions and the general purposes that we defined before the committee.

INCREASED STAFF

Senator ALLOTT. Well, I want to say right at that point, I have some figures which I had drawn here for me on the overall Agency growth in the Office of the General Counsel, and the Office of Management Service, and the Office of Public Affairs, and the Office of Personnel Training, and the Office of Plans and Requirements, and the Washington headquarters and on Aviation Medicine, and in all of these they show a decided increase in this, and in each instance I believe an increase over the projection.

Now, I have not added all these up to see how many millions they come to, but they had to come from somewhere. Now if they were not within the budget where did they come from?

Mr. DEAN. Mr. Chairman, with respect to the operating budget we have just made a review of where we will end up this fiscal year. I wish to assure you that not only have we stayed within the budget, we have actually saved probably \$3 million—

Mr. HARPER. We will save more than that.

Mr. DEAN. Approximately \$3 million under the total budget for 1961.

OVERALL AGENCY GROWTH

Senator ALLOTT. Let's take the overall Agency growth. In 1961 you sought 39,585 employees at a cost of \$255,327,743. You actually employed 42,431 at a cost of \$309,867,880 in the overall Agency.

Mr. HARPER. There must be some mistake in those figures, sir. We have not employed any more people than we requested for 1961 in last year's budget. Those figures are not familiar to me. But the number we have employed this year is less than we put in last year's estimate.

There are two sets of figures. There are the figures of the "Operations" appropriations and the figures for the total Agency, sir.

Senator ALLOTT. All right. Do these figures I have quoted represent the overall Agency?

Mr. HARPER. 39,000 is "Operations" appropriation, sir.

Senator ALLOTT. "Operations" alone.

Mr. HARPER. And the other one sounds closer to the total Agency figure.

Mr. HALABY. The number of positions authorized in the total fiscal 1961 budget was 42,431, and the actuals on May 31, 1961, were 40,500.

We may have given you some confusing figures, or the source that you have may have confused some of our figures.

Senator ALLOTT. You are seeking in 1962 40,060, is this correct?

Mr. HARPER. Yes, sir.

Senator ALLOTT. "Operations" alone. Agency?

Mr. HALABY. Total Agency.

Senator ALLOTT. Those are the figures I have. I would like to point out at this point that your budget, these figures came from your own justification, the departmental and field, \$242,431 in 1961.

I want to point out that at this point your number of positions has grown 21 percent in 2 years and that in 1960-62 the total cost of "Personnel services" has grown 55.3 percent.

Senator SALTONSTALL. Would the Senator yield?

Senator ALLOTT. Yes, sir.

Senator SALTONSTALL. Are your personnel under the heading of "Federal Aviation" or are they distributed downwards into departments and divisions?

When you talk about 42,000 or 45,000, are those interchangeable. If you needed it, could you put 145 into a particular division?

Mr. HALABY. I think we have the authority to do so.

Senator SALTONSTALL. Under the law?

CONSULTATION WITH MEMBERS OF CONGRESS

Mr. HALABY. Unless the appropriations bill, as it does in the case of this Civil Aeromedical Research Institute, specifically states a ceiling. However, I can assure you before making any such changes as the one you have in mind there, we would consult, as I have quite religiously since coming to office, about 110 days ago, with the appropriate Members of Congress.

We would like to see this 120-man ceiling on the Civil Aeronautical-Medical Research program lifted for two reasons. One, Senator, I have tried very hard to avoid duplication in research, and I have letters from all the Institutes that I thought, in fact, we might be duplicating—and while there may be some backscratching involved here—they have gone on record as saying we are not duplicating what they are doing. I have challenged Dr. Goddard to go out and find duplicated work. I have also put on top of this Medical Research Institute a kind of board of trustees from those agencies where duplication might possibly exist, and I have the feeling that they will be sure that this Research Institute does not duplicate what they are doing.

I have tried to put all the safeguards around it.

CEILING ON INSTITUTE PERSONNEL

But I believe that we gave confusing testimony to the House. They put on a ceiling apparently applicable to the whole program, but the members cover just the Institute, which is only part of the medical research program. In the second place, we need those people to do civilian research that is not being done elsewhere.

Now I have heard that there is opposition to our doing civil aeromedical research from two different groups, and I have challenged the leaders of those groups to tell me why we should not do a limited amount, and this is a limited amount, with 120 people and \$1½ million, on all of the range of problems of pilots, engineers, air traffic controllers in our national aviation system.

PRESENT MEDICAL PERSONNEL REQUEST

Senator ALLOTT. Mr. Halaby, you are asking for 1962 in this aviation budget 390 people at a cost of \$2,753,944, aren't you?

Mr. HALABY. Well, in the first place, sir, that total figure involved about 230 medical researchers, and when I went before the House committee I had not had an opportunity, in approximately 30 days in office, fully to review this. And I have sweated that 230 medical researchers down to 150 of which 120 are for the Institute. So that original figure of 390 is now 313 approximately. And only 150 of these 313 are medical researchers.

The total we seek for this year is not 390 as appears in the document you probably have in front of you, but it is a total of 313, and of all this only 150 are actual medical research people.

Senator ALLOTT. Now, Mr. Chairman, it would take me several hours to explore this thoroughly. In order to facilitate it, I have before me some specific questions on some specific items, and in fact there are 11 items here, most of which are on personnel.

I would like to put this in the record and have the reply of the Agency specifically to these 11 questions in a concise form that we can understand. They all go to the almost fantastic growth of this Agency, which I realize is necessary in many respects, but I also think the time has come when this Agency ought to start taking a good look and paring back and not just keep on growing like Mr. Parkinson seemed to indicate that everything does grow.

(The information referred to follows:)

INTRODUCTION

The Federal expense for the first full year of operations of the Federal Aviation Agency in fiscal year 1960 (July 1, 1959-June 30, 1960). The Agency came into being on January 1, 1959, pursuant to the terms of the Federal Aviation Act of 1958. This act changed substantially the area of responsibility of the FAA compared to the predecessor agency, the Civil Aeronautics Administration.

Therefore, fiscal 1960 will be used as the base year for all of the following comparisons.

Question I

Overall agency growth

Fiscal year	Number of positions	Total cost of personnel services
1960	34, 890	\$220, 835, 193
1961:		
Sought	39, 585	\$255, 327, 743
Employed	42, 431	\$309, 867, 880
1962	45, 060	\$343, 057, 938
Increase 1962 over 1960	10, 170	\$122, 222, 745
Percent increase	29	55.3

The FAA told Congress it would need 39,585 positions in fiscal 1961 costing over \$255 million, yet in the fiscal 1962 justification the FAA reveals that it in fact hired 2,846 additional employees at a cost of over \$309 million.

How can this increase be justified; and where did the additional \$54,540,137 come from which was spent on these additional unauthorized people?

If they got the extra money from another part of their appropriation, it must either have contained a lot of padding or they sacrificed necessary projects.

Answer I

The personnel comparisons indicated above were apparently derived from page 3 of the 1962 justifications and page 21 of the 1961 justifications. Although these exhibits are similar, there are three important changes in presentation that must be noted: (1) the 1962 exhibit includes all appropriations, whereas that for 1961 included only the "Expenses" (now "Operations") appropriation; (2) due to the change in object of expenditure classifications, the 1962 data for "Personal services" includes personnel benefits; i.e., retirement, insurance and medical payments shown in prior justifications as "Other objects"; and (3) subsequent to congressional consideration of the 1961 estimates a pay increase was enacted (Public Law 86-568). Thus, all "Personal services" costs in the 1962 estimates include approximately 14 percent more than was included in comparable items last year.

The 39,585 positions indicated in the above question represents the request for fiscal year 1961 for the "Expenses" appropriation only (changed to "Operations" appropriation in 1962). The 42,431 positions represents all appropriations. The actual comparison should be 39,585, costing \$255 million, as presented in the 1961 budget, as compared to the 1961 actual program for this appropriation of 39,000 positions at a total cost of about \$250 million. Adding approximately \$37.6 million for pay increases not included in the 1961 estimates and personnel benefits shown elsewhere last year bring this to \$287.6 million, as shown in the justification. For all appropriations, Agency estimates for 1961 as presented to the Congress were 42,916 as compared to the total actually programmed of 42,431, as indicated above. Actual salary payments were in excess of the 1961 estimates only by virtue of the pay increase approved by Congress effective during the fiscal year 1961.

This question, and those that follow, deal with overall increases from 1960-62 and differences between the 1961 estimate and 1961 as actually programmed. In this regard, the 1960 estimates were developed largely before the Agency became operative, and the 1961 estimates before the Agency had had one full year's operation. Thus, the budget estimates for these 2 years could not accurately reflect all the budgetary implications of the policies, procedures and degrees of emphasis as they have actually evolved since the inception of the new Agency. This is particularly true of staff and support functions which must be responsive to the needs of other elements of the Agency. Actual events have proven that we were overly conservative in our budgeting for this portion of the organization, and necessary adjustments have been made when required.

In answer to the specific questions, the total positions for 1961 are less than those included in the 1961 estimates and with minor exception are authorized on the basis justified; the difference in dollar totals is entirely due to the pay increase and the revised method of reflecting cost.

In this connection, it should be noted that the total Agency increases requested for 1962 amounted to 2,629 positions as compared to increases of 5,213 positions for 1961 and an average increase of \$5,900 positions per year since 1958. An application of workload formulas used to determine manpower requirements for the operations and maintenance of our airways facilities would support approximately 2,000 additional positions above those actually requested. These positions were eliminated from the estimates in the belief that by application of more rigorous management techniques, the overall effectiveness of manpower usage could be improved.

Question II

Office of General Counsel

Fiscal year	Number of positions	Total cost of personnel services
1960.....	102	\$789,000
1961:		
Sought.....	126	901,700
Employed.....	147	1,238,161
1962.....	165	1,386,281
Increase, 1962 over 1960.....	63	597,281
Percent increase.....	61.7	43

¹ Fiscal 1961 justification sought 126 positions. Fiscal 1962 justification indicates that 147 are employed

The foregoing raises two questions:

What justification is there for a 61.7-percent increase in legal personnel in a 2-year period? (Especially since overall Agency growth was 29 percent.)

How, after requesting 126 positions for fiscal 1961, did they get 147 employees?

Answer II

Major workload factors in the Office of General Counsel are the legal review related to contract negotiations, enforcement actions growing out of violations of the Civil Air Regulations, and the promulgation of rules under the Administrative Procedures Act. The overall increases since 1960, as well as the 21 positions added in fiscal year 1961, are directly related to increased caseload, primarily in the areas of activity noted above. Growing backlog of enforcement cases, as well as the volume of claims and other transactions related to Agency contracts, clearly indicated the need for strengthening the staff of this organization beyond that contemplated at the time the 1961 estimates were prepared. The positions added were within the totals for the appropriation as a whole.

The increase of \$336,461 for personal services costs is directly related to the additional positions and includes \$85,000 due to the pay increase authorized under Public Law 86-568, and \$74,000 for the employee benefits reflected as nonpersonal services costs in the 1961 estimates.

Question III

Office of Management Services

Fiscal year	Number of positions	Total cost of personnel services
1960.....	1,131	\$5,629,350
1961:		
Sought.....	1,310	7,085,900
Employed.....	1,382	8,611,513
1962.....	1,472	9,461,817
Increase, 1962 over 1960.....	341	3,832,467
Percent increase.....	30	68

¹ Fiscal 1961 justification sought 1,310 positions. Fiscal 1962 justification indicates that 1,382 are employed.

This likewise raises two questions:

Why does a 30-percent increase in personnel (assuming it is justified) result in a 68-percent increase in payroll?

How, after requesting 1,310 positions in fiscal 1961, did they get 1,382 and, more importantly, why did that increase (5.5 percent) result in a payroll increase of \$1,525,613 (or 17.4 percent)?

It appears that for each unit of additional personnel there is a 3-fold increase in payroll.

Answer III

The Office of Management Services provides budgeting, accounting, auditing, management analysis, and administrative support services required for all activities of the Agency. Upon the organization of the Federal Aviation Agency, it was found that many important managerial programs had to be strengthened because of the newly independent status of the Agency. Since the budget for the fiscal year 1960 had been prepared before the Agency was actually in being, these programs were not fully provided for during that fiscal year. The substantial growth between fiscal years 1960-62 for the most part reflects the implementation for the first time of such important programs as internal audit, management analysis, accounting and financial management improvement, and program evaluation. Other increases have been in response to workload demands placed on this organization due to the general growth of the Agency.

The difference of 72 positions in the 1961 program, as compared to the 1961 budget estimates, is due to four factors:

(1) Sixteen positions for field management analysis activities which were reflected under "Executive direction" in 1961 estimates and do not represent additional jobs.

(2) Thirty-six positions as a result of establishing a printing plant in the Federal Aviation Agency in cooperation with the congressional Joint Committee on Printing. The cost of these positions is more than offset by a reduction in printing previously obtained from plants outside the FAA other than the GPO.

(3) Workload increases placed on the Office of Management Services by other organizations of the Agency in excess of that anticipated in the budget.

(4) Strengthening of central management review organizations such as workload measurement, automatic data processing evaluation and internal audit, at a rate faster than was contemplated in the budget. These activities are generally considered to be self-sustaining from the standpoint of increased efficiency in utilization of Agency personnel, elimination of uneconomic data processing installations, and improved auditing of contractor's claims, cost elements in negotiated contracts, etc. In spite of this increase in audit services, the Agency was subject to some criticism by the House Subcommittee on Legislative Oversight for not expanding more rapidly in this important area.

The payroll increase between 1960 and 1962 includes \$535,000 for pay increases and \$548,000 for employee benefits. After adjusting for these factors the salary increases are more nearly proportionate to the employment increase. Elimination of these same factors from the difference between the 1961 salary figures will result in approximately proportionate increases in personnel and salary totals.

*Question IV**Office of Public Affairs*

Fiscal year	Number of positions	Total cost of personnel services
1960.....	14	\$110,900
1961:		
Sought.....	¹ 24	173,300
Employed.....	33	294,942
1962.....	35	325,445
Increase, 1962 over 1960.....	21	214,545
Percent increase.....	150	193

¹ Fiscal 1961 justification sought 24 positions. Fiscal 1962 justification indicates that 33 were employed.

What justification is there for this very substantial increase in a non-functional department especially in view of the fact that the cost is nearly doubled?

How, after requesting 24 positions for fiscal year 1961, did they employ 33 and where did they get the extra \$120,000, which was more than their entire budget in fiscal 1960?

Answer IV

The difference in the 1961 estimate and the 1961 program of 9 positions represents a change in the presentation of field public affairs personnel reflected under executive direction in the 1961 estimates. Thus, there was no change from the estimates and the finally approved program except for pay increases. Taking this adjustment into account the actual increase is 12 positions from 1960 to 1962 principally due to greater emphasis on aviation education programs depicting FAA activities to the public through the media of exhibits, motion pictures, and booklets with some greater emphasis in news coverage requirements. The additional personal services costs include \$21,000 for pay increases and \$20,000 for employee benefits. The balance is directly related to the salaries for the difference in the positions involved.

*Question V**Office of Personnel and Training*

Fiscal year	Number of positions	Total cost of personnel services
1960.....	1,109	\$6,544,354
1961:		
Sought.....	1,324	8,320,448
Employed.....	1,320	9,422,300
1962.....	1,457	10,426,358
Increase, 1962 over 1960.....	348	3,882,004
Percent increase.....	31	59

¹ Fiscal 1961 justification sought 1,324. Fiscal 1962 justification shows that only 1,320 were employed.

This raises a very serious question of efficiency. In fiscal 1961 the FAA, in fact, employed 4 less than the 1,324 positions they stated they needed in their fiscal 1961 justification. Yet this lesser number of positions cost \$1,121,852 more than the amount forecast to employ the larger number (a 13.4 percent increase in money spent to employ four fewer employees). Again, what justification is there for a 31-percent increase which results in nearly a double rate of payroll increase (59 percent)?

Answer V

The increase in the Office of Personnel and Training is due to two factors:

1. General agency growth; increases for this purpose have been maintained at a ratio of one personnel technician to each 135 agency employees, and accounts for 123 positions of the total increase; and
2. Increase in the technical training staff at the aeronautical center where air traffic control maintenance technicians and flight standards inspectors are given technical training necessary to the proper performance of their jobs. This accounts for 225 positions of the total increase.

The increased salary estimates for 1961 of \$1,121,852 are entirely attributable to the pay increase, \$661,000 and the changed method of presenting employee benefits, \$619,000.

*Question VI**Office of Plans*

Fiscal year	Number of positions	Total cost of personnel services
1960.....	59	\$615,950
1961:		
Sought.....	165	645,400
Employed.....	75	767,965
1962.....	81	850,790
Increase, 1962 over 1960.....	22	234,840
Percent increase.....	37.2	38

¹ Fiscal 1961 justification sought 65. Fiscal 1962 justification shows that 75 were employed.

This increase exceeds the overall Agency growth—how is it justified?
How do they justify the 1961 upgrading?

Answer VI

Increases in the office of plans since 1960 have been in the activities of emergency readiness planning in coordination with the Office of Civil Defense Mobilization, and a noise-abatement program resulting from the increased use of jet aircraft in commercial aviation. The emergency readiness program involves detailed planning for continuity of essential FAA operations in times of national emergency when the field activities of air traffic management and facilities maintenance of the FAA will be in direct support of military operations. The second program is concerned with developing methods and techniques for minimizing the noise nuisance at airports where this has become a critical problem, particularly with regard to the use of jets at airports close to populated areas. Cost factors include \$42,000 for pay increases and \$31,000 for employee benefits.

OTHER OBJECTS

Question VII

The 1962 format differs from the 1961 (p. 3 compared to p. 21) in that the summary which appeared at page 21 of the 1961 budget along with the diagrammatic personnel chart is omitted in the 1962 format and the summary appears elsewhere (at p. 2) omitting the item "Other objects."

These "Other objects" are very substantial items—for example, \$98 million in 1960 and \$128 million in 1961. Why the change? Where are "Other objects" in the 1962 format? What do "Other objects" consist of?

Answer VII

The term "Other objects" refers to all costs of the Agency other than for personnel and related benefits. The \$98 million referred to for 1960 fiscal year and the \$128 million for fiscal year 1961 represents the costs for the "Expenses" appropriation only. The principal items of cost included under this category are travel, rents and utilities, supplies and material, equipment and contractual services. In the 1962 estimate such costs are reflected under individual appropriation items rather than at a summary level. For the "Operations" appropriation the total actually programed comparable to the \$128 million in 1961 amounted to \$121,024,000.

Question VIII

WASHINGTON HEADQUARTERS

Was there ever a ceiling set on the number of positions in the Washington headquarters establishment?

Two years ago Quesada set such a ceiling for purposes of good appropriations relations.

Weren't certain activities moved from Washington headquarters to the field in order to keep under this 3,000 ceiling? For example—

Wasn't "Records and certificates" and related personnel moved to Oklahoma City for this reason?

How much did it cost to move it there?

Wasn't a substantial part of the medical center moved to Oklahoma City for this reason?

How much did it cost to move it there?

Weren't a significant number of R. & D. people moved to Atlantic City for this reason?

How much did it cost?

Despite these costly moves hasn't the headquarters complement grown above the ceiling?

3,443 positions are sought for 1962.

How high would headquarters be if these moves had not been made?

Answer VIII

Administrator Quesada set a policy that activities in Washington would be limited to those of an overall Agency planning and program direction nature. At the time this policy was promulgated in fiscal year 1960, it was estimated that there were 3,000 such positions, and that growth in such positions would not exceed 100 each year, for example the 1962 estimate would be 3,200. All subsequent planning has been in accord with this policy, in the full knowledge that certain activities would have to be moved from Washington to adhere to the policy.

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financed in 1961," i.e., it is an attempt to recapture in 1962 money which Congress refused to appropriate for fiscal 1961.

Answer X

The \$23.1 million justified as "Adjustment for portion of continuing program unfinanced in 1961" is not an attempt to recapture moneys reduced from the estimates by the Congress. New programs of the Agency each fiscal year are accomplished on a phased-basis, taking into account the capacity of the personnel office to hire large numbers of people and the periodic completion of new air navigation and communications facilities throughout the fiscal year. Our financing of new programs is based on this phasing-in of new personnel and new costs related to physical facilities in approximately equal increments each month of the fiscal year on the average. The \$23.1 million represents the amount of money required to continue for a full year in 1962 those programs which were begun on a phased-basis during 1961, and therefore financed for only a portion of the fiscal year. Reference to page 28 of the 1961 budget estimates will show that in our presentation to the Congress this was referred to as part-year lapse of new programs amounting to \$35.9 million. The difference results from positions and facilities eliminated as a result of budget reductions of Congress. Reference to page 27 of the 1962 estimates indicates a similar entry in our current estimates, and represents additional financing which will be required in 1963 for the new programs requested for part-year financing in 1962.

Question XI

Also at page 22 of the fiscal 1962 justification there is a request for \$15.1 million to cover pay increases. The President directed all agencies to seek to offset these increases by other economies. What specifically, did the FAA do to try to avoid requesting this supplement?

Answer XI

In complying with the President's directive to offset pay increases the Agency absorbed approximately 20 percent of the total pay requirements for the "Operations" appropriation in 1961 based on total salary costs included in the program. A pay-increase supplemental of some \$18.9 million could have been supported. By adjusting programs for supplies and equipment and limiting recruitment as much as possible in all organizations approximately \$3.8 million will be absorbed by the Agency. These actions were reported to the President, and, we believe, fully complied with his absorption policy.

MANAGEMENT OBJECTIVE

Mr. HALABY. I could not agree more, sir, coming in from private industry.

Could I just take one moment to give you an assurance on that?

I am absolutely determined that we get tight management into this Agency. It worries me to see \$744 million a year being sought for roughly 74,000 aircraft, which is \$10,000 an airplane. That looks rough, as Senator Engle and other of your colleagues have pointed out on the floor of the Senate.

The reason that it worries me is that I am sure that in so rapid an expansion there is excess and the only thing you can do, as a newcomer to a 42,000-man Agency, is try to install some management controls and get some good managers and develop them from within the Agency.

And in the last few weeks we have done several things.

One, we have started a management information program on top of an already excellent reporting program that Mr. Dean and his colleagues have installed.

We have here for the first time in almost any agency in the Federal Government, in one room, all of the management information necessary to manage an agency. This was set up for a very few thousand dollars. In one room is all of the data that all of the people and all of the equipment in 90 different activities of this Agency.

That is only the beginning—to get the facts.

The second thing is to get instilled in the Agency the idea that we are managing a lean and clean and austere operation whose only purpose is to serve the aviation community and the general public primarily in safety.

The next thing is to get some of these operations out of Washington, out into the field where the facts and the problems are fairly known. The next thing, and the most important of all, is to develop managers, political managers, in the sense of managing political functions here, professional political functions. And that is going to be very hard to do because we are an agency of specialists, and they are engineers, doctors, and specialists in the field of flight inspection. And like any large organization we have to decentralize, we have to get good managers largely from our own ranks and make them conscious that their job is to produce the maximum service to the public with the least cost per hour.

But I wish I could tell you—

SOURCES OF QUESTIONS

Senator ALLOTT. At this point, Mr. Halaby, I want to say I have had this question raised, by virtue of my place on this committee, from many sources, from operating members of Federal airlines, I have had it raised from not one airline but from several, and I have had it raised repeatedly, of course, by pilots—and I happen to know a lot of old pilots, airline pilots—I have had it raised repeatedly by employees of FAA, and probably these are the three main sources. And I really feel that if I get a specific answer to these questions, and if the Agency goes about tightening up the management, as you say you intend to do, and I am sure you do intend to do it, that it is probably the most necessary thing in the Agency at this time. Because there is no doubt justifiably it had to grow fast, and we had to get the job done, and now the job changing complexity.

REASONS FOR GROWTH OF AGENCY

Mr. HALABY. I wish I could tell you that there will be 3,000 people in Washington, that we will hold the line at 42,000 people, which is roughly what we have today. But I cannot for two reasons.

We are well behind in technology. We have not the radars and the computers and the automatic machines that will take the place of a large number of human minds and hands working over these radar-scopes.

And as Senator Monroney's hearings pointed out, we need even a few more to be sure that through a massive number of people we have covered every possible gap in the airway traffic control flow.

The second reason is neglect—15 years of neglect of this problem. If we had been thinking of this the way we have been thinking about the intercontinental ballistic missiles for the last 10 years, we would not be asking you for this money this year, or this many people in my judgment.

So we have accumulated a gap that we are filling.

MILITARY FUNCTIONS

And the next reason I think the Agency is going to grow is because I think the military are going to add more functions through their military control towers, their military airways traffic control and communication centers. There are 17,000 military personnel doing jobs that the military feel we could probably do for them.

Now that would be transferring from one budget to another, but we think we can do the job of those 17,000 people with about 12,000 people.

So I cannot tell you that the ceiling is on this Agency. In fact, I think because of catching up it has to grow to 45,000 on the present basis, and if the military see fit to transfer functions to us, the Agency would grow further because it is adding functions.

These are basic problems and I, in 110 days, do not have clean-cut answers. I have to tell you that we are going to do the best we can to manage what you give us, to decentralize the operations so we will have less people following Parkinson's law here in Washington, and finally, to develop from within the Agency some good general managers.

And that is the real test in Government, is general managers who know what the goals are, who have a system, who have procedures to follow, and some mean character at the top who insists on the facts and holds them to their programs.

That is the only way we are going to defy Parkinson's law.

Senator MONRONEY. Mr. Chairman, can I say a word there?

Senator MAGNUSON. Yes.

NEW DEVELOPMENTS

Senator MONRONEY. If we had held to the levels of 1959 we would still have had CAA operations, which were impossible for controlling the multiple-speed aircraft, the jets. So we had to plan a complete new system of airways. We have to make up about 5 years' lag on acquisition, acquisition of radar. Therefore, you had to train radar-men. You had to come in with radar and then train the men.

Now where we have complete surveillance, plus the fact that the volume of aviation is probably growing at a rate of 30 percent a year, and intermixing this with the other, frankly, I think good management can cut down, and I compliment the Senator from Colorado on pressing it.

However, I know it would have been impossible to man an adequate Federal Airway system with the old CAA level of funding of equipment and maintenance of equipment.

Now you have a whole new set of men that have to be there to repair radar, for example, that you never had to worry about before you had radar surveillance. You have to step up the communications, and we still have to step them up about ten times as fast. But this takes money for the equipment and maintenance and training and things of that kind. So we are going through, I think, a growing period. And on the medical thing, about 3 years in a row the American Medical Association appeared before my subcommittee and testified there was a growing gap in aviation medicine. We had the Navy and the Air Force before us. They all said they could not put into civil

aviation lessons the things they were studying because they were in space and a lot of other things.

AVIATION MEDICINE

I know the situation on health, education, and welfare appropriations. However, we put out programs, at one or two colleges for research on obscure diseases. I am for it, and vote for it. And we are asking this division, for the entire field of aviation medicine, with 150 medical technicians, to do this whole field of broad inspection. We would spend more on metallurgical studies to be sure the metal in the engines is safe, or the wing braces are safe, than on a study on the human factor, which is probably the most vital safety factor in all aviation.

Senator MAGNUSON. Well, now, on this medical aviation, I understand that the House, of course, says that you should keep a staff of 120, and they gave you \$1,500,000 and you are suggesting you have—am I correct in that—\$3 million?

Mr. HALABY. Yes, sir.

Senator MAGNUSON. Then you also state in your statement here that you still will keep the 120 positions at the Medical Center?

Mr. HALABY. Yes, sir. I believe the House was trying to put a lid on the Medical Research Institute. And in doing so they apparently pressed into the same box, under the same lid, the whole medical research program.

AVIATION MEDICINE PERSONNEL

For example, Senator, of the positions requested, the 314, 24 of these positions are aviation medical men in our regions who supervise 4,100 civil designated medical examiners; 24 to 4,100. And the public counts on those medical examiners to see that no sick or ailing pilots are flying in the air.

Senator MONRONEY. These are self-supporting, the pilots pay for their own examination.

Mr. HALABY. The pilots pay for the examination.

Senator ALLOTT. I know; I have been through this myself. My medical certificate is not up to date, but I think I have been through it enough times to understand it.

PHYSICAL EXAMINATIONS FOR PILOTS

Mr. HALABY. I hate to go through an alley, but very few pilots like a medical examination. There are very few individuals who like a full-scale physical examination. And the more difficult it is, the more precise it is, the less we like it. And I think there are people who would have no medical examinations, and I think there are some groups working against this medical research program out of fear that we will develop more precise, more demanding, physical standards.

I have tried to talk to the Airline Pilots Association about this, and I find that they are not quite as opposed to this as it seems from some of their public statements. Because the younger pilots say, "We want every member of our association to be up to the highest medical standard and we do not want any laxness in the examination. We want very discrete, very precise criteria to be applied to us as well as our elders in this business."

Senator ALLOTT. Well, now, I must say that at this point, because of the way in which you say this, I must disassociate myself completely with any implication that I am opposed to the present system. I am not. I think it is wise. And this makes me unpopular with some sizable associations in this country, but I feel this way. And I simply make this because I disassociate myself with the remarks of my friend, the Senator from Oklahoma. The Federal Aviation Agency, as I recall, came into being on January 1, 1959. And I have sat on this subcommittee since then, so I am quite fully aware, and joined in the building up of personnel to do the job that we felt had to be done. I just think that emphasis now needs to be shifted to a tighter management.

ADVISORY COMMITTEE OF PHYSICIANS

Senator MAGNUSON. Let me ask one further question before we leave that. Do you still have an advisory committee of medicos in this field?

Mr. GODDARD. Yes, Mr. Chairman. We have advising us two groups, one for the overall direction of our program, and a second group which is specifically charged with the responsibility of helping us evaluate research proposals—the desirability of our own research program—and to eliminate duplication which is a very worrisome thing to all of us. I come from the Public Health Service and have served at NIH, and we have seen to it that at least three members of this group are from NIH, as others from NASA, from the Air Force, Navy, Bureau of Standards, and from universities and industry.

Senator MAGNUSON. And they meet fairly regular for a group of this type?

Mr. GODDARD. Yes, sir. None of our research proposals are approved without their having met to discuss them and review them. And through such mechanisms, I would point out, we have been able to refer to NIH studies which are more appropriate for funding by them. So we feel that this is beneficial to the Federal Government, rather than setting up a mechanism where unnecessary duplication could occur.

Senator MAGNUSON. And I know some of these men in that group and they are pioneers in this business, a lot of them. It is sort of an almost occasion to a lot of them. They are common people in their own fields, but they have taken this up and they have put in a lot of time on it.

AMOUNT REQUESTED

Senator SALTONSTALL. You asked for \$1½ million and 30 more people than the House gave you; is that correct?

Senator MAGNUSON. No. They are asking for 150 positions and \$3 million for medical research.

Mr. HALABY. Right.

Senator SCHOEPEL. Mr. Chairman, the Senator from Colorado was pursuing, and it is for my own guidance and I want to get answers to some questions that I want to ask, the overall general situation here a moment ago. Have we left the duplication phase of some of these appropriations now?

Senator MAGNUSON. No. We are still on Operations.

WEATHER DATA SERVICES

Senator SCHOEPEL. Well, I wanted to ask some questions with reference to the duplication of some of the services on the weather data.

Senator MAGNUSON. That is pertinent to this phase, yes.

Senator SCHOEPEL. I wanted to be sure I was keeping in character here.

My information is that the Agency here, your instant Agency, is duplicating some of the physical properties necessary to the transmission of weather data to all of your outlets. Is that true, in your judgment, or what is the situation on that?

Mr. HALABY. Senator, I had a long talk with Dr. Reichelderfer the head of the Weather Bureau, which, as you know, is under the Under Secretary of Commerce for Transportation in the Commerce Department. There is duplication in the recording and transmission of weather data today. There is military transmission of weather data and there is Weather Bureau transmission of data, and in some cases these circuits are almost parallel. This has developed over the years, and I think it demands a solution, and the Budget Bureau is working on that solution.

I do not believe that the FAA is duplicating the meteorological services of the Weather Bureau. We do have a research and development program looking into how to automate the weather data processing so that weather can get to the pilots before they get to their destination and find out what the weather actually is. Right now most pilots operate on weather data that is quite a few hours old. It does not transmit it in a timely fashion and in a clear-cut fashion. So even though we are spending a lot of money on weather, we do not have the processing system necessary to get it to civil and military pilots promptly and accurately.

Now, I am going to ask Mr. Blatt to comment on the question that you asked relating to duplicating certain services.

Mr. BLATT. Senator, as the Administrator indicated, there are duplications in existence in the transmission of weather data, as between civil and military weather systems. We have underway now a research and development program which is attempting to develop a single integrated national aviation weather system. We hope that the implementation of such a system will eliminate the duplication. At the present time there are several military duplications of civil teletype circuits, civil long line circuits and civil facsimile circuits that are transmitting the same weather data along parallel paths.

Senator SCHOEPEL. That is what I have been informed, and they tell me it runs as high as 45 to 47 percent. Is that too high?

Mr. BLATT. I would agree with those figures, yes, sir.

DUPLICATION OF SERVICES

Mr. HALABY. Will you explain what the duplication is of the military services and the Weather Bureau?

Mr. BLATT. The duplication is in the paralleling of civil and military circuits. That is the redundancy of the transmission of the same data between military locations and nearby civil locations. The basic observations are all fed to common forecast locations. The duplication is merely in the transmission of the information.

Senator SCHOEPEL. Now in your study, I take it, in your coordinating committee, you hope to come up with something that would prevent that excessive, in my opinion—I am not an expert on it and I would not want to even criticize it—duplication of those type of facilities which would save us a lot of money?

Mr. BLATT. Yes, sir. We feel strongly that there is a requirement for this single integrated system.

Senator SCHOEPEL. How long do you think that might be in the making?

Mr. BLATT. I would say that we cannot anticipate implementation of such a system in less than 2 years.

Senator SCHOEPEL. So we will put up with the duplication for at least that period of time—

Mr. BLATT. Yes, sir.

Senator SCHOEPEL (continuing). Rather than have the disrupted processes that you might feel would come into effect if you moved in on them too rapidly?

Mr. BLATT. I do not think either civil or military aviation could tolerate such a disruption of weather service.

Mr. HALABY. Not only is it duplicating, but it is not very good. If you got progress by duplication it would be a fine thing, but here we are getting a lot of motion and not much movement forward.

Senator SCHOEPEL. The point I was making is when you are duplicating it, you do not have the necessary focusing of the responsibility of coordinating it where you would have a greater degree of efficiency.

Mr. HALABY. Well, I think that is right. And this is partly traditional in that this has always been in the Commerce Department, and there have been users of weather data, the farming communities in particular for example, the railroads, the steamship lines, and so on, who were much more important in the past than the aeronautical users. Now, by all odds, the greatest users of instantaneous weather data are aeronautical interests.

Senator SCHOEPEL. That is right.

Mr. HALABY. Now we have in our research and development program, by agreement with the Department of Defense, who initiated this program a couple of years ago, and the NASA and the Weather Bureau, \$4 million for the development of a new weather reporting and recording system which should (a) modernize the whole weather reporting processing system and (b) could, if the departments and agencies got together, eliminate the duplication.

Senator SCHOEPEL. I will not pursue that further, but I am glad to have this explanation which is very pertinent, as I view it, to these hearings here.

AIRPORT DEVELOPMENT PROGRAM

Now, Mr. Chairman, might I ask a general question here? When will you reach the airport development program? Do you expect to cover that later this morning?

Mr. HALABY. Yes, sir. We are requesting, and the House granted in their bill, \$70 million to pay for the expenditures under Federal-aid-to-airport program. Now the authorization for the extension of the program is in the bill introduced by Senator Monroney and 35 cosponsors.

Senator MAGNUSON. We are holding hearings on that right now.

Mr. HALABY. That is before Senator Magnuson and Senator—
Senator MAGNUSON. I think we will get to that, Senator Schoepfel.

Senator SCHOEPEL. Does that involve the Dulles Airport improvement that you are on now?

Mr. HALABY. That is in this bill before us today.

Senator SCHOEPEL. I want to get my thinking straight on this. You will cover some phases of the Dulles Airport improvement in this instant hearing here?

Mr. HALABY. Yes, sir; whenever you wish.

COMMUNICATIONS AGENCY FOR WEATHER BUREAU

Senator MAGNUSON. I want to ask one question on weather. Do you feed the Weather Bureau reports?

Mr. BLATT. Yes, sir; we are the communications agency, so to speak, for the Weather Bureau.

Senator MAGNUSON. So they get a lot of data from you to determine the general weather conditions? The pilots have to have instantaneous specific weather, but the fellow I hear on the radio giving me the weather for tomorrow gets that from you, doesn't he?

Mr. BLATT. He gets certain observations from us. In other words, there are networks throughout the country that collect and distribute the actual observations. The Weather Bureau receives these observations from our communications facilities.

Senator MAGNUSON. All right.

Senator SCHOEPEL. How much is this duplication costing us? Do you have a judgment on that?

Mr. BLATT. I have no judgment as to the figures.

Senator SCHOEPEL. Is it pretty substantial?

Mr. BLATT. It is a substantial amount. I would like to say the system we are designing is a tailor-made system for aviation.

Senator MAGNUSON. But the Weather Bureau could get rid of a lot that they are doing by drawing on you, just getting information from you?

Mr. BLATT. Well, we are not duplicating the observations of the Weather Bureau.

FFA AND WEATHER BUREAU FUNCTIONS

Senator SALTONSTALL. Mr. Chairman, maybe it is a side point, but I am all mixed up.

If I called the Weather Bureau and asked for the weather between here and Boston, as I quite often do, that is under the Department of Commerce and it is the Weather Bureau?

Mr. BLATT. Yes, sir.

Senator SALTONSTALL. Do they get that information that they give me from you?

Mr. BLATT. They get part of that information from us, yes, sir. They get observations through our communications network.

Mr. HALABY. Let's get very specific. They have their own weather observers in some locations, and they take temperature and humidity and balloon and other soundings. Now in areas where we have personnel at an airport and they do not, we make weather observations.

All of that data flows into the Weather Bureau, and they determine what the weather is, and is to be through their forecast. Then it comes out on a teletype circuit. Most of those teletype circuits are circuits that are in FAA offices around the country. And the Weather Bureau has offices in many airports, and the same teletype network serves that office and our office. And the duplication that I think Senator Schoepel is worried about, and Mr. Blatt referred to, is that the military has meteorological services and teletype circuits, and sometimes those are parallel, going between points even at the same airport.

Senator SALTONSTALL. So the duplication is between the military and your Agency, the Federal Aviation Agency and the Weather Bureau.

Mr. HALABY. Yes, sir.

Senator SALTONSTALL. You two people work together and the military duplicates your effort in some instances, or vice versa?

Mr. HALABY. Well, over the years both of these systems have developed, and that is duplication that could be eliminated if you had an integrated system for disseminating the weather data produced by the Weather Bureau. And as I say, the Budget Bureau has this under active study.

AREA OF DUPLICATION

Senator MAGNUSON. To get this straight, after you get it all disseminated, the Weather Bureau puts it out for their purposes.

Mr. HALABY. Yes, sir.

Senator MAGNUSON. And you put it out for your purposes, and the military put it out for their purposes?

Mr. HALABY. Exactly.

Senator MAGNUSON. In other words, you siphon it in, and it goes out—

Senator SALTONSTALL. And the duplication is in the siphoning out?

Senator MAGNUSON. The siphoning in.

Mr. HALABY. Yes, sir.

FACILITIES AND EQUIPMENT

Senator MAGNUSON. All right, let's move on here. The next item is facilities and equipment. And the House in that particular case approved \$120 million for new facilities and equipment. And they say:

FUNDS AVAILABLE

This continues the stepped-up program of modernization started a few years ago. An unobligated balance of \$107,273,000 will also be carried forward into 1962.

That would mean you would have \$227 million to spend, is that right, for 1962; is that correct?

Mr. DEAN. \$120 million.

Senator MAGNUSON. You have an unobligated balance of \$107 million.

Mr. DEAN. That is correct.

Senator MAGNUSON. So you have \$227 million.

Mr. HALABY. That is right.

Senator MAGNUSON. For this program. Now what are you suggesting there? What did the House cut you?

HOUSE CUT

Mr. HALABY. We requested \$126 million and they granted \$120 million.

Senator MAGNUSON. So you are suggesting here that we put in \$5 million more by your amendment?

FIRE TEST TUNNEL AND PROTECTION SHELTER

Mr. HALABY. Yes, sir; and the principal item is one that I want Mr. Blatt to discuss, which is a fire test tunnel designed to test aircraft powerplants under simulated conditions in order to improve the protection to the passengers and crew from fire.

Senator MAGNUSON. So when we are talking about the \$5 million, we are talking about this one particular project?

Mr. HALABY. There is an additional amount of \$423,000 which is mainly emergency protection of air traffic control centers and flight service stations during a national emergency.

Senator MAGNUSON. That is fallout, fallout shelter?

Mr. HALABY. Yes, except they are not shelters specifically built for people to go into rather they are to protect personnel required to remain at their posts during an emergency. They are modifications to these centers and stations, and relatively minor ones, since it amounts to \$110,000 in a \$4 million center.

And I think this was knocked out because of a general feeling in the House that this is not necessary.

Senator MAGNUSON. Well that is a general question that we get into here with every agency in every appropriation. Let's put that aside for just a minute and go into this fire test wind tunnel.

Now here is what the House says in denying it. They said:

"The Agency may use a reasonable amount of the funds provided for remodeling one of the 70 or more existing wind tunnels already owned by the Government."

Now address yourself to that.

HOUSE ATTITUDE

Mr. BLATT. Yes, sir. In other words, sir, I feel that the House agreed on the requirement for a fire test tunnel, but indicated that they would much rather we use some existing facility than build a new one. We made an investigation of all possible test tunnels in the country owned by the Government and we found 12 that might be used if modified.

These were located at the Arnold Engineering Development Center—or owned by NASA. We corresponded and negotiated, with both agencies and I would like to read into the record parts of two letters that we received.

Mr. HALABY. Mr. Blatt, I think you better state first what you do in this tunnel because I think the fire test tunnel sounds like an odd place.

Mr. BLATT. Yes, sir. In a fire test tunnel we try to simulate in-flight fire conditions on full-scale models. The purpose for these full-scale tests is to determine the requirements for fire detection, to determine the requirements for fire extinguishing, to determine the structural integrity of the pod pylon and airframe combination under fire

conditions. We require this data in order to assist in the establishment of safety standards, and also in the establishment of, shall I call them, fire-worthiness standards in our regulations.

The tunnel itself, in order to provide for this type of testing, would have to be so modified that it could withstand the explosion of part of the test article during test. And we have determined that our requirement is for an open-circuit type of tunnel, that is a tunnel that would draw its atmospheric air in from the intake and exhaust into the atmosphere rather than an aerodynamic tunnel which circulates the air within the tunnel itself.

COST OF RENOVATING EXISTING TUNNEL

Senator SALTONSTALL. How much would it cost to remodel a tunnel available for this purpose?

Mr. BLATT. That is included in one of the letters, sir. NASA indicates, Mr. Webb, the Administrator, indicates, that the cost of remodeling would exceed the cost of constructing a tunnel for these specific purposes.

Senator SALTONSTALL. By how much?

Mr. BLATT. He did not say, sir.

Senator SALTONSTALL. Because that is the question that we have to answer.

Senator MAGNUSON. If you have 12 that are susceptible to remodeling, the House wants to know why you do not pick up one of them and do this job.

Mr. BLATT. First, they are not available. The agencies that own the tunnels indicate that they are required for high priority work, that is work concerned with advance defense vehicles and space vehicles high priority projects that these tunnels are used for, and they could not permit the Federal Aviation Agency to remodel or take over the tunnels.

Senator MAGNUSON. Now they will be up here in the morning and we will ask them about that.

Mr. BLATT. Yes, sir. May I read these two paragraphs into the record, sir?

LETTER FROM GENERAL SCHRIEVER

This is a letter from General Schriever, Commanding General, Air Force Systems Command, dated April 25, 1961. This reads in part:

There are two facilities at the Arnold Engineering Development Center which with minor modifications could accommodate your test requirements as we understand them. These two facilities are the transcircuit of the propulsion wind tunnel and test cell J-1 of the rocket test facility. However, both of these facilities are occupied for the foreseeable future with very high priority tests in support of national missile and space vehicle programs. Curtailment of these high priority tests programs already scheduled for these facilities in order to permit occupancy by FAA is not feasible. Even if the necessary modifications were made and the high priority national programs could be deferred to accommodate FAA requirements, there is the strong possibility of the existing Arnold facilities being severely damaged by the proposed fire tests. The resultant long downtime for the necessary repairs could not be tolerated.

That is a letter from General Schriever.
And from Administrator Webb of NASA:

Only two of the NASA tunnels have the combination of air speed and size to meet the needs of FAA's program. These are the 16- and 19-foot tunnels at the Langley Research Center. The modification of either of these closed return-

type tunnels for fire research is not feasible. The cost of the major modifications and reconstruction would exceed the cost of building a new facility for the specific capabilities required for fire research. Although it is impossible for NASA to provide a tunnel for FAA powerplant fire research, I should like to reiterate that NASA will be glad to assist you in any other way possible in the conduct of this very important program.

RELUCTANCE TO RELEASE TUNNEL

Senator MAGNUSON. In other words, you explored the tunnels and you find in cases where tunnels are available for modification, the other agencies do not want to give them up.

Mr. BLATT. That is correct, sir.

Senator MONRONEY. Or it would cost more to remodel than build it.

Senator MAGNUSON. I do not think it will cost more, but—

Senator MONRONEY. Where are you going to build it?

Mr. BLATT. Atlantic City.

Senator MONRONEY. That would save personnel since your researchers are there. Rather than running out to Langley or to NASA.

ATLANTIC CITY RUNWAY

Senator MAGNUSON. Whatever happened to that runway at Atlantic City?

Senator ALLOTT. That is what I would like to know.

Senator MAGNUSON. Have you the runway completed in Atlantic City?

Mr. BLATT. The extensions of the runway; yes, sir.

Senator MAGNUSON. That has been built?

Mr. BLATT. Yes, sir.

AVAILABILITY OF UNSATISFACTORY TUNNELS

Mr. HALABY. Mr. Chairman, lest we get lost in your jurisdiction here, I think the House did recognize this tunnel was essential. I think at the same time it said:

We are not giving you money to do this, which is recognized as essential. And I can assure you if you provide us these funds, we will exhaust every possible use of these other tunnels. But to date, and I was very skeptical about this because we have wind tunnels going in and out of our ears in this country right now, most of them are low speed, sort of primitive tunnels.

Cal Tech just offered a \$25 million tunnel for \$100,000 and there were no takers. But the peculiar thing about this is that you have to set fire to an engine in a tunnel under simulated conditions. So that is a rare kind of requirement. And just to show you what we are trying to get at, you will recall a few days ago a KLM DC-7 over the Atlantic found smoke coming out of the No. 1 engine, and there are three rather interesting photographs here.

PROBLEMS NEEDING PARTICULAR TUNNEL TYPES

The first one shows oil leakage and smoke. The second one, a few minutes later, shows the engine having completely separated from the aircraft in flight. And then, fortunately, a few minutes after that the aircraft was at rest on the ground. Now you remember the pilot immediately dove the aircraft and was able to make a landing.

Now we are looking toward the jet engines and the turboprop engines, and then the supersonic transport engine. And, incidentally, the supersonic transport engine will be so hot that you can see through some parts of it during its operation.

REQUEST TO CHECK EXISTING TUNNELS

SENATOR SALTONSTALL. Mr. Chairman, I think what you have to do, you or Mr. Blatt, is get the whole 70 the House mentioned, and just run down them as to why they are not available. You have told us of two. Now probably you are right from a technical point of view, but they mention 70. If we come up, from the Senate point of view, and say these are the only 2, and these 2 are unavailable, they are going to say what about the other 68.

MR. BLATT. We have two basic requirements. One, in order to put the test vehicle in the tunnel itself we need a 12-foot throat. Secondly, we need a speed that varies from zero to eight-tenths mach. When you take those two conditions, you immediately eliminate all of the tunnels other than the ones I have discussed.

LIST OF TUNNELS

SENATOR MAGNUSON. You go back and get a run down on these 70 tunnels. If 10 of them are obsolete and cannot be used for anything, just put that down. Because if we get with the House on this, we have to have justification of available tunnels the Administrator says coming out of our ears.

SENATOR SALTONSTALL. I would suggest that we put it in the record.

SENATOR MAGNUSON. Yes; put it in the record.

(The information referred to follows:)

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., April 24, 1961.

MR. NAJEEB E. HALABY,
Administrator, Federal Aviation Agency,
Washington, D.C.

DEAR MR. HALABY: This refers to the exchange of letters between Mr. Anast and Mr. Rhode of December 1960, and confirms and amplifies NASA statements concerning the availability and possible use of a NASA wind tunnel for FAA aircraft powerplant fire research.

Only two of the NASA tunnels have the combination of air speed and size to meet the needs of FAA's program. These are the 16-foot and 19-foot tunnels at the Langley Research Center. The modification of either of these closed-return type tunnels for fire research is not feasible. The cost of the major modifications and reconstruction would exceed the cost of building a new facility for the specific capabilities required for fire research.

Although it is impossible for NASA to provide a tunnel for FAA powerplant fire research, I should like to reiterate that NASA will be glad to assist you in any other way possible in the conduct of this very important program.

Sincerely yours,

JAMES E. WEBB, Administrator.

HEADQUARTERS, AIR FORCE SYSTEMS COMMAND,
U.S. AIR FORCE,
Washington, D. C., April 25, 1961.

Subject: FAA aircraft powerplant fire research facility.

Mr. N. E. HALABY,
Administrator, Federal Aviation Agency,
Washington, D.C.

DEAR MR. HALABY: (1) This is in reply to your recent inquiry regarding the availability and possible use of an Arnold Engineering Development Center facility for FAA aircraft powerplant fire research.

(2) There are two facilities at AEDC which, with minor modifications, could accommodate your test requirements as we understand them. These two facilities are the transonic circuit of the propulsion wind tunnel and test cell J-1 of the rocket test facility. However, both of these facilities are occupied for the foreseeable future with very high priority tests in support of national missile and space vehicle programs. Curtailment of these high priority test programs already scheduled for these facilities in order to permit occupancy by FAA is not feasible. Even if the necessary modifications were made and the high priority national programs could be deferred to accommodate FAA requirements, there is the strong possibility of the existing Arnold facilities being severely damaged by the proposed fire tests. The resultant long down time for the necessary repairs could not be tolerated.

(3) In view of the reasons set forth above, it is regretted that the FAA aircraft powerplant fire research program cannot be accommodated by using existing facilities at AEDC.

Sincerely,

B. A. SCHRIEVER,
Lieutenant General, USAF, Commander.

GOVERNMENT-OWNED WIND TUNNELS

F.A.A. requirement: Open circuit tunnel—Test section, 12-foot octagonal (124 square feet)—Speed range, 0 to 0.8 mach (0 to 640 miles per hour)

A. SUBSONIC WIND TUNNELS

Identification	Size	Speed	Remarks
1. 8- by 10-foot subsonic wind tunnel No. 1, David Taylor Model Basin, Washington, D.C.	8 by 10 by 14 feet.....	0 to 190 miles per hour.....	Too small; too slow.
2. 8- by 10-foot subsonic wind tunnel No. 2, David Taylor Model Basin, Washington, D.C.	do.....	0 to 165 miles per hour.....	Do.
3. 6-foot wind tunnel, National Bureau of Standards, Washington, D.C.	6-foot octagon; 12½ feet long.....	0 to 175 miles per hour.....	Do.
4. 4½-foot low turbulence wind tunnel, National Bureau of Standards, Washington, D.C.	4½ foot octagon; 19 feet long.....	0 to 70 miles per hour.....	Do.
5. Full-scale wind tunnel, NASA, Langley Field, Va.....	30 by 60 feet; semicircular sides; 55 feet long.....	0 to 110 miles per hour.....	Too slow.
6. 20-foot free spinning tunnel, NASA, Langley Field, Va.....	20 feet in diameter; 12 sided.....	0 to 60 miles per hour.....	Do.
7. 300 mile per hour, 7- by 10-foot tunnel, NASA, Langley Field, Va.	7 by 10 feet.....	0 to 300 miles per hour.....	Do.
8. 12-foot pressure wind tunnel, NASA, Moffett Field, Calif.	15.75 by 17 feet.....	0 to 70 miles per hour.....	} Too small; too slow.
9. 40- by 80-foot wind tunnel, NASA, Moffett Field, Calif.	12 feet in diameter; 4 feet long.....	Mach 0 to 1.0.....	Too small.
10. 7- by 10-foot wind tunnels Nos. 1 and 2, NASA, Moffett Field, Calif.	40 by 80 feet.....	0 to 230 miles per hour.....	Too slow.
11. 6- by 9-foot subsonic icing wind tunnel, NASA, Cleveland, Ohio.	7 by 10 feet.....	0 to 280 miles per hour.....	Too small; too slow.
12. Low-speed wind tunnel U.S. Naval Weapons Industrial Reserve Plant, Dallas, Tex.	6 by 9 by 20 feet.....	Mach 0 to 0.45.....	Do.
	7 by 10 by 16 feet.....	0 to 240 miles per hour.....	Do.

B. SMALL TRANSONIC WIND TUNNELS

1. Aerodynamic wind tunnel, U.S. Naval Missile Test Center, Point Mugu, Calif. (Bureau of Weapons; U.S.C.)	16.43 by 16 inches.....	0.05 to 1.5 mach.....	Too small.
2. Supersonic tunnel No. 1, Naval Ordnance Laboratory, Silver Spring, Md. (Bureau of Weapons)	16 by 16 inches.....	3 nozzles: 0.2 to 0.85 mach, 0.2 to 1.3 mach, 1.2 to 5 mach.....	Do.
3. Supersonic tunnel No. 2, Naval Ordnance Laboratory, Silver Spring, Md. (Bureau of Weapons)	do.....	3 nozzles: 0.2 to 0.85 mach, 0.2 to 1.3 mach, 1.2 to 5 mach.....	Do.
4. Transonic model tunnel, Princeton Univ.	12 by 12 by 37.5 inches.....	0.65 to 1.5 mach.....	Too small; no low speed capability.
5. 12-inch transonic tunnel (S.C.A.R.F. III), Sandia Corp., Sandia Base (AEC), Albuquerque, N. Mex.	12 by 12 by 36 inches; 6 percent perforated walls.....	0.4 to 3 mach.....	Do.
6. 2-foot transonic aerelasticity tunnel, NASA, Langley Field, Va.	24 by 24 inches.....	0 to 1.2 mach.....	Too small.
7. 22-inch transonic tunnel, full-scale research division, NASA, Langley Field, Va.	Octagonal; 20 inches between flats.....	0.5 to 1.4 mach.....	Too small; no low speed capability.

FAA requirement: Open circuit tunnel—Test section, 12-foot octagonal (124 square feet)—Speed range, 0 to 0.8 mach (0 to 640 miles per hour)—Continued

B. SMALL TRANSONIC WIND TUNNELS—Continued

Identification	Size	Speed	Remarks
8. 1 by 3.5-foot transonic wind tunnel, NASA, Moffett Field, Calif.	12 by 35 inches; solid sidewalls; floor and ceiling perforated.	0.5 to 1.1 mach	Too small; no low speed capability.
9. 2- by 2-foot transonic wind tunnel, NASA, Moffett Field, Calif.	2 by 2 by 5 feet; all 4 walls porous.	0 to 1.4 mach	Too small.
10. 14- by 14-inch transonic wind tunnel, NASA Marshall Space Flight Center, Huntsville, Ala.	14 by 14 inches.	0.4 to 5 mach	Too small; no low speed capability.
11. Supersonic wind tunnel, Naval Supersonic Laboratory, Massachusetts Institute of Technology, Cambridge, Mass.	18 by 24 inches	0.4 to 0.8 mach	Do.
	18 by 18 inches	0.8 to 1.2 mach	Do.
	18 by 24 inches	1.5 to 2.5 mach	Do.
	18 by 18 inches	3 to 3.5 mach	Do.
	18 by 24 inches	4 to 7.5 mach	Do.
12. Transonic wind tunnel, Rossmont Aerodynamics Laboratory, University of Minnesota, Minneapolis, Minn. (Air Force).	16 by 16 by 34 inches or 12 by 16 by 43 inches.	0 to 1.2 mach	Too small.

C. LARGE TRANSONIC WIND TUNNELS

1. Transonic wind tunnel, David Taylor Model Basin, Washington, D.C.	7 by 10 by 18 feet.	0.3 to 1.17 mach	Too small; no low speed capability.
2. Transonic circuit tunnel, propulsion wind tunnel, Arnold Air Force Station, Tenn.	16 by 16 by 40 feet.	0.5 to 1.6 mach	No low speed capability; modifications required.
3. 26-inch transonic blowdown tunnel, NASA, Langley Field, Va.	Octagonal, 26 inches between flats	0.6 to 1.4 mach	Too small; no low speed capability.
4. Transonic dynamics tunnel, NASA, Langley Field, Va.	16 by 16 feet.	0.1 to 1.2 mach	Extensive modifications required.
5. 16-foot transonic tunnel, NASA, Langley Field, Va.	Octagonal, 15.5 feet between flats, 22 feet long.	0.2 to 1.3 mach	Do.
6. 8-foot transonic pressure tunnel, NASA, Langley Field, Va.	85.5 by 85.5 inches	0 to 1.2 mach	Too small.
7. 8-foot transonic tunnel, NASA, Langley Field, Va.	Dodecaagonal, 87 inches across flats	0 to 1.285 mach	Do.
8. 7- by 10-foot transonic wind tunnel, NASA, Langley Field, Va.	6.6 by 9.6 feet	0 to 1.2 mach	Do.
9. 14-foot transonic wind tunnel, NASA, Moffett Field, Calif.	13.5 by 13.5 by 34 feet.	0.6 to 1.2 mach	No low speed capability; extensive modifications required.
10. 8- by 6-foot supersonic wind tunnel, NASA, Cleveland, Ohio.	8 by 6 by 39 feet.	0.8 to 2.1 mach	Too small; no low speed capability.
11. 11- by 11-foot transonic tunnel, NASA (military plan wind tunnel), Moffett Field, Calif.	11 by 11 by 22 feet	0.7 to 1.4 mach	Do.
12. 10-foot transonic wind tunnel, Wright-Patterson Air Force Base, Ohio.	10-foot diameter	0.4 to 1.2 mach	Do.
13. 6- by 6-foot supersonic wind tunnel, NASA, Moffett Field, Calif.	6- by 6-foot sliding block nozzle	0.65 to 2.2 mach	Do.
14. 8-foot transonic wind tunnel, Cornell, Buffalo, N.Y.	8 by 8 feet	1.3 mach	Too small.

D. SMALL SUPERSONIC WIND TUNNELS

1. Aberdeen Wind Tunnel No. 1, Aberdeen Proving Ground, Md.	15 by 13 by 30 inches; rhombus	1.4 to 5 mach	Too small; no low speed capability.
2. Aberdeen Wind Tunnel No. 3, Aberdeen Proving Ground, Md.	20 by 15 by 36 inches; rhombus	1.28 to 4.89 mach	Do.
3. Supersonic wind tunnels, David Taylor Model Basin, Washington, D.C.	13 by 18 inches	0.2 to 2.92 mach	Too small.
4. Supersonic wind tunnel, U.S. Navy Missile Test Center, Patuxent, Md.	20.8 by 17 inches; 20.8 by 21.8 inches	1.6 to 6 mach	Too small; no low speed capability.
5. Supersonic wind tunnel No. 1, Naval Ordnance Laboratory, Silver Spring, Md.	16 by 16-inch open jet fixed block nozzle; adjustable diffuser.	0.2 to 5 mach	Do.
6. Supersonic wind tunnel No. 2, Naval Ordnance Laboratory, Silver Spring, Md.	16 by 16-inch open jet fixed block nozzle; adjustable diffuser.	0.2 to 5 mach	Do.
7. Tunnel E-1, Arnold Air Force Station, Tenn.	12 by 12 inches, variable geometry, flexible nozzle	1.5 to 5 mach	Too small; no low speed capability.
8. 12-inch transonic tunnel (SCARF III), Sandia Corp., Albuquerque, N. Mex.	12 by 12 by 36 inches; 6 percent perforated walls.	0.4 to 3 mach	Do.
9. 20-inch variable mach number tunnel, NASA, Langley Field, Va.	20 by 20 inches	3 to 5 mach	Do.
10. 20-inch variable supersonic tunnel, NASA, Langley Field, Va.	20 by 20 inches; 2 dimensional variable throat.	2 to 5 mach	Do.
11. 2- by 2-foot low density hypersonic tunnel, NASA, Langley Field, Va.	24 by 24 inches	3 to 7 mach	Do.
12. Supersonic tunnel, Cambridge, Mass.	18 by 24 inches	0.4 to 0.8 mach	Do.
13. Tunnel No. 2, Minneapolis, Minn.	18 by 18 inches	0.8 to 1.2 mach	Do.
14. Tunnel No. 4, Minneapolis, Minn.	18 by 24 inches	0.8 to 1.2 mach	Do.
15. 1- by 3-foot supersonic wind tunnel No. 1, NASA, Moffett Field, Calif.	18 by 18 inches	1.5 to 2.5 mach	Do.
16. 1- by 1-foot variable Reynolds number, supersonic wind tunnel, NASA, Cleveland, Ohio.	18 by 24 inches	3 to 3.5 mach	Do.
17. 1- by 1-foot variable mach number wind tunnel, NASA, Cleveland, Ohio.	18 by 24 inches	4 to 7.5 mach	Do.
18. 18 by 18-inch wind tunnel, NASA, Cleveland, Ohio.	18 by 24 inches	1.5 to 10 mach	Do.
19. 18 by 18-inch wind tunnel, NASA, Cleveland, Ohio.	12 by 12 inches	5.5 to 10 mach	Do.
20. 2- by 2-foot supersonic wind tunnel, NASA, Cleveland, Ohio.	do	1.4 to 6.15 mach	Do.
21. 14 by 14-inch transonic wind tunnel, NASA, Huntsville, Ala.	12 inches wide; 18 to 34 inches high.	5.0 mach	On standby basis; too small; no low speed capability.
22. 20-inch supersonic wind tunnel, NASA, Pasadena, Calif.	1 by 1 by 6 feet	1.3 to 5 mach	Do.
23. 2-foot supersonic gasdynamic facility, Wright-Patterson Air Force Base, Ohio.	1 by 1 by 4 feet	1.01 mach	Do.
24. Small supersonic wind tunnel, National Bureau of Standards, Washington, D.C.	1.5 by 1.5 by 3 feet	3.05 mach	Do.
	2 by 2 by 4 feet	3.96 mach	Do.
	14 by 14 inches	0.4 to 5 mach	Too small; no low speed capability.
	18 by 20 inches; flexible nozzle	1.25 to 4.6 mach	Do.
	2 by 2 feet; fixed nozzles	1.51 to 5 mach	Do.
	3 by 4-inch test area	0 to 1.0 mach, 1.0 to 2.0 mach	Too small.

F.A.A. requirement: Open circuit tunnel—Test section, 12-foot octagonal (124 square feet)—Speed range, 0 to 0.8 mach (0 to 640 miles per hour)—Continued

E. LARGE SUPERSONIC WIND TUNNELS

Identification	Size	Speed	Remarks
1. Supersonic wind tunnel, Navy Ordnance Aerophysics Laboratory, Dairinger Field, Tex.	3 cells; 17 12-inch diameter nozzles to 48 inch; 27 15-inch diameter nozzles to 48 inch; 37 2-inch diameter nozzles to 12 inch. 16 by 16 by 40 feet.	1.5 to 5.0 mach.	Too small; no low speed capability.
2. Supersonic circuit propulsion wind tunnel, Arnold Engineering Development Center, Tenn.	40 by 40 inches.	1.5 to 4.0 mach.	No low speed capability; extensive modifications required.
3. Tunnel A, Von Karman gas dynamics facility; Arnold Engineering Development Center, Tenn.	4.5 by 4.5 feet.	1.5 to 6.0 mach.	Too small; no low speed capability.
4. 4 by 4-foot supersonic pressure tunnel, NASA, Langley Field, Va.	4 by 4 by 7 feet.	1.25 to 2.2 mach.	Do.
5. Unitary wind tunnel, NASA, Langley Field, Va.	4 by 4 by 7 feet. 4 by 4 by 7 feet. 8.75 by 6 by 10 feet.	1.5 to 2.8 mach. 2.3 to 4.85 mach. 3.0 mach.	Do. Do. Do.
6. 9 by 6-foot thermal structures tunnel, NASA, Langley Field, Va.	6 by 6-foot sliding block nozzle; perforated floor and ceiling.	0.65 to 2.2 mach.	Do.
7. 6 by 6-foot, supersonic wind tunnel, NASA, Moffett Field, Calif.	8 by 7 feet.	2.4 to 3.5 mach.	Do.
8. 8 by 7-foot supersonic tunnel (unitary plan wind tunnel).	9 by 7 feet.	1.5 to 2.5 mach.	Do.
9. 9 by 7-foot supersonic wind tunnel (unitary plan wind tunnel), NASA, Moffett Field, Calif.	10 by 10 by 40 feet.	2.0 to 3.5 mach.	No low speed capability.
10. 10 by 10-foot unitary supersonic wind tunnel, NASA, Cleveland, Ohio	8 by 6 by 39 feet, upstream half for supersonic; downstream half perforated all 4 sides for transonic.	0.8 to 2.1 mach.	Too small; no low speed capability.
11. 8 by 6-foot supersonic wind tunnel, NASA, Cleveland, Ohio.			

F. SMALL HYPERSONIC WIND TUNNELS

1. Aberdeen Wind Tunnel No. 4, Ballistic Research Laboratory, Aberdeen Proving Ground, Md.	14.5, 15.6 or 18.75 inches in diameter by 30 inches; axially symmetric nozzles.	6.0 to 9.2 mach.	Too small; no low speed capability.
2. Hypersonic Test Facility, Aerodynamics Laboratory, David Taylor Model Basin, Washington, D.C.	13.32 inches in diameter; axially symmetric shaped nozzles.	5.0 to 10.0 mach.	Do.
3. Hypersonic Tunnel No. 8, Naval Ordnance Laboratory, Silver Spring, Md.	(1) 20 by 20 inches, 2 dimension nozzles, (2) 25 inches in diameter, 2 dimension nozzles.	(1) 5.0 to 8.0 mach. (2) 10.0 mach.	Do.
4. Tunnel E-2, Arnold Air Force Station, Tenn.	12 by 12 inches.	5.0 to 8.0 mach.	Do.
5. 18-inch hypersonic tunnel (SCARF VI), Sandia Base, Albuquerque, N. Mex.	18-inch axially symmetric; 48 inches long.	4.0 to 11.0 mach.	Do.

6. 26-inch mach 6 tunnel, NASA, Langley Field, Va.	20 by 20.5 inches; fixed nozzle	6.0 mach	Do.
7. 2.2-inch mach 8.5 tunnel, NASA, Langley Field, Va.	18 inches in diameter	8.5 mach	Do.
8. Helium tunnel, NASA, Langley Field, Va.	22 inches in diameter	15.0 to 25.0 mach	Do.
9. Mach 8 hypersonic tunnel, NASA, Langley Field, Va.	18 inches in diameter	8 mach	Under construction; too small; no low speed capability.
10. Low density hypersonic tunnel, NASA, Langley Field, Va.	12 by 14 inches	6 mach	Too small; no low speed capability.
11. Superpressure leg (nitrogen), NASA, Langley Field, Va.	2 feet in diameter	17 mach	Under construction; too small; no low speed capability.
12. 12-inch hypersonic ceramic heated tunnel, NASA, Langley Field, Va.	12 inches in diameter; enclosed free jet with downstream diffuser.	13 mach	Do.
13. Hypersonic aerothermodynamic tunnel (helium), NASA, Langley Field, Va.	(1) 8 inches in diameter. (2) 24 inches in diameter.	(1) 7 mach. (2) 15 mach	Do.
14. 15-inch hypersonic flow apparatus, NASA, Langley Field, Va.	15 inches in diameter; axisymmetrical.	10.4 mach	Do.
15. 2-by-2-foot low-density hypersonic tunnel, NASA, Langley Field, Va.	24 by 24 by 54 inches.	3 to 7 mach.	Do.
16. 10-megawatt arc tunnel, NASA, Langley Field, Va.	24 inches in diameter; open jet 32 inches long.	8 mach	Do.
17. 14-inch helium nozzle, NASA, Moffett Field, Calif.	14 inches in diameter; 36 inches long.	10, 15, 20, and 25 mach	Do.
18. Hypersonic helium tunnel, NASA, Moffett Field, Calif.	20 inches in diameter	8, 15, 20, 26 mach	Do.
19. Prototype hypersonic free-flight facility, NASA, Moffett Field, Calif.	2 feet in diameter; 40 feet long	To 10,000 feet per second model velocity to 23,000 feet per second.	Do.
20. Supersonic free-flight wind tunnel, NASA, Moffett Field, Calif.	17 by 21 inches; 24 feet long	To 2,000 feet per second model velocity to 20,000 feet per second.	Do.
21. 24-inch-diameter wind tunnel, NASA, Cleveland, Ohio.	24½ inches in diameter; 3 feet long.	7 mach	On standby basis; too small; no low speed capability.
22. 21-inch hypersonic wind tunnel, NASA, Pasadena, Calif.	21 by 21 inches to 27 inches high.	4 to 11.5 mach; flexible nozzle.	Too small; no low speed capability.
23. Low density hypersonic gas dynamic facility, Wright-Patterson Air Force Base, Ohio.	2 by 2 feet; 2 dimensional.	2,500 to 3,500 feet per second.	Do.
24. Tunnel No. 2, USAF, Minneapolis, Minn.	12 by 12 inches	1.5 to 10 mach	Do.
25. Tunnel No. 4, USAF, Minneapolis, Minn.	12 inches in diameter	5.5 to 10 mach	Do.
26. Hypersonic wind tunnel, USAF, Freeport, N.Y.	24 inches in diameter	6 mach	Do.
	44 inches in diameter	8 mach	
		12 mach	

F.A.A. requirement: Open circuit tunnel—Test section, 12-foot octagonal (124 square feet)—Speed range, 0 to 0.8 mach (0 to 640 miles per hour)—Continued

G. LARGE HYPERSONIC WIND TUNNELS

Identification	Size	Speed	Remarks
1. Tunnel B, Von Karman gas dynamics facilities, Arnold Air Force Station, Tenn.	50 inches in diameter, axisymmetric contoured nozzle.	8.0 mach.	Too small; no low speed capability.
2. Tunnel C, Von Karman gas dynamics facilities, Arnold Air Force Station, Tenn.	Do.	10.0 to 12.0 mach.	Under construction; too small; no low speed capability.
3. Continuous flow hypersonic tunnel, NASA, Langley Field, Va.	31 by 31 inches.	10.0 to 12.0 mach.	Do.
4. Mach 13 ceramic heated tunnel, NASA, Langley Field, Va.	27 inches in diameter.	13.0 mach.	Do.
5. Hypothermal leg, hypersonic tunnel, NASA, Langley Field, Va.	4 feet in diameter.	Approximately 8,000 to 20,000 feet per second.	Do.
6. Hypersonic dynamics leg (helium), NASA, Langley Field, Va.	3 feet in diameter.	10.0 mach.	Do.
7. 8-foot high temperature structures tunnel, NASA, Langley Field, Va.	5 feet in diameter.	20.0 mach.	Do.
8. 3.5-foot hypersonic wind tunnel, NASA, Moffett Field, Calif.	8 feet in diameter, 14 feet long.	Approximately 6,300 to 7,300 feet per second.	Do.
9. Mass transfer and aerodynamics facility, NASA, Moffett Field, Calif.	3.5 feet in diameter, 90 inches long.	5.0 mach, 7.0 mach, 10.0 mach, and 15.0 mach.	Too small; no low speed capability.
10. Atmosphere entry simulator, NASA, Moffett Field, Calif.	2 test sections: Mass transfer, 30 inches in diameter; aerodynamic, 30 inches in diameter. 5 by 5 inches to 60 by 60 inches, 40 feet long.	5.0 mach. 20.0 mach. Flow gradient 0 to 2,500 feet per second in nozzle. Model velocities to 23,000, feet per second.	Under construction; too small; no low speed capability. Too small; no low speed capability.
11. Wave superheater hypersonic tunnel, Cornell Aeronautical Laboratory, Inc., Buffalo, N.Y. (USAF).	Variable up to 7 feet in diameter at mach 15; circular test section.	6.0 mach.	Do.
12. Hypersonic wind tunnel, Polytechnic Institute of Brooklyn, Freeport, N.Y. (USAF).	24 inches in diameter. 24 inches in diameter. 44 inches in diameter.	8.0 mach. 8.0 mach. 12.0 mach.	Do. Do.

OTHER USES OF TUNNELS

Senator MONRONEY. Would this new tunnel have any uses beyond the fire study at Atlantic City? You do not have a modern tunnel up there. Would it serve—

Mr. BLATT. It would not be an aerodynamic tunnel; no, sir. This is our problem; we need an open tunnel. We could use it to study the bird ingestion problem.

Mr. HALABY. We would put in here all of the up-coming and current engines and test their susceptibility to fire and the ability to deal with the fire once one has been detected.

Senator SALTONSTALL. What we have to do, Mr. Chairman, as you and I and the other Senators here know so well, is to justify, if we put this thing in, to answer that 70.

Mr. HALABY. May we just set down, as you suggest, a statement on tunnels with the reasons, and then these two statements, part of which Mr. Blatt has read?

Senator MAGNUSON. Yes.

UNOBLIGATED BALANCES

Now I wish you would also put in the record, as to this \$107 million of unobligated balances you have, a list of what you intend to use this for.

Mr. HALABY. We are very anxious to do that because that \$107 million is all committed; it is all programed. There is no flexibility to speak of.

Senator MAGNUSON. And put in a list of what you intend to use the \$120 million for.

Mr. HALABY. Yes, sir.

(The information referred to follows:)

STATEMENT REGARDING \$107.2 MILLION COMPLETION RESERVE CARRIED INTO FISCAL YEAR 1962

The completion reserve of \$107.2 million carried into fiscal year 1962 for the facilities and equipment program provides for the completion of approved establishment, relocation, and improvement projects for which the Congress provided appropriations prior to fiscal year 1962.

The "Facilities and equipment program" appropriation provides for complete funding of the program. The basic electronic equipment and structural materiel have been purchased for the facilities in the program. Most of the projects have been started and are under some phase of engineering, construction, or installation.

The \$107.2 million completion reserve provides for the accomplishment of the projects as listed on the attachment.

Facilities and equipment completion reserve, fiscal year 1962

<i>Activity</i>	<i>Completion reserve</i>
Long-range radar.....	\$28,092,000
Air traffic control centers.....	24,035,000
Terminal area radar.....	8,364,000
Airport traffic control towers.....	6,996,000
Flight service stations (domestic).....	8,197,000
Flight service stations (international).....	4,725,000
Air navigation facilities (very high frequency).....	12,383,000
Low/medium frequency facilities.....	507,000
Instrument landing systems.....	6,600,000
Approach lighting facilities.....	4,110,000
Intermediate fields.....	196,000
Aircraft and related equipment.....	1,930,000
Housing, utilities, and miscellaneous.....	1,065,000
Total.....	107,200,000

Senator MAGNUSON. Because, you see, the agencies have come up here, sort of, to us in kind of an appeal court. But sometimes we cut the House, you know. So we want to know what they are for.

COMMITTED FUNDS

Senator ALLOTT. Could I ask this? On the \$107 million, Mr. Halaby, you say it is unobligated, and you just said it is committed. Does that mean the material is on order, or the greater portion of this, or all of it?

Mr. HALABY. It breaks down into material that is on order, material for which there are tentative commitments, and material that is programed but not under either tentative or contractual commitment.

Mr. TIPPETS. And a third category is the construction and site preparation for those equipments when they are delivered and ready for installation. It is all committed. There is none uncommitted in this amount.

Mr. HALABY. It is the leadtime that causes it not to be obligated.

LOCATION OF PROPOSED FACILITIES

Senator MAGNUSON. Is the location of these places in the House testimony?

Mr. HALABY. Well, sir, we have submitted to you in this book here what we would do with the \$126 million if you give it to us.

Senator MAGNUSON. Call attention to that section in here so it will save us some time.

(The information referred to follows:)

FACILITIES AND EQUIPMENT

Summary of project requirements by activity

Project	Units	Amount	Page No.
I. Air traffic control centers:			
(a) Long range radar:			
(1) Establish long range radars and ATCRBS.....	2	\$6,341,000	1009
(2) Improve performance of radar systems.....		6,435,000	1012
(3) Increase operational capabilities of radar systems.....		1,250,000	1022
(4) Flight check military radar beacons at joint-use LRR.....	53	151,000	1028
Total.....		14,177,000	
(b) Other center facilities:			
(1) Construct and equip ATC centers, Phoenix and San Juan.....	2	4,752,000	1030
(2) Construct and equip CARF, Kansas City, Mo.....	1	600,000	1031
(3) Establish combined IFR room, New York.....	1	2,590,000	1032
(4) Provide ATC IFR service to Kwajalein from Wake.....		390,000	1033
(5) Provide positive aircraft control (area basis).....	4	663,000	1034
(6) Relocations.....		1,760,000	1036
(7) Provide direct center-pilot air/ground communications (locations).....	50	3,601,000	1038
(8) Improve ATC center equipment.....	107	1,081,000	1043
Total.....		15,437,000	
2. Airport traffic control towers:			
(a) Terminal area radar:			
(1) Establish ATC radar beacons at ASR.....	15	3,575,000	1049
(2) Reestablish ASR-2's and ASR-3's.....	3	763,000	1051
(3) Improve performance and operational capabilities of surveillance radar systems.....		2,887,000	1052
Total.....		7,225,000	
(b) Other tower facilities:			
(1) Relocate ATC tower facilities.....		4,600,000	1059
(2) Improve A-G communications facilities.....		2,237,000	1063
(3) Provide miscellaneous improvements.....		382,000	1059
(4) Establish ATC tower service.....			1072
Total.....		7,228,000	
3. Flight service stations:			
(a) Domestic:			
(1) Establish FSS at Islip, N.Y. (MacArthur).....	1	156,000	1073
(2) Construct and relocate FSS facilities.....		3,753,000	1073
(3) Install VHF/UHF direction-finding equipment.....	90	2,796,000	1078
(4) Discontinue FSS, La Junta, Colo., and Marysville, Calif.....	2	20,000	1081
(5) Convert FSS to RCO.....	11	706,000	1081
(6) Improve air/ground communications facilities.....		1,071,000	1083
(7) Improve and expand teletypewriter services.....		3,949,000	1089
(8) Expand quarters and rearrange equipment.....	12	810,000	1097
Total.....		13,261,000	
(b) International:			
(1) Establish IFSS, Samoa.....	1	2,375,000	1099
(2) Construct and rehabilitate IFSS facilities.....		1,613,000	1102
(3) Establish and improve circuits.....		595,000	1106
Total.....		4,583,000	

Summary of project requirements by activity—Continued

Project	Units	Amount	Page No.
4. Air navigation facilities:			
(a) VORTAC:			
(1) Establish VORTAC facilities.....	50	\$18,899,000	1110
(2) Establish VOR (terminal).....	21	2,188,000	1116
(3) Relocate VOR and VORTAC facilities.....	4	438,000	1118
(4) Improve VOR and VORTAC facilities.....		614,000	1119
Total.....		22,109,000	
(b) Low- and medium-frequency facilities:			
(1) Establish high-powered radio beacon facility, Tutuila, Samoa.....	1	468,000	1122
(2) Decommission L/MF facilities.....	88	257,000	1122
(3) Relocate facilities.....		282,000	1126
(4) Covert L/MF ranges.....		664,000	1127
Total.....		1,671,000	
(c) Instrument landing systems:			
(1) Establish ILS and components.....	18	4,810,000	1132
(2) Add directional localizer to ILS.....	12	1,873,000	1134
(3) Relocate ILS.....	13	1,076,000	1135
(4) Improve ILS.....		2,278,000	1136
Total.....		10,037,000	
(d) Approach lighting systems:			
(1) Establish visual approach landing systems.....		9,386,000	1145
(2) Relocate approach lighting systems.....	4	449,000	1154
(3) Improve approach lighting systems.....	16	15,000	1155
Total.....		9,850,000	
(e) Intermediate fields:			
(1) Sealcoat runway, taxiway, parking, and maintenance area, Wake Island.....	1	68,000	1156
5. Aircraft and related equipment:			
(a) Facility flight checking.....		2,450,000	1157
(b) Training.....	6	7,550,000	1159
(c) Research support.....	3	610,000	1160
Total.....		10,610,000	
6. Research, test, and evaluation facilities:			
(a) Construction and improvements:			
(1) Full-scale fire test tunnel.....	1	4,550,000	1161
(2) Outfitting facilities constructed in fiscal year 1961.....		70,000	1161
(3) Parking apron design.....		15,000	1161
(4) Road and ground improvements.....		68,000	1161
(5) Central control system for measurement facility.....		350,000	1162
Total.....		5,053,000	
(b) Equipment:			
(1) Automotive.....		137,000	1162
(2) Airport and landing simulator.....		1,000,000	1162
Total.....		1,137,000	
7. Housing, utilities, and miscellaneous facilities:			
(a) Construct and furnish living quarters.....	73	2,379,000	1163
(b) Provide and improve utilities.....		1,049,000	1167
(c) Emergency funds.....		126,000	1173
Total.....		3,554,000	
Total facilities and equipment.....		126,000,000	

AIRPORTS GRANTS-IN-AID

Senator MAGNUSON. Now the next item is grants-in-aid for airports—liquidation of contract authorization. I want the Senator from Oklahoma to pursue the questioning on this because we do have in front of our committee further authorizations in a bill which is now under very active consideration.

Senator MONRONEY. These are funds the committee applied to last year's authorization. We are primarily paying for that which has already been under construction.

Mr. HALABY. Last year's, and I guess even the previous year's.

Senator MONRONEY. The new bill on which hearings have been completed still provides the contract authorization in the Senate.

Mr. HALABY. Yes, sir.

AMOUNT REQUESTED

Senator MONRONEY. And the Senate, I think, is very consistent on keeping that to maintain a steady flow of work and major economical rate of progress rather than fits and starts and beginnings and stoppages depending on annual appropriations. And you feel this \$70 million will adequately bring you out, on the funding of last year, on the contract development?

Mr. HALABY. Yes, sir.

Senator MONRONEY. In the previous year's.

Mr. HALABY. Yes, sir. And this is \$10 million less than the 1961 appropriations.

Senator MONRONEY. Because some of the earlier money was not fully used as the program got underway it did pile up to a great amount. Now it has leveled off at the \$70 million figure, and perhaps will climb when we have the new bill with the \$75 million figure.

Has this system worked satisfactorily?

FEDERAL AIRPORT ACT PROVISIONS

Mr. HALABY. We think the provisions of the present Federal Airport Act are quite satisfactory and have provided us, as we can demonstrate, with an economical long-range basis for developing a national airport system. We hope, and the President's bill provides as does your bill, that this will be continued and extended.

Senator MONRONEY. Senator Saltonstall just asked if the new bill of \$75 million will not require a deficiency or supplemental because its carryover will be next year after completion of the authorization of the work. The fiscal 1963 budget will carry the funding for the work to be done on the new airport.

Mr. HALABY. Yes. There is a double take here. But there is in your committee the authorization, in the Senate Interstate Commerce Committee the authorization, and certainly frequent review to see how we are doing. And then there is the annual appropriations consideration before this committee and before the House Appropriations Committee. And then there is the vote on the House floor and on the Senate floor every time the authorization bill comes up. This is the second time within 3 years that it has come up, and each year on the appropriation. So this is not without rather searching scrutiny.

EXPENDITURES BY AREAS

Senator MONRONEY. In your statement do you have any listing of items or cities where these airport funds have been expended, which this \$70 million will cover?

Mr. HALABY. Senator, the \$70 million is based on overall trends and has not been identified with specific projects. We show in our national

airport plan, which is on a 5-year basis, where over the next 5 years the Federal portion—as you well know, the Federal portion is only proposed to be \$375 million out of about \$1 billion in total requirements, the remaining portion coming from local initiative.

NEW PROPOSAL FOR BUDGETING FACILITIES

There is one point that I think should be made to this committee. In the bill which the President has offered, and in the bill which you and Congressman Harris have introduced in the Senate and House respectively, there is one new provision, and that is that instead of the cost of building the towers and the safety facilities at the airports being in the Federal airport program, it is proposed that we include in the budget that we bring to you each year a funded Federal construction of those towers and safety features. In a sense this will add something on the order of \$10 million to the total available to develop our national airport system. And the simple reason for this is that in a large number of communities the local funding, the local initiative, has not come forward to provide essential safety features. Towers are not being built at cities and airports where the current operations require a tower. Fire and police and health features are not being built.

Senator SALTONSTALL. What you are saying, Mr. Chairman, is that there is no use putting this money into an airport, this \$75 million and \$70 million, unless you have the safety features, and those safety features are the responsibility of the Government?

Mr. HALABY. Yes, sir. And it gives us, of course, much greater flexibility in designing, constructing, and maintaining these essential Federal spaces in these local airports. And we can assure continuous program that way rather than being dependent upon the local initiative, the local authorities, the local tax sources.

TERMINAL FACILITIES

Senator MONRONEY. Also, you are not going to provide any funds for terminal construction in this new bill. In lieu of that the Federal facilities that have been given free occupancy as a condition of our matching the Federal money with local funds, we will be required to furnish our own space, either as a part of the new terminal building on a share basis of the per footage cost, or building separately, and the land must be given to the Federal Government providing it is available at the airport without cost for the erection of these buildings.

Senator ALLOTT. But you have separated them in the new bill, the actual terminal facilities as distinguished from the actual construction of the field and runways and taxiways.

SAFETY FACILITIES

Senator MONRONEY. Only those things that contribute to safety. Flight movement, runways, ramps, taxiways, the safety aids, which we standardize 75 percent on lighting and approach, glide approach, right angle approach and all other things, giving to the Administrator in this bill the authority to make the placement of these safety features a condition precedent to other Federal grants and aid to be sure that the city council and the airport commission will complete the safety features as a condition to getting the funds. Heretofore

he has had only authority to close the airport to traffic, which is too drastic an authority to be used.

Senator SALTONSTALL. Mr. Chairman, would you permit me, as I have to go upstairs to the floor—

Senator MAGNUSON. Go right ahead.

Senator SALTONSTALL. This \$2 million with relation to civil supersonic aircraft development, might that discussion be brought out as to how that correlates with the B-70 program?

Senator MAGNUSON. We are going to have to recess here until this afternoon because we have several items we have not reached yet.

Off the record.

(Discussion off the record.)

Senator MAGNUSON. On the record.

LETTER FROM SENATOR BUSH

There is a letter from the senior Senator from Connecticut, Prescott Bush, regarding an airport at Stratford, which can be answered. They are opposing the airport up there.

Also, we have letters from Senator Javits about segregated facilities:

(The letters referred to follow:)

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
May 18, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Subcommittee on Independent Offices, Committee on Appropriations,
U.S. Senate, Washington, D.C.*

DEAR SENATOR MAGNUSON: I forward herewith, for your subcommittee's information and consideration, a copy of a letter I have received from a group of residents of Stratford, Conn., who are opposed to the appropriation of Federal funds for the expansion of the Bridgeport Airport, which is located within the town limits of Stratford.

Will you please advise me what action is taken by the subcommittee on this matter?

With kindest personal regards, I am

Sincerely yours,

PRESCOTT BUSH, *U.S. Senator.*

LORDSHIP IMPROVEMENT ASSOCIATION,
Stratford, Conn., May 11, 1961.

HON. PRESCOTT BUSH,
*U.S. Senate, Senate Office Building,
Washington, D.C.*

SIR: We have polled our residents to ask their opinion on the expansion of the Bridgeport Airport.

Lordship is a community of over 1,200 fine homes, located in the town of Stratford. We are directly adjacent to the airport, therefore directly affected. The expansion project is sponsored by the city of Bridgeport but it is located in the town of Stratford. Not only are they seeking our taxable land, but they are interfering with our local projects which are already in progress, namely:

(1) Planned recreational facilities, consisting of beach and park in the Lordship area for the people of Stratford.

(2) Federal housing project for the aged, already in progress, directly on the perimeter of the airport.

(3) Three existing elementary schools also on the perimeter of the proposed airport runways.

We do not see the need for this program, especially with our close proximity to the New York airports, and also to Bradley Field in Windsor, Conn.

We will appreciate your voting against any Federal funds for the expansion of the Bridgeport Airport.

Very truly yours,

EARL E. RICHARDSON, *Acting President.*

BRIDGEPORT MUNICIPAL AIRPORT, BRIDGEPORT, CONN.

Under the Federal-aid airport program, \$772,967 in Federal funds have been granted to the city of Bridgeport for the improvement of the Bridgeport Municipal Airport. These grants were based on "Requests for Aid" submitted by the city of Bridgeport, Conn. The last request received by the Federal Aviation Agency from Bridgeport was dated August 27, 1959, and was considered by the Federal Aviation Agency in the formulation of the Federal-aid airport program for fiscal year 1960. This was the basis for the last grant indicated on the following list of four grants which have been made to the city of Bridgeport. This list gives the approved work, the amount of Federal funds programmed, and the status of completion of each project as of May 31, 1961.

Federal-aid airport program projects for Bridgeport Municipal Airport, Bridgeport, Conn.

	<i>Federal funds</i>
Project No. 101.....	\$21,051
Repair and rehabilitate runway extensions and safety strips. 100 percent completed.	
Project No. 502.....	20,416
Rehabilitate shoulders 50 feet wide both sides of first 1000 feet of runways 11 and 16 and safety strips at ends of runways 11 and 16; rehabilitate and pave over and around concrete pads on run- ways 11 and 16. 100 percent completed.	
Project No. 6003.....	450,000
Land acquisition; construct control tower, terminal building, and utilities, consisting of electrical, telephone and water services, and sewage disposal system. 95 percent completed.	
Project No. 6004.....	281,500
Construct, light, and mark taxiway No. 1; construct and light apron. 75 percent completed.	
Total.....	772,967

The Federal Aviation Agency has not received a request for Federal funds to improve the Bridgeport Municipal Airport since August 27, 1959.

The most recent national airport plan issued by the Federal Aviation Agency in April 1961 indicates a need for the following airport development over the next 5 years for the Bridgeport Municipal Airport. "Acquire land, clear zones; extend runways and taxiways; overlay runway; construct public use facilities and service road; relocate road; marking; lighting." The National Airport Plan is a listing of projects considered necessary by the Federal Aviation Agency to provide a system of public airports adequate to anticipate and meet the needs of civil aeronautics. Although the inclusion of an airport in the plan indicates its need in the national system of airports, such inclusion does not represent ability, intent, nor commitment by the community to proceed with the recommended development, nor should it be construed as a commitment by the Federal Government to participate financially in such development.

U.S. SENATE,
COMMITTEE ON LABOR AND PUBLIC WELFARE,
March 23, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee on Independent Appropriations, Committee on Appropriations, U.S. Senate, Washington, D.C.

DEAR COLLEAGUE: Last year, when the Independent Offices Appropriations bill was before the Senate, I proposed both in committee and on the floor of the Senate a provision which would bar the use of these funds for the construction of airport terminal buildings which would contain segregated facilities.

As you know, the Senate did not accept this provision, and I have since that time been studying the issues involved in securing adequate legislative enforcement of the existing prohibition against the use of these funds for segregated facilities and at segregated airports. I understand that the Justice Department has understaken similar studies at the same time.

After careful consideration, I have come to the conclusion that the Federal Airport Act is one of the few statutes which presently contains specific language barring the use of the funds at airports where there is discrimination. Section 11 of the Federal Airport Act specifically provides:

"As a condition precedent to his approval of a project under this chapter, the Administrator shall receive assurances in writing, satisfactory to him, that:

"1. The airport to which the project relates will be available for public use on fair and reasonable terms without unjust discrimination;"

I consider this language to be among the clearest antidiscrimination provisions to be found anywhere in Federal law.

In view of this, it appears that the most effective way in which to further implement this legislative policy in the absence of administrative action, is to prevent the use of appropriated funds in violation of these explicit provisions. I believe, therefore, that it would be most appropriate for the subcommittee which has responsibility over the Independent Offices Appropriations bill to consider the inclusion of a rider or of committee report language which would bar the use of funds in violation of this specific provision.

Please advise me of your position and of the possibility of such action being taken by the subcommittee when this bill comes before it for consideration, as I feel this is a vital issue involving the prestige of our National Government in enforcing its own laws in the field of equal rights.

With best wishes,

Sincerely,

JACOB K. JAVITS, *U.S. Senator.*

U.S. SENATE,
COMMITTEE ON LABOR AND PUBLIC WELFARE,
June 13, 1961.

HON. WARREN MAGNUSON,
*Chairman, Subcommittee on Independent Offices Appropriations, U.S. Senate,
Washington, D.C.*

DEAR MAGGIE: In the Independent Offices Appropriations Act (H.R. 7445) now pending before your subcommittee, there is contained the annual provision for liquidation of contract obligations under the Federal Airport Act. In this bill \$70 million is provided for this purpose.

As you will recall, this item was a matter of deep concern to me last year, at which time I presented both in your subcommittee and on the floor of the Senate an amendment to preclude the expenditure of these funds for airport terminal buildings containing racially segregated dining or other facilities. While this amendment was not accepted, the subcommittee did receive assurances from the Federal Aviation Agency that it would look into appropriate means for dealing with this problem which appears to comprise a clear violation of the Federal Aviation Act.

I am informed that the Department of Justice has for some time had under consideration the bringing of a suit to require the desegregation of airport terminal facilities in line with the Federal statutes, there has in fact been no effective action in this area since it was considered last year. I would therefore urge upon the subcommittee that it give careful consideration to the inclusion of language similar to that I proposed in 1960, to wit, that there be added to this item the following:

"Provided, That no part of this appropriation shall be available for the liquidation of contract obligations incurred for the construction of airport terminal buildings containing racially segregated dining or other facilities." or that in the alternative the committee clearly indicate the disapproval of the Senate with the continuation of this policy.

With best wishes,

Sincerely,

JACOB K. JAVITS, *U.S. Senator.*

COMMITTEE RECESS

Senator MAGNUSON. We will recess until 3:15 p.m., or right around there, and see if we cannot put in an hour or so this afternoon.

(Whereupon, at 12:10 p.m., a recess was taken until 3:15 p.m. the same day.)

AFTERNOON SESSION—TUESDAY, JUNE 20, 1961

FEDERAL AVIATION AGENCY

ATLANTIC CITY RUNWAY

Senator MAGNUSON. The committee will come to order. The rest of the Senators will be along in a second.

Any further questions by members of the committee on the grants-in-aid for airports.

Senator ALLOTT. Before we get on that, I think maybe an error crept into the testimony this morning. You will recall, Mr. Chairman, the discussion about the new runway that they needed up in the Atlantic City facility. Now, my recollection is that Congress turned that down and it has never been contracted for. Is this correct or not correct?

Mr. HALABY. I don't know the answer to that, Senator Allott.

Senator ALLOTT. I just wanted to clear up this record.

Mr. HALABY. It is pre my time.

Senator ALLOTT. Pre-Halaby.

Mr. HALABY. Mr. Joseph Blatt, who is the Acting Director of the Bureau of Research and Development, in charge of the National Aviation Facilities Experimental Center, has the history on this.

Mr. BLATT. I think I do, sir; you are correct. There was a parallel runway proposed at one time. There was also an extension to the existing runway. You have previously approved the extension to the existing runway and that has been constructed. You have not approved the parallel runway and no work has been done on the parallel runway.

Senator ALLOTT. But the runway is now serving its purpose.

Mr. BLATT. The runway is now in operation.

Senator ALLOTT. All right. Thank you.

GRANTS-IN-AID TO AIRPORTS

Senator MAGNUSON. Any further questions on the grants-in-aid?

Now, the Administrator has submitted here a breakdown as to the States, have you not?

Mr. HALABY. Yes, sir.

Senator MAGNUSON. All right; and members of the committee can look at it.

RESEARCH AND DEVELOPMENT

Now we come to research and development. The House committee recommended an appropriation of \$60 million for research and development activities in 1962, which is \$4,480,000 less than the appropriation for 1961 and \$5 million under the budget. The House goes on to say:

An unobligated balance of \$16 million will be carried over into fiscal 1962, which will be additional to the amount provided in the bill.

AMOUNTS AVAILABLE

So, all told, you have \$72 million for research and development when you include the \$16 million unobligated.

Now, tell us about that \$16 million. Has that been contracted for, or who can answer that question?

Mr. HALABY. That is Mr. Batt's answer, Mr. Chairman.

Senator MAGNUSON. All right, Mr. Blatt. You can have a chair. We are calling on you quite often.

PROGRAMING UNOBLIGATED FUNDS

Mr. BLATT. Thank you, Mr. Chairman.

The \$16 million in unobligated funds has not been contracted for. It has been programed. It is included in our program and we have intentionally slowed down certain projects awaiting the report of the Beacon task force. This is not an inability to obligate the funds nor is this due to our not having the capacity to do the work. This was an intentional management decision to defer certain operations until we were in a more positive posture so that we would know where we were going in our research and development effort. As Mr. Halaby indicated this morning, we are looking toward the Beacon task force and the Beacon committee to provide us much guidance in our research and development efforts.

BEACON COMMITTEE

Senator MAGNUSON. Tell us briefly what is the Beacon committee?

Mr. HALABY. The Beacon committee, Mr. Chairman, is a group of scientists and engineers whom the President authorized me to bring into this program. The first step was to establish a group of scientists headed by Dr. Jerome Wiesner and Dr. Gerald Zacharias, who are members of the President's Scientific Advisory Committee. These men are predominantly electronics scientists who have done most of their work at the Massachusetts Institute of Technology. They were joined in this science advisory work by the research vice president of IBM, Dr. Emmanuel Piori; by a distinguished New York architect, Wallace Harrison; by retired vice president of Western Electric, Mr. Fred Lack; and I got these gentlemen together to discuss generally how we could bring to bear all of science and technology, and in particular what we learned with the billions of dollars worth of military technology.

As a result of the meeting with these scientists, we set up a task force composed of men who had major systems engineering responsibility. These men were from the Bell System, from the universities and corporations of the United States who had had great experience in developing new systems, and they have been at work now, and very hard at work—these men are donating their time—very hard at work on completely reexamining the work of the last 5 years on airways modernization.

They were told there were no holds barred, no "sacred cows," no pet projects that would stand just because someone else had started them. These are good, hardheaded systems engineers, not sort of wishful pie-in-the-sky types.

Their report is due within 30 days and they are looking at this broad question we first discussed this morning of how you integrate the military radars and computers with civilian air traffic control radars and computers. They are looking at this question of whether three-dimensional radar should be expedited and expanded or whether there is a better way to determine the actual attitude of the aircraft in the traffic control system.

COMPUTER REQUIREMENTS FOR AUTOMATING CENTERS

They are looking at the computer requirements for automating these centers which are now so heavily populated with men working over radar scopes.

Now, they are not going to come up with any miracles, and as is often the case with advancing technology, what they come up with will probably cost some money. The question is whether they can come up with a simpler, more nearly automatic, way of doing what we are doing now with a very large number of personnel, and, secondly, whether they can, in fact, get this double duty out of the defense dollars which we talked about this morning.

Their report will be made to me and in turn that portion of it which I am convinced of will go to the President as a recommendation; and naturally it will be coordinated with the Department of Defense, with the NASA, and with the Bureau of the Budget, and that is why we have put the caveat in here that we made, if this really offers promise of a great improvement, we will come back to you and say we need the same money for different kinds of equipment, or we need some more money for some improved kinds of equipment. This caveat applies both to this R. & D. appropriation and to our facilities and equipment requests.

SLOWDOWN ON EXPERIMENTAL PROJECTS

It is the same reason that Mr. Blatt told you that we have slowed down on some of these highly experimental projects since I came into office. We felt it was time to pause and look these over and, as a result we have not obligated the \$16 million that we could have obligated with less wisdom.

Now, let me—

ADEQUATE OF HOUSE ALLOWANCE

Senator MAGNUSON. Let me ask you, Why can't you get along with the House figure? If you don't know just exactly where you are going to go, waiting for this report, why don't you leave the House figure as it is?

Mr. HALABY. Mr. Chairman, I would be trying to fool an unfoolable group of men if I said we couldn't live without this money.

Senator MAGNUSON. That is enough. You have answered the question.

Mr. HALABY. But let me tell you that in all candor I have to say that in advancing a complicated supersonic—because we have supersonic airplanes in this system right now down over Texas and in the military corridors and at high altitude—air traffic control system I know we are going to need more money for research and development.

Senator MAGNUSON. I am not suggesting you may not need more funds for this program, but if and until it comes up, why don't we just take the House figure here and then you can come back.

RESTORATION FOR AEROMEDICAL RESEARCH REQUESTED

Mr. HALABY. The one portion of it, Mr. Chairman, that we very respectfully and urgently ask you to restore is the one we discussed this morning, the civil aeromedical research money in this research and development money. We discussed it over on the other side but of the \$5 million cut, because we are reevaluating, we say restore only \$1.5 million and the 150 positions for the aeromedical researchers, and—

COVERAGE OF PROGRAM

Senator BRIDGES. What does aeromedical research cover particularly?

Mr. HALABY. Well, sir, as I am sure you recognize from the other agencies before you, the military and the NASA have gone off into space and I think it is fair to say, and I believe they would agree, that most of their work on the human body is now related to its going into space, and so many of their laboratories, their best doctors, are working on man in space and they are working less and less on man in air.

Now, recognizing this, and recognizing further that military medical research usually relates to a very carefully selected group of much younger men in a military cockpit on a military mission or training mission, recognizing the distinction between that and a kind of random group who decided they wanted to fly to make money, who have not been subjected to the same careful scrutiny, although they must pass our medical examinations and our flight proficiency tests it seems apparent that we must begin to develop our own medical data. They are a cross section of the civil population and they fly under much less discipline and they fly longer. Most military pilots stop flying around 45 and, as you know, in recent years we have had a very large group of pilots spawned by World War I and later World War II who have been reaching the fifties and sixties.

Now, we find that there is very little data about these men. There is very little autopsy data on pilots who have been in a fatal accident. There is very little data on the effects of antihistamines and tranquilizers, which I am told last for a much longer period than we hitherto thought. There is almost no data on air traffic controllers because there wasn't stressful kind of operation in a very busy traffic control area until recent years when we had highly congested airways to deal with.

RETIREMENT AGE

So we are working on those things. We are not trying to find out why eyes are green. We are trying to find out how to certificate pilots more precisely and carefully; whether, for example, airline pilots should retire at 60 or 55, as some people abroad say, or 65.

Senator BRIDGES. You are maintaining the 60 limit set up by your predecessors, are you?

Mr. HALABY. Senator, I have been examining that and reexamining it because there is a real conflict between the personal individual interest and the public interest. After discussing it with the pilots and the doctors and getting all the advice I can, I see no alternative but to confirm the age 60 rule, and I think we have to keep it under continuous observation because there may be ways through precise medical research and well-developed criteria when you could make individual exceptions. But until that data is available and we understand it and believe in it, I see no alternative to an arbitrary rule.

Senator ALLOTT. The fact is at the present time you don't have such precise guidelines or tests that you can apply to an individual to evaluate the differences in individuals, isn't that correct?

Mr. HALABY. That is correct, sir, and we may never have, but we must try to get it.

Senator ALLOTT. So therefore, as of now, at least, you have had to use the age 60 as an arbitrary figure.

Mr. HALABY. Yes, sir.

Senator ALLOTT. Arbitrary cutoff, that the tests and the absolute measurements of ability at age 60 as applied to the individual are not available to you yet.

Mr. HALABY. That is right, and we need this research to determine whether we can establish criteria. We will never be able to calibrate the human mind or spirit, thank God, but we can, I think, develop for the civilian pilot in the civilian environment more precise criteria. I am not certain at all—and I don't think my predecessor was—that age 60 is the exact and only rule. But until we know more, we have to be arbitrary in what I regard as the public interest.

Senator MAGNUSON. I think you answered the question, or you mentioned that you are going to cooperate with the NASA and the other agencies in this work.

Mr. HALABY. Yes, sir.

CENTRAL DATA-PROCESSING COMPUTER

Senator MAGNUSON. Where there won't be too much duplication.

In the research and development—what is the status of the data-processing central computer program?

Mr. HALABY. I believe about 2 years ago the FAA instigated a research and development program in what is known as the data-processing central, or DPC. It is basically a computer that deals with the highly congested traffic movements around hub areas, and I believe two sets of this equipment have been built and are under a test at our National Aviation Facilities Experimental Center.

Senator MAGNUSON. You are renting them now?

Mr. HALABY. We have bought them.

Senator MAGNUSON. You have bought them. You see, Congress in 1961 appropriated funds for six. What happened to the funds that were appropriated that aren't being used?

Mr. BLATT. We now own four such computers. These were computers that were specifically developed under developmental contracts for us. We have two additional computers under construction at this time. These are further advances in the development of the computer.

Senator MAGNUSON. There are two in operation and—

Mr. BLATT. Two sets. Two sets of two each. These are duplex installations.

Senator MAGNUSON. Two each and you own four.

Mr. BLATT. That is correct. We now have four in place.

Senator MAGNUSON. So have got two to go.

Mr. BLATT. That is correct, sir.

Senator MAGNUSON. And is that part of the \$16 million you haven't worked on?

Mr. BLATT. No, sir. The money for the computers is obligated.

Senator MAGNUSON. That is obligated money.

Mr. HALABY. I think it is important, Mr. Chairman, to realize that this is an experimental device and that at the present time we have a much more limited—both in concept and in capacity—device which we are using in the traffic control centers. We are trying to go out of what was basically an office data-processing machine into a computer system that will serve an air traffic control system, and here we come back to this group of scientists and engineers for advice on this score. This is a very central part of our system.

Senator MAGNUSON. This is one of the things we are talking about that you are waiting to get more data on.

Mr. HALABY. Yes, sir. It is under review and evaluation.

RESEARCH BY PRIVATE INDUSTRY

Senator MAGNUSON. Now, in this research program, a lot of this work either is being done by private industry, or a component of it, or probably could be done. Just where do you draw the line? I know it is difficult to have exact criteria, but where do you draw the line between Government responsibility and where you could contract this out to private industry? Or haven't you had to make that decision as yet?

Mr. HALABY. I have not yet.

Senator MAGNUSON. Well, I think you understand what I mean.

Mr. HALABY. Yes, I do, sir.

Senator MAGNUSON. Because you have had a lot of experience where private industry was doing things for the Defense Department in the air fields and maybe they could do a lot of things in this field.

Mr. HALABY. Yes, sir; and I would say that there are two measures of it here. One is the number of people we have, civil servants, in research and development programs, and there are approximately 1,300 of those. Those 1,300, if we could give you a figure on what we are paying those individuals in relation to the \$65 million a year in contracted research, that would give us one measure of the balance we achieve.

FUNDS FOR SALARIES AND CONTRACTS

Mr. HARPER. In 1962 the salaries will be \$9.2 million. We plan to contract for \$49.5 million.

Senator MAGNUSON. That is in the overall program.

Mr. HALABY. That is the research and development program.

Senator MAGNUSON. You will find, I suspect, on the other side—I don't know the answer to this in government—that there may be some people on the outside who are paid so much more that could be avail-

able under contract that might not necessarily give us better service but they might be better equipped, let us put it that way, than what you can get fellows into your department for. And we have to take advantage of all of that resource in private industry.

SALARY SCALE

Mr. HALABY. The ratio here is, I think, probably a sound one of 9 to roughly 50, or 5 to 1. But I have—since you have given me the opening, Mr. Chairman—to point out that we cannot pay more than \$20,000 a year to men in this very complicated electronic and systems field, and we are hoping that you will permit us some additional special positions at that \$19,500 to \$20,000 level, because that is the only way we are going to bring modern talent into conceiving the system, and we need that help.

USE OF NONPROFIT CORPORATION PERSONNEL

Secondly, as you know, the Air Force and the Navy and the Army and NASA are all using the nonprofit corporations who hire men at higher salaries and have had more direct experience in this systems engineering. We might have to come to you next year and say this is the only way we can do it. I don't think this is something the Government should encourage because the real answer is to pay public servants more money and get more productivity and creativity out of them.

Senator BRIDGES. On the other hand, when you put a man on the public payroll, you have him there for life and you have his retirement and you have everything else, while when contracting with private parties, when the job is done, your obligation is ended. We have had to keep this situation in mind.

Mr. HALABY. Yes, sir; but the guy who chooses the contractor and sees that he does the job and conceives the whole system can make you or lose you multimillion dollars more, 50 times more than his lifetime salary if he isn't of the judgment and discrimination that is needed.

Senator MAGNUSON. I think the Administrator understands the potential in this field because he did once play an important part in the aerospace industry which the Department of Defense has used very effectively for some of this type of work.

AIR ROUTE CONTROL CENTER, NASHUA, N.H.

Senator BRIDGES. May I ask, Mr. Chairman, when you were kind enough to do the ground breaking recently on a new facility in the New England area, is that an entirely new setup?

What type of equipment is going in there? Or hasn't it been decided?

Mr. HALABY. I can give you a very general answer and I think you would be more satisfied with the specific one. Mr. Thomas will give it to you. The air route traffic control center at Nashua, N.H., will cover the New England region in terms of the identification and location and guidance of all kinds of aircraft in that area. It will have radars and it will have computer capacity of the off-the-shelf type rather than this advanced type that Senator Magnuson was

referring to, and it will have communications circuits that will enable that center to communicate with other centers on the ground and with aircraft in the air.

Now, that is the general answer. Maybe Mr. Thomas would supplement it with more specifics.

Mr. THOMAS. I know, sir, very little more to add. It is about \$4 million of equipment that will be in there, fundamentally computers, radar, and communications.

Senator BRIDGES. The existing type now used.

Mr. HALABY. Yes, sir.

Senator BRIDGES. There won't be any advances between now and when it is installed.

Mr. HALABY. We will install the most modern existing off-the-shelf equipment. Now, as you see so often in Defense and other agencies, Mr. Thomas has to keep this show running hour after hour and he cannot take any chances with your life. Mr. Blatt and the scientists and engineers we have brought in have to keep it running better out in the future, and this will be with us forever. This technology won't stop while we public servants stew around between competing systems. We just have to manage change wisely here.

Senator MAGNUSON. All right. I think we—

Senator SCHOEPEL. I would like to ask a question.

ADVANCED-TYPE COMPUTERS

Mr. Halaby, how many computers do you have of the advanced type and of the ordinary type? I mean, that you own?

Mr. HALABY. Yes. We will give you the answer on how many we own in the centers in just a moment, but a moment ago we were referring to an advanced type. That was contracted for a couple of years ago and is part of a larger process called the data-processing central.

The computer itself is also called the Librascope and there are, I believe, some variations of this computer.

Mr. BLATT. We have the two computers under order which are a variation of four Librascopes that are in place, but these are our only owned equipment. The business-type machines that are presently in operation in our air route traffic control centers are leased equipment.

Senator SCHOEPEL. They are leased equipment.

Mr. HALABY. There are five of those, and they are off-the-shelf type of equipment built by Remington Rand. They are Univac's.

COMPUTER PROGRAM FUNDS

Senator SCHOEPEL. How much money do you have in your bill here for your computer program? Is it sufficient?

Mr. HALABY. For the purchase of additional computers—

Senator SCHOEPEL. Yes, sir.

Mr. HALABY (continuing). For the centers?

Senator SCHOEPEL. That is right.

Mr. HALABY. Have you got that figure, Mr. Thomas?

Mr. THOMAS. Sir, we don't have any funds for the purchase of additional computers. We are waiting on the completion of this review. The rental machines that we have are running a little over \$500,000 a year each.

Senator SCHOEPEL. Roughly one-half million dollars.

Mr. HALABY. I think what he was seeking was the additional cost of additional computers.

Mr. THOMAS. There is none in this budget.

Mr. HALABY. So we will have rented all we need for the current centers.

Senator SCHOEPEL. I see.

FUNDS FOR AEROMEDICAL WORK

Senator MONRONEY. Mr. Chairman, before we leave this, let me ask, you are asking for a million and a half dollars restoration in research and development, which amount would represent the replacement of funds for the aeromedical work that is being done, and you are asking that the limitation of 120 of the staff be especially designated as those in the aeromedical center in Oklahoma City and not interfere with the other men doing it elsewhere?

Mr. HALABY. Yes, sir.

Senator MONRONEY. I see.

WASHINGTON NATIONAL AIRPORT

Senator MAGNUSON. Now we come to Washington National Airport.

COURT REVIEW OF AGE LIMIT

Mr. HALABY. Mr. Chairman, may I add just one thing on this age 60 rule? I think it is worth noting that yesterday the Supreme Court refused to review the ruling. So it isn't just General Quesada's judgment or Halaby's judgment. This has been reviewed up through the courts to the Supreme Court, and I think the Supreme Court in refusing to review the decision ended the judicial review of it. I think the public has reviewed this decision. I believe they agree with it.

FUNDS FOR WASHINGTON NATIONAL AIRPORT

Senator MAGNUSON. All right. Now the Washington National Airport, "an appropriation of \$3,225,000 recommended for the operation and maintenance of the airport, a reduction of \$5,000 below the 1961 appropriation, and \$200,000 less than the 1962 budget estimate. This will provide a \$198,050 increase over the cost of continuing the program level of 1961."

MODERNIZATION

"The committee"—this is the House report—"has also approved the \$4,200,000 request for construction of various items to expand and modernize the facilities at the airport including completion of an access road, expansion and modernization of taxiway and apron systems, modernization of sewer and water systems, paving an area for helicopter operations, and replacing and relocating certain air cargo facilities."

I suppose every Senator and everyone in this room is quite familiar with the building program generally going on out at the airport. Now that amount is satisfactory.

Mr. HALABY. Yes, sir.

Senator MAGNUSON. All right.

Any questions on that?

Senator BRIDGES. Yes.

PASSENGER MOTOR VEHICLES

Senator MAGNUSON. Just for the record, Senator Bridges, they have one amendment, a minor amendment regarding two-passenger motor vehicles. We will take care of that.

Mr. HALABY. It was a technical thing.

BOLLING FIELD REMOVAL

Senator BRIDGES. What is the situation, from your point of view, of the removal from the Bolling Air Force base and from the Navy Field at Anacostia to Andrews Field, or wherever they are going? Will this help the traffic in the immediate area of National Airport?

Mr. HALABY. The Department of Defense has phased out the operations at Bolling and Anacostia over the next, I believe it is, approximately 12 months.

General PREUSS. Twelve months.

Mr. HALABY. These fields, as you know, are just across the river from Washington National Airport, and the discontinuance of operations there will help somewhat in relieving the traffic congestion, the bottlenecking effect at Washington National. But this traffic must go somewhere and it will operate out of Andrews, and we still have the serious problem of guiding traffic in and around Andrews. The old Anacostia traffic as well as the current Andrews traffic. We are pleased that they have done so and this helps us, but it doesn't solve the traffic control problem generally.

Maybe you would like to add something to that, Mr. Thomas.

Mr. THOMAS. No, sir. Very little more except at the time this consolidation is made. Andrews will be one of the busiest airports in the United States, Washington being about second busiest now.

ANDREWS AIRFIELD TRAFFIC

Senator BRIDGES. Will Andrews be in the direct line of traffic to and from the Washington National Airport?

Mr. THOMAS. The traffic patterns will be worked out. There will be conflict in the patterns principally to and from New York, aircraft to and from Washington National will have to go to the south of Andrews.

Senator BRIDGES. And Andrews will be forced to go in another direction?

Mr. THOMAS. No, sir. We have arranged for separate traffic patterns out at Washington National and at Andrews, but since Andrews does lie to the east of Washington National, the routes to and from New York will take them a little bit south, or to the north of Andrews.

Senator BRIDGES. What I mean is, when that is accomplished, you will have an immediate traffic pattern and area at Andrews and another here in Washington.

Now, it should relieve the landings and takeoffs on the National Airport here, but is it going to lessen the dangers that are involved by having the Andrews Field 16 miles from the Washington National Airport? Are you going to be able to make it a distinct operation—

Mr. THOMAS. Oh, yes. I misunderstood your question. Traffic patterns will be separate and distinct between the two airports.

Senator BRIDGES. And you will be able to control it?

Mr. THOMAS. Yes, sir.

Senator MONRONEY. That is adequate separation, isn't it, at least above the minimum?

Mr. THOMAS. Yes.

Senator BRIDGES. What is the minimum?

Mr. THOMAS. It depends, sir. We haven't been able to come up with a precise mathematical answer. It depends on the orientation of the runways and general flow of traffic. Insofar as possible, we would like to get the flow of traffic parallel, which is principally so between the two airports.

PARALLEL RUNWAY AT ANDREWS

We have runway 1 at Andrews which is a principal runway, and runway 36, which is almost parallel, here at Washington National. Our instrument operations will be essentially parallel, so that aircraft will be separated by the full 10 or 12 miles, I think, between the two patterns.

Mr. HALABY. The separation is in altitude and path over the ground, and as he said, parallel with the width corridor of almost 10 miles between approaches to the two airports. Then we bring Dulles in late next winter, and that pattern is worked out in relation to Washington National and Andrews.

AIRPORT FOR SMALL PLANES

We do need in this area another general aviation airport, and that—

Senator MAGNUSON. Oh, we have been 9 years getting Dulles now.

Mr. HALABY. This is for small planes and it would have to come on the initiative of some of the surrounding community, or perhaps the Department of Agriculture, which operates a field at Beltsville that would have a lot of value for small plane flyings. If the small planes are drawn away from Washington National, that relieves just that much congestion. We don't want them drawn out to an inconvenient place because they are the most numerous, and in many cases very important, traffic. But the bill that Senator Monroney has introduced would provide some money that could be available to a local community that wanted to develop a general aviation airport.

Senator MAGNUSON. Such as Beltsville.

Mr. HALABY. Yes.

DIVISION OF AUTHORITY

Senator MAGNUSON. What is the division of authority between you who have the responsibilities for safety and the CAB, which allows or can handle schedules any time of day? Is that divided?

Mr. HALABY. If I could write a law review article on that, Mr. Chairman, I don't think you want to listen to me that long. But if you are thinking of that problem in Minneapolis-St. Paul—

Senator MAGNUSON. I am thinking of Washington and thinking of all of them.

Mr. HALABY. Dallas-Fort Worth, Friendship-Washington, are representative of a matter that Mr. Boyd, the Chairman of the CAB, and I have been sweating on very hard, because there are at least four or five communities which have problems. Tampa-McDill-St. Petersburg is a good one, Dallas-Fort Worth is a hotter one. What we have

is, you might say, a regulatory objective of reducing the service to the minimum number of airports in order to get the best service and the least congestion of the airways. But we don't run the airlines. The airlines run the airlines, and we regulate them economically in the CAB and safetywise and certificate-wise in the FAA.

FLIGHT SCHEDULING

Senator MAGNUSON. What I am driving at, too, is that knowing a little bit about airlines, there isn't a person in this room who has flown around here, including the Administrator, that all the incoming flights in here occur, most of them, from about here on in until about 7.

Mr. HALABY. Yes, sir.

Senator MAGNUSON. And all the going away is about from 8 o'clock in the morning until about 9:15, and all the airlines want to leave at the same time. They all want to come in at the same time. And this is the sort of thing that somebody has got to take hold of once in a while and have it spread out. It is a little like the traffic congestion downtown when the Government departments—sometimes one gets out at 4 o'clock, 4:30, and 5, but they all want to have the same schedule or the same approximate time, and the setup out here is that no one now comes into Washington expecting if they are coming in here late in the afternoon that they are going to land when they are supposed to. You just accept that as a matter of course, that you don't land when you are supposed to. You can be stacked up as much as 3 hours out there, which has happened. I know it has happened to me.

Now, a lot of that is due to scheduling.

Mr. HALABY. Well, scheduling is free competitive enterprise—

Senator MAGNUSON. I know that.

Mr. HALABY. To meet the public demands. And we have done—well, as you say, I am concerned about this because it involves safety. There are hours when our traffic controllers have very much less to do.

Senator MAGNUSON. And then all of a sudden, everything.

RELUCTANCE TO RESCHEDULE

Mr. HALABY. All of a sudden the whole joint is jumping. But what we have done is write each of the airline presidents and every time we meet with them and the pilots and everyone else, to implore them to spread this scheduling frequency, and they come right back and say, "We made \$1 million net profit on \$2 billion in revenue last year, and so it is an economic competitive problem."

Now, it may reach a point where safety is so much involved that some kind of safety regulation is indicated. But at the present it is more inconvenience and a very bad loading of our facilities.

Senator MAGNUSON. Yes, and then some of the airlines forget the gas item, the extra hours, the whole inconvenience. That all costs money. It is inconvenient for them. But I think that we have reached a point where we have got to take some time very soon to take a look at scheduling. Our answer has been to scheduling, go out and build another airport someplace. That is all we have done about it.

Senator MONRONEY. Mr. Chairman, we went into this very thoroughly as one of the danger factors in aviation, and that is the over-

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I wish there were a computer that would compute the answer to this question but there isn't. In the end it is a question of judgment and timing.

ROLE OF NATIONAL AIRPORT ON COMPLETION OF DULLES

Senator ALLOTT. Mr. Chairman, I must say that I like the answer Mr. Halaby has just given, but I would like to ask this. What is contemplated as the role of Washington National once Dulles is in operation?

Mr. HALABY. Senator Allott, I believe that the strategy involved in selecting the Chantilly site for the additional airport contemplated a very rapid increase in traffic by high-speed, modern aircraft, primarily jet, that would reach very large proportions by 1965. At Dulles it would be primarily jet and turboprop aircraft traveling the longer route segments, and at Washington National it would be more the piston-type aircraft and some of the propjet aircraft traveling the shorter route segments. In theory the new airport was to be the international gateway into Washington and the long-range jet operating site, and that would leave to Washington National—after a transition—the shorter range aircraft and general aviation aircraft. There would be rapid access between the two, and as you know, the Civil Aeronautics Board is considering right now a helicopter service for this region which would cover the international airport, the National, Friendship, and downtown Washington.

PRIVATE AIRCRAFT

Senator ALLOTT. We have heard about that, too. Well, would this relieve the pressure enough—this leads to my next question—to enable Washington National to be used for private aircraft? It is used now, I know that.

Mr. HALABY. Yes, sir.

Senator ALLOTT. But when you think of the thousands of people who do fly private aircraft, and I am not talking about necessarily the big corporate executive craft, but the average single engine and small twin-engine craft, that just don't get into National, would this relieve National enough that it would offer some expanded opportunities for the use of this type of craft here at all?

Mr. HALABY. Yes; I believe it would. The International Airport is really designed for the big jets and the big turboprops.

Senator ALLOTT. Where do most of our small craft go now? Or do they just stay away from here?

Mr. HALABY. Well, I would say that pleasure flyers avoid the Potomac Valley traffic, that constant traffic around Washington National Airport to a considerable extent. We have lost the airport out near Bethesda and the real estate pressures will be very great on discontinuing operations at the small airports all over the country. I hope Mr. Thomas has some figures on what the general aviation aircraft operations are in the Washington area. As you know, the Memorial Bridge and 14th Street Bridge end of Washington National is where most of the small planes fly out.

Senator MAGNUSON. Where does Engle fly out of?

Mr. HALABY. Senator Engle flies out of Washington National and out of various points in northern and central California.

Senator MAGNUSON. He is in Washington National?

Mr. HALABY. I don't know whether he still has his own personal aircraft here or not.

Senator MAGNUSON. Mike and I are not going flying with him, then, if he is in the Potomac area.

Senator ALLOTT. Could we get the answer?

FLIGHT FIGURES AT WASHINGTON NATIONAL AIRPORT

Mr. THOMAS. Mr. Chairman, last year there were 76,230 general aviation flights at Washington National and this is more than the total operations at most of the busy airports in Europe. Altogether there were 316,000 flights in and out of Washington National. We frequently run out of parking space there for the itinerant, or anyone else. There are lots of civil itinerants. I have had them call me at home at night and say they landed at Washington National and have no place to park. Many of them use Washington-Virginia, or Bailey's Cross Roads Airport. The Washington-Virginia, which is 4 miles out at Route 7 and Columbia Pike. There are quite a few general aviation aircraft there. But Washington National is the second busiest airport in the United States and frequently the demand is 100 to 125 per hour with a capacity of 60 to 80 an hour.

BELTSVILLE AIRPORT

Senator BRIDGES. Would it be possible for the Government of the United States to take, for example, the Beltsville Airport, which is, I think, owned by the Department of Agriculture, and make it—the Department of Agriculture could use it just the same—but make it a small engine or small plane airport to relieve some of this other traffic? Would that be feasible?

Mr. THOMAS. Sir, this would provide some relief. However, Beltsville is immediately in between Washington and Baltimore and we would not be able to work out a good instrument approach to it. Now, most of the private aviation that comes in here wants some capability to make an instrument landing when they get here. A lot of civil pilots do not, but a lot of executives do want some instrument capability, and I would doubt if we could work out the instrument—

Senator BRIDGES. It isn't practical, then, is the answer.

Mr. THOMAS. It could provide some VFR relief but I doubt if it would provide relief for instrument flights.

Senator MAGNUSON. So to get a small plane airport, you have got to go out somewhere in Virginia or somewhere probably out here some distance from Washington; is that it?

Mr. THOMAS. There are areas that we could get small plane airports in; yes, sir.

Senator BRIDGES. Within what radius?

Mr. THOMAS. I would say within a reasonable commuting radius. I haven't made studies of precise locations. I know some studies have been made.

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Senator MAGNUSON. Where does Engle fly out of?

out, or were up until recently. Maybe it has been changed now, and if it hasn't been changed, it ought to be because there ought to be a landing space out there for cars so that people taking bags out of the car don't have to fight that sometimes rather discourteous type of traffic on the part of the taxicabs and they want to get in and get out of there and they subject people to those hazards of unpacking their bags and everything else.

I think it is abominable the way they handle it, handle the bags. I have watched it. It is deliberate. They will—

Senator ALLOTT. They will kill somebody someday.

Senator SCHOEPEL. That is right. They will kill somebody, some woman out there, and then there will be a big hullabaloo about it. It looks to me like that was awfully poor planning when they put those lanes out there, forcing people to drive out there, private cars with their drivers, some one of their family, so they can get out there and take their bags out, and they are forced to the outside and have to cross that stream of traffic. They ought to have a segment in there. There certainly is enough of it to justify some consideration along that line.

Mr. HOBBS. Senator, may I say in answer to your question that they were forced to the outside, but I have made a new ruling that anyone has a right to unload at the curbing, sir.

Senator SCHOEPEL. I am glad to know that, but it isn't generally known and they crowd you out of there.

Mr. HOBBS. I would like to know every time—

Senator SCHOEPEL. You are going to hear from me because I am watching it. I have had any number of people complain to me about it.

Senator BRIDGES. Have the airport police been instructed to see that—

Mr. HOBBS. Everyone has a right to unload or pick up at that inside lane.

Senator BRIDGES. Have the airport police been instructed about this?

Mr. HOBBS. Our own police know about it.

Senator MAGNUSON. Do you have a right to select your own taxi out there?

Mr. HOBBS. No. I would like to say—

Senator MAGNUSON. Well, we won't go into that. Submit that for the record.

Mr. HOBBS. All right.

DIFFICULTIES WITH TAXIS

Senator MAGNUSON. It is like a sideshow. You have got to be barked into the right taxi. They must hire these sideshow barkers, and you can wait there for a half hour and if there are five taxis going back that have brought people out there, they won't let you take them. They have a big fight if you take them.

Mr. HALABY. That is because we are trying to make a buck on the airport and sell the airport concession so that it won't be any more of a load on the taxpayer.

Senator MAGNUSON. I understand that, but sometimes the fellow is maybe making a little too much.

GENERAL AVIATION PICTURE

Senator ALLOTT. To change the subject again, I am still not happy about our general aviation picture. It is going to actually work out this way, that the average private flier and even the executive craft who have qualified IFR pilots who just do not desire to come in and battle the throng of starlings that are trying to alight, large starlings, of course, for practical purposes—are they going to be forced out of the Washington area? I mean, they have been now to a great extent.

Now, this isn't your fault. It is the fault of circumstances. But is that the picture, as I gather from what you have said?

RECLAIMING SMALL AIRPORTS

Mr. HALABY. For the first time, Senator Allott, we have in this Federal Airport Act of 1961—Senator Monroney has introduced it—a special provision to try to reclaim that natural resource, the small plane airport.

Now, in the Los Angeles area, from which I come to Washington, we have lost seven airports in the last 2 years. The city and the counties, seven of them, have gotten together in a committee to develop a general aviation airport regional plan that would put these satellite fields out where the real estate values have not climbed out of sight. If we could get some local initiative here among the District, Virginia, and Maryland to develop a regional general aviation airport plan, the vehicle for helping to finance the new airports is at hand if the House and Senate pass this bill. Maybe we should take a little more initiative in master planning in this area with Maryland and Virginia. We have done some work and in that book you have, the National Airport plan, there is evidence of work here. Maybe we can do more, but in the end we don't want Federal small plane airports dotting the countryside here. We want the people in the local communities to realize that these are assets. This is a good way to use this land because it brings employment, it brings jobs in, it brings people in to spend money. It brings people in to resorts and it makes for people who are happy with the facilities for flying.

This is the real source of the solution. There is nothing that wouldn't be solved by more runways and present airports and more airports that are in response to a real need.

USE OF FRIENDSHIP AIRPORT

Senator ALLOTT. All right, then. As it is now contemplated with the movement to Dulles, will you still use Friendship, I presume—or will this be used as it is now used?

Mr. HALABY. The airlines will have to determine what the public demand is and in the light of that decide how to use Friendship.

Senator ALLOTT. All right. As it is now contemplated without an interest in this by the general metropolitan area somewhere, the present outlook for the type of plane I have been talking about, especially those who prefer to fly VFR, there is strictly a very limited and bleak future there because of the other activities outside?

Mr. HALABY. I don't think it is bleak. I think it is very serious and that it is going to take a lot of action because real estate values—crowding 500 acres or 200 acres into housing and industrial parks would give much greater yield on a financial investment per acre.

Senator ALLOTT. Yes.

Mr. HALABY. So the economic law is running against the convenience of the general aviation plan.

Senator ALLOTT. Well, I will use the word "bleak," but you don't have to use it.

Mr. HALABY. Well, I think we can do more than we have done.

DULLES AIRPORT

Senator MAGNUSON. All right. We have talked about Dulles and in connection with the work on the Washington Airport. The item in the House bill on that is that the House committee said that it was disappointed in learning of the slow progress being made in completing that airport, it will not be open until October 1962.

Well, so is the Senate disappointed. Sometimes I think that the Architect of the Capitol is building that airport. [Laughter.]

REVISED ESTIMATE

A revised budget estimated of \$20,100,000 was submitted during the course of the hearings for additional construction requirements at this airport including \$4,597,000 for 10 small projects and \$15,503,000 for the added cost of contractor claims, inflationary factors and underestimation of construction costs. It says:

The Administrator has informed the committee that since even the revised estimates were prepared it has become evident that it will be necessary for the Government to finance the construction of at least one 4-bay hanger at \$6 million before the airport can be used. Earlier plans anticipated that the airlines would build these additions to the basic facility.

After reviewing the problem carefully, the committee is recommending \$26,100,000, including funds for the hangar, which will bring total appropriations to date for this airport to \$111,070,000. Estimates on these construction items have not been reduced because in no circumstances will any more overruns be considered. The FAA is also expected to provide customs facilities at the airport within available funds.

And they go on about fees and then they say:

The committee has included language in the bill to provide separately for maintenance and operating costs of the new facility. Due to the delay in construction the committee has allowed \$1,975,000 for this purpose instead of \$2,575,000 as requested, a reduction of \$600,000 in the estimate.

Now, is that substantially the story, Mr. Administrator, out at Dulles?

NO APPEAL OF CUT

Mr. HALABY. Yes, sir. I think that is substantially accurate. We do not appeal the cut of \$600,000 because it is not needed due to the delay in starting the operation of the airport.

CONCERN ABOUT HOUSE DIRECTIVE

We are concerned about this directive, so to speak, that says all fees, rentals, should be at a figure such as is sufficient to amortize the entire cost of acquiring land, construction, maintenance and interest over a reasonable period of time.

The principal concern there is that if this airport were the Richmond Airport, the Federal Government would have put in some Federal airport aid and that aid is excluded from the capital base in

fixing the rental and fee charges. So we would hope that this committee would recommend to the Senate that the language here be changed or counterbalanced so that we could eliminate from the capital base that amount of aid that would have gone into this airport had it been in the category of Los Angeles, Chicago, and New York.

(The information referred to follows:)

Similarly, the House committee statement regarding a 20- to 25-year period for recovering all costs would be unduly restrictive if applied rigidly. We propose to use the standard of appropriate useful life in calculating interest and depreciation charges, following guidelines established by the Internal Revenue Service in its schedule F; e.g., certain equipment should be fully depreciated over a 5- or 10-year period while some structures would have a realistic depreciation period of up to 40 years. Under these standards known depreciable items in the capital base, such as land, would not be subject to depreciation expenses. Interest charges would be calculated on all of the unretired capital base using long-term rates suggested by the Treasury Department.

Finally, some costs of developing new and unique features of the airport should not be included in the capital base. Since they represent costs of the Federal Government in its role of leadership and fostering of air commerce they should more appropriately be treated as part of our research and development program rather than associated directly with this one airport. The principal example is the developmental cost of the mobile lounge.

Senator MAGNUSON. You suggest the elimination of that directive?

Mr. HALABY. Yes, sir; on the basis that I have just outlined.

Senator MAGNUSON. Have you got the language?

Mr. HALABY. Well, sir, appropriation language is not involved, it is the report's language here that troubles us—

Senator MAGNUSON. Of course, we have no control over the House report.

Mr. HALABY. We thought that there would probably be a report from this committee and perhaps a conference report—

Senator MAGNUSON. Yes, if we decide to change this we can put it in our report and then in the conference there could be some mention in the conference report as to what has been arrived at by the conference.

Mr. HALABY. Yes, sir, that is what we are looking for. Can I go off the record for just a second?

Senator MAGNUSON. Yes.

(Discussion off the record.)

NEED FOR AIRPORT MANAGER

Mr. HALABY. Go back on the record: Obviously I inherited this airport and my colleagues have recently been—

Senator MAGNUSON. Well, Quesada inherited it, too, a little bit of the mismanagement.

Mr. HALABY. Yes, sir. And we have new men working on this project, Mr. Hobbs and his associates. We still need a good airport manager for this airport right now, as well as when it is in operation. This would be a project larger than any that the FAA had the responsibility or experience of managing. So we still have a management problem.

HANGAR CONSTRUCTION

But the reason that the costs are going up is that, for example, there was thought somehow, and I don't know how, that the airlines would step up and buy a hangar. The strategy was to get the airlines to

come and build hangars there, I suppose each one of them, for its operations.

And I was told this, I was told, "Don't you dare build a hangar for that will dismay the airlines from coming in and building them."

And so I went to the airlines people and asked them, I stated it to them and asked if anyone of them were willing to build a hangar and they gave it to me an unequivocal no, (a) they did not have the money and (b) they did not do it at other places like Los Angeles and New York and Ottawa, but they got money from the insurance companies at a time when they were making that kind of money, and built the hangars.

So I cannot see and our accountants cannot see a hangarless airport because we would not have a place to de-ice the wings of aircraft if they were rained on or snowed on or sleeted upon. And that is why the House put in this—

Senator MAGNUSON. \$6 million.

Mr. HALABY. Yes, and we hope, Senator Schoeppel, that we are going to get that money back because we are going to charge the users for the hangar fees which will over time amortize all of the \$6 million and costs.

Senator SCHOEPEL. Mr. Chairman, and Mr. Halaby, this matter of bringing the hangars out there, building them there I should say when we have not done so in a lot of the other major airports of the country—I can well understand why the airlines have got you in a squeeze here because as a matter of fact they did not want to go out there anyhow. The question was about going into Baltimore and when we go in and build these hangars as part of the Government buildings, then they will say, "Why not build the terminal facilities for the railroads? Why not build them for the trucking concerns?" And all of that.

And that is what we are going to be confronted with and there are going to be some terribly justifiable situations out there for us to get away from that particular din that is going to drum in our ears for months and years. That is what I am afraid of.

Senator MAGNUSON. Senator Schoeppel, that brings me to the question that I was about to ask. This is for one hangar?

Mr. HALABY. Yes.

Senator MAGNUSON. How many will be needed when the field is in full operation? Will there be others to be built?

FUTURE OPERATION OF FIELD

Mr. HALABY. Well, sir, you say when the field is in operation. We have forecasts made by both Government and private sources that in the year 1963 there would be 65,000 aircraft movements into Dulles International; for the following year 160,000; the following year 1965, 250,000 aircraft movements.

Now, when you look ahead to that kind of traffic forecast you can then mathematically extrapolate that into the number of hangars required for the amount of aircraft using the field and it will certainly be many more hangars than what we have in mind now and we are generally thinking of general utility hangars to get us through this first phase.

At least I have no intention of proposing that the Federal Government build another hangar there unless it is managed in such a

way that the public demand is so great that the airlines finish up by building them, their own hangars as in other places.

Senator MAGNUSON. Senator Schoepfel makes the point that if we do have the one where does the Government responsibility end and where does the private carrier take up?

Mr. HALABY. Well, at the Washington airport we own all the facilities—

Senator SCHOEPFEL. I understand that.

Mr. HALABY. And there are 12 hangars there. The precedent is already set. This is a Federal airport owned and operated by the Federal Government and it is not going to be easy to get private enterprise to come in and build a hangar there.

And also part of it is the fact that the airlines are not in too good shape right now and the very airline that uses it most is the least likely to build a hangar out there. And incidentally—off the record.

(Discussion off the record.)

Senator MAGNUSON. Well, now, I would like to finish this afternoon. We have got to go upstairs and vote but we will be coming back here briefly and there are some general questions that we want to ask but I think that we can get through in another hour and be done with this if we go upstairs and vote and come back. We will recess for 10 minutes.

Senator MONRONEY. I would like to ask two or three questions when we get back.

(Short recess.)

Senator MAGNUSON. All right, the committee will come to order. Are there any more questions on Dulles Airport, Senator Schoepfel or Senator Allott?

Senator ALLOTT. I have none.

BUDGET APPROVAL OF HANGAR PROGRAM

Senator SCHOEPFEL. No. But I was just wondering, has the budget department approved this, do you know?

Mr. HALABY. The request that we made, Senator Schoepfel, was approved by the Bureau of the Budget and when the House requested an estimate of the cost of a hangar, we gave it to them with the knowledge and consent of the Bureau of the Budget. It is therefore fair to say that if the House and Senate voted \$6 million for the four-bay hangar, which would be the only hangar at the airport when it opens, that the Bureau of the Budget is agreeable.

Senator SCHOEPFEL. Thank you.

Mr. HALABY. They did not seek it but they will accept it.

CONTRACT PENALTY PROVISIONS

Senator MAGNUSON. Just one question for the record. As I understood it, there were no penalty provisions put into the original contract, were there, under the construction contract?

Mr. HALABY. I think I had better ask Mr. Tippetts.

Senator MAGNUSON. Well, will you furnish that for the record?

Mr. TIPPETTS. There were penalties, Mr. Chairman, on airport construction contracts I would like to check for the record. The runway contracts originally had penalties in them. But I would have to furnish the information more precisely for the record.

(The information referred to follows:)

All contracts for construction of the additional Washington airport, except architectural and engineering services, development of a mobile lounge, and certain agreements with the State of Virginia, included a liquidating damage clause in accordance with the principles set forth in section 1-1.315-2 of the Federal procurement regulations.

APPROACH LIGHTING SYSTEM

Senator MAGNUSON. All right.

Now, I have a couple of general questions to get out of the way here.

The 1961 estimate for approach lighting system was \$7,307,000 and the House reduced it to \$6,800,000. You are not asking, as I understand it, for any restoration? You thing that is adequate? Your plan was for \$7,300,000.

Mr. HALABY. Let me ask Mr. Tippetts to answer this if I may.

Mr. TIPPETTS. Mr. Chairman, in the entire terminal area this figure of \$6 million that you have includes other than just approach lights. It includes other type lights and other items.

Eventually every location that has an instrument landing system, is to be provided an approach light system with sequence lighting. We are attempting to do this in 1962—that is the programing of every instrument landing system so as to have approach lights.

RUNWAY AND IDENTIFIER LIGHTS

Senator MAGNUSON. I did not see any mention in the budget for runway and identifier lights. Is that included in here?

Mr. TIPPETTS. Sir, the runway end identifier lights—those are two high-intensity lights and they flash from the ends of the noninstrument runways to help the aircraft locate the ends of the runways.

Senator MAGNUSON. Well, what I want to know, have you got them in this budget, do you have provision for them in the budget? They are relatively low-cost items, are they not?

Mr. TIPPETTS. Yes, they are, Mr. Chairman.

Senator MAGNUSON. But they are of a great deal of value. Well, anyway, will you furnish that for the record?

Mr. TIPPETTS. I will, sir.

There are no runaway end identifiers, as such, in this estimate.

Senator MAGNUSON. One other thing I wanted to ask. There do not seem to be any means of visual glide slope indicators.

Mr. TIPPETTS. Yes, sir, this budget provides for 40 systems at a cost of \$1,600,000.

Senator MAGNUSON. And you think that is sufficient?

Mr. TIPPETTS. Yes, sir.

Senator MAGNUSON. For the progress of the program?

Mr. TIPPETTS. Yes, sir, these will take care of the highest priority locations.

PROJECT HORIZON

Senator MAGNUSON. Well, then, Mr. Administrator, I wish you would furnish for the record—you have got a project that is called Project Horizon.

Mr. HALABY. Yes, sir.

Senator MAGNUSON. Just give us a brief outline of the plans, the goals, and so forth and so on.

Mr. HALABY. Yes, sir.

(The information referred to follows:)

PROJECT HORIZON

Project Horizon is a special task force established at the direction of President Kennedy to formulate a blueprint for the Nation's aviation developments in the period 1961-70. This task force is headed by Mr. Fred M. Glass, executive vice president of the Empire State Building Corp., who is assisted by Mr. Stanley Gewirtz, formerly vice president-administrator of Western Airlines, Inc., who is the vice chairman; Dr. Leslie A. Bryan, director, Institute of Aviation, University of Illinois; Mr. Gerald A. Busch, on leave as corporate director of marketing planning, Lockheed Aircraft Corp.; and Mr. Paul Reiber, until recently assistant general counsel of the Air Transport Association.

This task force, all with important aviation backgrounds, is charged with developing a statement of national aviation goals for the period between now and 1970 by defining the technical, economic, and military objectives of the Federal Government throughout the broad spectrum of aviation. These goals are to be based on foreseeable technical and financial capabilities and formulated in terms of the appropriate role of aviation in the Nation's total transportation system. The study has nothing whatsoever to do with current programs or operations and excludes matters of peculiar concern to combat operating forces. However, the support function of aviation, generally, to military requirements must and will be considered.

The task force has contacted and has been advised by all important aviation groups of the Nation, as well as other Government agencies, to determine the problems and requirements as seen by such groups.

Within a short period of time it is expected that the President will be presented with a report which sets forth national aviation goals with sufficient definiteness to facilitate practicable long-range planning for the guidance of all Government agencies concerned in aviation matters.

FUNDS FOR ADDITIONAL AIRCRAFT

Senator MAGNUSON. And then in your budget you requested funds for additional aircraft. What are those?

Mr. HALABY. By types, you mean?

Senator MAGNUSON. By types, yes.

PURCHASE OF AIRCRAFT

Mr. HALABY. We have nine aircraft requested to be authorized, and—

Senator MAGNUSON. How many aircraft do you have now?

Mr. HALABY. 122 in 1961, I believe, Mr. Chairman, and 126 in 1962.

Senator MAGNUSON. All right. And you are asking for an additional nine?

Mr. HALABY. Yes, sir.

Senator MAGNUSON. And that is in the bill?

Mr. HALABY. Yes, sir.

Senator MAGNUSON. And can you tell us the types?

Mr. HALABY. We have a large jet; three light twins; two single-engine aircraft, in the regular facilities and equipment budget, and in the research supporting budget we have three aircraft, and the total cost of all nine aircraft is estimated at \$8,160,000.

Senator ALLOTT. Will you describe them by types?

Senator MAGNUSON. He has just described them.

Senator ALLOTT. Yes, but not sufficiently.

Mr. HALABY. A DC-8, \$7 million—

Senator ALLOTT. The DC-8, one, What is the rest, Mr. Halaby?

Mr. HALABY. Then three light twins. We have not specified the type because we would like to negotiate price and quality.

Senator ALLOTT. All right. Three light twins.

Mr. HALABY. And two single-engine.

Senator MONRONEY. Are those jets twin jets?

Mr. HALABY. No, sir.

Senator ALLOTT. Two single, in the same category?

Mr. HALABY. At \$160,000, two light twins and \$450,000 as research and evaluation aircraft, we contemplate two Convairs and one Commander.

Senator MONRONEY. Is it a jet Commander?

Mr. HALABY. No, sir. If they get that ready in time we could consider it, but I don't think it will be available for a couple of years.

USE OF TRAINING AND COMMERCIAL CRAFT

Senator MAGNUSON. Now, of course, this committee has always come into the question of whether or not you could not utilize some of the training and some commercial craft that are now in existence. What do you have for the record on that?

Mr. HALABY. Well, sir, since we opened this subject, I have got to tell you that we have got an obsolescent aircraft fleet in this Agency. Of the 126 aircraft about two-thirds are DC-3's. Now the DC-3 is adequate for some of our tasks. We also have two large jets already under purchase, an Electra and very few additional modern aircraft.

We have given a lot of thought to leasing the time on jet aircraft.

Senator MAGNUSON. That is the point I was coming to. Why couldn't you lease time on commercial aircraft?

Mr. HALABY. Well, the first problem is that we cannot be sure of its availability because the airlines are the only owners of the aircraft and they are trying to get the highest utilization that they can out of these very expensive airplanes. We might be able to lease some 1 month and not in the next, for example.

COST OF LEASING

And the cost of leasing is very, very expensive. I yesterday saw the bill for training two of our flight inspection pilots on jet aircraft, and to train those two men and give them 40 hours of flight time so that they could be familiar enough to inspect other pilots cost over \$110,000. And I believe that the hourly rate on a heavy jet is now at least \$2,600 an hour.

Mr. PRILL. In that area. If I could add one word, in our studies on leasing from the airlines as compared to purchasing, we found that by purchase we save enough in about 2 or 2½ years to offset the purchase price.

Senator MAGNUSON. Why, I wanted to ask that and I always ask that and—

LIST OF AIRCRAFT REQUESTED

Senator ALLOTT. I wonder if we could not have, for the sake of the record and for the sake of appraising the obsolescence, the number of aircraft by name and type and also their use, in other words you can

just have three columns giving the name of the aircraft and the type. Now, as I read your—

Mr. HALABY. We could give you that right now, sir.

Senator ALLOTT. Well, I cannot remember, that is the only trouble.

Mr. HALABY. We will provide that for the record.

(The information referred to follows:)

Assignment of aircraft by type and function

FAA-owned aircraft	Actual June 30, 1960	Estimate June 30, 1961	Estimate June 30, 1962	New fiscal year 1962
AIRCRAFT OPERATED UNDER THE "OPERATIONS" APPROPRIATION				
Aircraft for facilities inspection and logistic flying:				
Lockheed Constellation 749-A.....	2	2	2	-----
Douglas DC-4.....	1	1	1	-----
Douglas DC-3.....	42	54	54	-----
Beechcraft.....	15	2	2	-----
Fairchild C-123.....	1	1	1	-----
Convair.....	5	5	5	-----
RB-57 jet.....	1	1	0	-----
KC-135 jet.....	1	2	2	-----
Subtotal.....	68	68	67	-----
Aircraft for training:				
Douglas DC-4.....	2	0	0	-----
Douglas DC-3.....	7	7	7	-----
Beechcraft.....	2	2	2	-----
Single engine jets.....	2	2	2	-----
Convair 880.....	0	1	1	-----
Boeing 720.....	0	1	1	-----
Lockheed Electra L-188.....	0	1	1	-----
Douglas DC-3.....	0	0	1	1
Light twin engine.....	0	1	4	3
Light single engine.....	0	0	2	2
Subtotal.....	13	15	21	6
Aircraft for in-flight evaluation and inspection of air traffic control procedures, certification and operational inspection of airmen and aircraft, and transportation of Agency personnel on official business:				
Douglas DC-3.....	2	2	2	-----
Beechcraft.....	13	12	12	-----
Cessna single engine.....	1	1	1	-----
Gulfstream.....	0	1	1	-----
Single-engine jets ¹	2	3	3	-----
Subtotal.....	18	19	19	0
Subtotal, "Operations" appropriation.....	99	102	107	6
AIRCRAFT OPERATED UNDER "RESEARCH AND DEVELOPMENT" APPROPRIATION				
Aero Commander.....	0	0	1	1
Douglas DC-7.....	0	1	1	-----
Douglas DC-4.....	2	0	0	-----
Douglas DC-3.....	1	1	0	-----
Grumman SA-16.....	1	1	1	-----
Beechcraft.....	3	2	0	-----
Tri-pacer.....	1	1	1	-----
Convair.....	2	4	6	-----
Helicopter.....	3	4	4	2
Single-engine jets.....	4	6	5	-----
Subtotal, "Research and development" appropriation.....	17	20	19	3
Total FAA aircraft.....	116	122	126	9

¹ These aircraft are also used for limited facilities inspection.

PERSONNEL FOR AIRCRAFT OPERATION AND MAINTENANCE

Senator ALLOTT. All right, thank you.

Now, as I read your testimony in the House hearings on pages 136 and 137, you said that you owned and operated 122 aircraft, and you said that your personnel, the persons to operate and maintain these at present, total 2,151 people; is that correct, 2,151? I picked that up somewhere else; I don't see it.

Mr. HALABY. I would have to check that number. It takes that many people, you say, to own and—

Senator ALLOTT. No; to operate and maintain.

Mr. HALABY. To operate and maintain the aircraft. That must be a figure pulled out of the flight standards budget. Do you have that figure, Mr. Prill?

Senator ALLOTT. Oh, I have found it here on page 135, in the middle of the page. Mr. Harper said that:

For both operations, the local maintenance and major overhaul in Oklahoma City in 1961, which is for operating and maintaining 122 Agency-owned aircraft, we had 2,151 people. For 1962, we are asking for 2,632 to maintain and operate 126 aircraft.

That is an increase of almost 500 people to operate 4 more aircraft.

Mr. TIPPETTS. May I help out on that?

Mr. HALABY. Yes; we need some help on this one.

MAINTENANCE DEPOT PERSONNEL

Mr. TIPPETTS. Part of this increase is 410 positions for the depot where we overhaul and maintain the fleet. It is not altogether on the basis of new aircraft. It is additional utilization and maintenance of existing aircraft. We have programed the fleet into more hours per day which brings them back for overhaul on a more frequent basis; the 410 increase you referred to, is for persons, depot personnel, in Oklahoma City to maintain the fleet.

Senator MONRONEY. Well, how many people is that per aircraft?

PERSONNEL RATIO

Senator ALLOTT. That is 102.5 people for the 4 extra aircraft; doesn't it amount to that?

Mr. TIPPETTS. Well, Mr. Allott—

Senator ALLOTT. For each of the four aircraft?

Mr. TIPPETTS. We cannot base it on the number of aircraft. You have to go into the hours of utilization of the aircraft; in some categories of aircraft, utilization will be double. There are more hours and increased use of all the aircraft.

Senator MAGNUSON. Well, that is about 20 people per aircraft, though; isn't it?

Mr. HARPER. May I say one other thing? The complexity of our fleet changes. We have bought three large jets within the last year, and so that the number of aircraft is not the true measure. This table that we have will show the kind of airplane that we are putting into the fleet, and that these big jets are taking a lot of maintenance, as distinguished from the smaller aircraft, and this is part of the increasing cost.

JET CREWS

Senator MAGNUSON. Well, how many people do you need to operate a jet?

Mr. HALABY. Well, I would say, Senator, that varies. The military service—

Senator MAGNUSON. Well, approximately.

Mr. HALABY. The military services would have one figure. A very austere airline would have another. And we would probably have a third figure.

Of the 2,151 people operating and maintaining the aircraft in 1961, we only had them operating one jet, as I recall it, the KC-135, and it is difficult to say how many people we assigned to that airplane since we operate and maintain an overhaul base and they deal with all of the aircraft of the fleet.

The crew of the aircraft, the KC-135, totals seven people including several engineers who operate flight inspection electronic equipment in the airplane. The maintenance force assigned to that airplane is also assigned to other airplanes.

Senator MAGNUSON. But 18 people per plane, on some of them more and on some of them less; isn't that a high figure?

Mr. HALABY. Well, it seems high, but we are in several different locations. You see, these aircraft are assigned to four different regions and in the case of Alaska, they are operating all over a very large area. This is not like an airline operation.

TOTAL MAINTENANCE PERSONNEL PER PLANE

We are trying to make this aircraft program as much like an airline operation in utilization and maintenance as we can. But we cannot schedule these aircraft with the same efficiency and we have a variety of aircraft in the fleet, and an even greater variety than the airlines have. So this is not an efficient kind of fleet to maintain.

If this average number of maintenance people per airplane is higher than, say, the military, it would be because of the variety and the dispersion of the operation. I think we ought to give you, however, some comparative data, and I would like to get it myself.

Senator MAGNUSON. You said it was lower with the DC-3—whether you said it or not, would it be?

Mr. HALABY. Yes, sir.

Senator MAGNUSON. You would not need anywhere near that number, so that would make it come down lower. You probably would need 18 for a jet, or maybe more than that, maybe, but you only got 2 or 3 of those; haven't you?

Mr. HALABY. The figures, the breakdown for maintenance in 1961—there were 891 people and for operations, 1,252, and it is proposed for the fiscal year 1962 that the 891 in maintenance increase 401 to 1,301.

It is not just because we are adding 9 airplanes, but because we intend to get a much higher utilization out of a more modern form of aircraft. The operational group would only increase to 1,331, which is 79 additional people.

LOCATION OF MAINTENANCE FACILITIES

Senator MAGNUSON. Well, where do you do this maintenance? In your own hangers, or do you go into somebody else's hangar?

Mr. HALABY. Well, the main overhaul base is at the Aeronautical Center at Oklahoma City—

Senator MAGNUSON. I know, and you have about 500 or 600 people there, is that right?

Mr. TIPPETTS. Well, it would be 1,301 in 1962.

Mr. HALABY. All at Oklahoma City.

Senator MAGNUSON. And all on maintenance?

Mr. TIPPETTS. Or standardization.

Senator MAGNUSON. For 126 airplanes.

Mr. TIPPETTS. That is right.

Senator MAGNUSON. Of all types?

Senator ALLOTT. Well, this seems high to me.

OPERATION AND MAINTENANCE FUNDS

Now, am I correct, for fiscal year 1961, your operation and maintenance funds were \$32,254,000, is that correct?

Mr. HALABY. That is the total operation and maintenance.

Senator ALLOTT. Yes. And you scheduled—and that is given on page 136 of your testimony—in 1962 this jumped up to \$40,861,000, or \$8 million more—

Mr. HALABY. That is right.

Senator ALLOTT. Have you ever run any comparative costs for maintenance with any of the private airlines?

Mr. HALABY. If we have, I have not seen them. Have you done so, Mr. Prill?

Mr. PRILL. No, I don't believe we ran any comparative costs. There is no way that we can compare it. One of the maintenance problems is that we are not flying an airline-type of airplane. These are filled with special electronic gear for checking the navigational facilities on the ground.

We have three sets of separate methods of flight checking. One is for the high-flying equipment, the jets; one is for the medium altitude, which is going into circulation now, the Convairs, and with the same engine as the Electra; and then the low-altitude airplanes.

This equipment is sensitive and they have to learn the curves and how to maintain it. This is a big part of our program.

TOTAL JETS

Senator ALLOTT. The new jets that you want, the DC-8, that will bring your total jets to three?

Mr. HALABY. No.

Mr. PRILL. We have two KC-135's, a Convair 880, a Boeing 720, and a DC-8, if authorized.

Mr. HALABY. And when he says "we have," we have on order.

Mr. PRILL. All except the 880 will come next month.

Senator ALLOTT. So it is not the DC-8 that you want?

Mr. HALABY. Yes, it is.

Senator ALLOTT. You want that in addition?

Mr. HALABY. By July 15, jets in the fleet will be two KC-135 planes which are similar—

Senator ALLOTT. Yes, I remember when we authorized those.

Mr. HALABY (continuing). To the 707. We would have a Convair 880, a Boeing 720, and if you authorized it, a DC-8.

USES OF OTHER TYPES OF PLANES

Senator ALLOTT. And these will all be used at high-altitude test work?

Mr. HALABY. The DC-8 is primarily designed for training FAA flight inspection and engineering personnel who have to go out and check pilots and engineers operating DC-8's in the airlines.

Senator ALLOTT. And is that what your 707 is used for?

Mr. HALABY. That is what the 720 is used for. That is a training aircraft. But the two KC-135's are loaded with this avionic equipment Mr. Prill referred to and they inspect, usually at great altitudes, the calibration and accuracy and current conditions of navigation and traffic control aids.

Senator ALLOTT. How many of those new Convair turboprops—I don't know what the designation of that is; I have forgotten.

Mr. PRILL. Modified 440, sometimes called 540.

Senator ALLOTT. Yes, I remember now. How many?

Mr. HALABY. Five. The first one with Allison engines was accepted the day before yesterday. Three to go.

Senator ALLOTT. And you have one Electra?

Mr. HALABY. Yes.

Senator ALLOTT. Has that been modernized?

Mr. HALABY. Well, it was the test airplane that was wrung out by the company. It is not only modified but very severely tested.

Senator ALLOTT. How many other turboprop planes do you have and what are they used for?

Mr. HALABY. Well, sir, the Lockheed Electra is the queen of our turboprop fleet and five Convairs with modified engines and one Grumman Gulf Stream, which is very similar to the 540, that is used for research development work—and other airplanes which we were very fortunate, I think, in picking up from the military at no cost at all and are being put into training.

Senator ALLOTT. What is the Gulf Stream used for?

Mr. HALABY. The Grumman Gulf Stream is a turboprop 10-place aircraft which we are using for a variety of purposes—including administrative and flight training. In fact, a few weeks ago it was involved full time in carrying U.S. marshals back and forth to Mackin Field in Alabama as were several others of these aircraft in response to an emergency request from the Attorney General.

Senator ALLOTT. And I hope that you billed the costs to the Attorney General.

Now, just one other question—

Mr. HALABY. On the subject of modernization, I think it is important to point out that we have 54 DC-3's in this fleet and a total of about 20 different types of airplanes. It is the kind of a thing that has grown up over the years as the Agency was able to scrounge money and authorizations.

It is not anything that anybody designed as an efficient fleet of aircraft.

Senator MONRONEY. And you have quite a lot of war surplus?

WAR SURPLUS

Mr. HALABY. And a lot of it is war surplus. I would like to bring in some better planning and management into this and I wish I had time with my colleagues to do so this year but it does not make sense to try to do it too fast, and I have to tell you that I would like to come here next year with a much more modern and sensible fleet operated with greater utilization and efficiency.

But I think that we have made the case to the House committee and they have authorized these nine additional aircraft. I can only assure you we will get the maximum out of them that we can.

ADMINISTRATIVE AIRCRAFT

Senator ALLOTT. Besides the Gulf Stream, how many of these other aircraft do you use administratively?

Mr. HALABY. Well here in the Washington area we have at least two DC-3's that are primarily used for training, flight proficiency, occasional emergencies, operations such as Operation *Fairlip* to Maxwell Field, and administrative work.

In each of the regions we have one and occasionally more than one aircraft which is there for the same combination of training, current flight proficiency and occasional emergency use. We do not have any aircraft that I think it is proper to say is used only for administrative purposes.

Senator ALLOTT. In a region like Colorado or any other place—Mr. Kimball is there and he has done, I think, a fine job—what kind of craft does he use for administrative purposes and for getting around in? Or what do the regional people use?

Mr. HALABY. Well, often we require them to rent an airplane on an hourly basis from the local fixed-base operator. I think that Harry Coombs probably has more business from the FAA there than anyone else—

Senator ALLOTT. But there are no aircraft fixed in a region, usually in a region for just administrative purposes?

Mr. HALABY. No. And when I said "region," I was thinking more of the administrative regional headquarters which are at Los Angeles, Fort Worth, Kansas City, New York and later this year in Atlanta, which have at least one DC-3 in each case. Those are occasionally used by men like Kimball in Denver but more often than not they rent aircraft from a local fixed-based operator. In Alaska and Hawaii we have completely different problems because of the great distances and the need for taking equipment and material out rapidly to a station that may have gone out of commission.

We have used the airlines wherever we can but we have to have some Constellations in Honolulu and some DC-3's up in Alaska.

Senator ALLOTT. And now last year we got into the question of repair, major overhaul of these—

Senator MAGNUSON. That was in the trust territory. Are they still in operation out there?

Mr. PRILL. I believe so, Senator. I have not heard in the last few weeks on the subject but they were under contract with Pan American Airways and worked out an arrangement with the Department of Interior. They had a fire and records were completely destroyed and I have not heard in the last few weeks.

Senator MAGNUSON. All right. Thank you.

Now, you say you are asking approximately \$40 million for maintenance and operation of this fleet.

Mr. HALABY. That is the figure.

Senator MAGNUSON. And unless my arithmetic is wrong that is \$319,000 per year per airplane. Of course, some of them would require that and more but with all of these DC-3's I don't know how you get up to that figure of \$319,000 per airplane.

Mr. HALABY. Well, the operation part of that is very important. These are pilots and engineers who are in the upper grades although they are not paid anywhere near what the airline pilots or engineers are paid.

SALARIES AND EXPENSES

Senator MAGNUSON. These are salaries?

Mr. HALABY. These are salaries.

Senator MAGNUSON. And repairs of equipment, equipment aboard?

Mr. HALABY. Yes, sir.

Senator MAGNUSON. And gas?

Mr. HALABY. Fuel.

Senator MAGNUSON. But that is an awfully high figure, \$319,000 a year when you consider that a lot of them are DC-3's.

Senator ALLOTT. And less.

Mr. HALABY. The number of hours operated and the efficiency with which the system is maintained is more properly the test than just dividing the total cost by the number of airplanes.

Now some of these aircraft are research and development aircraft and they are down, most of them—for example, they are having test equipment installed, so you get very little utilization on these test aircraft.

Senator MAGNUSON. Then it should cost less.

MAXIMUM UTILIZATION

Mr. HALABY. And then some of them are in the air—what is the maximum utilization?

Mr. PRILL. About 250 hours a year on some of our airplanes. The flight inspection airplanes are just getting into service now and the objective, we could expect reasonably to step up as we learn how to operate them and how to maintain them—but 250 hours is a very respectable figure compared to the airlines.

BREAKDOWN OF PLANE MAINTENANCE COST

Senator MAGNUSON. Well, is \$319,000 a respectable figure?

Mr. PRILL. Well, I don't think that you can compare—

Senator MAGNUSON. I know, but suppose you had 126 airplanes and suppose it cost \$319,000 to maintain each one, as I break it down. Of course, the DC-3's would not cost that much, would they?

Mr. HALABY. Well, it depends so much on the purpose of the flight and the utilization you are getting. I would guess that \$319,000 per airplane in the airlines would be very, very low because they are getting such high utilization out of them that the fuel costs go up tremendously and the overall costs are so large because they run so many hours per month and so they have to put in for major overhaul. It depends entirely on the purpose of the flight.

The research flight may occur once every week for 2 minutes and they get \$1 million worth of data. The facility flight check, which is \$11 million worth of this cost, goes on in a routine fashion day after day after day much like an airline operation, and so—

Senator MONRONEY. Would this be correct? You say you will have six jets this coming year?

Mr. HALABY. Yes, sir.

Senator MONRONEY. And you said the rental of a jet when rented without crew or maintenance was \$2,600 per hour?

Mr. HALABY. Yes, sir.

Senator MONRONEY. Then with six jets—

Senator MAGNUSON. That is if you rent it and run it. You could rent it by the day and it would not cost you 24 times \$2,600, would it, if you rent a jet for a day?

Mr. HALABY. That is \$2,600 per flight hour.

Senator MAGNUSON. Yes.

FUNDS FOR OPERATION OF JETS

Senator MONRONEY. That is what I am thinking, the utilization of six jets at \$2,600 for just the aircraft, no crew or maintenance or engineer, would be with six aircraft \$15,600 per hour. On an 8-hour day it comes out to \$424,800 per day if these planes are used on a regular 5-day week schedule. You have a pretty big hunk of money tied up in just your jet operations, and you assume that the rental costs would be somewhat related to the other expenses—

Senator MAGNUSON. The DC-3—

Senator MONRONEY. No; I am just figuring the jet. And so if you got a 300-day year, then let me see—it figures out if I am mathematically correct—off the record.

(Discussion off the record.)

REQUEST FOR BREAKDOWN OF COSTS

Senator MAGNUSON. I do not know whether this is high or not because I do not know this, but I do think we ought to have something in the record, a breakdown of these things so we can justify spending \$40 million for the operation and maintenance of 126 airplanes.

Senator ALLOTT. That is correct, and on the \$2,600 an hour, on that you have the original purchase price and the depreciation and depletion, and everything else, taken into consideration which these gentlemen do not have to consider in this thing because it all comes out of their capital accounts.

Mr. HALABY. Well, let us try to put it together for the record, an analysis of it. Now, the trouble is, there is not any other fleet like this—

Senator ALLOTT. That is lucky.

Mr. HALABY. Maybe it is unfortunate in some respects that no other agency or pilot organization inspects airways the way that the FAA is required to do, no other agency or airline trains flight inspectors and flight engineer inspectors, and so the purpose, the function is different and therefore the operation is different.

I think that we can get some data on certain kinds of aircraft, let us say, operated by the Air Force, if they will give us the data and perhaps we can get some comparable airline to furnish operational data on a part of our function that seems more like the airlines do than anything else—but you are going to get an orange being weighed with an apple, I am afraid.

Senator MAGNUSON. When you say flight engineers, is this part of their salaries in this figure—no?

Mr. PRILL. It is.

Mr. HALABY. Our flight inspectors.

Senator MAGNUSON. They are included in this figure?

Mr. HALABY. Yes, sir.

Senator MAGNUSON. In other words, the salary?

Mr. HALABY. The fuel and—

Senator MAGNUSON. Everything is included in this?

Mr. HALABY. Yes, sir.

Senator MAGNUSON. And they are not paid by your general administrative account?

Mr. HALABY. No, sir. The only thing not included is the new avionic equipment that we would install in it and depreciation on the cost of the airplane. Everything else is in this \$40 million.

Senator MAGNUSON. Suppose that a part went wrong. Would that be included in this? Suppose you put a machine in and had to get a new part. Is that included in this?

Mr. HALABY. Since we are getting into it this far, perhaps I can give you a quick breakdown of the amount of money: \$11 million of it is for the pilots and engineers and crew people and for facility flight checking, checking the airways, navigation control systems. That is 38,763 hours for \$11,151,000, for training our people to check on the people we regulate, 20,331 hours at \$6,992,000.

In fact, we can pull this out of the book and put it into the record.

Senator MAGNUSON. Yes; do that. That will give some idea.

Mr. HALABY. For logistic support to remote facilities, \$900,000; for major overhaul and modification, where a lot of material goes, \$10,088,000.

COMPARATIVE COSTS

Senator ALLOTT. You are going to supply some comparative figures on your overhaul?

Mr. HALABY. Yes, sir; we are trying to make a better case than we have got here.

(The information referred to follows:)

FEDERAL AVIATION AGENCY

Aircraft program—1962 budget estimate

	Flight hours	Positions	Amount
1. ANALYSIS BY FLIGHT ACTIVITY			
Operations appropriation:			
Facilities flight checking.....	\$37,763	\$1,012	\$811,151,522
Flight training.....	20,331	307	6,992,000
Logistics support to remote facilities.....	3,445	75	894,234
In-flight evaluation and inspection of air traffic control procedures.....	13,732	45	809,181
Flight operations job performance and proficiency.....	36,907	50	1,230,270
Construction inspections at Federal-aid-airport projects.....	900		16,665
Major overhaul and modifications.....		639	10,088,000
Program direction and analytical services.....		504	6,515,128
Total, operations appropriation.....	114,078	2,632	37,697,000
Research and development appropriation: Tests and evaluation of systems and equipment.....	5,628	0	3,164,300
Total.....	119,706	2,632	40,861,300
2. ANALYSIS OF PROGRAM OBLIGATIONS			
Operations appropriation:			
Costs comparable to airline or executive fleet operation:			
Airframe and engine line maintenance.....		620	5,781,000
Airframe and engine major inspection.....		302	2,323,000
Aircraft fuel.....			2,974,000
Flight crew personnel.....		525	4,720,000
Aircraft parts and supplies.....			4,834,000
Modification projects.....		62	381,000
Program direction, rents, utilities, and indirect expense.....		218	2,703,000
Subtotal.....	64,523	1,727	23,716,000
Costs unique to FAA:			
Avionics line maintenance.....		265	2,672,000
Avionics major inspection.....		130	969,000
Modification projects.....		38	735,000
Data processing and analytical services.....		81	1,023,000
Rental or lease of aircraft.....		131	5,324,000
Line supervision and district office operation.....		146	1,840,000
Program direction, rents, utilities, and indirect expense.....		114	1,418,000
Subtotal.....		905	13,981,000
Total operations appropriation.....		2,632	37,697,000
Research and development: Appropriation cost unique to FAA line maintenance, operation, and overhaul.....	5,628		3,164,300
Total.....	119,706	2,632	40,861,300

1. COSTS COMPARABLE TO AIRLINE OR EXECUTIVE FLEET OPERATION

(a) Operation and maintenance

Based upon a comparison of available data, FAA operation and maintenance costs are substantially higher for those items which are comparable to airline operation. The reasons for higher FAA costs are as follows: Flight checking the national system of air navigational facilities at low altitudes requires a wide dispersal of aircraft. This results in a higher ratio of takeoff and landings to flight hours flown, which in turn increases fuel consumption and routine maintenance checks per hour flown and considerably reduces the annual flight hour utilization per aircraft. The 1962 budget provides for an annual utilization of approximately 1,100 flight hours for Douglas DC-3 aircraft as compared to approximately 2,000 hours per year for a normal airline operation. Agency Douglas DC-3's are equipped with larger engines than the airlines comparable aircraft. This is necessary to operate at higher gross weights to accommodate the heavy specialized electronic laboratory equipment used to measure navigation facility performance. Fuel consumption, for the larger engines, is generally 25 to 30 gallons per hour higher than those used by airlines.

Variation in routes and itineraries precludes planned refueling and storage of bulk fuel supplies. Consequently, the Agency is forced to pay from 20 to 45

cents per gallon for gasoline in the contiguous 48 States and up to 75 cents per gallon in Alaska. Use of military fuel is accomplished where possible; however, billing procedures, on-base coordination, delays, et cetera, develop into manpower and aircraft availability loss to the extent that possible savings are offset. Agency flight crew personnel devote only one-third of their available time to in-flight duties. Approximately two-thirds of the available flight crew manpower is required for ground duty, processing flight inspection data due to the specialized nature of flight operations the Agency is engaged in.

(b) *Overhaul*

Agency major overhaul costs compare favorably with known industry costs. Average overhaul expenses for a Douglas DC-3 in-house costs \$48,000 as compared to \$35,000 on commercial contract. The additional cost by FAA versus commercial contract is associated with the major maintenance of avionics equipment that is unique to Agency aircraft.

2. COSTS UNIQUE TO FAA

Items included under this category are cost factors unique to the type of operation conducted by FAA and which therefore would increase Agency costs beyond those in a comparable airline operation. The needs for these items are occasioned by the type and nature of the Agency activities required for flight checking air navigation facilities and testing and evaluating systems and equipment. In total they represent 42 percent of the aircraft program.

Facilities flight checking necessitates the routine maintenance, major overhaul, and modification of specialized airborne electronic laboratory equipment that is used to measure navigation facility performance. Data processing and analytical services include the personnel engaged in the reduction, analysis, and publication of the data collected in the facility flight check operation.

District office operation involves the coordination and scheduling of the various flight check activities and includes the specialists who analyze the flight procedures based upon the demonstrated performance of both terminal and en route air navigation aids.

Also included under this category is the cost of rented or leased aircraft which is required primarily for the flight training of Agency flight operations inspectors and agents who deal with both airline and general operations.

All program obligations financed from the R. & D. appropriation are considered unique to FAA. This portion of the Agency aircraft program consists of the testing and evaluation of systems and equipment to obtain greater efficiency and safety in the national aviation system; a substantial portion of this cost is associated with the installation and removal of test equipment and components and related aircraft modifications required to support the testing and evaluation effort.

MAINTENANCE ON CONTRACT BASIS

Mr. PRILL. A couple of points, if I may. We do a great deal of maintenance on a contract basis, and the biggest contract is with American Airlines at Tulsa. They do and will do much more efficient contract work on what we call the routine maintenance and our engine overhaul work of this sort on all of the jets, including the Electra. They are also doing the work on our DC-7 research airplanes in their New York base, so a considerable amount of this maintenance money is contract money.

We also contract with the Air Force for the KC-135 service at Andrews Air Force Base and at the maintenance base in Oklahoma.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

Mr. HALABY. Occasionally an airplane goes back to the manufacturer, such as Boeing—

Senator MAGNUSON. And is that included in your \$40 million?

Mr. PRILL. Yes.

Senator MAGNUSON. All right then, put your breakdown in so that we will have something.

AUTHORITY IN ACCIDENT CASES

Now just a couple of general questions. When the CAB was here before us we went into the problem of the definition of authority on accident cases; last year we went into this matter. What is the status now between the FAA and the CAB in an accident case? We know that they have an accident investigation group and obviously you folks too. What is the division of authority or what is the liason or what is the situation?

Mr. HALABY. Well, first you have a new chairman of the CAB and a new Administrator. We have worked very closely together to define this delineation and I think the working understanding that we have is that under the act there is overlapping authority to conduct aircraft investigations and accident-prevention studies; that in the light of this we will work within the legislation and the legislative history and try to make as little unproductive duplication of this as possible.

Now, to divide it up, they have by legislation responsibility for ascertaining the probable cause of the accident and we have no question about that. We have simultaneously the responsibility for determining whether the accident was caused by some cause that we can correct immediately within the FAA facilities and capabilities.

So that they look to find what was the probable cause and they make a semijudicial finding. We look to see what we could do immediately to keep the airways clear and safe.

With respect to certain investigations they delegate to us the responsibility for ascertaining cause and the definition of that is accidents involving aircraft weighing less than 12,500 pounds. So that we do a great deal of accident investigation work for the CAB.

Senator MAGNUSON. You do your part and they do their part. Maybe some of it overlaps, some of it is duplicated.

CIVIL AERONAUTICS BOARD REPORTS

Then you come to the question and the conclusions and report to the public on why this happened. Who gives that report out?

Mr. HALABY. The Civil Aeronautics Board.

Senator MAGNUSON. The Board, so that even though you may be in some disagreement as between your people and the CAB as to how it happened or what happened, the final conclusion is reached by the CAB and made public by them?

Mr. HALABY. I believe the answer to that is "Yes."

Mr. PRILL. Yes.

Mr. HALABY. And they publish the results of their findings on the less than 12,500 pound aircraft accidents.

Mr. PRILL. We work very closely as a team.

Senator MAGNUSON. Suppose that they come to a conclusion that you do not think is justified or maybe you come to a different conclusion. It is still their conclusion, isn't it?

Mr. PRILL. Oh, yes. It does not happen often.

Senator MAGNUSON. I hope it will not happen again, what happened last year where the Senator from Oklahoma had to sit as referee between the two agencies on an accident and the public was pretty confused when that happened.

SAFETY SQUAD

Mr. HALABY. True, and it is to anticipate and avoid that public confusion about governmental responsibility that Mr. Boyd and I have worked out a scheme whereby we form a so-called safety squad, and over the coming months we are going to try to exercise our ability to go into these tragic situations and get the facts, get the systems working right and get him started on his finding of probable cause in a more unified, substantive way and also to create a clearer single voice of the Federal Government in a trying situation like that.

Senator MAGNUSON. Yes.

Mr. HALABY. And if the military conduct exercises in all parts of the world, my thought is that we may be able by this kind of exercise to do a better job for the public.

Fortunately, we have not had an air carrier fatality recently and it has not been necessary to test this.

Senator MAGNUSON. How does this work?

Mr. HALABY. This cooperative facility—

CHECK ON FOREIGN PLANES

Senator MONRONEY. Of course, to break even, the fact that you do some valuable work which is not generally known. For example, we have no supervision over foreign air carriers. We have no right to inspect their equipment even though much of the equipment involved in accidents is American made equipment. But if an accident occurs, the FAA experts go and check air frames for mechanical and structural failure so we will be able to institute corrective action to prevent future accidents. Is that correct?

Mr. HALABY. That is correct.

Mr. PRILL. And we have a man in Europe right now in Brussels.

Senator MONRONEY. But the CAB does not have that right because they are charged only with investigating domestic accidents?

Mr. HALABY. Well, my understanding of the agreement between us is that we have in each of these instances consulted to determine who could grasp the position on the scene and get the answers for both agencies and in at least one case we will send one from each agency because the men are available with the right capabilities. I just hope that we have an era of very close cooperation. We hope that because surely there cannot be too much work on accident prevention or on flight safety.

COMPLAINTS REGARDING REGULATIONS AND PRACTICES

Senator MAGNUSON. Now, Mr. Halaby, you are generally familiar with the complaint of the private operators about the FAA in relation to certain regulations and certain practices. I know that I sent down to your office a sort of a bill of particulars on this matter some weeks ago. And Senator Engle has had a bill of particulars. And I was wondering whether or not there has been modification or any conferences or any plans regarding the many, many—sometimes not necessarily complaints but suggested changes made by the operators of private aircraft.

Mr. HALABY. Well, I think the first thing that—

Senator MAGNUSON. And I think the association has sent down some bill of particulars, and I am sure you will find them—

Mr. HALABY. Yes, sir. I am quite familiar with them. I have been a private pilot most of my life and a little familiar with the little guy in aviation.

The first thing that I think is important to establish is that the largest segment, the most numerous segment of aviation is this small plane pilot, the private pilots, the executive aircraft pilots. There are more of them and they have a greater variety of equipment and more often than not they are less equipped than their richer brothers and bigger brothers in the sky.

But they are American citizens and they have a share of the air just like a military jet or a large passenger carrying airline.

And they want to have that right to recognize that they are getting their fair share. And I think the most important thing we can do is to create the impression that they are a member of the aviation community, that they have rights and privileges like everyone else.

We try very hard to meet with all of these groups, go and talk to them about their problems and let them participate in the definition of these problems and their solution. So we had about six meetings which we called air-share meetings with the smaller plane pilots all over the United States and we have listened to them and we have tried to get ideas from each of them.

There are about 300,000 airmen's certificates out and we wrote a letter to each one of these airmen and asked about their thoughts and ideas. We got several thousand replies and we are putting into effect some of their individual suggestions.

And we met with the airplane owners and pilots association, which is one of the most vigorous and active proponents of the rights of private pilots and I have been with their principal officers and I have met with their boards of directors and I hope I convinced them that we regard them as citizens of the air as well as the ground.

With respect to specific suggestions they have made, they are very much in favor of this general aviation provision of the Federal Airport Act of 1961 and that it is meeting to a large extent one of their principal desires about airports—they would like more, naturally.

We have had them in and discussed with them our plans for developing for private industry cheap distance measuring equipment sets and with respect to a beacon that will identify the aircraft and its altitude. We have done research and development in which they are interested.

PROJECT LITTLE GUY

The principal new project which I started is something called Little Guy, and this is to try to get the NASA and the FAA in partnership with the instrument manufacturers and airplane makers to do something about improving the cockpit of the small aircraft to make it more flightworthy, make it simpler to fly. And we have got a lot of projects, only a few of which cost money, incidentally. The real problem is to get the confidence of these people, to get them to understand the rules and to approve the rules and to get a willing obedience from them because it is their lives that are at stake.

Senator MAGNUSON. Well, I think that the liaison that you are working out with them will bear some proof, because they were quite

vigorous in their complaints in their bill of particulars for about a year.

Mr. HALABY. And this does not mean that we are going to be any less strict in our compliance rules.

Senator MAGNUSON. I think that they understand the reasons why, and if they feel that they are an integral part and if they can point out some of the inconsistencies that apply to them I think that maybe you can get along with them.

The last thing, before we go briefly into the supersonic:

STATEMENT OF HARRY GUGGENHEIM

Mr. Harry Guggenheim on May 22 before the executive committee of Cornell Guggenheim Center made the following remarks:

We believe that lack of adequate funds is the critical factor in the development of safety in the air. Last year we hesitated to say publicly what we said privately, that Congress would act in the interest of air safety only following a catastrophic accident of a huge jet airliner after a tragic loss of life. Unfortunately this catastrophe has happened.

Mr. Guggenheim makes a pretty serious charge there and seems to feel that Congress is to blame for the record of crashes and that it has not provided money.

Now perhaps I should not ask you this because you have been in office only a short time but I want to state for the record I know of no time when you were in front of the Senate Commerce Committee for authorization or before the Senate Appropriations Committee that we have not provided within a very minor degree the budget, what the budget and what the Agency has asked for.

Senator ALLOTT. And I would like to bear that out, too, because I can recall no instance in which we have not.

Senator MAGNUSON. And we have to take the advice of so-called experts in the field. I think this is a very, very unfair statement and I think that the Senator from Oklahoma would agree with me on this.

Senator MONRONEY. He certainly would, sir. As a matter of fact we investigated the accidents carefully and found those accidents had money for better weather information, ontop weather information, the improvement of air traffic control systems, landing aids and all the safety facilities which have been added to the bill—but you cannot always know what kind of accidents might happen, because some still will happen. And the big record, the increase, which was not very great, was the result of the spectacular *Electra* cases, but the cause was found and corrected and the planes are safely flying again.

Senator MAGNUSON. This statement got wide publicity and this one statement made it look as though we were just sitting up here year after year and that we would not do a thing for the air safety of the United States. I think that Congress has been doing a lot, and I think that Congress has been taking the lead in this, in the past years, as much as lay people can. We cannot tell you to go ahead and buy something that we don't know anything about technically. But I would not think that one-tenth of 1 percent of the budget of the Administration and what the old CAA asked us for but that you got—I just want the record to show that.

Mr. HALABY. Senator, silence would be wisdom at this point.

Senator MAGNUSON. Yes.

Mr. HALABY. I would wonder if it would be desirable to have the full text of Mr. Guggenheim's statement.

Senator MAGNUSON. Yes. I wrote him and I got an answer from his secretary telling me they were going to send me the text and something else—because I wrote him a pretty strong letter.

AMENDED BUDGET

Senator ALLOTT. It may be a good idea, Mr. Chairman, to put in here at this point the amended budget for this Agency. It is \$744 million. The House has allowed \$723 million and you are asking for a restoration of \$21 million and either \$744 million or \$723 million is not a small amount of money to be spending on air safety.

Senator MAGNUSON. I do not know why people make these statements without knowing the facts, especially when it is a group which should be very responsible.

Mr. HALABY. I believe that statement was made before the House Appropriations Committee and before you considered your legislation. Mr. Guggenheim has spent a great deal of time and effort and he is a zealous flight-safety proponent.

Senator MAGNUSON. Well, he never once came down and appeared before any Appropriations Committee for the FAA or the CAA, to my knowledge, and I have been here many, many years. He never came down and he makes a statement like that and as far as I know he has never appeared before the Senate Commerce Committee, nor his organization. Well, that is somewhat beside the point.

SUPERSONIC TRANSPORT

Now we have the supersonic matter. Mr. Halaby, in your testimony before the House you indicated that it is essential to U.S. leadership in aviation and to the maintenance of our national security and prestige and to the improvement of our—that we proceed immediately with the development of a commercially feasible supersonic transport.

However, it is my understanding that some segments of the aviation industry are not convinced as to the immediacy of the commercial need for supersonic development or believe that it is necessary from the point of view of American prestige in foreign affairs.

Can you tell us a little about that in a general résumé of the sentiment in the industry which would, of course, naturally plan an important part in the development of supersonic transport?

Mr. HALABY. Yes, sir. Coming into office on March 3, 1961, I had occasion to review all of the thinking and work that had gone on in the past. One of the projects which had been considered last fall was a series of studies that at some future date should lead to the purchase and production of a commercial supersonic transport. These were excellent studies prepared by FAA, NASA and the Department of Defense.

FUNDS FOR STUDIES

However, when the study which proposed the expenditure of about \$37,500,000 as I recall it, for studies—excuse me, \$17.5 million the first year and \$37.5 million the second year, when they reached the Bureau of the Budget in the previous administration it stopped there.

My predecessor, I believe, attempted to convince the Budget Director of the validity of this program but was unable to do so.

I went over these studies and felt that we should reexamine them carefully with our new brothers in the Department of Defense and the NASA and so we completely reexamined the work and thinking and I reached the conclusion and recommended to the President that we start a modest, that is, \$12 million study program this year that might lead to no more than a \$50 million effort by the Government to study this before making the decision. I had very much in mind the aircraft project which had been going on for many years at a cost of almost \$1 billion and mindful of that we worked out a very, I believe, tight research program that would lead to a decision on the feasibility and the desirability of a particular specification for supersonic transport.

HOUSE ACTION

The next step was to present this to the House and we did so with the result indicated in our report, which was a cut of \$2 million from the \$12 million requested.

Senator MAGNUSON. For the record, the House approved \$10 million instead of \$12 million as requested for feasibility studies, studies expected to require 18 months to 2 years, that is their expectation and they expect the administrator to hold down the total cost and do a complete job for not more than \$20 million.

Mr. HALABY. This latter sentence, Mr. Chairman, is the one that we cannot live with. We cannot start studies leading to this development and complete them for that amount of money and if the Senate has to have this job done for that amount of money we would rather not undertake it because we know we cannot do it right.

Our estimate is that for 2 years something less than \$50 million would be required, which is \$5 million to \$6 million less than the estimates of last fall.

MEETINGS WITH MANUFACTURERS

Now after getting some encouragement from the hearings in the House we undertook a series of meetings with Boeing, Lockheed, North American, Douglas and Convair, the airframe manufacturers and Pratt Whitney, General Electric, Allison among the powerplant manufacturers. And some of my people attended the International Symposium in Montreal on the subject and we have gotten the very best ideas from the manufacturers, from the academic institutions and all sources.

We put this together into a consensus and that is how we get the figure of \$12 million and perhaps \$37 million next year. And we know with fair precision how we would use it over the two-year period and among the airframe manufacturers and powerplant manufacturers there is general support for this study phase. Having done that—

Senator MAGNUSON. I don't like to interrupt, but isn't it the basic reason of the manufacturers, both power and airframe manufacturers, that the project is so big financially that no one could do it themselves, there has to be someone such as you suggest and then a combination of all of these people would use it, maybe on a royalty basis?

Mr. HALABY. Well, I think that is in a wise direction.

The next step was to reevaluate everything we had learned as a result of all of the thinking and conferring that has resulted in re-computation by the Secretary of Defense and the head of the NASA.

And we then asked the airline presidents and the CAB to join with us in a meeting and we had that meeting last week and although, as you said, there is no immediacy in their demand for a commercial supersonic transport due to the heavy debt load and their low profit margin, there is a recognition by the airline presidents, conservative as well as liberal-minded, that this new airplane is coming. They agree that it is wise to develop it in a commercial as distinguished from a military manner, to develop it economically and to emphasize safety and profitability. They are therefore supporting our program, as they told me last Thursday, and these are all the major air carriers, either presidents or vice presidents.

They do not know whether they are going to buy one and we made it very clear to them that the Government doesn't know whether it will buy one or how to buy one—we told them because we have got to learn a great deal about it.

PROBLEMS OF SUPERSONIC FLIGHT

I might mention that I flew a B-58 to get an inkling of what it was all about and there are really very serious problems, starting at 36,000 feet and going through Mach 1 and up to 50,000 Mach 2 which we did for about 10 minutes. There are problems of sonic boom and there are all kinds of problems that need to be solved before we know. We have brought in a couple of models. They are reasonably representative of the configurations that the manufacturers have proposed and since there is no military requirement for these airplanes and since the airlines are not in position to step up and order one, recognizing that the development cost would be in the order of one-half billion dollars and the unit price would be in the order of \$15 million to \$16 million apiece—well, we are in the study phase.

Now if this Nation instead of wanting to go to the moon wanted to go to New Delhi in a commercial supersonic transport we could build a national-prestige airplane a lot sooner than 1970 or 1972 when a commercially profitable airplane could be developed in accordance with our studies and projects. But it is not as I understand our national policy or desire to go at Mach 3 to Paris or to New Delhi as soon as we go to the moon—

RELATIONS TO B-70 PROJECT

Senator ALLOTT. Of course we are fully aware of the B-70 project. Will you tell us what extent this might tie into the B-70 project with the idea that the B-70 project would turn into a possibility as a supersonic passenger plane; would you delineate that field?

Mr. HALABY. Yes, sir. We have a lot of supersonic technology at hand now, the X-1, X-2, X-3, X-5 and X-15. As you know the X-15 is flying in the order of mach 4 and 5 and upward of 100,000 feet. We also have the B-58 which flies a little better than mach 2 at 50,000 feet and they have daily runs through and over our traffic control systems over Texas. Then there is other supersonic technology in the fighter field and so we have learned a lot.

But North American, in coming to us with their problem, informed us what we already suspected, that it would cost more than \$500 million and take more than 10 years for them to make a commercially profitable civilian supersonic transport.

B-70 DESIGN

The reason that the B-70 is not such an article is that the engine is designed for military missions and they make a very excessive noise for operation out of any commercial airport, first. Secondly, those engines are designed for very high bursts of speed to get away from targets and the fuel consumption is extremely high from an economic standpoint. The fuel consumption of the engine would have to be developed from the standpoint of a commercial supersonic transport. And the airplane is designed for military reconnaissance.

Also the crew quarters that I have walked through are very small. The B-70 will teach us something about construction and about stability and control, about temperature effects—the engines of this airplane are so hot that you can see through portions of it when it is in operation. In other words, the opacity due to the heat and light radiation is such that you can actually see, like through an X-ray. The temperature of the engine is in the order of 500°C.—so the nuts and bolts and joints are going to have to be developed.

And we are going to learn a great deal about that when we first fly the B-70 test beds in about 2 years—actually the first flight would be January 1, 1963; we can learn a great deal about the technology of the supersonic, but we will not have anything resembling the supersonic airliner and North American is the first to agree—but this is not to say that we are not dependent upon the B-70—we are, and I hope it will continue.

Personally I believe it is a valuable and flexible adjunct to our deterrent power and as an agency we are counting on learning a great deal and without it it would cost more to develop a supersonic transport than it will with the B-70—

Senator ALLOTT. In summing it up, the B-70 could be expected to provide you with a lot of applied information but at the same time because of the specific use to which it is to be devoted it cannot be considered a forerunner or a prototype in any degree of a later adaptation of a passenger plane?

Mr. HALABY. That is an absolutely accurate statement that I would agree with.

I think it is also important to point out that due to the fact that the budget message which the President sent up disclosed at the same time a cutback in the B-70 program and the request for \$12 million for these studies.

Some people have considered that the President took money from the B-70 and put it into the FAA on these studies.

This was sheer coincidence. The B-70 program was not robbed to enable these civilian studies at all. And even if the B-70 program had been fully funded at the \$375 million level which some of its proponents desired, we would still be here justifying the \$12 million and North American would join us in this justification.

Senator ALLOTT. Usually we have had so many modifications of bombers, original bomber types into passenger aircraft—well, people

have asked us these questions and we have to have answers as to why to go ahead with the B-70 program and at the same time appropriate money on the other hand for this plane and I think you have made the distinction quite clear here.

STUDY OF ECONOMICS OF SUPERSONIC CRAFT

Senator MONRONEY. Mr. Chairman, I would like to ask: If in your studies of technology and aerodynamics, if you intend to include some study of the economics of this plane. I think this is going to be as valuable as the aerodynamic studies because if it is not a moneymaker I don't think the airlines would buy it. I do not think it would do us any good to build it and I do think it would be wise to have full knowledge on both scores as a result of this study.

Mr. HALABY. Well, I agree, and it is a statesmanlike suggestion that Senator Magnuson made; it is very appropriate and very relevant.

PARTNERSHIP BETWEEN GOVERNMENT AND AIRLINES

The Government should prescribe to the airlines. The airlines if they could afford it, particularly international carriers, if they could step up and buy one of these planes and scoop their competitors they would—but they cannot afford it and we have to have a partnership between the Government and the airlines to get this thing built at any time, much less sooner than the Russians because there is a \$3 billion market here and our airframe industry is not the healthiest and happiest industry in the United States. There are jobs in the Northwest area and southern California very dependent upon further help in this industry and we feel a responsibility for a little bit of initiative with some of these.

I think that those who founded the FAA felt that we should not build airplanes and I agree with that. But I do think that having given us the authority and the responsibility to help the industry and the airlines, that the Government should go forward with this project—

Senator MAGNUSON. Of course, our real problem here is not as much the exact amounts that you have here but just how far would we become committed in Government operations in this sort of thing, what would be the outlook of the ultimate cost, and I am sure that if we would have the assurance of the FAA in this case at the end of the study, if it is determined that it is not feasible, you would step up and say so?

Mr. HALABY. Yes, sir.

Senator MAGNUSON. Because this is the sort of thing that we need around here. We have had lots of programs that we would like to go ahead with but there has not been enough tendency to be frank about it and sometimes they continue and we waste a lot of money.

But the point I think that is compelling here is that sooner or later this is going to happen. Now, could we go ahead percentagewise or

commercialwise or any other way, or both, and once in a while be first in some of these things, because this could be just as important as a \$50 million expenditure in a man-of-war.

Mr. HALABY. The amount we are asking for is less than the cost of one international or intercontinental ballistic missile or one satellite.

Senator MAGNUSON. Yes. But Congress will have to make that decision as a matter of policy.

There were some suggestions made to the Senator from Oklahoma and myself about a year ago that we attempt to have an international development of this plane with the free nations of the world that were in the aircraft manufacturing business. But everyone I think realizes that this sort of thing is going to come.

RANGE AREA OF NEW CRAFT

Senator ALLOTT. Just one further question and a very short one. What is the general range area in your present thinking with respect to this craft?

Mr. HALABY. The distance?

Senator ALLOTT. Yes, sir.

Mr. HALABY. The range and distance that most of the manufacturers and airlines have been thinking about is approximately 3,500 nautical miles as, you might say, the long-range end of it, and we held some discussion of operating this at shorter ranges, such as 1,000 miles.

It seems to me that it would be of questionable economic value if it is much less than 1,500 miles.

At the beginning I think it is fair to say that it would have the greatest yield to the international carriers to take the maximum advantage of the 2,000 mile and more range. As you know, the B-58, the one that I flew down there, the following week took off from Fort Worth, it refueled over Pittsburgh and lit out from New York and refueled over the Atlantic and landed in Paris in 5 hours; 3 hours and 19 minutes of which was from New York to Paris.

Now, you get a real yield out of this high speed on that kind of run and so the international carriers would buy it and they would probably use it most at the 2,000 to 3,500 mile range, not that it will not have great value transcontinentally, which would be about a 1-hour-and-40-minute flight rather than 4½- to 5-hour flights that we now have.

TYPE OF RUNWAY REQUIRED

Senator MONRONEY. You would operate off the standard runway?

Mr. HALABY. The specifications we contemplate would have it operating on the regular international airport runways and we would try to see to it that the noise levels were tolerable to the community or as tolerable as the then existing aircraft.

I think that you have touched upon an important point in our position in the aircraft world. Three years ago we provided 93 percent of the aircraft for the world fleet. Last year with the turbine aircraft being built, we only provided about 34 percent and our foreign competitors provided the remaining 66 percent. This year it looks better because the edge that the British and French got on us

has been taken off and I guess that we are back up to 50 percent in this current year.

This is the next major airframe and powerplant combination and it is, we think about a \$3 billion market and therefore it is a great prize and I think it can be done but we think it ought to be started wisely and carefully so that we don't do it the hard way.

Senator MONRONEY. And it could be understood we are not committing ourselves by this study to funding a prototype plane and bringing it into production—

Senator MAGNUSON. No, and the record should be very clear on that and I don't think there is any such intention or recommendation.

Mr. HALABY. The President did not ask—

Senator MONRONEY. It should be clear that we are not sold down the river if we put millions into this and drop it some manufacturers do not build it. We want it thoroughly understood that it is preparing the ground until the time that someone finds it economically feasible to produce such a plane.

Senator ALLOTT. While I was thinking about this a few moments ago—you project this into how many years, 5 years?

Mr. HALABY. The day that you would buy a ticket at the Washington International Airport at Chantilly and go to Paris I would think would be in 1970 or 1972.

Senator MONRONEY. It will be finished for the takeoff?

Mr. HALABY. Well, there can always be—but I seriously promise you—

Senator ALLOTT. I just want to put in this thought. We have often wondered about various stages of development, whether the economy would justify the development that it was then undergoing and this was true, I think, when they even put out the DC-3's, that was a great big airplane in its time; but never in the history of the United States have we ever developed a plane, a commercial plane that we were not ready to accept and use, some of them more successfully than others, but the American public has been ready to use them, and so has the world.

Senator MAGNUSON. All right. It has been a long day.

Mr. HALABY. And I hate to prolong this but can I put something in the record?

Senator MAGNUSON. Yes. We will leave the record open.

FUNDS FOR PROTECTIVE FEATURES

Mr. HALABY. Just so that you will know what I have in mind. This \$432,000 in protective features for the air traffic control centers—I think I garbled it up a little.

Senator MAGNUSON. No, I think that we understand what you mean.

Mr. HALABY. This is not fallout shelters or any of that old argument and I think that I may have led you to believe it was.

Senator MAGNUSON. No; I think that the House might have been led to the belief that this was another fallout field and this involves—of course that could be, too, it could be used for that but this is protection of a different type.

RATE BASE OF INTERNATIONAL AIRPORT

Mr. HALABY. And then the Senator asked the question about the rate base of the new international airport. I do not want to give away my negotiating hand with the airlines but I do want to answer your questions and I would appreciate your help in improving the language that is in the House bill because if we are stuck with that we would be in very poor shape.

And with regard to Senator Allott's point about the rapid buildup, I would like to point out that we will provide you with information on our positions this year, the increase percentagewise of that for the past 5 years and the story on the 1,400 positions for maintenance and 560 positions for traffic control not in these estimates, but which, if you use these formulas that the boys apply, would be called for by the facilities in the estimate. We are squeezing and we will squeeze hard on the management control.

Senator ALLOTT. Well, I hope that you will. But I don't think that you can fairly compare this with the increases in the past 3 or 4 years because during all of this time we were undergoing this terrific buildup and it is just because we are looking at the future that we are interested in it.

HORSEPEN DAM AT DULLES AIRPORT

(The following letter and statement by the Agency were received subsequently:)

STERLING, VA., June 26, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee on Independent Offices, Committee on Appropriations,
U.S. Senate

DEAR MR. MAGNUSON: I live in Loudoun County just north of the Dulles International Airport. My address is R.F.D. 1, Sterling, Va.

I received a letter dated March 20, 1961, from the General Services Administration office, 4820 Chain Bridge Road, McLean, Va., and later, on June 8, 1961, condemnation notice from the U.S. district court, Alexandria, Va., advising me that my property adjoining Indian Creek (a natural stream which flows across my property) is being taken for the Federal Aviation Agency to flood with water. This tract is referred to as FE-4 on which I will be given flood easement, and is to be flooded with water backed up Indian Creek by a dam that will be constructed on Horse Pen Run to the north of the airport.

The water impounded by this dam would form a normal lake of approximately 32 acres of surface water at low level which is 247 feet above sea level and is within the present airport boundaries. The high water spillway is at 258 feet above sea level and when water accumulates to this level it will flood 300 acres. The dam proper is 270 feet above sea level.

The FAA alleges that the said purposes of such a dam are as follows: (1) To control water runoff from the north portion of the airport and to prevent flooding on the stream which Horse Pen Run empties into—Broad Run, (2) act as a silting basin, (3) irrigation purposes, and (4) fire control.

My neighbors and I are violently opposed to giving up the most fertile parts of our farms for this highly expensive unnecessary luxurious project that has no practical engineering advantages.

The money to undertake this project is included in the \$20 million plus that has been requested by the Federal Aviation Agency to complete the Dulles Airport and it is hoped for the following reasons that your committee will eliminate the money for this item from the appropriation entirely and if that is not possible then I request that the highest water level attained at any time by the dam be 247 feet above sea level thereby confining the water to the airport property:

(1) From an engineering standpoint this dam is not needed and the designing engineer has implied that he has no on-the-site data that shows that a control

system is required. The Federal Aviation Agency, however, thought that it would be nice to have a lake.

The paved area at the airport which theoretically would create a problem is approximately 300 acres. However, Horse Pen Run only carries about two-thirds of this watershed (from the airport) to the south and west runs into Cub Run thereby flowing to the Potomac River to the south. The entire watershed of Horse Pen Run is about 15,000 acres, and as can be seen from above this runoff effect of the 200 acres is less than 1.3 percent of the total. This is reduced even further to 0.3 percent when this water enters Broad Run as Horse Pen Run only makes up about one-fourth of Broad Run. This small amount could never create any flood problem.

(2) Due to the natural terrain of this area the 10-foot rise in elevation from 247 to 258 feet above sea level makes the water cover almost 10 times the surface area. The water over this area would have an adverse effect upon a number of farms and roads in the community. This water will kill all vegetation on my most productive land and leave it covered with a layer of mud. Waste is likewise compounded here because the FAA has already planted a tree belt to break the noise pattern—these trees in the proposed flood area will, therefore, die. I would lose control of my stream and my stock watering source. The natural stream channels would be filled with silt creating still more problems.

(3) The River Bend Dam project on the Potomac River which is under serious study by the Army Engineers, which will be built in the near future because of the acute water problems of the Nation's Capital, will back water up Broad Run almost to the fall of the Horse Pen Run Dam. When this dam is built there would absolutely be no need for any flood control system for Broad Run upstream.

Even if the River Bend Dam is not built for 5 years, the Federal Aviation Agency has not demonstrated that it will save any money on suits in that length of time nor with the wildest imagination save enough to construct this expensive flood control dam.

(4) The said effect of this dam might be to reduce flood damage on Broad Run, but this would be gained by causing high water damage around the shore of the impounded water. In my opinion, this would be greater than any flood damage on Broad Run and it seems unnecessary for the FAA to spend tax money to take value away from my property to give an added speculated protection to Broad Run shores. Consequently this dam would create more flood problem than it can prevent.

(5) The FAA has alleged that a silt basin is necessary. The 32-acre lake cannot possibly act as a silt basin nor be of any useful value as the vegetation on the airport will be well rooted when sufficient silt has collected for reclamations. From a price standpoint it is more expensive to salvage silt than to build up land with accepted farm practices. A far more practical solution to this situation is a network of small ponds and terraces which controls erosion. This has been demonstrated by the Department of Agriculture for several decades.

(6) The FAA also alleges that they need a lake to irrigate.

(7) A lake to irrigate from without an irrigating system is of no practical value. In my opinion, based on the grass growth of this valley, an irrigating system would be foolish. For example, when steers are allowed 1½ acres range each on grass the average gain is 1½ pounds each per day. Any 32-acre lake is obviously not sufficient to irrigate 10,000 acres. Furthermore this unnecessary irrigating system is something that the FAA will at a later date seek more funds from this committee.

(8) The FAA further alleges that water for firefighting is needed. Insofar as fire control is concerned, water is ineffective on jet aircraft fires. Chemicals have been accepted for many years in controlling such fires. For brush fires it may serve some useful purpose but again a network of small ponds throughout the 10,000 acres of the airport would be of more practical value as this lake is located in the far corner of the airport without a network of roads, pipelines, or pumping stations.

I have witnessed a winter and spring this year of unusually high precipitation along with the winter's thaw and at no time during this period has there been any unusual flooding. This is with 90 percent of the concrete work finished at the airport and without a dam, a cover crop planted, or the proposed tree belt planted.

It is respectfully requested that your committee delete these funds from the proposed budget of the FAA.

Sincerely,

THOMAS E. MARSHALL III.

STATEMENT RESPONDING TO THE POINTS RAISED IN MR. THOMAS E. MARSHALL'S LETTER TO SENATOR MAGNUSON ABOUT THE HORSEPEN DAM AT THE DULLES INTERNATIONAL AIRPORT

During the early development stages of the Dulles International Airport, it was realized that the substantial areas to be paved would result in an increase in water runoff. In order to control this condition and confine the runoff within the limits existing prior to construction, it was determined that a flood retardation dam would be appropriate for this purpose.

To assist FAA in the feasibility studies and to provide technical assistance, the services of the State of Virginia and the U.S. Department of Agriculture, Soil Conservation Service were requested. After an extensive investigation, they recommended the construction of a dam across Horsepen Run. The engineering criteria, as developed by them, were incorporated in the final design and their recommendations were followed in all respects. They are of the opinion that the temporary retention of water outside the airport boundary will not be of sufficient duration to affect the vegetation.

The lake created will have a normal water elevation of 247 feet above sea level and will be entirely within the airport property. In order for the lake to have flood retention value, the storage capacity above this elevation is considered necessary. To properly protect the Government, flowage easements are being obtained to elevation 258 feet, the maximum anticipated high water level. It would be only under the most unusual and severe rainfall that this upper limit would be reached. In fact, the probability of such occurrence would be once in 50 to a hundred years.

The control features of the dam will permit release of runoff with relatively small rise in pool level. Periodically the concentration may raise the level to a point where water will be retained on lands upstream and adjacent to the airport boundary for relatively short periods of time. However, under normal rainfalls these flood elevations will be well below the anticipated possible maximum.

The pool thus impounded will serve as a silting basin and the sediment obtained therefrom will be reclaimed and used for topdressing and other maintenance purposes. The storage will also make available 32 million gallons of water for irrigation and fire control.

The authorization to do this work was granted by the enabling legislation, act of September 7, 1958, 64 Stat. 770, as follows:

"SECTION 1. * * * to construct * * * (including all buildings and other structures necessary or desirable therefor).

"Sec. 2. * * * such lands and interests in lands and appurtenances thereto, including aviation easements or air-space rights, as may be necessary or desirable for the construction, maintenance, improvement, operation, and protection of the airport: * * *"

The budgeting for this project was included in the basic airport program and was included in prior appropriations.

We note that Mr. Marshall makes certain references to the River Bend Dam on the Potomac. This project has been a highly controversial proposal for many years. There has, therefore, been no definite flood level established. Presumably no construction can be anticipated on this project in the near future.

COMMITTEE RECESS

Senator MAGNUSON. All right. Thank you very much, gentlemen. We will recess until tomorrow at 10 o'clock.

(Thereupon, at 6:30 p.m., Tuesday, June 20, 1961, a recess was taken until 10 o'clock the following day, Wednesday, June 21, 1961.)

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DEPARTMENT OF THE HISTORY OF ARTS
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INDEPENDENT OFFICES APPROPRIATIONS FOR 1962

WEDNESDAY, JUNE 21, 1961

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:30 a.m., pursuant to recess, in room F-37, U.S. Capitol Building, Hon. Warren G. Magnuson (chairman) presiding.

Present: Senators Magnuson, Saltonstall, Allott, and Schoeppel.

NATIONAL AERONAUTICS AND SPACE COUNCIL

STATEMENT OF EDWARD C. WELSH, EXECUTIVE SECRETARY

AMOUNT RECOMMENDED

Senator MAGNUSON. The committee will come to order.

We will take up the National Aeronautics and Space Council first today, in the Executive Office of the President.

Senator MAGNUSON. There is no change. The amended budget from the new administration was \$320,000 and the House recommended \$320,000, which is a new item.

Mr. WELSH. This is correct, sir.

Senator MAGNUSON. We will place in the record your letter and justifications.

(The information referred to follows:)

THE WHITE HOUSE,
Washington, June 5, 1961.

HON. WARREN G. MAGNUSON,
U.S. Senate, Washington, D.C.

DEAR SENATOR: Your letter of June 2 thoughtfully inquires as to whether any changes in the National Aeronautics and Space Council portion of the Independent Offices Appropriations bill for 1962 are required in the public interest.

I appreciate your inquiry. I am also pleased to advise that the House bill (H.R. 7445), as reported by the Appropriations Committee, recommended approval of the full appropriations requested. I testified on May 16 in support of the funds needed for the salaries and expenses of the Council. This amount was approved by the House subcommittee, as well as by the full committee.

Again let me express my appreciation for your letter.

Sincerely,

E. C. WELSH,
Executive Secretary, National Aeronautics and Space Council.

NATIONAL AERONAUTICS AND SPACE COUNCIL

GENERAL STATEMENT

The National Aeronautics and Space Council requests an appropriation for fiscal year 1962 of \$320,000. For the remainder of fiscal year 1961, the newly reactivated Council is being financed from the appropriation "Emergency fund for the President, national defense, 1961."

The Council was provided for by the National Aeronautics and Space Act of 1958. Under the recent amendment, Public Law 87-26, approved April 25, 1961, the Council is located in the Executive Office of the President and composed of the Vice President as Chairman, the Secretary of State, the Secretary of Defense, the Administrator of the National Aeronautics and Space Administration, and the Chairman of the Atomic Energy Commission. It is the purpose of the Council to advise and assist the President, as he may request, with respect to the performance of functions in the aeronautics and space field, including five broad areas of coordination specifically delineated by statute. The basic legislation authorizes a staff, headed by an Executive Secretary appointed by the President with the advice and consent of the Senate, to assist the Council in its activities.

The \$320,000 appropriation requested is to provide the estimated needed funds to meet the salaries and other expenses of the Council staff. The attached tables indicate the planned use of the requested funds by object classification and the detail of planned expenditures for personal services.

It is emphasized that the amounts indicated are planning figures based on our current best estimate of the costs of future operations. We have no past experience as an organization to guide us in preparing our estimates.

A total staff of about 18 is planned, including the Executive Secretary, the three other positions authorized in the statute, 7 professional assistants and 7 secretarial-clerical positions. The professional staff, under the supervision of the Executive Secretary, will have among its responsibilities the following: Keeping fully informed, analyzing the information, identifying areas of duplication and omission; preparing reports and recommendations—regarding both civilian and defense space activities and programs. In some instances a professional staff member will be assigned to follow closely a specific space program which involves several agencies of the Government. In other cases an individual will devote his major attention to the overall space activities of a particular agency, such as the Department of Defense or the National Aeronautics and Space Administration. As currently estimated, such a staff will meet the needs of the Council, providing the support necessary to enable the Council to perform its functions for the President.

To supplement the full-time work of the staff, funds are included to provide for consultant services which may be required from time to time on specific projects. Provision is made in the estimates for travel to research and development sites and for rental of motor vehicles on an as needed basis. The estimates for rent, communications, and utilities (object class 23) and other services (object class 25) are predicated on the assumption that the majority of the Council staff may be temporarily housed in a small building without other tenants and would therefore pay the entire costs of communications, office renovations if necessary, and security guard services. If other office arrangements can be made, costs for these items may be less than estimated. There is no way of knowing at this time, however, what the final arrangements will be. The estimates for equipment represent part of the one-time cost of office equipment for the staff. While this estimate will not completely outfit the entire staff, the remainder of the equipment is provided for by currently available funds.

A reasonable degree of flexibility to shift funds as between the various estimates and within the total appropriations is needed in order to develop the most effective pattern of expenditures for this staff.

SALARIES AND EXPENSES

Object classification

[In thousands]

	1960	1961	1962
11 Personnel compensation:			
Permanent positions.....			\$201,285
Positions other than permanent.....			23,715
Other personnel compensation.....			4,000
Total, personnel compensation.....			229,000
12 Personnel benefits.....			15,000
21 Travel and transportation of persons (including hire of motor vehicles).....			20,000
22 Transportation of things.....			1,000
23 Rent, communications, and utilities.....			5,000
24 Printing and reproduction.....			5,000
25 Other services.....			32,000
26 Supplies and materials.....			3,000
31 Equipment.....			10,000
Total obligations.....			320,000

Personnel compensation (11), \$229,000

The funds requested for 1962 will provide 18 permanent positions, compensated as indicated in attachment C. In addition, funds are provided for consultants and other intermittent employment and for overtime and holiday pay.

Personnel benefits (12), \$15,000

Personnel benefits include agency contributions to the civil service retirement system, Federal group life insurance, and Federal employees health benefits programs.

Travel and transportation of persons (21), \$20,000

This estimate is to provide funds for travel to space research and development sites for firsthand study by Council staff. Also included are funds for payment to the GSA motor pool for hire of automobiles on an as needed basis for transportation of officials and staff of the Council on official business in the Washington area.

Transportation of things (22), \$1,000

This estimate covers costs of shipment of supplies and materials and costs of moving household goods as provided by law.

Rent, communications, and utilities (23), \$5,000

Most of this amount will be reimbursed to the General Services Administration for telephone services and equipment use and other utilities as required. Costs of telegraph services and penalty mail are also included.

Printing and reproduction (24), \$5,000

Printing and binding of reports, studies, and other publications as needed, and normal duplicating done on a commercial or reimbursable basis is provided for under this estimate.

Other services (25), \$32,000

This amount includes reimbursements to the Civil Service Commission for personnel security checks, to the General Services Administration for security guard services and other miscellaneous services, and to the Public Health Service for a share of the cost of maintaining a health room for employees in the area. Office equipment repair and other miscellaneous contract services as may be needed are also provided for.

Supplies and materials (26), \$3,000

This amount covers costs of office supplies and other work materials such as legislative bills, reports, and enacted legislation, and periodicals.

Equipment (31), \$10,000

Office furniture and equipment, including such items as typewriters and calculators are included in this estimate.

Personnel summary

	1960	1961	1962
Total number of permanent positions.....			18
Full-time equivalent of all other positions.....			2
Average number of all employees.....			18
Number of employees at end of year.....			18
Average GS grade.....			11.9
Average GS salary.....			\$10,475

Detail of personal services

Grades and ranges	1962	
	Number	Total salary
Special positions at rates equal to or in excess of \$16,530:		
Executive Secretary.....	1.0	\$20,000
Assistant to the Executive Secretary.....	3.0	57,000
GS-17, \$16,530 to \$17,570: Special assistant.....	3.0	51,150
GS-15, \$13,730 to \$15,030: Special assistant.....	1.0	14,380
GS-14, \$12,210 to \$13,510: Special assistant.....	1.0	12,730
GS-13, \$10,635 to \$11,935.....	1.0	11,155
GS-12, \$8,955 to \$10,255.....	1.0	9,475
GS-11, \$7,560 to \$8,860.....	1.0	8,340
GS-9, \$6,435 to \$7,425.....	4.0	27,720
GS-7, \$5,355 to \$6,345.....	2.0	11,700
Total permanent.....	18.0	223,650
Deduct lapses.....	1.8	22,365
Net permanent (average number, net salary).....	16.2	201,285
Positions other than permanent; Intermittent employment.....		23,715
Other personal services: Overtime and holiday pay.....		4,000
Total personal services.....		229,000

* WORK OF SPACE COUNCIL

Senator MAGNUSON. Will you tell us just briefly what the Space Council does?

Mr. WELSH. I have a brief statement I could put in the record or would you like me to read it, sir?

Senator MAGNUSON. Yes. A short statement?

Mr. WELSH. Just a page and a half.

Mr. Chairman, you have before you an estimate of the funds needed to make the staff of the Council an effective unit.

As you know, in 1958 the Congress provided for a civilian Executive Secretary, to be appointed by the President with the advice and consent of the Senate. This was done in late March, about 3 months ago. It also authorized the Executive Secretary to appoint and fix the compensation of such other personnel as may be necessary to perform the duties required by the Council to carry out its responsibilities.

STAFF NEEDS

In the past years, no action was taken to fill those positions and no appropriation for such purpose was requested. The record itself is the best witness as to whether such inaction was wise or unwise.

President Kennedy has informed the Congress that he wants the Council to be "an active and useful instrumentality." To do this, it is considered necessary to have a staff of highly competent persons

to enable the Council to carry out effectively the functions specified in the act.

In estimating the staff requirements, I have attempted to bring into proper focus the following principles, which I have found helpful in the past: (a) obtain as competent and objective personnel as possible; (b) start with a small staff, relative to the job to be done, and expand only as the necessary workload requires; (c) keep the staff organization flexible in order to cope with changes in priorities; and (d) avoid duplicating existing staffs.

Without any previous pattern to follow in this new field, I plan to reflect those general standards in the use of the appropriations requested.

The printed record will show that Members in both bodies, when I testified on other legislation before the Space Committees, suggested that a substantially larger staff might well be needed. My reaction is that they may well be correct but that I would rather start with this size appropriation, with as much flexibility as possible for shifting within the estimates, and suggest a larger amount only when experience has shown that more funds are necessary to get the job done.

I will try to answer any questions which you, Mr. Chairman, and the members may have.

Senator MAGNUSON. Mr. Welsh, you start with 18 people?

SALARIES ESTIMATE

Mr. WELSH. That is the estimate, sir, yes.

Senator MAGNUSON. Which gives you \$223,650 in salaries, with certain deductions there. But the total personnel services run \$229,000.

Now first of all, some of the members of the committee know, but for the record tell us just briefly what the Space Council does. We know it is in an advisory capacity.

ADVISORY FUNCTIONS

Mr. WELSH. Yes, advisory to the President. It is composed of the Vice President as Chairman, the Secretary of State, the Secretary of Defense, the Chairman of the AEC, and the Administrator of NASA. They are the members of the Council.

INTERAGENCY GROUP

Senator MAGNUSON. The reason I wanted this in the record is this an interagency group?

Mr. WELSH. This is correct, at a level to coordinate problems that arise regarding space, to recommend policy changes to the President if those seem to be necessary. As an example, in this last space appropriations request, the Vice President and I brought together the various agencies to get their input in order that we could get a coordinated package before it went to the President.

Senator MAGNUSON. And this is to be differentiated between any outside advisory councils composed of space scientists and things of that kind?

Mr. WELSH. This is correct. We might call in consultants ourselves sometimes. You are quite correct, sir.

Senator MAGNUSON. But it is purely an interagency group in which the Vice President has been named the Chairman?

Mr. WELSH. That is correct.

Senator MAGNUSON. And composed of these agencies that you have just mentioned?

Mr. WELSH. That is correct. And not an operating group.

Senator MAGNUSON. Not an operating group. But your job is to be the permanent Executive Secretary, which would correlate these activities, keep the records, call the meetings and do what the group suggested?

Mr. WELSH. And anything that the President asks us to look into.

Senator MAGNUSON. That the President asks you to look into.

Mr. WELSH. Correct, sir.

Senator MAGNUSON. You may get a job from the President suggesting you look into any one of these agencies as to their integration into the space program or not?

Mr. WELSH. That is correct.

Senator MAGNUSON. I see. Are there any questions?

Senator ALLOTT. I have one question.

DANGER OF DUPLICATION

The tendency, as you know, Dr. Welsh, in these matters is that they grow like Topsy under that law which seems to have been recently recognized, known as Parkinson. I would like to be sure that what we do not do here—and I recognize the necessity for this, perhaps the advisability of it—but what I would not like to see is this start growing, where you start bringing in special advisers to you because you feel that you have to have your own staff to advise you on this thing that is the National Space Agency. We have this sort of duplication going on all over our Government, and the chairman and I, and Senator Schoepel, have been through this time and time again, in the last 2 weeks. It is not your intention to do this. You are going to stick in this to the coordinating area with the idea of supplying a more cohesive goal and operation in this area?

Mr. WELSH. This is certainly correct, sir. And in my little statement I tried to make clear my intention on that. There are already existing staffs of scientists—we have a very renowned one at my right here, Dr. Dryden—and others in other areas that can be relied upon to bring information in. We can evaluate it so we get a coordinated picture to present to the President. But, not to set up another group of scientists that offset and debate with the scientific advisory group and the group in NASA and the group in Defense or in AEC, we want to be able to evaluate, not to duplicate.

REPRESENTATIVE OF DEFENSE

Senator MAGNUSON. How is Defense represented, by each Department of Defense or just the Defense Department?

Mr. WELSH. Just the Secretary, sir.

Senator MAGNUSON. The Secretary of Defense himself.

Mr. WELSH. It seems to us, and I would state it as a matter of principle, that while we will have available to us, I am sure, cooperation from competent people in the various services through the Sec-

retary of Defense, it is up to him to administer and organize and handle his own department. We deal through him.

LIAISON WITH SCIENTIFIC BODIES

Senator MAGNUSON. Now what sort of liaison, and I presume you have liaison, do you have with the President's scientific adviser and his shop?

Mr. WELSH. Well, first of all, we are located right in the same office building, and I have almost daily meetings with Dr. Wiesner, or members of his staff.

Senator MAGNUSON. And I presume the President might transmit some of his ideas or proposals through Dr. Wiesner to you to take care of?

Mr. WELSH. He might, or it might be the other way around.

Senator MAGNUSON. It might be the other way around. But the whole thing is to correlate this whole effort?

Mr. WELSH. This is correct, sir.

Senator MAGNUSON. Now I notice you have no independent agencies on this Board, have you, except NASA.

Mr. WELSH. NASA and the Atomic Energy Commission.

FCC MEMBERSHIP

Senator MAGNUSON. You do not have the FCC on there?

Mr. WELSH. No, sir. But we do have, and it is in the law, the authority to bring in other agencies that are involved in space matters, such as on space communications problems.

Senator MAGNUSON. Yes, I was thinking of that. We have had that up here off and on for the last 10 days.

Mr. WELSH. I might say that at staff level we have had some meetings already on that problem and have in each case had the FCC people in to the discussion meetings at the staff level. They are involved in that problem and should have an opportunity to be there at the same time the other members are.

COMMERCE GROUPS

Senator MAGNUSON. Yes. The Department of Commerce is in there, which will represent the Bureau of Standards and the Weather Bureau?

Mr. WELSH. And the Weather Bureau. Both would be called in. They are not members of the Council.

Senator MAGNUSON. Why would not the Department of Commerce be a member of the Council with the weather problems you are having?

Mr. WELSH. Well, we could have had a number of agencies, Mr. Chairman, on the Council as such. It was the sense of the Congress that these agencies that are named be those that have the predominant and continuous interest in space. There are, however, a number of other agencies we could have listed and expanded it thereby. Putting it just the other way, however, we thought if we could call in, on a particular problem, such as where the Weather Bureau is involved, the Department of Commerce for meteorological space problems, the FCC on the communications problems, and so on, we would get a flexibility there without having a very large Council and calling meetings that did not involve a number of the other agencies.

LIMITED TO SPACE CONSIDERATIONS

Senator MAGNUSON. Do you limit yourself wholly to space?

Mr. WELSH. Yes, sir. That, however, is not exactly a small horizon.

Senator MAGNUSON. No, it is not a small horizon.

Senator ALLOTT. You mean the sky is not the limit any more.

[Laughter.]

Senator MAGNUSON. Do you ever get involved in another very serious and important field of governmental activity called depth?

Mr. WELSH. I recognize the fact it is very important. It is not within our area of jurisdiction, though, sir.

Senator MAGNUSON. But there is no reason why this Council could not phase into the correlation of the very important work we are going to have to do in oceanography, is there?

Mr. WELSH. Not if we were asked to do so by the President, sir.

Senator MAGNUSON. You could be asked to help correlate this, too?

Mr. WELSH. Certainly.

Senator MAGNUSON. But there is an interagency on oceanography?

Mr. WELSH. Yes, sir.

Senator MAGNUSON. Because some of these problems have to be correlated, too.

Mr. WELSH. As long as we do not start duplicating functions.

Senator MAGNUSON. That is right. Because I think you will find the Defense Department will tell you this could be just as important, or more so, in case something happened as the space field.

Mr. WELSH. I think it is tremendously important.

Senator MAGNUSON. Any questions, Senator Schoeppel?

REPORTING PROCEDURE

Senator SCHOEPEL. Do you report direct to the President of the United States?

Mr. WELSH. Yes, sir; the Council does. And as the Chairman of the Council is Vice President, in a sense I report to both of them.

Senator SCHOEPEL. Well he would know, at least the executive branch of the Government—

Mr. WELSH. The President has called both of us in.

Senator SCHOEPEL. As I understand it, you are trying to tie up all the loose ends in these various agencies which you are representing and trying to streamline the activity, prevent duplication, and make suggestions as to how the approaches should be.

Do you contemplate having experts in every one of these lines later to be added to your staff?

Mr. WELSH. I would not so contemplate.

Senator SCHOEPEL. You would not?

Mr. WELSH. No, sir.

Senator SCHOEPEL. I am glad to hear you say that.

Mr. WELSH. I think the degree of specialization should be provided in the operating agencies, and if they do not provide it, then they should get it. That is my reaction, sir.

Senator SCHOEPEL. In other words, it is not your intent and purpose to develop within this council experts in every specific phase that would duplicate some of the work that other agencies would be doing?

Mr. WELSH. It is not my intention to do that, sir.

Senator SCHOEPEL. Because I can see where this thing could pyramid as the Senator from Colorado suggested. We have seen these things grow and grow and grow. There is no cut-off date in this legislation?

Mr. WELSH. No, sir. I might add, I cannot say that we would not at some time need a few more people, or maybe even not as many as we plan now, because there is not any pattern of experience. But as for the principle that you just expressed, I am heartily in agreement with it.

REPORTS TO CONGRESS

Senator SCHOEPEL. When you make your period record do you contemplate giving the Congress, this committee, the benefit of those reports?

Mr. WELSH. I would contemplate giving the Congress the benefit of anything that we have, other than what the President—

Senator SCHOEPEL. Other than what is classified?

Mr. WELSH. Other than what the President would advise he would handle in some other way. But I have been up here on the Hill long enough to know to keep the people of Congress as well advised as I can.

Senator SCHOEPEL. Now on your various activities, I think we should have something in the record on this. Do you involve yourself in anything with reference to the sums of money involved between the various and sundry departments?

Mr. WELSH. Yes, to this degree; that in the matters that have recently, this year, come up as to whether additional funds are needed for the space effort, the coordination, the preparation and the evaluation of those additional funds have gone through our staff and transmitted through the Vice President to the President, even on the new fund presentation as well as on the add-on that came up on March 28 for additional booster money. In both cases, we had a chance to go over it and make certain that all of the parties involved had a chance to look at this thing, give their input and suggestion to it, even though it might be just one agency that has the primary responsibility?

LIAISON WITH BUDGET BUREAU

Senator SCHOEPEL. I take it then you have pretty good liaison also with the budget department?

Mr. WELSH. Very close. In fact, we were eager to have, and did have, in these conferences on the preparation of the new space program, the representatives of the Bureau of the Budget from the beginning, so they knew what was going on all the way along.

Senator SCHOEPEL. Thank you.

Senator MAGNUSON. If there are no further questions, thank you for coming.

Mr. WELSH. Thank you, Mr. Chairman.

Senator MAGNUSON. Now we will go to the space agency.

Let the record show that Mr. Webb has been delayed but will be here just as soon as he can, and Dr. Dryden is here representing the agency.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

STATEMENT OF JAMES E. WEBB, ADMINISTRATOR, AND HUGH L. DRYDEN, DEPUTY ADMINISTRATOR; ACCOMPANIED BY DE MARQUIS D. WYATT, DIRECTOR, OFFICE OF PROGRAMS; MAJ. GEN. DON R. OSTRANDER, DIRECTOR, OFFICE OF LAUNCH VEHICLE PROGRAMS; DR. CHARLES H. ROADMAN, ACTING DIRECTOR, OFFICE OF LIFE SCIENCE PROGRAMS; IRA H. ABBOTT, DIRECTOR, OFFICE OF ADVANCED RESEARCH PROGRAMS; RALPH E. ULMER, ASSISTANT DIRECTOR FOR FACILITIES, OFFICE OF PROGRAMS; AND HOLT F. B. WATTS, JR., ACTING BUDGET OFFICER

BUDGET ESTIMATE

Senator MAGNUSON. Now for the purpose of the record, the national space agency in 1961 received \$964 million. The January budget, the first budget set up, increased that to \$1,109,630,000. The amended budget, which followed the first January budget, upped that to \$1,235,300,000. The House recommended \$1,200 million, which is \$236 million over the 1961 appropriations but minus \$35,300,000 of the 1962 amended estimates. And then there have been some subsequent supplement proposals which we will discuss later, Doctor.

Now we will put in the record in full your letter to the committee. (The letter referred to follows:)

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C.

Hon. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of the Independent Offices Appropriation
Bill for 1962, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Your letter dated June 2, 1961, requested that I advise you whether any changes in the independent offices appropriation bill for 1962 (H.R. 7445) as passed on June 7, 1961, by the House of Representatives were required in the public interest. The House action in reducing the NASA estimates by \$35,300,000 is not consistent with our responsibility for accelerating the Nation's nonmilitary space programs, particularly in the light of the President's special message to the Congress of May 25, 1961, in which he requests additional increases in funds for space activities to meet specified national goals. NASA's part of these increases, reflected in its revised budget submission of June 1961, is \$549 million as summarized below:

[Thousands of dollars]

	Original submission, January 1961	Revised submission, March 1961	House action on revised submission	Additional request, June 1961	Current submission
R. & D.....	819,819	919,539	892,000	+376,000	1,295,539
S. & E.....	189,986	196,686	191,750	+30,000	226,686
COF.....	99,825	119,075	116,250	+143,000	262,075
Total.....	1,109,630	1,235,300	1,200,000	+549,000	1,784,300

The House action, therefore, cannot be absorbed without jeopardizing the national goals set by the President. The additional funds cited above must also be provided if we are to attain the objectives set forth by President Kennedy in his May 25 message.

Accordingly, NASA requests full restoration of the House reduction and the implementation of the President's special message of May 25. We understand that we will have the opportunity to explain in detail the necessity for these actions at a hearing before your committee on June 21, 1961.

A statement is attached of specific changes recommended in H.R. 7445 as passed by the House.

Sincerely yours,

JAMES E. WEBB, *Administrator.*

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION RECOMMENDED CHANGES TO
THE NASA ITEMS IN H.R. 7445 AS PASSED BY THE HOUSE JUNE 7, 1961

SALARIES AND EXPENSES

Budgetary data

1962 budget:

Original submission.....	\$189,986,000
First revision, March 1961.....	+6,700,000
Bill as submitted to House Appropriations Committee.....	196,686,000
Committee action on budget.....	-4,936,000
Bill as reported to House.....	191,750,000
Restoration proposed.....	4,936,000
Second revision, June 1961.....	30,000,000
Bill as changed.....	226,686,000
1962 bill as changed.....	226,686,000
1961 appropriation.....	170,760,000
Change from 1961 to 1962.....	+55,926,000

RECOMMENDED CHANGE NO. 1

Page 30, line 6, strike out "\$8,000,000" and insert in lieu thereof "\$10,395,000".

Summary

The House cut approximately 5 percent from the NASA request for travel funds, reducing the amount from \$8,395,000 to \$8 million. The basis for this action was not reported.

The recommended change proposes full restoration to the amount requested in the revised submission, plus \$2 million to implement the President's additional request of May 25. The total request of \$10,395,000 exceeds the level of the fiscal year 1961 by \$4,321,000 of which about 80 percent is required for the direction and coordination of the agency program functions and for travel to launching sites and global tracking stations. The balance is for such items as increased contract monitoring and participation in the proposed conference which will be held under the auspices of the United Nations.

RECOMMENDED CHANGE NO. 2

Page 30, lines 8 and 9, strike out "\$191,750,000" and insert in lieu thereof "\$226,686,000".

Summary

The House cut \$4,936,000, or approximately 2½ percent, from the NASA request for "Salaries and expenses." The basis for this action was not reported.

The recommended change proposes full restoration to the amount requested in the revised submission. In addition \$30 million is requested to implement the President's May 25 request. Most of this increase is intended to provide 3,300 new positions to permit staffing for the accelerated program envisaged by the President. The overall increase of \$55,926,000 over the 1961 appropriation is largely for staff increases, as well as for the travel, transportation, communications, rents, and utilities necessary for their support.

RESEARCH AND DEVELOPMENT

Budgetary data

1962 budget:		
Original submission.....		\$819,819,000
First revision, March 1961.....		+99,720,000
Bill as submitted to House Appropriations Committee.....		919,539,000
Committee action on budget.....		-27,539,000
Bill as reported to House.....		892,000,000
Restoration proposed.....		+27,539,000
Second revision, June 1961.....		+376,000,000
Bill as changed.....		1,295,539,000
1962 bill as changed.....		1,295,539,000
1961 appropriation, adjusted.....		668,503,000
Change from 1961 to 1962.....		+627,036,000

RECOMMENDED CHANGE NO. 3

Page 30, line 20, strike out "\$892,000,000" and insert in lieu thereof "\$1,295,539,000".

Summary

The House cut approximately 3 percent from the NASA request for "Research and development." The basis for the cut of \$27,539,000 was not reported.

The recommended change proposes full restoration of the amount requested in the revised submission, plus \$376 million in implementation of the President's May 25 request. The program requiring the largest amount of the increase, \$130,500,000, is Apollo, which has the missions of achieving long duration manned flight in an earth orbit, a circumlunar flight, and a lunar landing, exploration, and return. Other programs requiring substantial amounts are: Lunar and planetary exploration, \$56 million; communications satellites, \$50 million; and Nova, the launch vehicle necessary for lunar landing and return, \$48,500,000. The remainder of the increase covers operational support at NASA installations and additional amounts for such programs as life sciences, meteorological satellites, launch vehicle technology, and liquid propulsion.

CONSTRUCTION OF FACILITIES

Budgetary data

1962 budget:		
Original submission.....		\$99,825,000
First revision, March 1961.....		+19,250,000
Bill submitted to House Appropriations Committee.....		119,075,000
Committee action on budget.....		-2,825,000
Bill as reported to House.....		116,250,000
Restoration proposed.....		+2,825,000
2d revision, June 1961.....		+143,000,000
Bill as changed.....		262,075,000
1962 bill as changed.....		262,075,000
1961 appropriation, adjusted.....		124,737,000
Change from 1961 to 1962.....		+137,338,000

RECOMMENDED CHANGE NO. 4

Page 31, lines 4 and 5, strike out "\$116,250,000" and insert in lieu thereof "\$262,075,000."

Summary

The House cut of \$2,825,000 represents approximately 2½ percent of the NASA request of \$119,075,000. No basis for this action was reported.

The recommended change proposes full restoration of the amount requested in the revised submission, plus \$143 million for specific construction projects associated with the acceleration of space effort discussed in the President's message of May 25. Two major projects involved in the increase are the Manned Space Flight Laboratory associated with the Apollo program, \$60 million, and the NOVA development and launch facilities associated with the work necessary for early availability of a high thrust vehicle suitable for lunar landing and return, \$28 million. Other project increases include a Manned Flight Network for additional tracking and data acquisition stations, \$5 million; facilities for F-1 engine program, \$23,500,000; facilities for J-2 engine program, \$6,500,000; National Nuclear Rocket Development Center, \$15 million; and \$5 million additional for advanced facility planning and design.

RECOMMENDED CHANGE NO. 5

Page 31, lines 5 through 8, strike out "of which \$20,000,000 shall be available for emergency constructions of facilities in accord with section 3 of the legislative authorization for appropriations for the fiscal year of 1962."

Summary

Authorizing legislation already carries provision for the emergency construction of facilities and the language proposed in the House bill conflicts with the language of the proposed authorization bill. The administration of funds appropriated will be facilitated by deletion of language as above recommended.

GENERAL PROVISIONS

RECOMMENDED CHANGE NO. 6

Page 31, line 15, strike out "15,000" and insert in lieu thereof "\$20,000."

Summary

The House cut \$5,000 or 25 percent from the NASA request for funds to be available for scientific consultations and emergency or extraordinary expenses. The basis for this action was not reported.

The recommended change proposes full restoration of the amount requested in the revised submission. The requested amount is fully in line with the program expansion for which NASA will be responsible and with the estimated needs for consultation and emergency or extraordinary expenses to meet this responsibility. Lack of flexibility in this area could cause the loss or delay of scientific intelligence of vastly greater value to the goals of NASA than the proposed economy.

GENERAL STATEMENT

Senator MAGNUSON. Do you want to read Mr. Webb's statement?

Mr. DRYDEN. I think it would be advisable, sir, as an introduction.

Senator MAGNUSON. All right.

Mr. DRYDEN. Mr. Chairman, members of the committee, the bill before you is H.R. 7445, passed by the House of Representatives on June 7, which provides \$1,200 million in new obligational authority for the National Aeronautics and Space Administration. Some aspects of the budgetary and legislative history are pertinent to our discussion of the bill.

BUDGET CHANGES

The original fiscal year 1962 budget submission in January of this year for NASA was as you have heard for \$1,109,630,000. On March 24, the President submitted a request for an increase of \$126 million in the civilian space program, making a total of \$1,235,300,000. This submission was (1) to fund more adequately the F-1 1½ million pound

thrust engine which continues to show real promise as a basic building block for large boosters, and (2) to provide funds to step up the C-2 version of the Saturn booster to increase the Saturn capability from about 20,000 pounds in a low Earth orbit to over 40,000 pounds. There were other items included, but they were all based on the President's decision that we should proceed at once to plan and carry out manned space flight projects beyond the Mercury program and to proceed as rapidly as possible toward the practical utilization of the scientific and technological information and capability gained through our space effort. To utilize the technology which was emerging from our investment in space, work toward applications of tremendous value was included in such areas as communications satellites and weather satellites.

HOUSE ACTION

On June 7, the House of Representatives passed the bill with a decrease of \$35,300,000—

Senator MAGNUSON. Right there, now I think you understand why I asked the question of Mr. Webb about liaison between the FCC and the Weather Bureau.

Mr. DRYDEN. Yes, sir.

On June 7, the House of Representatives passed the bill with a decrease of \$35,300,000 from the President's initial requests.

These were not earmarked specifically. It was noted in the report of the House committee that at that time there was a further amendment which had been sent to the Congress by the President which had not yet been considered by the House.

PRESIDENT'S REPORT

On May 25, President Kennedy reported to the Congress that, regarding the space program:

With the advice of the Vice President, who is Chairman of the National Space Council, we have examined where we are strong and where we are not, where we may succeed and where we may not.

The President then made additional policy recommendations, in these words:

Now it is time to take longer strides—time for a great new American enterprise—time for this Nation to take a clearly leading role in space achievement, which in many ways may hold the key to our future on earth.

Having stated these views with respect to space, the President then added:

Let it be clear—and this is a judgment which the Members of Congress must finally make—let it be clear that I am asking the Congress and the country to accept a firm commitment to a new course of action—a course which will last for many years and carry very heavy costs. * * *

The following day, May 26, the President submitted additional estimates of new obligational authority needed by the National Aeronautics and Space Administration for the fiscal year 1962, amounting to \$549 million.

SCIENCE AND TECHNOLOGY FOR MOON FLIGHT

I should like to make some brief observations on the importance of the science and technology we will evolve as we push on with our program for landing a three-man American team on the moon.

Senator MAGNUSON. Now for the purpose of the record, Doctor, would it be a fair statement to say that the bulk of the amount asked, the \$549 million extra, was to be used for this particular enterprise?

Mr. DRYDEN. With one or two exceptions that I will mention. The bulk of them.

Senator MAGNUSON. The big bulk of them—

Mr. DRYDEN. Yes, sir.

Senator MAGNUSON (continuing). And what we know about getting a three-man team on the moon?

Mr. DRYDEN. Yes, sir.

SUPPLEMENTAL REQUEST

Senator MAGNUSON. This is the reason for the \$549 million supplemental request?

Mr. DRYDEN. It is, sir.

Senator ALLOTT. Is that in addition to this?

Mr. DRYDEN. Yes.

Senator MAGNUSON. That is in addition to what we have in front of us; yes.

Mr. DRYDEN. Raising the total to \$1,784,300,000.

Senator MAGNUSON. This is an amount that has not yet been authorized by Congress, but requested by the President, in the main, for this particular activity.

Mr. DRYDEN. This particular purpose. And you have heard from Mr. Welsh the procedure by which these estimates were put together and reviewed, and the President did have some items for other departments.

Senator MAGNUSON. The Senate Space Committee is considering this item. I do not know the exact status of the item as of today in the House, but it is either out of the committee or—

Mr. DRYDEN. No; you have this legislative situation, and it does raise a procedural question, I think, as you indicate, as to how the Senate wishes to handle the matter; the House passed the authorization bill which was somewhat in excess of this amount. The House authorized \$1,361,900,000. In other words, they went beyond the President's recommendation in the authorization.

Senator MAGNUSON. Of the amended budget?

Mr. DRYDEN. They did not have before them the \$549 million at that time.

Senator MAGNUSON. They had the first amended budget?

Mr. DRYDEN. They had the first amendment, and on their own motion they increased the authorization.

Senator MAGNUSON. Then in the meantime the \$549 million came up, and in the main that is for the Moon landing purpose?

Mr. DRYDEN. Yes.

Now the Senate space committee has held hearings and at present is holding executive session and presumably—

Senator MAGNUSON. That is right, today.

Mr. DRYDEN (continuing). Presumably will act on this new request in connection with that.

Senator MAGNUSON. This is a matter the committee will have to determine when we get to making up the bill.

Senator ALLOTT. Is that where Dr. Webb is today?

Senator MAGNUSON. No; Dr. Webb is down at the White House but he will be up here as soon as he gets through.

Senator SALTONSTALL. Mr. Chairman, may I ask a question?

Senator MAGNUSON. Yes.

Senator SALTONSTALL. Dr. Dryden, this \$1,200 million recommended by the House, of which you are asking an addition of \$35,300,000, is that included, or is it not included, in this \$549 million?

Mr. DRYDEN. It is not included. We are prepared to discuss the whole amount if the committee wishes to proceed at this time.

Senator SALTONSTALL. Do I understand from what the Chairman said, in addition to that the House added some more money?

AUTHORIZATION

Mr. DRYDEN. In authorization only, not in appropriations.

Senator MAGNUSON. In authorization, not in money.

Senator SALTONSTALL. So the authorization on which this \$549 million is based is \$1,235 million?

Mr. DRYDEN. The authorization committee approved a higher amount. The House Appropriations Committee approved \$1,200 million.

Senator SALTONSTALL. So that this committee would have your request to add \$35,300,000—

Mr. DRYDEN. Plus, and to consider the \$549 million.

Senator SALTONSTALL. And to consider the \$549 million. And following what the Chairman said, these additional requests, if you can lump them quickly, \$35,300,000, would that go along with the acceleration of the \$549 million, or would that be for something entirely separate?

HOUSE ACTION

Mr. DRYDEN. Since the House did not indicate any specific areas, you can say that it is cut from anywhere in the bill, either from the first amendment or from the original amount submitted. It was just not designated.

Senator SALTONSTALL. And what faces us in this committee under Mr. Magnuson is \$35,300,000 plus and \$549 million. So if we knock out this \$35 million and go along with the House, we still will have \$549 million to consider at a later date?

Mr. DRYDEN. That is correct.

Senator MAGNUSON. That is right.

Senator SCHOEPEL. Mr. Chairman, will that come up in a supplemental appropriation, or will that be considered—

Mr. DRYDEN. This is for you to determine.

Senator MAGNUSON. This is a matter for us to determine. In the first place, as of now it has not been authorized, it is in the mill and moving very quickly.

And maybe by the time we get around to mark up this bill it may have been authorized. Then we would have to determine whether we would put this in the bill, and we would have to determine on the basis that the main part of it, the great bulk of it, is for the landing of the three-man team on the moon.

Is that a correct statement?

Mr. DRYDEN. That is a correct statement. It is our understanding that the House people are willing to consider the matter.

Senator MAGNUSON. That is for our determination.

Mr. DRYDEN. Yes. I think the only question today is whether you want to hear the detail of the \$549 million now or wait until a later date. We would prefer you hear it now and then decide what action you will take.

Senator MAGNUSON. All right.

EFFECT OF SPACE EFFORT ON ECONOMY

Mr. DRYDEN. To continue with the statement, the influence of the technical progress required to do this will be felt throughout our economy and will add zest and stimulation to education in all its branches. Many of the instruments, equipment, power sources, and techniques which we must devise as we accelerate our push into space will be adaptable to a host of other uses. The result will be a great variety of new consumer goods and industrial processes that will raise our standard of living and return tremendous benefits to us in practically every profession and activity.

This science and technology will almost certainly differ from what might have come into being without the drive and integrating force of a major space effort. Moreover, the goal of mastering space is essential insurance against finding ourselves, in two decades or less, with a technology inferior to that of the Soviet Union which will undoubtedly continue driving forward along the space frontier. It is also insurance against military use being made of the new technology to jeopardize our security.

I would like to interpolate a few remarks on my own at this point, not that I can say it any better, but perhaps from a slightly different slant.

We have identified this as landing a man on the Moon and return. I think that this gives an idea which is very erroneous with respect to what is really before us for decision.

VALUE OF MOON LANDING

Our acquaintance with space is so recent that we think of going to the Moon as being a useless kind of an exercise without any value. I myself do not think that the value of this is just the man stepping out on the Moon. I think if this were the only consideration we would look very hard before recommending such a thing seriously. It is somewhat like the situation before aeronautics when people want to say a thing was foolish they would say "you might just as well fly." Right now we say "you might just as well go to the Moon" to earmark an enterprise which is not serious.

What we are dealing with is the whole technological future of our country. The dollars that we are asking in this program are not going to be fired to the Moon, they are going to be spent here on Earth in factories and universities, in the marketplaces of the world, doing the scientific and technological development that is necessary to do this difficult task.

EXPENDITURE RATE

Senator SALTONSTALL. Dr. Dryden, how much in your opinion—and I know how you will answer this question—will be wasted, well I won't say "wasted," but will be made less efficient because of the speed with which we are doing it?

Mr. DRYDEN. We are not talking of a crash program. As you will see when we come to it, there is a provision for parallel approaches in solid and liquid propellant propulsion to be carried for a time, and then a decision made as to which route will be followed. But in my opinion what you are doing is spending money earlier.

I assume, I cannot conceive otherwise, that this country is going ahead in the technology of space and these frontiers of science and engineering, and that the question before us is the rate at which we go, not whether we go.

Senator SALTONSTALL. This \$549 million is just a start?

Mr. DRYDEN. This is a downpayment. You should clearly understand that.

Senator MAGNUSON. We will come to that.

This is just a start, of course.

Mr. DRYDEN. This is the start. And as the President said in his own language, it is a commitment to a new course of action, one which will last for many years and carry very heavy cost.

CRITICISM OF MOONSHOT

Senator ALLOTT. Dr. Dryden, at this point it might be just as well to ask this question. The President did couch this in terms of a Moonshot.

Mr. DRYDEN. He did; yes, sir.

Senator ALLOTT. In his message.

Mr. DRYDEN. As a goal.

Senator ALLOTT. Now there are a group of outstanding scientists—and I wish I had been able to put my hands on article I read some weeks ago—in this country who feel that making this the specific target or goal of the space administration is a mistake. I am sure you are acquainted with that.

Mr. DRYDEN. I have heard the argument; yes, sir.

Senator ALLOTT. And you are acquainted, I am sure, with the scientists. I cannot name them here, but many of them are very prominent scientists who disagree with the proposition, the fundamental proposition, of making the moonshot the No. 1 goal.

Mr. DRYDEN. Yes.

MANNED SATELLITES

Senator ALLOTT. Now what I would like to ask is this: Does this Moonshot, of itself, precipitate the things that are most advantageous to the United States with respect to scientific achievement and the protection of the United States? And I am thinking of an example, and it may be a poor one, of a manned satellite.

Mr. DRYDEN. This is a goal that you have to achieve on the way to the Moon.

Senator ALLOTT. By "manned satellite," I mean an actual manned satellite in space.

Mr. DRYDEN. Yes, this is one of the goals that you have to reach before you get to the Moon.

Senator ALLOTT. I do not mean in orbit. I am not talking about in orbit, I mean, just once or twice or three times around the Earth. Not a Mercury shot.

Mr. DRYDEN. I understand.

Senator ALLOTT. I am talking about a manned space vehicle which would remain in space. As an example, might this not be a more worthy goal, a better payoff for the United States in terms of scientific achievement, in terms of ultimate protection to the United States, than a shot to the Moon?

TECHNOLOGICAL AND PSYCHOLOGICAL EFFORT

Mr. DRYDEN. May I say that I do not think the justification of a manned space flight is wholly, or for the most part, scientific. It is technological. There are psychological elements connected with it as well. But it is mainly a technological undertaking which will produce great developments in our technology.

Now the question you asked, as to whether this produces the correct balance of scientific development in the country, I think is very difficult to answer.

Probably not, but I am sure that if there is such a goal before the Nation, that there will be a great impetus to scientific development, just as the development of the atomic bomb gave great stimulus to the—

Senator MAGNUSON. What you are saying in effect is that this program which you are going to outline here in a minute has the so-called important major side effects—this may be the goal—and that even if you did not land a man on the Moon, it would have great value through the whole scientific, technological field, our economy and everything else because it spurs the development of all kinds of activities in the whole space field?

Mr. DRYDEN. This is right. The purpose of a definite goal, of course, is to motivate people, to integrate is the word we use, to direct toward a common goal and therefore get a balanced program so far as the technology of space flight is concerned.

Senator MAGNUSON. I think we could do better if Dr. Dryden would finish his statement of the main areas here, and it would put this a little more in perspective.

Senator ALLOTT. All right.

Mr. DRYDEN. Yes.

Senator MAGNUSON. It is just a very short one.

RELATION TO MILITARY FUTURE

Mr. DRYDEN. I think I finished the second paragraph which points out this technology not only relates to our industrial future, it also relates to our military future because of the potential military applications of space science and technology that we do not now foresee. It is exactly the same situation as at the time of the Wright Brothers flight. Here was something everyone said was sport, was not a serious enterprise. We let the technology go to Europe. We entered the First World War with not a single manufacturer in this country who

could build an airplane or design one. We imported our design of airplanes in the First World War because we did not have the vision to see that this new technology was going to have this kind of application. And the same thing is true here.

BREAKDOWN OF PROGRAM FUNDS

Senator MAGNUSON. All right, give us the breakdown of the \$549 million.

Mr. DRYDEN. I should like to indicate the main areas of increase proposed in the President's May 25 message to the Congress.

The total of \$549 million includes the following:

APOLLO SPACECRAFT

For the Apollo spacecraft which is a three-man vehicle capable of safe return from the Moon at 36,000 feet per second—and incidentally, also useful in the so-called orbiting spacelab and circumlunar flights—and for supporting research facilities and work in the life sciences, some of the hazards, the effects of such things as long-continued weightlessness and so on, \$202,500,000.

F-1 ENGINE

For the F-1 engine, the 1,500,000-pound-thrust liquid-propellant engine used in clusters for the very large vehicle required for the manned lunar mission—the name Nova has been used for this large vehicle—with necessary test and other facilities, and activities related to an aggressive beginning on the Nova vehicle, \$121.5 million.

Senator ALLOTT. Dr. Dryden, at that point, what is the difference between the Apollo and Nova?

Senator MAGNUSON. May I suggest, Senator, that we let him finish these items and then we will go back?

Senator ALLOTT. All right, fine.

Senator MAGNUSON. I would like to get this in perspective. Proceed.

Mr. DRYDEN. For unmanned lunar exploration in preparation for manned missions, \$56 million.

For general supporting research, tracking-station facilities, sounding-rocket programs, and advanced-facility design required in the manned lunar program, \$74 million.

Then there are the two items not related to the lunar mission.

To speed up both the research and a start toward a transitional system of communications satellites, \$50 million.

For engine development for the nuclear rocket Rover, \$23 million.

TIROS WEATHER SATELLITES

For the purchase and launch of additional Tiros weather satellites so that one can be kept continuously in orbit until the Weather Bureau is able to place in operation its worldwide system based on the Numbus satellite, \$22 million.

Senator MAGNUSON. Now we can go back and discuss the items.

This is the breakdown—let's get this clear—this is the proposed breakdown of the \$549 million.

Senator ALLOTT. Well now, going back, Dr. Dryden, what I am concerned about is the immediate goals of this space program. I want to make my own position perfectly clear that I have no questions about the advisability of going forward on the space program, but I do—with certain respect to various people who have discussed this—have a question as to whether or not we are not making a moon shot primarily for the propagand value.

ESTIMATED COST OF MOON SHOT

Now what would be total cost estimated of the total moon shot project?

Mr. DRYDEN. The total cost of everything connected with the moon shot is of the order of \$20 billion. When this is spread out, of course, over the decade, or whatever period it takes to get it. The goal is to get there before the end of the decade.

Senator ALLOTT. Then you can see this raises the question, Is the propagand value worth \$20 billion?

Mr. DRYDEN. I tried to say I do not think the propagand value is the main thing. Setting this goal will force you to do a scientific and technological development in this country that otherwise would not be done.

Senator ALLOTT. But the question is, is it forcing you to do the kind of technological work that is going to do the United States the most good over a given number of years? Now this is a question I would like to have an answer to.

DEVELOPMENT OF X-15 AIRPLANE

Mr. DRYDEN. In my opinion, yes, because it gives you the ability to do anything that you want to do in space, in the area between here and the Moon. It provides the sound basis. To use a similar illustration on a smaller scale take the X-15 airplane now breaking speed records regularly. It is not good for any military purpose or civilian purpose, but the development of that airplane developed the technology of supersonic flight which you find in every military aircraft, and you are going to find it in your supersonic transports when they arrive.

Senator MAGNUSON. Now let's be practical. You can put a man, or a three-manned team on the Moon. Now what do you use that for?

Mr. DRYDEN. That in itself is the setting of a goal which requires you to stretch your legs in science and technology.

Senator ALLOTT. But has no practical use, that you can see, in itself?

Mr. DRYDEN. Well, there are people who will try to read future that far ahead. There are people in the military who talk about lunar bases. I just cannot see that far ahead. It certainly does not make any sense to me right at this moment.

Senator ALLOTT. Well in the more immediate future might not manned satellites in space have a more immediate reflection upon the safety, and I am thinking primarily of military value to the country, than landing three people on the Moon?

Senator MAGNUSON. He says you have to have the manned satellites before you can land on the Moon.

Senator ALLOTT. No, he said just the reverse.

Mr. DRYDEN. No, I did not. I do not think so. A large manned satellite is the first concrete step that you will see as an intermediate goal in the program to land men on the Moon. The APOLLO spacecraft, which is in some respects a bigger edition of the MERCURY vehicle, will be orbited attached to a large living compartment in which you can do long-term experiments on life in space. It can also be used for practical uses. If you find it is of use to have a man up there looking down at the clouds instead of doing it by TV, you have the technology to enable you to do that.

Now this will come about 4 years from the time the program begins. This is the stage which you will have reached. Now a few years later you will be able to send the same spacecraft around the Moon and back. And within 10 years we would hope to be able to land on the Moon and return. Now each of these steps requires advances, not only in scientific knowledge but in the technology, the development of practical devices, communication devices, guidance devices, better materials for certain uses. And these are the important results. This is what I am trying to say. You do have the propaganda benefits of doing a good job in space. It is quite clear that the Russians can have a space station up tomorrow if they have been building it. They presently have the booster capacity to do it. They so far have put one man around—

Senator MAGNUSON. Say that again.

RUSSIAN CAPABILITY

Mr. DRYDEN. The Russians could put up a manned space station tomorrow if they have been building spacecraft and working on these problems because they have the booster that would put it up. We do not at the present time. We will have in a few years.

Senator ALLOTT. Well if the F-1 which you mentioned—

Mr. DRYDEN. The F-1 is the building block of the still larger engine. We are now of course engaged in the SATURN which is a cluster of our existing engines.

Senator SALTONSTALL. Mr. Chairman, if the Senator from Colorado is through, I have two questions.

EFFECT ON MISSILE PROGRAM

Mr. Dryden, following up what Senator Allott has said, how much will this effort to get to the Moon assist us in our missiles from the Defense Department, like the MINUTEMAN and the TITAN and the ATLAS and those?

Mr. DRYDEN. Well, I think at the present time you would not say there was a direct return of that type. It will have a great influence on the weapons of the future, whatever they may be.

Senator SALTONSTALL. Well, the weapons of the future, to the best of our ability at the present time, are the ATLAS, TITAN, and MINUTEMAN.

Mr. DRYDEN. Well, within the next 3 or 4 years.

Senator SALTONSTALL. Well within the 5 or 6 or 7 years.

Mr. DRYDEN. I would not have any quarrel with anyone who says that has a higher priority than the longer term goals.

Senator SALTONSTALL. What I am getting at is, supposing we want to justify to someone who is opposed to this program, this \$549 million additional, can we justify it by saying that this program will be of assistance in the development of the missiles for the security of the country?

Mr. DRYDEN. I would not use the word "missiles." I would say "space vehicle." We will develop the ability for men to move around in space and carry with them whatever they wish to carry with them.

RESEARCH ON PROPELLANTS

Senator MAGNUSON. I was going to ask you this question. Of course some of the side effects of this thing, you have to go in and have more intensive research, continuing research on propellants.

Mr. DRYDEN. Yes.

Senator MAGNUSON. Now however we improve propellants, either liquid or solid, it has a direct effect on what we are going to do in our future weapons.

Mr. DRYDEN. We must be honest and say the flow is in the other direction. We are using THORS and ATLAS as a part of the same submission to the President, and the development of the very large solid propellant technology will be carried along by the Defense Department, although the Defense Department does not know at this moment what they will use these tremendous capacities for.

Senator SALTONSTALL. That brings up the other question I wanted to ask. You said a minute ago, if I heard you correctly, that you were moving forward on both the liquid fuel and solid fuel.

Mr. DRYDEN. We are moving on the liquid; the Department of Defense will move on the solid, and in 2 or 3 years we will make a decision as to whether the vehicle that we build for the Moon is based on the liquid propellant or the solid propellant.

Senator SALTONSTALL. I see. Well of course the MINUTEMAN is solid propellant. And that is a third generation of missiles and is anticipated to be the best one say 2, 3, or 4 years from now.

WORK OF DEFENSE DEPARTMENT

Mr. DRYDEN. It is because of the experience of the Defense Department in the development of MINUTEMAN and POLARIS that the job of advancing the solid propellant technology to meet the space need was assigned to the Defense Department. Now they do not have any direct weapon need for capacities of 20 million pounds at the present time. In the future they may. At present they will be working on a motor to meet our specifications and our needs.

Senator SALTONSTALL. You are looking forward to 20 million pounds where the Defense Department is 1½ million at the most?

Mr. DRYDEN. Well, 1½ million is bigger than any Defense has. The F-1 engine is the one we have under development at 1½ million. And the SATURN cluster will be about 1½ million pounds.

CHARACTERISTICS OF LIQUID AND SOLID PROPELLANTS

The reason I may seem a little indefinite in the answer is that the characteristics of liquid and solid propellant engines differ so that you have to have about twice the thrust in a solid propellant to do the

same space job. This is because it only burns about half the time. In other words, the thing which puts objects into space is the product of the thrust for the time for which you have the thrust acting. And in solid propellants the heating problem in the nozzle is such that you have to restrict the burning time to the order of about 60 seconds whereas in the liquid propellants you can burn longer. So, whereas in the F-1 engine a cluster of perhaps 8 or 10 of these will do the Moon job, having a thrust, well, 10 would have a thrust of 15 million pounds, it would take roughly twice the thrust in the solid propellants to achieve the same answer.

Senator SALTONSTALL. Thank you, Mr. Chairman.

Senator MAGNUSON. All right. I know we have a lot of questions. Senator Schoeppel?

Senator SCHOEPEL. No questions.

Senator ALLOTT. I want to pursue this just a bit further.

CRITICISM OF SCIENTISTS

Why then, Dr. Dryden, did this outstanding group of scientists—and I wish I could have put my hands on the article—say that they did not think the specific goal of the Moonshot was the area in which the Government should travel?

Mr. DRYDEN. Well, I think there is a fear that scientific research will not be supported if this program goes ahead, that there is a competition for funds as between science and the space program. I might say that scientists are not unanimous. We have had the planning for this program reviewed by a group of scientists, from MIT and other universities, and they have indicated the planning makes sense to them. Lloyd Burkner is a strong exponent of this program. Generally speaking, as you say, there are some well-known scientists who have gone on record against it. I do not want to get into a discussion of this. One of the same very famous gentlemen said a rocket would never be able to send a payload across the ocean. This program is the sort of one that where the people who are a little bit more used to change find it easier to see.

Furthermore, scientists who have a broad view of the interests of this country I think are able to appreciate that there is something to it, much more to it, than purely a program in scientific research.

Senator ALLOTT. What you are saying there in effect, in your last statement, is that the people who agree with you are far-sighted and visionary, and the people who disagree with you are stick-in-the-muds. That is the effect of your argument?

Mr. DRYDEN. Well, I am just saying—

Senator ALLOTT. And that is not a good argument.

Mr. DRYDEN. I am saying some of the older people have been proven wrong in the past in the things that have happened in the past 10 years. Not all of them.

Senator ALLOTT. So have some of the new ones.

Mr. DRYDEN. In general the new ones have been too optimistic about time schedules and costs. I would agree with this, as to what it really takes. This is a tremendous undertaking.

TARGET DATE FOR UNMANNED VEHICLE

Senator ALLOTT. Now based upon your current estimates, when would your first package hard landing on the Moon occur?

Mr. DRYDEN. Unmanned? Next year, I think.

Senator ALLOTT. Next year.

Mr. DRYDEN. With the package and spacecraft now being developed by the Jet Propulsion Laboratory and its subcontractors.

Senator ALLOTT. And the first package soft landing?

Mr. WYATT. 1963.

Senator ALLOTT. Then you have said in the neighborhood of 1970 the first manned attempt?

Mr. DRYDEN. Hopefully before 1970. You set your targets at this time to keep the pressure on people—

Senator ALLOTT. Possibly by 1970 this would be your goal, is this correct?

Mr. DRYDEN. That is correct. We have presented to the Congress several timings on the long-range plan which we had before this last acceleration, that had the Moon landing after 1970. So it was not entered in our detailed planning. In fact, no vehicle was planned capable of landing on the Moon. The engine for it, the F-1 engine, has been carried for the past 2 years.

Senator ALLOTT. Is that an up-to-date summary of your project that you have in your hand there, your pocket statistics?

Mr. DRYDEN. Well, I guess there is one a little more recent.

Senator ALLOTT. I had one a year ago.

Mr. DRYDEN. Here is the current one.

Senator ALLOTT. Thank you.

Mr. DRYDEN. It is the only one I have but I can get them for you.

Senator MAGNUSON. Get the committee some of these.

Mr. DRYDEN. I will.

F-1 ENGINE

Senator ALLOTT. Now on the F-1 engine, I do not know whether this is classified or not. Are we able to discuss this engine here?

Mr. WYATT. Yes. Substantially, yes, sir.

Senator ALLOTT. Last year we had a full test run of the F-1 and my recollection is it was last fall. Is that correct?

Mr. DRYDEN. I thought the first full duration was done relatively recently.

General OSTRANDER. The first full duration occurred since the first of the year. I cannot recall the exact time.

Senator ALLOTT. Since the first of the year.

Mr. DRYDEN. They were short duration runs, and they were problems in the early development in combustion and stability. But these seem to have been overcome and the engine is now at the test stand at Edwards and has made full duration records.

MANUFACTURE OF F-1 ENGINE

Senator MAGNUSON. For the record, who is building this engine?

Mr. DRYDEN. The Rocketdyne Division of North American.

General OSTRANDER. We have made runs on the engine as high as 1,640,000 pounds. These were for periods of roughly 15 seconds.

We have made full duration runs on many of the components of the engine.

Senator MAGNUSON. What is the big engine that General Electric or Westinghouse was developing that we had last year?

Is that the Science Foundation?

Mr. DRYDEN. No. It may be the one under development in connection with the ANP program.

Senator ALLOTT. To follow the F-1 just a little bit further, because our efforts at present depend on this, would you say that the F-1 engine is reaching the point where it could be regarded as dependable?

What is the stage of development, in other words? That is what I am trying to get at.

General OSTRANDER. The engine is scheduled for what we call PFRT, preliminary flight rating test, in March of 1963.

Senator MAGNUSON. Will you give your name?

General OSTRANDER. General Ostrander, I am director of launching vehicle programs in NASA.

PRELIMINARY FLIGHT RATING TEST

The engine is scheduled for what we call PFRT, preliminary flight rating test, in March of 1963.

This is the point at which you feel sufficiently competent of the engine that you are willing to risk it in a flight with a vehicle, that you actually use it for flights. I think, however, that the development of the engine has progressed sufficiently satisfactorily so that we can foresee no major problems in the development of the engine between now and the time of the preliminary flight rating test.

Mr. DRYDEN. Just to help your thinking, this period would correspond roughly where MINUTEMAN is now. MINUTEMAN has had one flight firing, and it would be about a year later before 1964 or 1965, that we would be where the MINUTEMAN is now.

Senator MAGNUSON. What type of fuel is in this, is contemplated?

Mr. DRYDEN. Kerosene fuel and liquid oxygen oxidizer.

Senator MAGNUSON. Has there been any planning proposals on nuclear fuel in this?

Mr. DRYDEN. Yes, one part of the program in the first request, and part in the second, is on this joint project with the Atomic Energy Commission Project Rover, which is the development of a nuclear rocket. To us, at the moment, it looks as if this will come in a slightly longer time scale.

Senator MAGNUSON. In other words, the type that you are experimenting with looks like it is the best immediate thing to work with?

Mr. DRYDEN. If you are going to set a goal of 1970, yes.

Senator SALTONSTALL. Mr. Chairman, have you finished? I wanted to ask some more questions.

Senator MAGNUSON. Surely.

I did not know whether you were through.

Senator ALLOTT. Go right ahead. I have finished with this one question.

LIFE SCIENCES APPROPRIATION

Senator SALTONSTALL. I have been studying this chart. Now on life sciences, if you want to accelerate this program to the Moon, why

do you need to increase your life sciences appropriation from 8.6 to 20.6 million? That is a very substantial rise.

Mr. DRYDEN. The substantial nature of this rise is because the only way to find out about problems of radiation and problems of long continued weightlessness is through flights. So this does involve the cost of some flights with animals.

Mr. WYATT. If I may direct myself to that, the 20.6 million includes the instrumentation, what we call the biopacks, with which you actually make measurements in satellites. This whole program of planting men on the Moon, as Dr. Dryden has mentioned here, involves a number of unknown hazards and unknown problems to man himself. One of them is the effect of radiations and the amount of shielding that is required.

RADIATION STUDY

In this area of radiation we will be doing a lot of scientific work in determining the nature, the magnitude, the energies involved in the various particles. But in the life science program we have to couple this with a thorough understanding of the effects of these radiations on living tissue. It is a matter that is very difficult to do completely and satisfactorily in ground labs because it is not possible to get the total mixture of all of the kinds of radiation to which the human will, in some degree, be exposed. So as part of the life science program it will be necessary to fly spacecraft for long-term exposures in the inner and outer Van Allen belts and to use living tissue from very simple life forms on through perhaps minor mammal forms, recover these, and determine just exactly what has been the total effect on the tissue as a living organ.

Senator SALTONSTALL. That is really a part of the vehicle development?

Mr. WYATT. It is a part of the development to determine what kind of radiation shielding we have to place on Apollo in order to keep man safe.

HIGH ENERGY HEAVY PARTICLES

Mr. DRYDEN. There are in space these very high energy heavy particles which are stripped-down atoms of the heavier atoms, giving energies that we find it difficult at the present time to produce on Earth. And there is some research going on in this field.

One 6-month period it looks very gloomy and the next 6-month period it looks promising.

One of the promising recent developments was that in space you may have only one of these particles in a 10-foot cube so that only one particle will hit a person at a time. There is some evidence that just a single very tiny bullet going through does not often hit anything very vital. As our knowledge in this problem grows our estimates of the amount of shielding that will ultimately be required varies.

Senator MAGNUSON. Well, would you get a lot of experience for this particular project, or vice versa, you would gain some experience in your research on this project, for the manned space—

Mr. DRYDEN. Yes.

MERCURY PROJECT

Senator MAGNUSON. The Mercury project?

Mr. DRYDEN. Yes.

Mr. WYATT. Actually the Mercury capsule flies below the region in which the radiation is the prominent problem that it is further out in space.

Senator MAGNUSON. But there is a certain amount.

Mr. WYATT. You will get a certain amount of it.

Senator MAGNUSON. There is certain information both ways.

Mr. WYATT. Yes, sir.

Senator SALTONSTALL. Mr. Chairman, may I ask a question?

Senator MAGNUSON. Go right ahead.

LUNAR AND PLANETARY EXPLORATION

Senator SALTONSTALL. You have down here, "Lunar and planetary exploration," and you have increased that by one-third, from \$103 million to \$160 million.

Mr. DRYDEN. This is unmanned.

Senator SALTONSTALL. What?

Mr. DRYDEN. These are the instrumented things we were talking about. The original \$103.9 million includes this hard-landing-soft-landing type of operation. Now in connection with actually landing a man on the Moon: In the first place we must be sure we get preliminary information about the lunar surface and environment. To do this we feel that we need to have some increased number of flights to be sure we get all we need. I think most of you know that the reliability and experience of space vehicles at the present time is something like 50 percent. You are lucky if you get a fully successful flight once in two tries.

So that you have to provide more flight possibilities if you have to have the information.

Now in a purely scientific program there is not quite the same urgency of need on a time schedule that you have if you are actually going to land a man on the Moon and you need information before you do it. You need more information about the character of the surface of the Moon, more detail about the terrain, the ability to put men down in a predetermined area. So that the \$56 million represents the strengthening of that scientific program that is directly associated with the manned missions.

RESEARCH AND DEVELOPMENT

We are prepared to go into fairly extensive presentations. I do not know what the wish of the committee would be. This is simply a breakdown of the research and development appropriations. It has on it the two sets of figures, the black figures being the amounts before the House. In other words, of the \$1,235 million, \$919 million was in the "Research and development" appropriation.

The red figures are the modifications contained in the President's budget. And we can go into these.

Senator ALLOTT. Mr. Chairman, I wonder if I could indicate three areas I am particularly interested in so that in the presentation I would perhaps get answers to them?

The first one is one that you might answer now, and that is whether or not there are any plans underway as a possibility for a backup booster for the ATLAS in the MERCURY program?

Mr. DRYDEN. The MERCURY program is so nearly through that there can be no question of a backup vehicle. We are looking at TITAN II for future space programs. And, as a matter of fact, there is \$15 million given to the Department of Defense to study a vehicle based on TITAN II.

GLOSSARY OF DEFINITIONS

Senator MAGNUSON. Doctor, this is an incidental, but we sit around here and discuss TITAN II and TIROS I and NOVA and MERCURY, APOLLO, MINUTEMAN, and I wish someone would put in the record a glossary of definitions. And my friends at the end of the table would like that, too.

Mr. DRYDEN. We are working on such a glossary and will be happy to supply it when completed.

Senator MAGNUSON. Just put it in the record. These are all new terms and sometimes they get confused.

Mr. DRYDEN. We hope to have the published glossary containing the thousands of terms in September. You are not the first person to ask for it.

PROJECT ECHO

Senator ALLOTT. The second area which I hope you will cover sometime during your presentation is the Project Echo, and what is being done on that. Then I want to ask you also the general question as to whether or not—we are assuming the correctness of your goal, which I personally have not been able to convince myself of exactly—we are appropriating enough money that we can proceed with all logical speed toward this?

I have had scientists tell me in the past, privately, that they did not want more money on a particular thing because they found if they went too fast they just had to come back and do over what they had done before. And with this concept in mind, would you answer that question?

Mr. DRYDEN. Well, I think it has been our determination not to get involved in the subject of the effect of too much money, of which you speak. I do not know of any case so far where this has been a problem. And, the other way around, we have had to learn by experience that the optimistic proposals from various sources usually turn out to be overly optimistic both on cost and time. I think it is not a matter to criticize anyone for because we are dealing with a new technology and we all have to learn.

But what has to be done can be done. We have learned that it pays to do an extensive amount of ground testing, to shake things, to heat them and cool them, before you invest in this \$3 million or \$4 million exercise of firing into space. In other words, you want to take all the precautions that you possibly can on the ground to insure the success of these devices.

TARGET DATES

We have been criticized because our target dates slip. A target date is something you set up as a minimum time in which something can be accomplished if there are no problems, if you do not run into technical difficulties, if you do not run into a strike somewhere. In other words, you set your target for a time and you try to keep as close to that as

you can. But we have never had a case where a vehicle was fired when people did not think it was ready and in the best possible condition. It does no one any good to simply shoot fireworks into the air. And no one has ever considered the thought of firing just because there were certain dates set aside. If the thing is not ready, you fix it and get it in the best possible condition. I would say if it turns out that the difficulties are so great that we do not make the goal by 1970, and we have tried urgently but not wastefully, that we are better off to have done the job correctly.

Now, some people do not agree with this philosophy, as you know. However, this has been our philosophy: To try to do as good a technical job as we possibly can. I do not know of any case where there has been too much money assigned.

Senator MAGNUSON. Well, you know, Doctor, our old friend Vannevar Bush used to always say: keep you fellows a little lean and hungry and you will do a little better job.

Now I want to ask two questions, one suggested by the Senator from Colorado.

You are taking a leapfrog here with your objective.

Mr. DRYDEN. With the objective, by setting it far ahead.

LEAPFROG OPERATION

Senator MAGNUSON. It is a leapfrog operation. But in the meantime the question is, why not first take it step by step and get into your manned space satellite and then, after that is proven, an objective to the Moon?

Mr. DRYDEN. This in effect is what the program is. Maybe the thing to do is to just present what the steps are in this program.

Senator MAGNUSON. I think there is a great deal that must be done with the American public to understand this if they are going to accept it.

And we naturally are concerned here with that. Their conception now is that we are just going, in some cases, to the extreme, abandoning several other things and taking a jump up to the Moon. And I think it should be well pointed out, whatever you people have worked out on this, what are the steps in between, what benefit will incur to the United States, to the field of science and space in this particular move. Because what we are asking the American people here, to get it down to simple terms, if my arithmetic is right, assuming we have 200 million people by the time this happens or during the time, is \$100 each. It is going to cost each American \$100. Now whether the American public wants to accept that for scientific reasons, prestige reasons, propaganda reasons, or all three, is something that we up here must decide. And, therefore, we have to have all the information, or all the justification, if any, that this is not just a simple leapfrog operation to put a man on the Moon.

COST OF SHEPARD'S FLIGHT

Mr. DRYDEN. You may recall the story that Shepard's flight cost every inhabitant \$2.25; \$2.25 bought, not only Shepard's flight, but the whole Mercury program from beginning to end. Not that one flight.

Senator MAGNUSON. It probably bought \$2 worth of confidence to each American.

Mr. DRYDEN. The question is, Was that worth \$2 to each American?

Senator MAGNUSON. I do not know. This is something that Congress and the administration, the President jointly must make a decision on. And I think what we find out on the way to the Moon could be just as important, or more important—

Mr. DRYDEN. It is more important, sir.

Senator MAGNUSON. Than actually putting a team on the Moon.

Mr. DRYDEN. Can we pick up with Mr. Wyatt's slide No. 1?

Senator MAGNUSON. All right. Does the committee want to see this now, or are there further questions?

Senator ALLOTT. You are going to cover these other things? I will remind you of it later.

PROJECT MERCURY

Mr. WYATT. This bears to the point of what is included directly within our manned lunar landing program. I start here with Project Mercury because, in fact, Mercury is the first step in flying man in space.

This [indicating slide] simply illustrates, the familiar Mercury orbit which will be launched from Cape Canaveral using the Atlas launch vehicle, going to an altitude of a little over 100 miles. In the orbital flights we will perform three circumnavigations of the earth in a period of about 4½ hours; then firing retrorockets west of the west coast of the United States, we will reenter the atmosphere here, and in the same manner as the Shepard flight we will eventually parachute the capsule to Earth in a recovery area in the western Atlantic ocean.

Senator MAGNUSON. Now what is the target date?

Mr. DRYDEN. Around the end of the year.

Senator MAGNUSON. It looks like you will do this job around the end of the year.

SUBORBITAL FLIGHTS

Senator ALLOTT. And there are more of the Shepard type flights?

Mr. WYATT. Suborbital flights?

Senator ALLOTT. How many of these before that?

Mr. WYATT. I believe three more.

Mr. DRYDEN. Perhaps two more. The other two astronauts probably.

Senator MAGNUSON. You say the other two astronauts?

Mr. DRYDEN. Of the original three. You see three were selected for the suborbital flights, and this is a training flight. From these three our present idea is that one will be selected for the first orbital flight.

Mr. WYATT. Now I think it important to note that the ATLAS flight will be our first experience in this country with full orbital flight. We expect to learn how man will act and react in space up to the 4½ hours that he will be weightless during the flight. And this kind of knowledge, how a man acts up to that length of time of weightlessness, is very important as a foundation for much longer trip times. These will be required, either in the orbiting laboratory

flights that have been discussed, or for the actual trip to the Moon which may take in the order of 60 hours.

Senator MAGNUSON. So we get all this clear, and this is more of interest to us when it has anything to do with the appropriations; you say it will take about 60 hours, your estimate, for a man to get to the Moon?

Mr. DRYDEN. And 60 back, and whatever time he stays there.

Senator MAGNUSON. 120 hours.

Mr. DRYDEN. Yes, sir.

Mr. WYATT. May I have the next slide, please?

PROJECT APOLLO

This shows the three different missions that are included in this overall Project Apollo that we discussed. The first is the Earth orbit over here on the left, which leads to the manned space station. Our planning is at this time that we will have a spacecraft capable of at least 2 weeks in orbit.

I shall discuss in a later slide how we build up the total Apollo spacecraft, to accomplish these missions. But from the Earth orbiting mission, lasting perhaps 2 weeks, we can then go into more and more elliptical flights away from the Earth until gradually we have flown out around the Moon, without actually landing on the Moon. We call this a circumlunar mission.

Senator SALTONSTALL. That is what the Russians have done already.

Mr. WYATT. They have not done it with a man, sir.

Senator SALTONSTALL. I know. Allegedly they have gone around the Moon.

Mr. WYATT. They have gone around the Moon.

Senator ALLOTT. In your planning here, the elliptical shot from the center involves doing this with men?

Mr. WYATT. Yes, sir, with three men.

Then the final phase of the Apollo mission is the ultimate objective we have been discussing, which is to fly out to the Moon, land on the Moon, stay for some duration of time with three men, and then return to the Earth. So this constitutes the triple objective to be carried out over a number of years. And we will take these step by step.

Now the next chart shows the kind of configurations that we are looking at to do these triple jobs. All of them contain a number of modules, or components, that we can put together. And this gets to your point, Senator, as to why we do not simply concentrate on the flights around the Earth. It is that we can design the command unit, or the cabin, that part within which the men principally stay and control the spacecraft, so that it can reenter from the Moon.

Now in flying around the Earth in a satellite orbit, we get up to speeds of about 18,000 miles an hour. This is what Mercury does. It is the speed required to sustain an orbit. On the other hand, to return from the Moon we will have to reenter the Earth atmosphere from a speed of about 25,000 miles an hour. This makes a tremendous difference in the heat protection that is required in order to maintain the integrity of the spacecraft and, of course, to keep a livable condition for the pilots. We find in our studies that we can design the part which will actually reenter the atmosphere, (that is the component up in front with the three men in it) so that it cannot only serve as a

2-week space station in flying around the Earth, but can also reenter from the Moon and can be landed on the Moon.

In the Earth orbital mission we would propose a configuration which looks something like this: The command capsule, or, again, the cabin, in which the crew is principally housed up at the front; and right behind it in this tapering section back here we would have a propulsion system that would be used to permit us to abort the flight if we had trouble with our booster, following the same kind of a principle that we have in Project Mercury, allowing us to escape rapidly in case we have a malfunction of the vehicle. This propulsion system housed in here could also be used for making corrections in the course. As you fly an Earth-orbiting path you will be able to change your flight altitudes and your flight angles to a degree; this would give you a degree of maneuverability. Then, for the Earth-orbiting laboratory mission we would propose to put on, in addition, another larger section back here which could be a working laboratory. The men are launched in the cabin and then can proceed back and conduct experiments, can perform tests, and can have room to move around in this laboratory module back here. Thus we have a three-part unit that is satisfactory for the Earth-orbiting laboratory flights.

Now when we go to the flight around the Moon, we will not want to carry the weight represented by the working space back here. So we would not use that, and simply have the capsule and the abort and midcourse propulsion system. In this case the same propulsion system would allow us to make the necessary navigation changes in velocity and direction in the course of a flight to the Moon to make sure we accomplish the particular trajectory that we desire.

Senator SALTONSTALL. Why isn't it important, if I understand you, in going around the Moon, to have the same cabin—that is land on the Moon—in order to try out and see if it is a good experiment?

DEVELOPMENT OF THREE-MISSION SPACECRAFT

Mr. WYATT. It is very important to get technological experience, and it is important that we can do three missions with the development of a single spacecraft. You see, if we only develop the spacecraft suitable for Earth orbiting, it will not be capable of reentering from the Moon. Now on the flight around the Moon we simply do not put, probably—and I say "probably" at this time because our plans are not blueprints at this stage—we probably would not carry the orbiting laboratory unit back here in which the men could perform tests.

Senator SALTONSTALL. That is my question.

Mr. WYATT. It is a matter of weight, sir.

Dr. DRYDEN. It is a matter of necessity.

Mr. WYATT. It is a matter of what our launching capabilities are going to be at the time we launch our circumlunar mission.

Senator SALTONSTALL. In other words, you hope to have more strength later on?

Mr. WYATT. Later on we will have a much larger launching vehicle, so when we come to the lunar landing we have this entire spacecraft shown here. This includes the same cabin up front, the same abort and midcourse propulsion system in here, but in addition we have to

carry this very large additional propulsion system to actually land us on the Moon's surface.

TAKEOFF FROM EARTH

My next slide shows some of the details of the takeoff from the Earth using this very large NOVA vehicle that, if powered with liquid motors, will have perhaps 12 million pounds of takeoff thrust; it will have three stages, which will drop off as it progresses upward, and finally burn out. After the third stage burns out we will send a spacecraft—the last one I described—out to the Moon.

This will have the capsule, the abort and maneuver propulsion system, which in that case would serve as the takeoff engine from the Moon, and the landing engine on the Moon. This entire vehicle system must reach a velocity of 25,000 miles an hour. Of course, as we get far away from the Earth the velocity slows down.

LANDING ON THE MOON

My next chart shows the landing on the Moon. Now this illustrates it as a more or less horizontal landing, coming from the upper left, coming in backwards, the retrorockets firing to slow it down, and then perhaps it will have vertical jets so we finally come in and settle down in a horizontal position. It might well be we will come in on a tail sitting position on which we use the main jets and simply come in tail first.

Dr. DRYDEN. The important thing is there is no atmosphere on the Moon so you cannot use the technique of slowing down in the atmosphere that you do on the Earth.

Mr. WYATT. That is right, you cannot use parachutes or wings or anything else. You must do it all by reaction thrust of rockets. So this illustrates one of the two possible schemes.

The other one is simply to come in tail first and land on the tail.

TAKEOFF FROM MOON

Now after we have spent the desired amount of time on the Moon, the next chart shows how we would take off. Now you see we take these engines up here, which I described as the abort engines, and we now use them to power our take off from the Moon back to the Earth, and we fly back out. Then after we get back into the trajectory velocity required to get back to the Earth, we drop those engines off after we have made our course corrections.

COMMUNICATION VIA MOON

Senator MAGNUSON. Now let me ask one thing. Communication with this thing on the Moon and on the way and back is a very simple thing? You can do that easily?

Mr. WYATT. I think it is an overstatement to say it is very simple. It is technologically feasible.

Senator MAGNUSON. It is very feasible.

Mr. WYATT. Yes, sir.

Senator MAGNUSON. Because I made a telephone call via the Moon, bouncing it off the Moon and back.

Mr. WYATT. That is correct.

Senator MAGNUSON. I came in loud and clear, too. Two seconds after saying the word it came back.

Mr. WYATT. Right.

REENTRY SPEED

Senator ALLOTT. Could I ask this question? It goes back to something you said a while ago. As I understand it, you have to have a speed of something like 26,000 miles to separate yourself from the Earth.

Mr. WYATT. 25,000 miles. Yes, sir.

Senator ALLOTT. Now you also said you would have to reenter at a speed of about 25,000 miles.

Mr. WYATT. Yes, sir.

Senator ALLOTT. This is a simple question to you, I am sure, but why, with the very low gravity on the Moon, do you have to have such speed for reentering?

Mr. WYATT. Oh, that is the speed to reenter the Earth. You actually will approach the Moon at a speed of around 5,000 miles an hour—of that order and perhaps a little lower. This is because the Earth has been pulling you back all the time you are going out. And by the time you get to the Moon you have slowed down considerably. Now you leave the Moon and again build your speed up after you leave the Moon to, say, of the order of 5,000 miles an hour. Then as you approach the Earth, the Earth's gravitational pull keeps accelerating the vehicle, so when you get back to the Earth you are at the same velocity as when you left; you are at 25,000 miles an hour.

Senator ALLOTT. That answers my question.

REENTRY TECHNIQUE

Mr. WYATT. The final chart in this series simply shows the technique that we think will be used for reentering the Earth's atmosphere. It is the same kind of technique that we used on Project Mercury. In other words, we have now disposed of all of the propulsion system, all of the external gear, and we have a capsule that might well look very similar to the Mercury capsule coming in blunt end forward with a heat shield. Now the problem in this case is the temperatures behind the shock waves out here ahead of this body may get up in the order of 18,000° F., which means that we are potentially exposed to the terrific radiations at a much higher level than we are when reentering from the Earth satellite orbit.

However, we think that the state of the technology is such that this will not pose a major problem in terms of having to make any real breakthroughs. We think the techniques are within our grasp to protect ourselves from these very high temperatures.

Then having come down through the atmosphere in the same fashion as our Mercury flights, we will finally use parachutes or some other device.

LANDING ON AND TAKEOFF FROM MOON

Senator SALTONSTALL. How much has been done in studying how to land on the Moon and how to get off from the Moon?

Mr. WYATT. Well, that actual study is one that will have to be part of the program that we are proposing as Project Apollo. It is obviously a very difficult thing. We will have three men in a capsule on the Moon surface with a powerplant that is a little smaller, but analogous to, say the Redstone rocket that Commander Shepard flew. These three men are going to have to countdown and launch themselves, using three men.

Senator SALTONSTALL. They have to land safely first.

Mr. WYATT. Landing safely first. But, having landed, they will have to count down and launch themselves vis-a-vis launching from Earth where we actually use several hundred people.

Senator SALTONSTALL. How can you experiment on that?

Mr. WYATT. We propose to experiment with this a number of ways. One will be the landing system, by simply dropping models of this from high-altitude airplanes, and then bringing them to rest, say, over a desert area, and establish that part of the technique. The actual control gets very complicated because we are landing in a vacuum, not in the Earth's atmosphere.

This means our engines that we would have in the actual flight would not work in the Earth's atmosphere. So what we would propose is to test the lunar landing techniques in suborbital flights. We would fly up into space and make a simulated landing at a predetermined point in space. On approaching this point, we would fire the craft's landing rockets and hang there for just an instant; then we would fire the takeoff rockets and complete the suborbital flight. We will do this a number of times as a training and as a proof testing device.

Senator SALTONSTALL. In other words, the men will take off again from this—

Mr. WYATT. In these training flights, the men will actually never come to rest on anything except on a hypothetical point in space.

Dr. DRYDEN. Like practicing stalling in an airplane.

Mr. WYATT. We will do that, and then take off again, and use lunar takeoff rocket, and complete that phase of the mission. Now this is all in the future; this is part of the program.

MEN ON THE MOON

Senator MAGNUSON. Can those poor fellows get out and walk around?

Mr. WYATT. On the Moon, yes. But in these simulated training flights they will remain in their capsule.

Senator SALTONSTALL. So if they have to push themselves up again from inside the capsule—

Mr. WYATT. Yes, sir. They have to fire the rockets, and the whole sequence has to be controlled from within the capsule.

Dr. DRYDEN. There is only one virtue. The gravity is only one-sixth that on the Earth, slightly favorable.

Senator MAGNUSON. If they should get out, they may fly away by themselves?

Dr. DRYDEN. They can jump for considerable heights.

Senator MAGNUSON. How high can they jump?

Mr. WYATT. They can walk, and each step, say the normal pressure you walk, might carry them 18 feet instead of 3.

FUNDS NOT APPLICABLE TO MOON PROJECT

Senator SALTONSTALL. Mr. Chairman, may I ask another question?

When you boil it right down, Dr. Dryden, we have sat here very interestingly this morning, we have certainly been much impressed, or at least I have, but you have three requests in this budget for research, for salaries and expenses and construction. How many of those additional amounts, will you tell us an honestly as you can, do not apply to any of these new projects in this \$549 million? In other words, supposing we want to follow the House on any of these three items, or any part of the House. With \$549 million more facing us, how much of this could be cut, or not put back, even though you requested, because it does not apply to these projects that you have been describing to us?

NO NOVA FUNDS IN ORIGINAL BUDGET

Dr. DRYDEN. As more or less indicated on the sheets, for example, in the original budget there is nothing at all on Nova. The nuclear system represents acceleration the President asked for, as does the increase in liquid propulsion. The liquid propulsion increase is to accelerate the F-1 engine and the J-2 engine, which is one of the upper stage engines.

USE OF FUNDS REQUESTED

I think the third answer to your question is that the \$549 million is associated with the items that I have listed, the bulk of it on lunar landing, one part of it to keep a Tiros satellite continuously up until there is an operational system because the data from it is so useful in weather forecasting.

The communications satellite request of \$50 million was put in for so-called transitional systems.

COMPETITIVE SATELLITE VENTURES

Now the difficulty of defending that in detail at the present time is that we have the situation in which competition has been held, and a satellite to be built by RCA will be launched and used for measurements of durability in space, for TV trial, across the Atlantic. At the same time A.T. & T. wishes to spend their own money to move toward an operational system, and we engaged in discussions with them as to the nature of the agreement under which the Government would launch their satellite at cost, and all the accompanying conditions, proprietary aspects and so on. Many of the agencies of the Government, such as State and USIA are interested in seeing some operational use at the earliest possible date. And this might involve something other than the high traffic routes that are of interest to the commercial groups. The commercial companys are interested in New York-London, New York-Paris, New York-Rome traffic.

PURPOSE OF RESEARCH GRANTS

Senator SALTONSTALL. But boiled down you have research grants to contracts. That has increased from \$5 million to \$706 million. Is that all concerned with these Moon projects?

Mr. DRYDEN. No, sir. No, this is concerned with our whole program. This is the money used for projects directly related to our specific mission. You recall that the Science Foundation has the responsibility for the general support of basic research, that which is not pretty well tied to specific areas of interest to the agencies.

Senator SALTONSTALL. Then you have your vehicle development. None of that seems to be under that project.

Mr. DRYDEN. Only the Nova. The rest of them have been financed. Saturn has an increment in the first go-around, but that has already been considered by the House.

Senator SALTONSTALL. So we could accept the House figure on vehicle development, I do not say we will, but we could accept the House figure on Scout, Delta, Centaur, and Saturn—

Mr. DRYDEN. If you do not go ahead with this project.

Senator SALTONSTALL. Without hurting the project. And also, we could accept the House figure on research grants and contracts if we wanted to, if we determined to; is that correct?

Mr. DRYDEN. That is correct.

Senator SALTONSTALL. And also on the solid propulsion.

Mr. DRYDEN. Our solid propulsion work has to do with the very small rockets used for retrorockets.

Senator SALTONSTALL. And the electric propulsion and the space power.

HOUSE REDUCTION

Mr. DRYDEN. You see, the House did not specify where the \$35 million was to be cut, and I can only say that in a budget of this magnitude, the estimates made according to the best of our knowledge, but I cannot come and argue specifically for \$35 million in \$1,780 million.

Senator SALTONSTALL. What you are saying to us is, or what we know is, we will probably receive an additional request for \$549 million.

Mr. DRYDEN. That is correct.

Senator SALTONSTALL. Assuming we wanted to do all of that in connection with this Moon project, or whatever part we could take the House figures on a certain number of these items—

Mr. DRYDEN. I will not argue too strenuously because I do not think the accuracy of our estimates—what is it?

Mr. WYATT. It is about 3 percent.

Mr. DRYDEN. It is about 3 percent. I mean, I cannot pound the table and say because these are continuing projects—

Senator MAGNUSON. In other words, the \$1,200 million, that the House gave you, which lacks the \$35 million that was requested by the amended budget, is a spread throughout the whole business?

Mr. DRYDEN. Yes, sir; this question is repeatedly asked: "Can't you do this with 3 percent less, 5 percent less?"

SUMMATION OF FUND REQUESTS

Senator MAGNUSON. And you are suggesting on the \$549 million, that it be added to the \$1,200 million, which makes a total of \$1,784 million, which is minus the \$35 million in those figures that the House cut.

Senator SCHOEPEL. Over what period of time?

Mr. DRYDEN. This is 1962 we are talking about.

Senator SCHOEPEL. Through the end of 1962?

Mr. DRYDEN. Yes, sir.

Senator MAGNUSON. If this committee should decide to add the \$549 million, we do not need to worry about the House cut of \$35 million, they are out?

Mr. DRYDEN. That is right. I just do not feel equal to argue—

Senator MAGNUSON. But if we are not going to add the \$549 million, then there are some House cut that may or may not be acceptable?

Mr. DRYDEN. This is correct.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

Senator MAGNUSON. Now we have put in the record in full your letter and the justification of the proposed amendments by page and line. And these refer to the House cut of the \$35 million.

Mr. DRYDEN. Yes.

TRAVEL FUNDS

Senator MAGNUSON. One is on travel, in which the House reduced you from \$8,395,000 to \$8 million. You are asking for a restoration of that amount.

You are asking for \$10 million—does this include the advanced program?

Mr. DRYDEN. I must take a look at the letter, I am afraid, because there have been so many of these adjustments.

Senator MAGNUSON. And the letter was sent out by the Administrator.

Mr. WYATT. This \$10 million is in terms of the full figure.

Senator MAGNUSON. Now if the full figure is not put in, then you would suggest that we go back to the \$8,395,000, is that correct?

Mr. DRYDEN. Yes.

Mr. WYATT. Yes.

RESEARCH FUNDS

Senator MAGNUSON. Now the next one is on research, in which you add the \$549 million—page 2, research and development—and the House cut approximately 3 percent from the research and development of the amended budget, the regular budget?

Mr. ULMER. That is right.

Senator MAGNUSON. So if the \$549 million is not determined by the committee here as a matter of policy to be put in the bill, you are suggesting that in this particular case 3 percent of the research and development, the whole business, be restored?

Mr. DRYDEN. That is correct.

CONSTRUCTION OF FACILITIES

Senator MAGNUSON. Then the construction of facilities. In that particular case the House cut \$2,825,000, which represents 2½ percent of your request, the amended request—leaving out the \$549 million—of \$119,075,000. And in that particular case you have pointed out here in your justification for the restoration, again if we do not put in the \$549 million, 2½ percent.

Mr. DRYDEN. That is correct.

Senator ALLOTT. Now on that, Mr. Chairman, may I address a question?

EFFECT OF COMMITTEE DISCLOSURES

To what extent have the disclosures of the committee, Senator McClellan's committee, impeded construction of NASA?

Mr. DRYDEN. We had only a very short interruption, about 2 weeks' interruption on one facility. It has not been a major problem with us as yet.

Senator ALLOTT. Then let me ask this question. To what extent have these disclosures increased the construction costs of NASA? Whose responsibility is it to watch these? Because I feel that if we are going to put upon the American people a burden of \$100 per person for a project like this, we cannot afford to have this sort of activity going on in our construction. That is a double-barreled question.

Mr. DRYDEN. I would think these disclosures are helpful in that they give us a weapon in negotiations which otherwise we would not have. We can point to these practices and do our best to include provisions to take care of them.

Now as far as the inspection goes, our construction at Canaveral is done through the Army Engineers. Construction elsewhere has been done generally by contractors responsible directly to us. Now we of course are involved in a review of specifications when things are done through the Army, but I do not believe that we attempt to intervene when a job is assigned to the Army Engineers to carry out for us.

Mr. WYATT. No. We assign them the task and funds, and they actually do the work.

Senator ALLOTT. So that the actual responsibility for mismanagement or nonmanagement that might occur is in the hands of the Army Engineers?

Mr. DRYDEN. At the missile ranges. It is in their hands. You can understand the reason for this. It would be very difficult for a lot of agencies to be working in the same installation.

DELETION OF LANGUAGE PROVISION

Senator MAGNUSON. Now, Dr. Dryden, on page 31, lines 5 through 8 of the bill, you suggest we strike out the House language which says:

of which \$20 million shall be available for emergency constructions of facilities in accord with section III of the legislative authorization for appropriations for the fiscal year of 1962.

Mr. DRYDEN. I will ask Mr. Ulmer to explain that.

Mr. ULMER. The authorization bill, Mr. Chairman, includes a little broader emergency authorization in that it will permit 5 percent of the salaries and expenses appropriation, plus 5 percent of the research and development appropriation, to be transferred to the construction of facilities appropriation, and then that total amount of transferred money may be used for emergency construction purposes subject to the congressional notification procedures. Now, with that provision in the authorization bill, this provision in the appropriation language

is really not required and would be in conflict with the broad authority being provided in the authorization bill. The appropriation bill also contains a 5 percent appropriation transfer authority, which provides the fund transfer authority that parallels the emergency authorization in the authorization bill. So this \$20 million provision in the appropriation language is not required. It is as simple as that.

Senator MAGNUSON. Well, this is also a matter that we will have to look at if and when the authorization bill comes down.

Mr. ULMER. Correct.

Mr. DRYDEN. Yes.

SCIENTIFIC CONSULTATIONS AND EXTRAORDINARY EXPENSES

Senator MAGNUSON. Now recommended change No. 6, on page 31, line 15 of the bill, to strike out "\$15,000" and insert in lieu thereof "\$20,000."

We are getting back to earth now. [Laughter.] The House cut \$5,000 from you, 25 percent from the request for funds to be available for scientific consultations and emergency or extraordinary expenses. The basis for this action was not reported. And you suggest that you get back \$20,000, is that correct?

Mr. DRYDEN. That is right.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

EXPLANATION OF PROGRAM TO THE PUBLIC

Senator MAGNUSON. Now I just want to make this last observation. I think that NASA, maybe through the help of the press, or administration, or even Members of Congress, has to do a lot of missionary work, there has to be a lot of missionary work done, in regard to this proposal for people to understand what we are trying to do, in order that Congress and they may accept it or reject it. Because as it stands now, I am pretty sure, and it has some political implications, maybe they do not belong there but these things are bound to happen, we are just taking a jump to the Moon. And I think we are all going to have to do a lot of, not explaining, but pointing out just all the aspects of the project. And then I think the people can make a decision.

PROJECT ECHO

Senator ALLOTT. Now, Mr. Chairman, could I ask one further question on one further subject? This is in relation to Project Echo. When we had the FCC up here a few days ago they explained that they planned, when this was developed, to work sort of a deal with all of the companies who were interested, and the Government in which there would be a public and private participation. Now I have been informed of the \$50 million which you have in here for the transitional system, it is not needed, that as far as at least one company is concerned, they are ready to proceed at this time, and they regard this as a step which is not needed. I would like to have your reply to that.

PROJECT RELAY

Mr. DRYDEN. May I review the situation? First of all, I think you are speaking of the project we call Relay. Echo is the big 100-foot balloon which is simply a passive reflector of radio signals. It is attractive for some purposes. At the present time the commercial people think they are more interested in an active type of satellite. We will launch, about the middle of 1962, an active satellite for the purpose of determining some of the factors involved in the life, as well as to make this demonstration of which I spoke.

I think you get from the discussions in the public press a somewhat wrong impression of the stated development of communications satellites. In our opinion there is a great deal of research and development that remains to be done before you actually have an economically viable system, one which can pay its way in a short time. The reason for that is that we have so far no electronic equipment in space that lasts more than a few months. The Russians have lost contact with their Venus probe in spite of all the great weight they have available. They lost contact when it got out a few million miles. I guess the one that has gone the longest is Tiros II.

Mr. WYATT. Tiros II is still up there. It has been up 7 months.

Mr. DRYDEN. That has been up 7 months.

RELIABILITY OF ELECTRONIC EQUIPMENT

Part of its equipment has failed but we are still getting useful results from it.

Now what are the reasons for all this? Some of it has to do with the reliability of electronic equipment. And this looks like, in the ordinary sense, a soluble problem. All you have to do is remember that we have cables under the sea with electronic devices under them that operate for 20 years.

Senator MAGNUSON. So you are getting back to my oceanography.

Mr. DRYDEN. That is right. [Laughter.]

SOLAR CELLS PROBLEM

The real problem has been that the solar cells show rather rapid deterioration under the impact of electrons and protons that we have in space. In some cases, in Vanguard I, which has been running for several years, this effect was minimized by very lightly loading the whole circuit. In other words, you designed it for a capability 10 times what you are actually using it for, from the technical details, and it could deteriorate to a fourth of its power and still may not effect the transmission too much. You just had an oversized power-plant for the little beacon you have there. In other cases, there has been as much as 25-percent deterioration in a few weeks. Now the object of the relay satellite that we are launching is to measure the streams of electrons and protons to expose various types of solar cells and various types of protection and to investigate some of these research and development problems that are going to have to be solved if you are going to have a sufficiently long life to be useful.

A.T. & T. PROPOSAL

Now we held competition in which A.T. & T. was a bidder. In the evaluation which we made, we did not think they had the best proposal and an award was made to another company. It is purely on the basis of the proposal submitted to us, not on any evaluation of the resources of a company or anything of the sort.

Now, nevertheless, A.T. & T., as they have frequently stated, wished to go ahead with their own ideas of a development at their own expense. And, as I mentioned, we are engaged in conversations with them in an attempt to work out an agreement which protects the interests of the Government in this particular affair. Now we have nothing in NASA to do with who is going to get a license to operate a communications satellite system. Under the present legislation, as I understand it, the FCC has the economic control and will decide who they will license. They have made some announcements.

STATUS OF FCC

By the way, the FCC, of course, is not within the executive branch of the Government. It is one of these agencies established by Congress, in between, and not considered within the executive branch.

Senator MAGNUSON. It is an arm of Congress.

Mr. DRYDEN. Is it an arm of Congress. They have said they will not license any single company to operate as a communications satellite system, and they have proposed for examination by the industry what they call a grouping of carriers to come forward with some suggestion to them as to what kind of an agency should be licensed. Now we are not directly involved in that.

Senator ALLOTT. I think the FCC covered this rather thoroughly the other day, this phase of it.

Mr. DRYDEN. Our concern is only in the R. & D. on the satellite element of the communications system.

LETTER FROM COMMUNICATIONS SATELLITES, INC.

Senator MAGNUSON. We have a letter which we received last week from the Communication Satellites, Inc. I will put it in the record in full. It is essentially a General Electric company.

Mr. DRYDEN. I have seen a copy of it.

Senator MAGNUSON. And in this they made application, attempting to carry out the idea of FCC that all of the companies get together, and they own a certain amount of stock, and the public own a certain amount and they say this, which I think will be interesting to you:

While the problems of establishing the identity of the private organization are being resolved, it is imperative that the research and development activities, already underway and planned by NASA, be continued and accelerated in order to establish such a system prior to the 1964-65 time.

And I would add there the 1963 international convention.

Mr. DRYDEN. Yes. We are trying to accelerate.

Senator MAGNUSON. And they said:

The program planned by NASA in support of a commercial communications satellite system is providing much of the basic technology required to allow the United States to meet its objectives in this important space activity.

Mr. DRYDEN. I think it is our policy, if there is any other company that wants to spend their own money on what they think will do this job with current technology, we are prepared to discuss it with them.

PRIVATE COMPANIES IN RESEARCH AND DEVELOPMENT

Senator ALLOTT. If private companies desire to step forward in this area—

Mr. DRYDEN. In the R. & D. part.

Senator ALLOTT. In the R. & D. And I am not speaking of any particular company. I am thinking in terms of the group which the FCC spoke about the other day. There is no reason why the Government should carry on this R. & D. at its own expense if private companies desire to step forward in this area.

Mr. DRYDEN. Provided the system which is set up by this meets all the needs of the Government. I think there are governmental needs in addition to simply a commercial satellite system. We are concerned, I suppose, or part of our duty is accelerating the practical use of space technology for human benefit and welfare. Now the purpose of the \$50 million, as I understand it is this: suppose a relay satellite works well, suppose it last 6 months or a year? We may want to use this money to put up 8 or 10 of them in different orbits so that we can try the elements of communication over a wide area, furnishing again information that will be of use to anyone who is going to do a final system. Now I say I do not think we can be more specific because we do not know what is going to come out of this FCC arrangement. I doubt the technology will move that fast. Conceivably you may not spend any of it, but I think this is very unlikely from what I know of the state of the art.

Senator ALLOTT. You mean it is unlikely it will move.

Mr. DRYDEN. It is unlikely it will move that fast. I do not think that we will arrive at a satellite of 5 years' life on the first try.

(The letter from the Communication Satellites, Inc., follows:)

COMMUNICATION SATELLITES INC.,
Washington, D.C., June 16, 1961.

Senator WARREN G. MAGNUSON,
Chairman, Senate Appropriations Subcommittee on Independent Agencies,
Senate Office Building, Washington, D.C.

DEAR SIR: Communication Satellites, Inc., is a subsidiary formed by the General Electric Co. to serve as a focal point for all industrial firms interested in establishing a communication satellite system for commercial purposes. We presently have an application pending before the FCC for authority to proceed with such a venture.

Communication Satellites, Inc., and others have proposed that a completely new corporation be established for the ownership and operation of the communication satellite system. This new corporation would be independent in the fullest sense of the word.

To achieve this independence, it is proposed that no one company be permitted to own more than 10 percent of the stock and that 50 percent of the stock of the new corporation be held by the public, including small business. We have suggested that we are prepared to accept safeguards to insure that this broad ownership would be maintained in the future.

We are requesting that our statement in support of NASA's request for additional funds to support this communication satellite program, be included in the current subcommittee hearings.

Private industry is prepared to proceed without Government financial support, but the pace of any such private venture must be established in a manner reflecting sound business judgment which reasonably protects the interests of

investors. It is as you know an undertaking requiring an investment of approximately \$500 million.

A time schedule predicated upon such factors should provide a commercially operable system by 1964-65. We believe that the work which NASA would like to undertake may well make it possible to have an operable system in being well in advance of this.

While the problems of establishing the identity of the private organization are being resolved, it is imperative that the research and development activities, already underway and planned by NASA, be continued and accelerated in order to establish such a system prior to the 1964-65 time period. We feel urgent national requirements are involved which would not be a part of a normal business venture.

The program planned by NASA in support of a commercial communication satellite system is providing much of the basic technology required to allow the United States to meet its objectives in this important space activity. Their plans should be looked upon as similar to the research and development presently being pursued by the FAA and NASA in support of civil aviation, differing only in degree of urgency.

Very truly yours,

D. T. ATKINSON, *Executive Vice President.*

DEVELOPMENT OF ENGINE FOR ROCKET ROVER

Senator MAGNUSON. Now just two other items in your proposed \$500 million item. The communications satellite is \$50 million; for engine development for the nuclear rocket ROVER \$23 million. Now what is that?

Mr. DRYDEN. That is the NASA part of the joint project on the nuclear rocket. The division of technical know-how and responsibility is that the AEC is responsible for the development of nuclear reactors. A nuclear powerplant has pumps, nozzles, a lot of technology in which we have been skilled. So this is a joint project. We have set up a single office, much like Rickover's office is, set up in AEC at the present time with Harold Finger, who came from NASA, and Kline I think from AEC as his deputy. And all money on Project Rover is handled and contracted from that joint office.

Now the most recent action was the determination by the AEC and NASA that we negotiate a contract, first of all for test support, but more particularly to begin the design of the actual nuclear rocket engine.

Senator SALTONSTALL. Dr. Dryden, wasn't that dropped and then put on in this \$549 million?

Mr. DRYDEN. Yes, part of it was.

Senator SALTONSTALL. I thought the whole nuclear project had been held up?

Mr. DRYDEN. No.

Senator SALTONSTALL. Am I incorrect? Or been slowed down very much?

Mr. DRYDEN. You are not thinking of A. & P., are you, aircraft program?

Senator SALTONSTALL. No, this one never was stopped.

Mr. DRYDEN. There were two steps on the policy division. The first step was to beef up the research and development by testing more reactors. On the part of the AEC this required funds for building more reactors. On the part of NASA, we had, I think, to build a couple more pumps and nozzles. That was a smaller amount. I do not remember the numbers. The major policy was: shall we now

select a contractor to go ahead and study the design of a nuclear rocket engine. And the second phase of this, in the \$549 million, was the money representing the decision to choose a contractor now and go ahead with development on an engine.

Senator MAGNUSON. AEC planned to contribute \$7 million.

Mr. DRYDEN. They did this by reprogramming as I recall.

Senator MAGNUSON. Which would be approximately a \$30 million budget.

Mr. DRYDEN. This is the second increment that was put on that project.

Senator SALTONSTALL. So, on the first project, I am right. It was not in this project at all, it was in the AEC budget?

Mr. DRYDEN. No, we had money. I guess it is shown—

PURCHASE AND LAUNCHING OF TIROS SATELLITES

Mr. WYATT. We had \$28 million in research and development. In the add-on budget this is raised to \$36 million.

Senator SALTONSTALL. I see.

Mr. DRYDEN. The amount includes \$15 million for engine test facilities to be built on the AEC site where the TV reactor tests are being run.

Senator MAGNUSON. Now the last item in the \$549 million is for the purchase and launching of additional TIROS weather satellites so that one can be kept continuously in orbit until the Weather Bureau is able to place in operation its worldwide system based on NIMBUS. That is \$22 million.

Mr. DRYDEN. Yes. Actually this same Presidential message carried an item of \$53 million for the Weather Bureau to begin the downpayment on NIMBUS launched vehicles and satellites. I do not know whether that has yet been acted on in Congress or not.

Now the point here is that TIROS, a research and development item, right from the very beginning found useful application in weather forecasting that everyone wants. There has been one proposal to have a complete system based on TIROS. A joint committee was set up which made an extensive study of this whole field. In our program, as originally planned, after we had finished three TIROS vehicles, there was a gap of a year before the first NIMBUS would be launched. I do not know that I need to take very long on this. It is easier to mention a military use of this then it is easy to understand. We refuel airplanes over the Atlantic all the time. You want to find a clear area for this refueling. At present you have to base the weather forecasts on a few ship observations and so on. TIROS gives them a picture, and they look at the picture and see where the clear areas are.

Mr. WYATT. Two TIROS, incidentally, have transmitted about 54,000 pictures.

Senator ALLOTT. Mr. Chairman, has this been put in the record in graphic form, this summary of the research and development projects? We have referred to this so much wouldn't it be wise to have it put in the record?

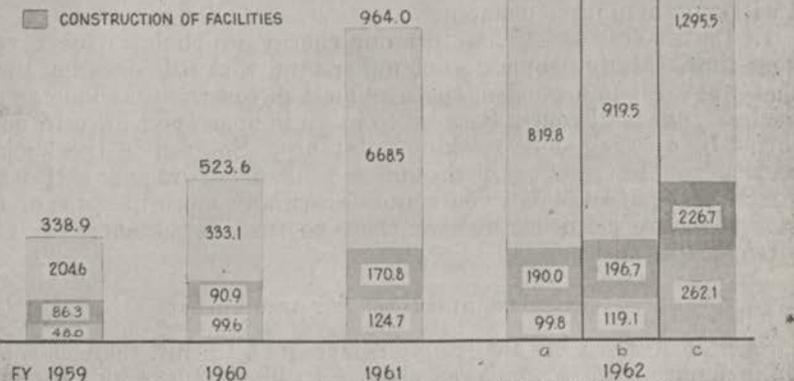
Senator MAGNUSON. Yes, and the chart behind it?

(The information referred to follows:)

NASA BUDGET GROWTH FY 1959 THROUGH FY 1962

(IN MILLIONS OF DOLLARS)

- RESEARCH & DEVELOPMENT
- SALARIES & EXPENSES
- ▒ CONSTRUCTION OF FACILITIES



a. ORIGINAL BUDGET REQUEST
b. 1ST KENNEDY BUDGET
c. 2ND KENNEDY BUDGET

SUMMARY OF RESEARCH AND DEVELOPMENT PROGRAMS

(MILLIONS OF DOLLARS)

	FY 1960	FY 1961	FY 1962
SUPPORT OF NASA PLANT	27.8	48.2	77.1-89.1
RESEARCH GRANTS & CONTRACTS	4.9	5.0	7.6
LIFE SCIENCES		5.0	8.6-20.6
SCIENTIFIC INVESTIGATIONS IN SPACE	79.9	128.6	175.6-241.6
SOUNDING ROCKETS	9.7	8.2	7.0-9.0
SCIENTIFIC SATELLITES	20.2	37.9	64.7-72.7
LUNAR & PLANETARY EXPLORATION	50.0	62.5	103.9-159.9
SATELLITE APPLICATIONS	11.0	47.6	72.8-144.8
METEOROLOGY	7.9	16.1	28.2-50.2
COMMUNICATIONS	3.1	29.5	44.6-94.6
MANNED SPACE FLIGHT	84.4	110.5	103.7-234.2
MERCURY	84.3	109.5	74.2
APOLLO	0.1	1.0	29.5-160.0
LAUNCH VEHICLE & SPACECRAFT TECHNOLOGY	4.0	17.1	26.9-38.9
SPACE PROPULSION TECHNOLOGY	39.3	78.4	121.4-144.4
SOLID PROPULSION	1.7	1.3	3.1
LIQUID PROPULSION	27.2	57.0	78.0-93.0
ELECTRIC PROPULSION	1.3	3.3	6.8
NUCLEAR SYSTEMS	5.6	12.6	28.0-36.0
SPACE POWER	3.5	4.2	5.5
VEHICLE DEVELOPMENT	65.6*	106.4	287.2-335.7
SCOUT	3.0	3.9	3.7
DELTA	12.5	11.8	2.9
CENTAUR	36.6	62.6	56.4
SATURN	9.5	118.1	224.2
NOVA			48.5
TRACKING & DATA ACQUISITION	16.2	31.7	38.6
TOTAL	333.1	668.5	919.5-1,295.5

* INCLUDES 40 FOR 1961

HHS-1-13 C-61-415

ELECTRIC PROPULSION

Senator ALLOTT. Before we leave this one, you have one thing there that has me stumped, and that is the electric propulsion. What does that mean?

Mr. DRYDEN. Well, when you talk about the visions of the future to go out beyond the Moon to Mars and Venus, let us say first of all this cannot be done with the chemical systems we know. You either go to a nuclear system or go to an electric propulsion system, which I will explain in just a moment.

In the nuclear system, we get our energy which lasts for a very long time. Many people do not understand that this does not mean that you can run around in space as long as you want, as long as the nuclear fuel holds out. Because to move in space you have to get a thrust by ejecting some working substance. So even in the nuclear rocket, you have to carry around a tank of hydrogen, and when your hydrogen runs out, you cannot move any more in spite of the fact you have a nuclear reactor there to furnish the energy. This often escapes notice.

CONVERTING NUCLEAR ENERGY INTO THRUST

Senator ALLOTT. As long as you have gone to this, there is something I have always wondered about. In kind of layman's terms, I can understand, how do you convert nuclear energy into thrust?

Mr. DRYDEN. In this version of the nuclear rocket, the nuclear reactor simply takes the place of the combustion in furnishing heat. That is all it does. It heats up the hydrogen, expands through a nozzle just like the combustion products. Now, one of the difficulties is the fuel consumption. And you would pay a great premium for something that has a very low rate of fuel consumption for the thrust produced.

ADVANTAGE OF ELECTRIC PROPULSION SYSTEM

The electric propulsion system is one of this type, using, instead of a gas, ions, or charged particles. It has, however, the characteristic that you can only get a very small thrust with any reasonably sized system, less than 1 pound or say in the order of 1 pound. You might think a pound is not very much to play with. It is not as long as you are near the Earth, in the gravitational field. But it will suffice to get you traveling awfully fast out in a vacuum.

Senator SALTONSTALL. And the battery gives out?

Mr. DRYDEN. Well, you can use a nuclear power.

Mr. WYATT. Nuclear generator.

Mr. DRYDEN. The only working substance would be probably cesium. And at the rate of consumption, the working substance may be only one one-hundredth out of a chemical system.

Senator SALTONSTALL. So you are still down to when the hydrogen gives out?

SOLAR SAILS

Mr. DRYDEN. When the fuel gives out you are through.

The only way to use this is to use the solar sails. I was going to mention the Echo balloon. Just the light from the Sun on it exerts a pressure of about one one-thousandth of a pound, about half a gram.

That, acting over 6 months, has been able to move the orbit 100-some miles. And the orbit of Echo is going from circular to elliptical and back again with a period of something in the order of 1 year. So that there, even this one one-thousandth of a pound is able, over a 6-month period, to produce quite large effects. And a thrust from an electrical propulsion system, in free space, will continually accelerate you up to very high speeds. And in trips to Mars or Venus this offers an advantage.

Now at a much earlier date, this electrical propulsion system in small sizes can be used to change the orbit by spiralling outward. You know, if you are climbing a hill with a car it takes quite a lot to go straight up, but if you go back and forth at the lower grades you can climb the hill. In the same way, if you have a little thrust sideways your circular orbit will very slowly get bigger and bigger and you can climb out against gravity to a higher orbit. And this has been proposed in connection with the launching of 24-hour satellites as a means of changing the orbit. This is a system in the future.

General OSTRANDER. 1965 is the first test, the large test. We will have a preliminary test on some of the thrust chambers in 1962.

Mr. DRYDEN. This again is in roughly the same time period not quite, perhaps, as the nuclear. It is a little beyond the present chemical systems.

Mr. WYATT. Directly to your question, of where the electrical comes from, just as you use the nuclear heat source to drive a turbine generator to create electricity, the electricity is used to ionize this cesium on the one hand and create a magnetic field to accelerate it. So what you are doing is to charge the particle and then put it through either an electrical or magnetic field and cause it to accelerate at extremely high velocity.

Mr. DRYDEN. Nuclear powerplant is just like these numerous nuclear stations going up by the utility companies except you realize it is a very miniaturized version.

Senator SALTONSTALL. Then you get your electric and battery recharged by the Sun?

Mr. DRYDEN. No.

Mr. WYATT. In this case it would be just a nuclear fuel itself, the stationary powerplant form.

Mr. DRYDEN. Up until now we have used only batteries which run down in 3 months, about the longest period, or we use solar cells which obtain power from the solar energy.

PROBLEM OF SOLAR CELLS

Mr. WYATT. The problem with the solar cells is that the amount of energy output per square inch of cell is very, very small so that if you need a great many kilowatts of electricity as you do in the electrical system like this, you get into the fantastic side.

Mr. DRYDEN. You have seen the paddles on some of the satellites. That is just to get room to put other solar cells to give you the power you require.

LIAISON WITH AGENCIES IN MEDICAL FIELD

Senator MAGNUSON. Talking about men in space, what is the liaison situation between the other agencies of Government in the medical field?

Mr. DRYDEN. In the medical field—

Senator MAGNUSON. For instance, FAA is embarking upon a program which does not quite get up to space.

Mr. ROADMAN. In our research program within NASA, FAA, and the Department of Defense, we have numerous coordinating committees which address themselves to periodic evaluation of existing and projected research programs. I feel it is quite effective. I feel that I have answered this question on numerous occasions, questions directed to this point.

Unfortunately, in the terminology of some of our medical and biomedical research, as it pertains to program planning, the words oftentimes appear the same. We can do physiology as it pertains to work needed in the FAA, in their planning for supersonic transports. We can do physiological research in the space environment and in the near space environment. But our programs, in my view, sir, are well-coordinated directly, primarily to meet the particular agency and organization needs. We have an extensive coordinating program.

Senator MAGNUSON. Dr. Dryden did not read all of his first statement, or rather Mr. Webb's statement, but he concludes, and I presume this is concurred in by you people who have been in the Agency a long time, and the committee is glad to hear this, and I quote:

I would like to say that I have never found better teamwork among the agencies than has been achieved in the development of this program.

Mr. WEBB. I am here now and I would like to reiterate that.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

CLOSE COORDINATION

Mr. WEBB. I was only going to say, Senator, when I came into this program the first thing that President Kennedy asked to be done, and sent a second message through the Director of the Budget, was that those of us concerned with it get together at the top side.

Now the program you are looking at is one that Secretary McNamara, Deputy Secretary Gilpatric, and his immediate assistants in this field, also Dr. Brown, Dr. Rubel and before him Dr. York, are working in the closest coordination with us, and in the atomic program Dr. Seaborg and I, in the awarding of the engine contract.

Dr. Dryden and I met with the entire membership of the Atomic Energy Commission.

So I think you can feel, in answer to your question as to how these things are coordinated, that right at the very top level we are in close and intimate personal contact and have done a great deal of study in work together on the principles we need in these programs, to use all of our resources in the Nation to the best advantage, and wherever something can be done well in one department, we want to use that facility and not duplicate it in another.

Senator MAGNUSON. Do any members of the committee have any questions?

QUESTION CONCERNING HOUSE CUT

Senator SALTONSTALL. Mr. Webb, will you confirm Dr. Dryden's statement that in this very complex appropriation, where the House has cut you \$35 million, and the President has requested \$549 million more, that if this committee should decide to grant a substantial portion of that \$549 million, we do not necessarily have to consider putting back this \$35 million because it is also involved together that the committee would not have to break that down in detail?

Mr. WEBB. No, sir; I do not think the committee would have to break it down in detail. But I think you need to think of this as a first step of a 10-year program, which is not going to only give us supremacy, really, certainly a very strong forward thrust to meet our national needs, to deny the opportunity to the Russians to maintain their position of being first in the more spectacular things, but, more important, to give us access to the technology, the knowledge, the real substance of what it means in this new medium.

Senator SALTONSTALL. What you are saying in substance is that these three appropriations are really so involved in each other that if you get this \$549 million, or a great portion of it, then this breakdown of what you might call the technical budget, this \$35 million, can be pretty well forgotten?

Mr. WEBB. I think that is true.

Senator SALTONSTALL. That is what Dr. Dryden testified to, and I wanted you to confirm it.

Mr. WEBB. I do agree.

1963 PROGRAM

The point I want to be sure the committee understands is the program for next year will be larger. This is in an accelerating phase and will rise.

Mr. DRYDEN. I went over this.

Senator MAGNUSON. I understand.

Mr. WEBB. I just wanted to be sure, in answer to your question, I did not leave you with the impression it was leveling out at this rate.

Senator SALTONSTALL. I understand.

Mr. DRYDEN. My remark was if you give us the \$549 million we would surrender the \$35 million, but if you did not give us the \$549 million, we want the \$35 million.

Senator MAGNUSON. Gentlemen, thank you very much.

We appreciate your coming. We got through earlier than we had expected.

We will recess until 10 o'clock tomorrow morning when we will hear the National Science Foundation.

(Whereupon, at 12:50 p.m., Wednesday, June 21, 1961, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, June 22, 1961.)

CHAPTER I

The first part of the history of the United States is the history of the colonies. The colonies were first settled by Englishmen in 1607, and they grew in number and importance until the Revolution. The colonies were at first dependent on Great Britain, but they gradually became more independent. The Revolution was fought in 1775-1783, and the United States was declared independent in 1776. The Constitution was adopted in 1787, and the United States became a republic. The history of the United States is a story of growth and progress, and it is a story that is still being written.

The second part of the history of the United States is the history of the Republic. The Republic was founded in 1787, and it has since then been a source of strength and inspiration to the world. The Republic has grown in size and power, and it has played a leading role in the world. The history of the Republic is a story of achievement and progress, and it is a story that is still being written.

The third part of the history of the United States is the history of the Civil War. The Civil War was fought in 1861-1865, and it was a turning point in the history of the United States. The Civil War was fought over the issue of slavery, and it resulted in the abolition of slavery. The Civil War was a great tragedy, but it was also a great triumph. The history of the Civil War is a story of sacrifice and heroism, and it is a story that is still being written.

The fourth part of the history of the United States is the history of Reconstruction. Reconstruction was the period from 1865 to 1877, and it was a time of great change and progress. Reconstruction was a time when the United States was rebuilding itself, and it was a time when the United States was becoming a more united and democratic nation. The history of Reconstruction is a story of struggle and progress, and it is a story that is still being written.

The fifth part of the history of the United States is the history of the Gilded Age. The Gilded Age was the period from 1870 to 1900, and it was a time of great wealth and progress. The Gilded Age was a time when the United States was becoming a more industrial and powerful nation. The history of the Gilded Age is a story of success and progress, and it is a story that is still being written.

The sixth part of the history of the United States is the history of the Progressive Era. The Progressive Era was the period from 1900 to 1920, and it was a time of great reform and progress. The Progressive Era was a time when the United States was becoming a more democratic and just nation. The history of the Progressive Era is a story of change and progress, and it is a story that is still being written.

The seventh part of the history of the United States is the history of the New Deal. The New Deal was the period from 1933 to 1945, and it was a time of great reform and progress. The New Deal was a time when the United States was becoming a more powerful and democratic nation. The history of the New Deal is a story of change and progress, and it is a story that is still being written.

The eighth part of the history of the United States is the history of the Cold War. The Cold War was the period from 1945 to 1991, and it was a time of great tension and progress. The Cold War was a time when the United States was becoming a more powerful and democratic nation. The history of the Cold War is a story of struggle and progress, and it is a story that is still being written.

The ninth part of the history of the United States is the history of the 21st Century. The 21st Century is the period from 2000 to the present, and it is a time of great change and progress. The 21st Century is a time when the United States is becoming a more powerful and democratic nation. The history of the 21st Century is a story of change and progress, and it is a story that is still being written.

INDEPENDENT OFFICES APPROPRIATIONS FOR 1962

THURSDAY, JUNE 22, 1961

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:05 a.m., pursuant to recess, in room F-37, U.S. Capitol Building, Hon. Warren G. Magnuson (chairman) presiding.

Present: Senators Magnuson, Allott, and Schoeppel.

NATIONAL SCIENCE FOUNDATION

STATEMENTS OF ALAN T. WATERMAN, DIRECTOR, NATIONAL SCIENCE FOUNDATION; AND DETLEV W. BRONK, CHAIRMAN, NATIONAL SCIENCE BOARD AND PRESIDENT, THE ROCKEFELLER INSTITUTE, ALSO, PRESIDENT, NATIONAL ACADEMY OF SCIENCES; ACCOMPANIED BY BOWEN C. DEES, ASSISTANT DIRECTOR FOR SCIENTIFIC PERSONNEL AND EDUCATION; RANDAL M. ROBERTSON, ASSISTANT DIRECTOR FOR MATHEMATICAL, PHYSICAL, AND ENGINEERING SCIENCES; BURTON W. ADKINSON, HEAD, OFFICE OF SCIENCE INFORMATION SERVICE; J. E. LUTON, ASSISTANT DIRECTOR FOR ADMINISTRATION; AND LUTHER F. SCHOEN, BUDGET OFFICER

BUDGET ESTIMATE

Senator MAGNUSON. The committee here will come to order.

Dr. Waterman and Dr. Bronk are here.

For the purpose of the record, the National Science Foundation appropriations for 1961 was \$175.8 million. The general budget was \$212 million. The amended budget was \$277 million. The House recommended \$250 million, which is \$74.2 million over and above the 1961 appropriation, but \$27 million minus the 1962 amended estimates.

Dr. Waterman, we will put your letter in the record in full and the justifications.

(The letter and justifications follow:)

NATIONAL SCIENCE FOUNDATION,
OFFICE OF THE DIRECTOR,
Washington, D.C., June 12, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of the Independent Offices Appropriation Bill for 1962, U.S. Senate, Washington, D.C.

MY DEAR SENATOR MAGNUSON. In reference to your letter of June 2, 1961, the National Science Foundation would appreciate an opportunity to appear before the Subcommittee in Charge of the Independent Offices Appropriation Bill for

1962 to present our views concerning the impact of the \$27 million reduction in the Foundation's budget estimates, which results from the House action in passing H.R. 7445. There is much to be gained in the public interest from the full restoration of this amount in the Foundation's appropriation, and accordingly, it is recommended that H.R. 7445 be amended as follows:

(1) Page 32, line 15, delete "\$250,000,000" and insert in lieu thereof "\$277,000,000".

(2) Page 32, line 17, delete "\$37,600,000" and insert in lieu thereof "\$32,200,000".

(3) Page 32, line 21, delete "\$1,600,000" and insert in lieu thereof "\$2,000,000".

The Foundation's budget estimates as presented by the President to the Congress included \$275 million in the proposed appropriation for salaries and expenses and, in addition, a separate appropriation of \$2 million for the purchase of foreign currencies which accrue under title I of the Agricultural Trade Development and Assistance Act of 1954, as amended. The language of H.R. 7445 provides instead that the Foundation may purchase not to exceed \$1,600,000 of such foreign currencies with funds provided in the regular appropriation. Amendments (1) and (3) recommended above would restore the full amount of \$277 million proposed by the President for the Foundation's programs, including the special foreign currency program, for which \$2 million is required.

The achievement of some of the United States most vital national goals, both domestic and foreign, will be determined in large measure by the effectiveness of our scientific research and by the continued development of an adequate force of trained scientific manpower. These, in turn, depend upon the capabilities of the American colleges, universities, and nonprofit research institutions in which most basic research is conducted and in which the training of scientists is accomplished. These institutions must have substantial assistance from the Federal Government if the current quality of our scientific effort is to be maintained and needed improvements made.

The National Science Foundation, in cooperation with representatives of all segments of the scientific community, has developed a wide range of programs and activities which strengthen our scientific institutions without infringing on their academic freedom. The Foundation's budget estimate for fiscal year 1962 represents a carefully considered program for meeting the essential needs of the Nation in the areas of scientific research and scientific education. The estimate provides for the moderate expansion of proven programs where such expansion is dictated by rapidly increasing need and the initiation of certain new programs for which the need is equally clear. Failure to support these programs at the level recommended by the President will not only increase the ultimate cost in money and in time, but will also result in reducing the number being trained.

As passed by the House, H.R. 7445 provides that not less than \$37,600,000 shall be available for the supplementary training of secondary school science and mathematics teachers. This minimum limitation is \$5,418,000 more than the amount which the Foundation considers can be effectively applied in 1962 for secondary school teacher institutes and is approximately equal to the total amount which was estimated for all institute programs at the various academic levels. In the event that the minimum limitation remains at the level set by the House, it will be necessary for the Foundation either to eliminate existing institutes programs for colleges, technical school, and elementary school teachers, for which a total of \$5,818,000 was estimated, or to make equivalent reductions in other essential programs. Neither alternative would represent the wisest use of our resources for the improvement of research and education in the sciences. The Foundation's objective in the institutes' programs is to provide a balanced program to supplement the training of science and mathematics teachers at the several academic levels where such additional training is clearly needed. Amendment to the minimum limitation on secondary school teacher institutes from \$37,600,000 to \$32,200,000 as recommended in (2) above, would enable the Foundation to achieve that objective most effectively.

The enclosed table shows a comparison of the National Science Foundation's budget estimate of \$277 million with the distribution which the Foundation would find it necessary to make as a result of the reduced amount of \$250 million enacted by the House in H.R. 7445. This distribution is based upon the overall statement of the House committee that the largest increase in Foundation programs is in grants for basic research and facilities. It takes into consideration, also, the amount set aside by the House for secondary school

teacher institutes. The effects of the reductions in individual programs and the amounts requested to be restored are explained by line item in the paragraphs which follow.

Basic research and institutional grants, +\$9,100,000

A primary effort of the National Science Foundation is the encouragement of basic research. In response to this effort, the dollar value of research proposals received by the Foundation has increased from \$25 million in fiscal year 1955 to an estimated total of over \$248 million in fiscal year 1962. These are consistently high quality research proposals from over 400 different institutions of higher learning and involve the work of about 3,500 principal investigators. The Foundation evaluates the scientific merit of each proposal and awards grants on a competitive basis only to the most promising of the proposed research projects. The fiscal year 1962 budget estimate included \$89,300,000 to support approximately 36 percent of the dollar value of the estimated research proposal receipts. The \$81,800,000, which would be the maximum amount available for basic research grants within the total recommended by the House, will support only 33 percent of these research proposals; a level of support that is believed to be undesirably low. Moreover, it is estimated that a total of nearly \$100 million of fiscal year 1961 proposal receipts will be carried into fiscal year 1962 for consideration for support along with the \$248 million in proposals expected to be received in that year.

Restoration of the full amount requested would permit support of 180 additional research grants and would provide training opportunities for an additional 1,000 advanced graduate students who would participate in the research. Since basic research is a vital ingredient of science education, particularly at the graduate level, the denial of support to about two-thirds of the research proposals received by the Foundation will adversely affect the efforts of many colleges and universities to develop and improve their science departments. Basic research is an important factor in attracting and retaining science faculty members. Another factor to be considered is that many important areas of science which need strengthening, such as oceanography and the atmospheric sciences, could not be adequately supported.

The House reduction will also reduce the effectiveness of the institutional grants program. This program is an effort to provide flexible support for the scientific activities of colleges and universities through general-purpose grants. It is recommended that the full amount of \$9,100,000 be restored to the basic research and institutional grants programs.

Basic research facilities, +\$9,500,000

The House bill does not delete or reduce specific facilities items. However, the overall reduction of \$27 million would have a very serious impact on the proposed programs for providing essential research facilities since it would be necessary to apply \$9,500,000 of the reduction in this area. The following paragraphs explain the application of the reduction to specific facilities programs:

Development of graduate research laboratories, +\$5 million

At the appropriation level proposed in H.R. 7445, a reduction of \$5 million would be necessary in the Foundation's program to aid the Nation's colleges and universities in making critically needed additions and improvements to graduate research laboratories. Since grants under this program must be matched by the institution from non-Federal sources, the reduction actually means that \$10 million in urgently required facilities will be deferred at least 1 year. The \$25 million allocated for this program would provide support for about one-third of the dollar value of highly meritorious proposals which will be under consideration in fiscal year 1962. At this level, it is estimated that more than \$46 million in proposals clearly worthy of support will have to be carried over for consideration in fiscal year 1963.

Unless sufficient assistance is provided by the Federal Government to colleges and universities, the scope and effectiveness of their graduate research programs will be restricted by the demand for general educational facilities needed to meet the expected massive increase in undergraduate enrollments. The willingness of American educational institutions to match Foundation grants for graduate laboratories in the amounts indicated by the proposals received attests to the seriousness and urgency with which these institutions view the need for graduate science facilities.

University computing facilities, +\$1 million

Electronic computing machines are essential to the conduct of advanced research in many scientific fields and the continuing improvement of these machines is permitting the solution of problems heretofore beyond the limitations of other means of computation. Despite this fact, many scientists are working in institutions where the use of a computer is unavailable, particularly for basic research. A reduction of \$1 million, or 25 percent, in this program will reduce from about 13 to 10 the number of university computing centers which can be established with partial support by the Foundation.

University nuclear research facilities, +\$2 million

The amount of \$6 million proposed in the budget estimate would have permitted the Foundation to meet only a part of the need for new, major equipment for modern research in nuclear science. Nevertheless, it would be necessary to reduce this program by \$2 million if the appropriation is set at the level recommended by the House. Such a reduction would undoubtedly delay the progress in this vital area of research.

Oceanographic research vessels and facilities, +\$1,500,000

Within the amount allowed by the House, the Foundation would be able to allocate only \$7 million for the construction of oceanographic vessels and shore facilities, a reduction of \$1,500,000 from the budget estimate. This would require the deferral of urgently required additions and improvements to the laboratories and other facilities of several American oceanographic research institutions.

National research centers, +\$500,000

A total amount of \$8,600,000 was included in the Foundation's estimate for the operation and continuing development of the national research centers, including the two major facilities for research in optical and radio astronomy and the National Center for Atmospheric Research. The House proposed total would make it necessary to reduce the amount allocated to the national research centers to \$8,100,000. This reduction would be accomplished by delaying the acquisition of some components for the orbital space telescope under development at the Kitt Peak National Observatory, by deferring the purchase and construction of auxiliary instrumentation for the solar telescope and other research instruments at Kitt Peak, and by reducing from \$500,000 to \$200,000 the amount which would be provided to study, design, and construct prototypes of a very large antenna array at the National Radio Astronomy Observatory.

National research programs, +\$500,000

As a result of the House reduction of the overall total for the Foundation, it will be necessary to reduce the funds for national research programs from \$10,500,000 to \$10 million.

The reduction of \$500,000 would be taken from the amount budgeted for the Antarctic research program, reducing this program from \$6,500,000 to \$6 million. This would have the effect of eliminating plans to provide the facilities and equipment for a temporary land-based mobile research station to be located in the Ellsworth Highland region of Antarctica. The mobile station would fill a gap in the observations of the basic research programs in Antarctica and provide further useful data in the study of conditions controlling communications in these regions and throughout the world.

Dissemination of scientific information, +\$1,400,000

In distributing the House recommended \$27 million reduction from the Foundation's \$277 million budget estimate for fiscal year 1962, it has been necessary to reduce the regular dollar financed science information programs a total of \$0.4 million; and those financed with excess foreign currencies a total of \$1.0 million. It is requested that the total amount of \$1.4 million be restored.

The rate of spending for research and development continues to far exceed the rate at which funds and facilities are being made available for providing scientists with the results of such research and development. This situation is causing critical difficulties in the communication of scientific information. Planned acceleration of scientific research efforts requires more effective media for communicating the results of research. The \$1.4 million reduction below

the budget estimate for science information programs will greatly handicap the Foundation in the execution of its responsibilities in these important areas.

Using excess foreign currencies available under the provisions of section 104(k) of the Agricultural Trade Development and Assistance Act of 1954, as amended, the Foundation has developed worthwhile programs in Israel, Poland, and Yugoslavia which provide for collecting, translating, and abstracting valuable foreign scientific and technical information which would not otherwise be available through regular programs.

The fiscal year 1962 budget estimate provides for the appropriation of \$2 million to be made directly to the Foundation for the purpose of continuing the development of programs of this type. The appropriation recommended by the House authorizes the Foundation to purchase \$1,600,000 in excess foreign currencies but is not adequate to provide funds for this purpose.

Within the amount proposed by the House for the Foundation's regular appropriation only \$1 million could be made available for the purchase of foreign currencies for this program. It is very important that the full amount of the reduction be stored so that the Foundation can continue to make full use of the excellent foreign sources of translations of scientific information.

Support of scientific manpower, +\$6 million

As a result of the action of the House, a reduction of \$6 million, from \$92,736,000 to \$86,736,000, will be necessary in the programs for the support of scientific manpower. The effects of this reduction are as follows:

Fellowships, +\$3,500,000

The total include for the Foundation in H.R. 7445 as passed by the House will require a reduction of \$3,500,000 in the funds requested for the fellowships program for fiscal year 1962. As a result of this decrease, approximately 827 planned fellowship awards will be eliminated, restricting the program to about the same number of awards as in fiscal year 1961. This reduction would be most unfortunate at a time when the number of applications considered worthy of support is steadily increasing. The standards for National Science Foundation fellowships have been developed to encourage applications only from graduate and postdoctoral students who have very high potential. A reduced appropriation would not permit an adjustment in the number of awards needed to meet current needs. This will mean that many scientists who are needed to fill critical positions will not be able to do so because of insufficient training. The full number of fellowship awards proposed by the President is considered essential to maintain the effectiveness of this program.

Institutes, +\$4,500,000

House bill 7445 establishes a minimum limitation of \$37,600,000 for supplementary training for secondary school science and mathematics teachers. This limitation is \$5,418,000 more than the amount proposed for this purpose in the budget estimate. This increase in the limitation would require the Foundation to allocate a total of \$42,500,000 or \$4,500,000, more than the budget estimate for teacher institutes in order to maintain a balance between the secondary school programs and the college and elementary school programs. The increase in this limitation above the budget estimate would require disproportionate reductions in other Foundation programs in order to provide for continuation of college and elementary schoolteacher institutes at approximately the fiscal year 1961 level. The institutes for secondary schoolteachers, however, would be funded at a much higher level than that planned in the budget estimate. Therefore, the reduction to \$32,200,000 in the limitation for supplementary training of secondary school science and mathematics teachers is requested. This reduction would permit the Foundation to support a more balanced effort to provide teacher training opportunities at all educational levels.

Science education for undergraduate students, +\$3,500,000

Within the amount enacted by the House, it would be necessary to reduce this program by \$3,500,000, from \$12 million to \$8,500,000. This total reduction would be applied in the undergraduate science education and research activities subprogram, eliminating 400 projects in fiscal year 1962 which would have pro-

vided training for 2,400 undergraduates. Of the reduced total of \$8,500,000, an amount of \$5 million would be used for a new program to provide critically needed instructional equipment for undergraduate science education.

Science education for secondary school students, +\$1 million

A reduction of \$1 million, from \$4,500,000 to \$3,500,000, will be necessary in this program within the overall funding level provided by the action of the House. This will reduce the amount available for this program to the fiscal year 1961 level and will eliminate science training opportunities for approximately 1,500 high ability secondary school students.

Public understanding of science, +\$500,000

A reduction of \$500,000 from \$1 million to \$500,000, will be necessary in this program within the amount proposed by the House. Restoration of the full amount is necessary to provide adequate support for efforts to inform the public of the latest developments in science and of the impact of science on the daily lives of all citizens. More widespread understanding of science is necessary if lay citizens are to make informed judgments concerning the many areas of public policy in which scientific knowledge is involved.

Course content improvement, +\$2,000,000

As a result of House action, a reduction of \$2 million from \$10 million to \$8 million, will be necessary in this program which is designed to encourage the development of up-to-date instructional materials including science courses, textbooks, and various teaching aids. This reduction would seriously curtail the development of improved science courses at the college level. Major efforts have been made in improvement of secondary school science curriculums. Curtailment of corresponding efforts in the college level would result in a serious imbalance in the overall efforts to improve science curriculums at all educational levels.

It is recognized that the amounts required for many of the programs included in the Foundation's budget estimate cannot be demonstrated by precise computations and that the decision of the Congress must be made on its judgment of what will best serve the national need. It is hoped, however, that the Congress will consider the fact that the Foundation's budget of \$277 million was the result of a refining process which included consideration of its content by the National Science Board, the Bureau of the Budget, and the President's Science Adviser.

Sincerely yours,

ALAN T. WATERMAN, *Director.*

Comparison of NSF fiscal year 1962 budget estimate with recommendations of the House Appropriations Committee

[In thousands]

	Amended fiscal year 1962 estimate	Fiscal year 1962 House recom- mendation ¹	Increase (+) or decrease (-)
SUPPORT OF SCIENCE			
Basic research grants and contracts:			
Biological and medical sciences.....	\$33,200	\$30,400	-\$2,800
Mathematics, physics, and engineering sciences.....	48,600	44,500	-4,100
Social sciences.....	7,500	6,900	-600
Subtotal.....	89,300	81,800	-7,500
Institutional grants.....	5,200	3,600	-1,600
Basic research facilities:			
Development of graduate research laboratories.....	30,000	25,000	-5,000
Specialized biological facilities.....	3,100	3,100	0
University computing facilities.....	4,000	3,000	-1,000
University nuclear research facilities.....	6,000	4,000	-2,000
Hawaii Institute of Geophysics.....	2,700	2,700	0
Oceanographic research vessels and facilities.....	8,500	7,000	-1,500
Subtotal.....	54,300	44,800	-9,500
National research centers:			
National Radio Astronomy Observatory.....	4,000	3,700	-300
Kitt Peak National Observatory.....	3,350	3,150	-200
National Center for Atmospheric Research.....	1,200	1,200	0
Chilean Astronomical Station.....	50	50	0
Subtotal.....	8,600	8,100	-500
National research programs:			
Antarctic research.....	6,500	6,000	-500
Indian Ocean expedition.....	1,500	1,500	0
Deep-crustal studies of the earth (Project Mohole).....	1,000	1,000	0
Weather modification.....	1,500	1,500	0
Subtotal.....	10,500	10,000	-500
Dissemination of scientific information:			
Science information services.....	7,400	7,000	-400
Supported with foreign currencies.....	2,000	² 1,000	-1,000
International scientific information exchanges.....	600	600	0
Subtotal.....	10,000	8,600	-1,400
Program development, operation, and evaluation.....	3,490	3,490	0
Subtotal, support of science.....	181,390	160,390	-21,000
SUPPORT OF SCIENTIFIC MANPOWER			
Fellowships.....	20,000	16,500	-3,500
Institutes for secondary school teachers.....	32,182	³ 37,600	+5,418
All other institutes programs.....	5,818	³ 4,900	-918
Research participation and scientific activities for teachers.....	3,450	³ 3,450	0
Science education for undergraduate students.....	12,000	⁴ 8,500	-3,500
Science education for secondary school students.....	4,500	3,500	-1,000
Public understanding of science.....	1,000	500	-500
Course content improvement.....	10,000	8,000	-2,000
Scientific education and technical manpower information.....	1,100	1,100	0
Program development, operation, and evaluation.....	2,686	2,686	0
Subtotal, support of scientific manpower.....	92,736	86,736	-6,000
Executive direction and management.....	2,874	2,874	0
Surveys and reports.....	(360)	(360)	(0)
Total S. & E. appropriation.....	277,000	250,000	-27,000

¹ Foundation distribution of the total recommendation including amounts specifically earmarked by the committee for certain line items, which are marked *.² House committee recommended NSF purchase foreign currencies from regularly appropriated funds.³ Includes primarily institutes for college teachers of science and mathematics and a small program for elementary school teachers.⁴ Includes \$5,000,000 for scientific instructional equipment for undergraduate education.

GENERAL STATEMENT

Senator MAGNUSON. You have here a short statement.

Mr. WATERMAN. Yes, sir.

Senator MAGNUSON. We would be glad to hear from you.

Senator Allott, I wonder if you would listen to Dr. Waterman and Dr. Bronk as I have to go next door with the State Department, and will come back to hear the specific amendments.

Mr. WATERMAN. Mr. Chairman and members of the committee, I am very happy to be here today and to have the opportunity of presenting our case for restoration of our budget to the President's figure.

We have with us the Chairman of the National Science Board, Dr. Bronk. After I introduce the subject of this budget restoration request, I believe it will be helpful if Dr. Bronk would make some remarks about this program to you.

Senator ALLOTT (presiding). Fine.

RESTORATION REQUESTED

Mr. WATERMAN. This bill, as the Chairman said, provides a total of \$250 million, an increase of about \$74 million over the amount appropriated to the Foundation for fiscal year 1961. Since this increase is quite substantial, the committee may reasonably ask why we think it necessary to urge restoration to the full amount of \$277 million requested in the budget. That is an increase of \$27 million. The answer to this question depends on the role of the Foundation in this modern age in support of the basic scientific research and education in the sciences.

The support of science requirements that we find in the Foundation after years of experience are very much in excess of the amount that can reasonably be provided in the present economic budgetary situation. Therefore, the fiscal year 1962 budget for the Foundation as proposed by the President represents a balanced effort to move ahead with the task of strengthening and broadening our science potential by supporting the most urgent and most promising areas of need. And these are done, in general, selectively. We are aiming at high quality in the character of the research we do and in the available people that we train as scientists.

REVIEWS OF ESTIMATE

The estimate is the result of a careful review process which included reviews by the Advisory Committee and also by the National Science Board as well as by the administration. We are very conscious of the need to build up our primary sources of scientific strength in American colleges and universities, and on the other hand, of the need to fit Foundation programs within a Federal budget which strikes a reasonable balance between this and other essential Government activities. Therefore, a sincere and rigorous effort was made to exclude from the estimate every requirement which could reasonably be deferred. The reduction embodied in the House bill would mean that some things which we believe to be essential and which, in the national interest should not be deferred, would have to be put off still another year.

APPLICATION OF HOUSE CUT

On the actual budget item, about \$21 million, or three-fourths of the reduction, would have to be applied to Foundation programs which provide direct support for basic research and which assist in providing modern research facilities essential to the conduct of basic research.

If the reduction stands, the Foundation would be able to support its basic research programs only to the extent of 33 percent of the estimated dollar value of research applications or proposals in fiscal year 1962, rather than 36 percent as proposed in the budget. This means that funds will not be available for about 180 projects on high-quality research in important and potentially fruitful areas during fiscal year 1962 involving some 1,000 prospective graduate students, who could of course receive their full training in the available sciences. It means that the investigators who made these proposals must curtail or cancel their research plans and devote their talents to other pursuits which very probably will not offer the same potential returns. The number of really talented researchers is limited. We should, therefore, to the extent possible, provide the means to enable them to use their time in the most productive way.

BASIC RESEARCH GRANTS

Senator MAGNUSON (presiding). Now, Dr. Waterman, so we understand, this is for both fellowships and projects? Or both?

Mr. WATERMAN. No, sir; this is only on basic research grants for the performance of research.

Senator MAGNUSON. On a project?

Mr. WATERMAN. On a project basis. This item I have been speaking of.

Senator MAGNUSON. Rather than a fellowship basis?

Mr. WATERMAN. That is correct.

Senator MAGNUSON. All right.

WASTE THROUGH INADEQUATE FACILITIES

Mr. WATERMAN. One of the important achievements of modern technology has been the increased productivity of workers through the use of machines. And this is reflected in our budget. Today the productivity of far too many of our research scientists in colleges and universities, and other institutions, is limited by inadequate laboratories, makeshift equipment, and lack of access to the new and advanced scientific instrumentation.

We cannot afford to waste the working time of our research scientists by failing to equip them with the best tools which modern technology can devise. Yet, within the amount included in the House bill, it will be necessary to defer \$9.5 million in urgently needed research facilities, including research laboratories, computers, multistage accelerators and other nuclear research devices, and equipment and facilities needed for work in oceanography. Support for the two Foundation-sponsored astronomy observatories and the antarctic research program would also be reduced.

DISSEMINATION OF SCIENTIFIC INFORMATION

The expanding level of research and development effort, both in this country and in others, has not been matched by a proportionate increase in our capacity to communicate the results of this work to scientists. It is becoming more and more difficult and time consuming for a scientist to obtain translations and abstracts of all significant research which bears on his particular work. Foundation programs addressed to this problem of the dissemination of scientific information have proved most useful to the scientific community and offer the hope of greater benefit in the future.

Unfortunately, if the House action stands, we will not be able to carry forward the full \$10 million program for the dissemination of scientific information which was planned in the President's budget. An amount of \$2 million was planned for translation work to be done abroad to be paid for out of a special appropriation of excess foreign currencies owned by the United States. The House did not allow this special appropriation and, instead, authorized the Foundation to purchase up to \$1.6 million of these foreign currencies out of our regular appropriation. Within the \$250 million level it will hardly be possible to assign more than \$1 million to the foreign currency translation activity, and it will also be necessary to reduce the regular dollar-financed program for the dissemination of scientific information by \$400,000.

As a result of the action of the House—I am referring now to the support of scientific manpower, Mr. Chairman, and now the fellowships enter as well.

REDUCTION IN FELLOWSHIP PROGRAMS

Senator MAGNUSON. Oh, yes.

Mr. WATERMAN. The Foundation programs in support of scientific manpower will have to be reduced by about \$6 million, which is roughly one-quarter of the total reduction. Some of these programs provide direct assistance for students at various levels—some post-doctoral fellowships for advanced study to special science activities for high-ability secondary school students.

Others, such as the urgently needed institutes for training science teachers and the course content improvement program, seek to impose the quality of teaching at all academic levels. Both approaches are sorely needed and are being pursued through programs of proven effectiveness.

Here, as in research, to stand still is to fall behind. The science students of today will form the Nation's pool of scientific manpower a few years hence. More of our young men and women must be encouraged to enter careers in science and they must be enabled to obtain the best education their talents permit.

It is apparent that, in a field such as this, the determination of appropriate levels of support and of relative proprieties must be a matter of judgment based upon the best information that is available. The budget estimates represent the considered judgment of the Foundation and of the many representatives of the scientific community who serve on its advisory panels and committees concerning the needs in science education today.

INCREASED FUNDS FOR SECONDARY TEACHERS

The next item I wanted to particularly call to your attention is this. We found that it is necessary to petition for a reconsideration of the House action concerning the minimum amount which should be devoted to supplementary training for secondary school teachers. The Foundation estimated that \$32,182,000 would be required in fiscal year 1962 for this program. The House bill increases this amount to \$37.6 million and establishes a limitation at that level. We urge that this limitation be reduced to \$32.2 million. I do not question that the full amount provided in the House bill could be spent effectively for supplementary training for secondary school teachers. But this is a matter of priorities. The secondary school teacher program is well established and very useful.

TRAINING FOR COLLEGES AND UNIVERSITY TEACHERS

It is most urgent to increase the availability of institute training for college and university teachers by at least 25 percent in the coming year.

The budget estimate provided approximately \$5 million to institute programs for this purpose in fiscal year 1962, which is an increase of about \$1 million over fiscal year 1961. This increase will be precluded if the House minimum for secondary school institutes stands, and it will be necessary to divert support from other programs simply to maintain the college and university teacher institutes at the 1961 level. It is the college teacher of science and mathematics who provides instruction for other teachers at institutes, who trains students to become capable teachers and scientists, who conducts research and guides the research of others, who writes improved textbooks and helps to develop other new course material. We must provide adequately for the continued educational development of this vital segment of the teaching community.

MINIMAL INCREASE FOR FELLOWSHIP AWARDS

The House action will seriously affect the Foundation's ability to aid the advance of science in several areas. It will permit only a minimal increase in fellowship awards despite the marked increase in the number of very able people who are applying for this kind of assistance. We would likewise be unable to make very necessary increases in support of activities to improve science education and instructional equipment for college undergraduates, to offer special learning opportunities to very talented science students in secondary schools, and to improve the texts and other curriculum material for science and mathematics courses.

We believe the budget estimate for the work of the National Science Foundation during fiscal year 1962 is conservative in view of the known needs of American science. These needs are pressing and becoming ever more so. The achievement of some of our most vital national goals is intimately related to building our strength in scientific research by undergirding the men and the academic institutions upon which their strength depends. This is the mission of the National Science Foundation. We believe it should be given a high priority.

This ends my introductory statement.

Mr. Chairman, before we talk about details, would you care to hear from Dr. Bronk?

Senator MAGNUSON. Well I think as we go into those things we can. As I understand it, you have three suggested amendments, three major suggested amendments.

Mr. WATERMAN. Yes.

LANGUAGE CHANGE

Senator MAGNUSON. And they include, on page 32, line 15 of the bill, adding \$27 million to that \$250 million; and then on page 32, line 17, deleting "\$37.6 million" and inserting in lieu thereof "\$32.2 millions."

Mr. WATERMAN. That is correct; yes, sir.

Senator MAGNUSON. Now there you have reduced the amount \$5.4 million. Now would that then be transferred up to the \$277 million item?

Mr. WATERMAN. The change in the limitation for secondary school teacher institutes would enable us to put in an item of \$5 million, approximately, for the institutes for college and university teachers.

Senator MAGNUSON. In other words, when you delete the \$37 million and insert \$32 million, it does not mean we are going to cut \$5.4 million out of the bill?

Mr. WATERMAN. No, sir.

Senator MAGNUSON. Your objective there is to transfer that \$5.4 million to another phase of activity?

Mr. WATERMAN. Yes, which was in our original estimate.

Senator MAGNUSON. So that the total amount of the bill will be the same?

Mr. WATERMAN. The total amount will be the same, yes.

Senator ALLOTT. This is a language change.

FOREIGN CURRENCY

Senator MAGNUSON. Yes. And then on page 32, line 21, this is on foreign currency?

Mr. WATERMAN. That is correct.

Senator MAGNUSON. Now I know the Senator from Colorado and the Senator from Kansas have some questions, and I will be back as soon as I can.

AWARD OF CONTESTED GRANT

Senator ALLOTT (presiding). I would like to start out, Dr. Waterman, on what I am sure is a very ticklish question. In the papers these last few days, and I have here two paper articles from the Daily Tribune, which are condensed versions of articles that appeared in most other papers in the United States, on a former student of Colorado State University, and I do not have the man's name here, who was awarded a \$3,800 Government fellowship after being convicted of contempt of Congress with respect to his refusal to answer certain questions. I would suggest that at this point you lay out specifically the basis upon which this specific grant was given, and also your policy with respect to this.

Mr. WATERMAN. I would be glad to. The grant was given as a fellowship. This is not a research grant, but a fellowship to this man

along with some 1,500 other applicants for fellowships in due course, on March 15—

Senator ALLOTT. I suggest we make this clipping from the Daily Tribune a part of the record at this point. It is a factual account of it as appeared in most newspapers in the United States at the time. So it will be made a part of the record at this time.

(The article referred to follows:)

CONVICTION MAY NOT INVALIDATE FEDERAL SCHOLARSHIP

WASHINGTON (AP).—A former student at Colorado State University who was awarded a \$3,800 Government fellowship after being convicted of contempt of Congress will lose the grant if he swore falsely in his application.

But the conviction of Edward Yellin itself apparently does not invalidate the award.

The complicated case was aired Thursday before two House groups. It began in 1958 when Yellin, then a student of the University of Illinois, refused to tell the House Committee on Un-American Activities whether he was a Communist.

Yellin was tried in Federal court, convicted of contempt of Congress and he was sentenced to a year in prison. He appealed and the case now is pending before the Supreme Court. The U.S. circuit court of appeals upheld the conviction.

The National Science Foundation last March granted Yellin the fellowship to continue his engineering studies at the University of Colorado. But D. Alan Waterman, head of the NSF, told the House Space Committee Thursday the NSF when it made the grant "had no knowledge of the difficulties in which Mr. Yellin has been involved."

Yellin had no comment to make on Thursday's development. He still is a student at the University of Illinois. He will attend summer school at the Illinois college. He apparently had his choice of where to use the grant and decided on Illinois. He did undergraduate work at CSU.

Waterman said that when the House Committee on Un-American Activities called his attention to the Yellin background he asked the Justice Department to determine whether perjury was involved.

Mr. WATERMAN. There have been some variations in the accounts I have seen. As this mentioned—

Senator ALLOTT. I am not vouching the meticulous detailed truth of this, but I think it conforms with most other newspaper reports throughout the country and will serve to put whoever reads the record on notice as to what the general situation is as viewed by the papers.

Mr. WATERMAN. Right.

As I said, this man, along with some 1,500 others, was notified of an award of a fellowship for second-year graduate work in his field. At the time the award was made we had no evidence of the conviction that is mentioned in these articles. This was brought to our attention about a month later by a representative of the House Un-American Activities Committee. And since that time we have been studying the case and getting what data we could.

REQUIREMENTS OF FELLOWSHIP AWARDS

Actually, our authority to award these fellowships has two requirements. The first is that the fellowship is awarded on the basis of ability only, except that in cases of substantially equal ability, then the Foundation is to allocate the fellowships to assure wider geographical distribution. That is the first point.

The second is that the candidate must sign the oath of allegiance and an affidavit. Would you like me to read that to you?

Senator MAGNUSON (presiding). Do you want that in the record?

AFFIDAVIT OF GRANTEE

Senator ALLOTT. Is this the same affidavit that is contained in the National Defense Education Act?

Mr. WATERMAN. I believe it is. This he is required to do. This essentially says that he does not believe in and is not a member of any organization which advocates the overthrow of the U.S. Government by force or by any unconstitutional means.

Senator ALLOTT. Did this individual sign this affidavit?

Mr. WATERMAN. He signed both the oath of allegiance and the affidavit. So at the time of his application we had no evidence, other than that he fulfilled the requirements. He was very high in ability and he was highly recommended by the school in the form of academic record and his aptitude and achievement examinations which all must take, and by other recommendations received.

LIST OF PERSONS WHO RECOMMENDED APPLICANT

Senator ALLOTT. Would you put in the record specifically the people who recommended this man?

Mr. WATERMAN. We can do that; yes, sir. It is on his application form.

Senator ALLOTT. The names of the people who recommended him?

Mr. WATERMAN. Yes, sir.

(The information requested follows:)

These are the names of the people who recommended Edward Yellin:

Dr. R. J. Mauer, Department of Physics, University of Illinois, Urbana, Ill.
 Dr. H. H. Korst, Department of Mechanical Engineering, University of Illinois.
 Dr. W. L. Chow, Department of Mechanical Engineering, University of Illinois.
 Prof. S. Konzo, Department of Engineering, University of Illinois.

POLICY ON QUESTIONS RESPECTING OATH OF ALLEGIANCE

Mr. WATERMAN. Under the circumstances, it has been our policy in the case of any question with respect to the signing of the oath of allegiance and the affidavit, that we refer those matters to the Department of Justice. Since we are not a prosecuting agency, that is not really our function, nor have we any particular competence at that sort of thing.

Senator ALLOTT. This man's name, for the record, is Edward Yellin.

Mr. WATERMAN. That is right.

So that is where the question stands with respect to his ability and former activities.

ABILITY OF STUDENT

With respect to his ability, I have made it plain to the House-American Activities Committee and to the House Committee on Science and Astronautics, in hearings before them, that a man's ability for a career in science depends, of course, upon his intellectual ability, and it also depends upon his motivation, his determination and perseverance, his accuracy in observing and reporting, his meticulousness to giving credit to others where due, and his integrity. So we have felt any action we would take would be determined by those factors concerning his ability.

In the matter of loyalty we must depend upon the signing of the oath of allegiance and the affidavit. If there is any question regarding the signing of the oath and affidavit, we refer the matter to the Department of Justice, as we have done in this case.

REVOCATION OF FELLOWSHIP AWARD

Now we have taken the following action, and this was announced, I believe, in the papers this morning. And I am quoting our statement with respect to this whole case:

The National Science Foundation announced today that following—
this was yesterday morning—

consultation with members of the Executive Committee of the National Science Board, a 24-member policymaking body of the National Science Foundation, it had revoked its award of a fellowship made in March to Edward L. Yellin of Champaign, Ill. In a telegram to Yellin, Alan D. Waterman, Director of the Foundation, said:

"We regret to advise you after full review of all the facts in your situation, including the possibility you may not be able to pursue your studies without interruption during the fellowship tenure, the present fellowship award made to you on March 15 for the year 1961-62 is revoked."

Under the National Science Foundation Act, Congress stipulated that Foundation fellowships are to be made wholly on the basis of ability. On this basis and on the facts available at the time, Yellin was awarded a fellowship. However, it later became known to the Foundation that Yellin had been convicted of contempt of Congress and had been sentenced to a year in jail. This conviction has been affirmed by the circuit court of appeals, and then an appeal for certiorari has been filed with the Supreme Court. The Foundation came to the conclusion that under all the facts, including the possibility of interruption of his studies for which the fellowship was awarded, Yellin did not meet the requirements for receiving this fellowship.

The revocation action followed a meeting on Monday between Waterman and the members of the Executive Committee of the National Science Foundation.

Senator ALLOTT. Doctor, as you know, I have a very high regard for you personally, and for Dr. Bronk also. Now would this statement reflect your point of view with respect to granting of individual fellowships—that the United States is foolhardy to invest money in fellowships for individuals when a reasonable man has reason to doubt their loyalty to the United States vis-a-vis Communist philosophy?

Mr. WATERMAN. I certainly believe in the principle that we do not want to encourage anyone to enter science who is a Communist or believes in any subversive action against the U.S. Government. We believe this is taken care of in the affidavit.

Senator ALLOTT. We cannot keep them from entering the scientific field. However, we can attempt to keep the U.S. Government from financing their education and their research—

Mr. WATERMAN. That is correct; yes.

Senator ALLOTT (continuing). In a field, which then become available to the Communists if the person was defecting, either physically or mentally or from the United States.

Mr. WATERMAN. Right.

LIST OF GRANTS TO WESTERNERS

Senator ALLOTT. Now one of the reasons I ask this—and I wish you would put in the record at this point the fellowships that have been granted in the Midwestern States—I have a constant demand and am talked with constantly when I am in my own State as to why my

people, my own people, cannot secure this, or become a part of the fellowships. Now I have no idea of how many are involved at all, but it is very hard for me, as a representative of the people—and unfortunately too many of them think I run this Government myself—to justify a question like this after the publicity that has been given to the Yellin case.

Could you put in a sampling of the grants and the individuals who received those?

(The information requested follows:)

The following is a listing of the individuals who reside in the States of Arizona, Colorado, Kansas, Nebraska, New Mexico, Oklahoma, and Utah who were offered fellowships in 1961 in two of the largest NSF fellowship programs—the graduate and the cooperative graduate fellowship programs:

Abbreviations of fields of study used on attachments are as follows:

AGRI	Agriculture	GSCI	General sciences
ANTH	Anthropology	MATH	Mathematics
ASTR	Astronomy	MCBI	Microbiology
BCHM	Biochemistry	MDSC	Medical sciences
BIOL	Biology	MTRL	Meteorology
BOTA	Botany	OCNG	Oceanography
BPHY	Biophysics	PHSL	Physiology
CHEM	Chemistry	PHYS	Physics
EART	Earth sciences	PSYC	Psychology
ENGR	Engineering	SOSC	Social sciences
GENE	Genetics	ZOOL	Zoology

NATIONAL SCIENCE FOUNDATION

Graduate and cooperative graduate fellowship awardees, by State of permanent residence, Mar. 15, 1961

ARIZONA

Name	Field	City
Graduate:		
Bissett, David H.	EART	Prescott.
Breternitz, David A.	ANTH	Tucson.
Dole, Jim W.	BIOL	Phoenix.
Finney, Joseph J.	EART	Tucson.
Gregory, Bob L.	ENGR	Phoenix.
Halpern, Martin B.	PHYS	Tucson.
Lange, Robert V.	PHYS	Phoenix.
Lewis, Richard B.	PHYS	Douglas.
Yeazell, Martha E.	BCHEM	Tucson.
Cooperative graduate:		
Brown, Keith S., Jr.	CHEM	Amado.
Cooper, Richard K.	PHYS	Tucson.
Erickson, Rolfe C.	EART	Do.
Lindholm, Fred A.	ENGR	Do.
Peake, Edmund J., Jr.	MATH	Phoenix.
Taylor, James G.	ENGR	Do.
Weinberg, David S.	CHEM	Tucson.
Young, Jon N.	SOSC	Florence.

COLORADO

Graduate:		
Baker, M. Michelle	ZOOL	Boulder.
Barth, Theodore J.	MATH	Colorado Springs.
Clark, Lowell E.	ENGR	Fort Collins.
Cornwall, John M.	PHYS	Denver.
Dailey, Dixie L.	GENE	Lakewood 15.
Dewey, Clarence F., Jr.	ENGR	Pueblo.
Grate, Dennis J.	ENGR	Wheat Ridge.
Hawley, Charles C.	EART	Lakewood 15.
Heathcock, Clayton H.	CHEM	Boulder.
Irwin, Henry J.	ANTH	Denver 7.
Kjeldgaard, Edwin A.	CHEM	Brush.
Krieger, Henry A.	MATH	Denver 12.
McKinnis, Ralph W.	MATH	Boulder.

Graduate and cooperative graduate fellowship awardees, by State of permanent residence, Mar. 15, 1961—Continued

COLORADO—Continued

Name	Field	City
Picken, James S.	ENGR.	Loveland.
Shier, George D.	CHEM.	Golden.
Stone, George T.	EART.	Cowdrey.
Tietmer, Eloise S.	GENE.	Denver 20.
Webb, George D.	PHSL.	Denver 22.
Wiseman, John R.	CHEM.	Boulder.
Cooperative graduate:		
Birky, Carl W., Jr.	ZOOL.	Fort Collins.
Ehn, Dennis C.	PHYS.	Ault.
Frank, Ernest C.	AGRI.	Fort Collins.
Gold, Ann.	ZOOL.	Greeley.
Hochmuth, Robert M.	ENGR.	Denver 11.
Seely, Alan L.	ENGR.	Boulder.
Wagman, James.	CHEM.	Denver 19.

KANSAS

Graduate:		
Anderson, David K.	CHEM.	Riverton.
Barnhill, Robert E.	MATH.	Lawrence.
Barrett, Bruce R.	PHYS.	Kansas City ² .
Bath, Thomas D.	ENGR.	Kansas City.
Berry, William H.	MATH.	Shawnee Mission.
Cornelius, Archie J.	ENGR.	Manhattan.
Deonier, Dick L.	ZOOL.	Eudora.
Enos, Paul P.	EART.	Perry.
Hall, Robert E.	PHYS.	Pittsburgh.
Hayes, Dennis E.	EART.	Mission.
Hays, Byron G.	CHEM.	Wichita 14.
Head, Thomas J.	MATH.	Topeka.
Heider, Karl G.	ANTH.	Lawrence.
Kevan, Larry J.	CHEM.	Shawnee Mission.
Koeh, Richard M.	MATH.	Haven.
Kohlman, David L.	ENGR.	Lawrence.
Mantey, John P.	ENGR.	Sharon Springs.
Mantey, Patrick E.	ENGR.	Do.
Mills, Robert B.	ZOOL.	Topeka.
Nanman, Edward B.	ENGR.	Shawnee Mission.
Reynolds, Wynetka A.	ZOOL.	Emporia.
Richert, Anton S.	PHYS.	Wichita 16.
Root, John W.	CHEM.	Lawrence.
Spencer, John B.	CHEM.	Topeka.
Walters, William B.	CHEM.	Highland.
Warne, Thomas M., Jr.	CHEM.	Leawood.
Whitehead, C. Thomas.	ENGR.	Columbus.
Zimmerman, John F.	CHEM.	Lawrence.
Cooperative graduate:		
Butler, Ronald D.	CHEM.	Manhattan.
Carpenter, Kenneth H.	ENGR.	Matfield Green.
Davis, Elmer E.	MATH.	Haviland.
Griffith, Susan J.	ZOOL.	Mission.
Harri, John G.	ENGR.	Brookville.
Hobson, Arthur S.	PHYS.	Manhattan.
Hyslop, Robert S., Jr.	ENGR.	Kansas City.
Kezlan, Thomas P.	MATH.	Lawrence.
Noble, Larry D.	ENGR.	Iola.
Platt, Dwight R.	ZOOL.	Newton.
Ramsay, Arlan B.	MATH.	Dodge City.
Rogers, Joyce M.	MATH.	Mission.
Rupf, John A.	ENGR.	Wichita 12.
Salsar, Winston A.	BPHY.	Wichita 14.
Skinner, James L.	ENGR.	Lincoln.
Smith, Dean L., Jr.	ENGR.	Topeka.
Weidman, Donald R.	MATH.	Kansas City 2.
Zahnley, James C.	BCHM.	Manhattan.

Graduate and cooperative graduate fellowship awardees, by State of permanent residence, Mar. 15, 1961—Continued

NEBRASKA

Name	Field	City
Graduate:		
Andersen, John P.	MATH	Omaha 32.
Bauer, William R.	CHEM	McCook.
Bolar, Marlin L.	BOTA	Lincoln 10.
Cassel, David G.	PHYS.	Ainsworth.
Frahn, Richard R.	AGRI.	Lyman.
Gradwohl, David M.	ANTH.	Lincoln.
McArthur, Donald E.	PHYS.	Do.
Wright, Bradford L.	PHYS.	Lincoln 10.
Cooperative graduate:		
Anderson, John S.	BCHM	Kearney.
Anderson, Sonia R.	BCHM	Omaha 7.
Barnes, Aaron	PHYS.	Omaha.
Dankleff, Mary A.	CHEM	Avoca.
Herzog, John O.	MATH.	Lincoln.
Laetsch, Theodore W.	PHYS.	Seward.
Lang, Wayne W.	PHYS.	Lincoln.
Park, John T.	PHYS.	Lincoln 5.
Schutz, Wilfred M.	GENE.	Eustis.
Skov, Charles E.	PHYS.	Riverdale.

NEW MEXICO

Graduate:		
Atkinson, William W.	EART	Albuquerque.
Bergstresser, Thomas	PHYS.	Los Alamos.
Diebold, Robert E.	PHYS.	Los Lunas.
Dowdle, John R.	MATH	Deming.
Egbert, Larre N.	GENE.	Los Alamos.
Emrich, Robert L.	ANTH.	Gallup.
Harris, Arthur H.	ZOOL.	Albuquerque.
Schlaer, William J.	PHYS.	Los Alamos.
Thompson, Richard S.	PHYS.	Hobbs.
Walsh, Joseph M.	BCHM	Santa Fe.
Cooperative graduate:		
Converse, Glenn L.	ENGR	Albuquerque.
Garcia, Margot W.	PHSL.	Do.
Mott, David L.	PHYS.	Las Cruces.

OKLAHOMA

Graduate:		
Butler, Larry G.	BCHM	Ochelata.
Clarke, Robert F.	ZOOL	Norman.
Cooper, Jane E.	ZOOL	Tulsa 4.
Faudree, Ralph J.	MATH	Atoka.
Gerlach, Charles R.	ENGR	Guthrie.
Gilbert, M. Charles	EART	Lawton.
Goldwyn, Roger M.	EART	Tulsa 35.
Gruver, George W.	ENGR	Stillwater.
Hurst, Gerald L.	CHEM	Jones.
Kelly, Suzanne Sis.	SOSC	Tulsa 14.
Kirmse, Dale W.	ENGR	Alva.
Lipe, William D.	ANTH.	Bristow.
Murray, Frederick N.	EART	Tulsa 4.
Oldham, Ira B III.	ENGR	Muskogee.
Page, Leroy E.	SOSC	Oklahoma City.
Paul, Johnny C.	ENGR	Fairview.
Ponsor, Kenneth C.	ENGR	Oklahoma City.
Prophet, Carl W.	ZOOL	Norman.
Reinhardt, William N.	MATH	Bartlesville.
Robinson, Robert L., Jr.	ENGR	Muskogee.
Sannmann, Everett E.	PHYS.	Geronimo.
Smith, Warren L.	ZOOL	Norman.
Tech, Jack L.	ASTR.	Oklahoma City.
Thach, Robert E.	BPHY.	Do.
Wolfe, James F.	ENGR	Do.
Wood, David E.	CHEM	Seminole.

Graduate and cooperative graduate fellowship awardees, by State of permanent residence, Mar. 15, 1961—Continued

OKLAHOMA—Continued

Name	Field	City
Cooperative graduate:		
Clark, Alfred, Jr.	MATH	Bartlesville.
Combrink, Charles R.	MATH	Caddo.
Crawford, John C.	PHYS.	Ponca City.
Friday, John R.	ENGR	Cleveland.
Friedrich, Henry B.	CHEM	Clinton.
Graham, Robert E.	PHYS.	Tulsa 4.
Hann, Roy W., Jr.	ENGR	Oklahoma City.
Hardage, Bob A.	PHYS.	Checotah.
McCormick, Bailie J.	CHEM	Stillwater.
McCreary, James G.	ENGR	Norman.
Morris, Robert J., Jr.	SOSC	Oklahoma City.
Pierce, Donald A.	ENGR	Enid.
Rice, James H.	MATH	Norman.
Sherle, Jerry P.	CHEM	Hobart.
Slaughter, Eugene E., Jr.	MATH	Durant.
Stong, Robert E.	MATH	Oklahoma City.

UTAH

Graduate:		
Brewer, John M.	BCHM	Baltimore 18.
Dewey, John R.	ANTH	Salt Lake City.
Doray, Carl N.	ENGR	Provo.
Gerriets, Carl E. J.	MATH	Logan.
Grant, Sheldon K.	EART	New Harmony.
Ivie, Evan L.	ENGR	Ogden.
Jenson, Evan D.	CHEM	Brigham City.
Moler, Cleve B.	MATH	Salt Lake City.
Mortimer, Robert G.	CHEM	Logan.
Muirbrook, Newell K.	ENGR	Ogden.
Price, John A.	ANTH	Salt Lake City.
Runnells, Donald D.	EART	Do.
Taylor, Vasco R.	MTRL	Do.
Tolman, Chadwick A.	CHEM	Bountiful.
Cooperative graduate:		
Batty, Joseph C.	ENGR	Vernal.
Bills, James L.	CHEM	Salt Lake City.
Brothers, John E.	MATH	Do.
Giles, Eugene	ANTH	Do.
Halamandaris, Harry	ENGR	Price.
Jacob, Richard J.	PHYS.	Salt Lake City.
Palmer, Brent C.	BOTA	Cedar City.
Wagner, Richard L., Jr.	PHYS.	Salt Lake City.

WYOMING

Graduate:		
Calvert, James B.	PHYS.	Casper.
Fronapfel, Richard W.	MATH	Torrington.
Cooperative graduate:		
Gilbert, John C.	CHEM	Laramie.

NATIONAL SCIENCE FOUNDATION

Graduate and cooperative graduate fellowship programs for fiscal year 1961—Distribution of applicants by State of permanent residence and awards offered

State	Graduate		Cooperative graduate		Total	
	Applica-tions	Awards offered	Applica-tions	Awards offered	Applica-tions	Awards offered
Alabama.....	48	12	42	13	90	25
Alaska.....	3	1	2	0	5	1
Arizona.....	28	9	16	8	44	17
Arkansas.....	30	6	21	7	51	13
California.....	504	186	181	81	685	267
Colorado.....	60	19	21	7	81	26
Connecticut.....	92	31	47	10	139	41
Delaware.....	18	5	18	6	36	11
District of Columbia.....	29	13	12	6	41	19
Florida.....	81	23	83	14	164	37
Georgia.....	53	12	55	8	108	20
Hawaii.....	8	3	8	3	16	6
Idaho.....	26	7	16	4	42	11
Illinois.....	312	119	195	75	507	194
Indiana.....	107	31	83	37	190	68
Iowa.....	79	30	72	33	151	63
Kansas.....	80	28	50	18	130	46
Kentucky.....	52	12	42	17	94	29
Louisiana.....	62	14	44	11	106	25
Maine.....	10	6	17	4	27	10
Maryland.....	109	39	40	15	149	54
Massachusetts.....	229	74	119	45	348	119
Michigan.....	189	60	160	49	349	109
Minnesota.....	110	37	98	32	208	69
Mississippi.....	26	6	35	10	61	16
Missouri.....	89	20	82	20	171	40
Montana.....	12	3	28	6	40	9
Nebraska.....	28	8	29	10	57	18
Nevada.....	4	1	2	0	6	1
New Hampshire.....	20	3	10	2	30	5
New Jersey.....	184	57	102	33	286	90
New Mexico.....	37	10	26	3	63	13
New York.....	729	219	431	165	1,160	384
North Carolina.....	69	16	63	13	132	29
North Dakota.....	21	4	21	7	42	11
Ohio.....	213	74	182	77	395	151
Oklahoma.....	78	26	55	16	133	42
Oregon.....	54	17	44	15	98	32
Pennsylvania.....	340	96	189	57	529	153
Rhode Island.....	28	7	23	9	51	16
South Carolina.....	30	6	3	7	60	13
South Dakota.....	51	4	11	3	32	7
Tennessee.....	52	15	50	15	102	30
Texas.....	157	44	107	31	264	75
Utah.....	39	14	39	8	78	22
Vermont.....	9	3	2	1	11	4
Virginia.....	79	28	62	19	141	47
Washington.....	83	27	62	24	145	51
West Virginia.....	31	10	19	7	50	17
Wisconsin.....	111	39	86	38	197	77
Wyoming.....	7	2	6	1	13	3
Puerto Rico.....	5	1	3	0	8	1
Total.....	4,875	1,537	3,241	1,100	8,116	2,637

TOTAL FELLOWSHIPS AWARDED

Mr. WATERMAN. There is a statement on this in the budget document under tab B. It might be worth noting that we have made some 15,000 fellowships in the 10 years of our existence, and this is the first case where such a matter has arisen.

Senator ALLOTT. Doctor, I repeat again, I have only the highest regard for your personal ability and integrity, and I think it is to your credit that this has not occurred.

Now I see on page 9 of the document a list of the grants. Now the support of scientific manpower, and grants and contracts on basic research and facilities for support of science, for example, in the State

of Colorado. Now the total support of science in there was \$785,310, and the fellowships offered \$156,000, involving 52 students. Do I read your tabulation correctly?

Mr. WATERMAN. Yes, that is correct.

Senator ALLOTT. So that summing up the Yellin matter, the facts are that Yellin met all of the requirements, signed the affidavit, and you had no knowledge of this until it was called to your attention some time later, and you have recently acted upon this in accordance with the remarks that you have just made?

Mr. WATERMAN. That is right. And in addition I expect to bring the general policy matter before the meeting of the National Science Board presently so that we can go into this and decide what we can do to prevent this kind of an incident happening again.

ATMOSPHERIC RESEARCH PROGRAM

Senator ALLOTT. What about the atmospheric research program? I heard a discussion with Dr. Walter Roberts just the other day. That is, as I understand it, proceeding in accordance with your plans and in accordance with the presentation you made last year before this committee?

Mr. WATERMAN. That is correct; and we are very well pleased with the way it is going. We have a very capable director. He is getting a most competent staff, and we believe things are going forward in very good shape indeed.

Senator ALLOTT. Well, I would like to speak to the supplementary training of secondary school teachers. I realize that this is very important and, as a matter of fact, I think it is one of the most important areas of our whole educational system, the fact that we have had too many teachers trained in methodology in the past few years and not enough teachers trained in knowledge. They know how to teach, but they do not know what they are teaching. I am sure Dr. Bronk agrees with this because I remember when he testified before the Labor Committee of the Senate some 4 or 5 years ago, and I was a member of that committee. And I believe this is very important.

So I would like to ask you, since the National Defense Education Act is devoted to this area to a great extent, how do you justify your own activities in this field, and where do they duplicate, and would it not be better to leave them in one area?

COORDINATION WITH OFFICE OF EDUCATION

Mr. WATERMAN. Well, in the first place, we have a good understanding with the Office of Education, and confer with them on our mutual plans. And, in fact, these are coordinated before the President's budget is made out.

Generally speaking, the position is this: We deal with science instruction in terms of the separate fields of science. That is, we try to improve the teaching of physics in the hands of physics teachers, people who know physics, and the teaching of chemistry in the same way as determined by chemists. We do this, for example, by institutes for summer training, and especially by a very remarkable program for the improvement of teaching materials, textbooks, laboratory materials, teaching manuals, moving pictures, for improving the subject

content, bringing the subject up to date. You see, we deal in this directly with the institutions that are providing this kind of instruction and with their scientists.

The Office of Education has the general problems of education, and they deal with the States and State boards of education which we do not. The principal case where we run into the same sort of territory as theirs, is in the granting of fellowships, where they can do the same kind of thing we do, but in this we are in close cooperation with them. And, of course, in their fellowships they put their emphasis on languages and other disciplines as well as science.

Senator ALLOTT. Yes, but the three areas that were delineated in the National Defense Education Act for this type of thing, three specified areas, were mathematics, science, which would, of course, include the physics and chemistry which you have mentioned, and languages.

Now I have been asking this question, and in asking it this way I am giving you the benefit of the doubt whereas if I had you on the witness stand, as a lawyer I would not ask it this way:

NATIONAL DEFENSE EDUCATION ACT

Why wouldn't it be better to combine this under one activity? We find, and we have found in this committee, so many overlapping areas that it is almost fantastic—in research, science—and I am very personally concerned about it. Now why isn't the National Defense Education Act the logical place to do this, or why isn't it logical then to remove this from the National Defense Education Act and put it all under you?

Mr. WATERMAN. In the first place, we of course deal only with the sciences. We have a highly competent scientific staff in all disciplines of science. So this is the subject in which we have detailed competence. We therefore can get the highest quality of reviews in this area for the work that we do. And we only do a limited number of things as compared to the Office of Education. For example, the National Defense Education Act does not include authority to support institutes in science and mathematics as we do. We hope that they will provide that kind of institute in other fields. But our work was pioneer work in this field—

Senator ALLOTT. Are you certain about that statement?

Mr. WATERMAN. I think that is correct.

Senator ALLOTT. Well I do recall that in that bill we did specifically authorize institutes in language—

Mr. WATERMAN. In languages, yes, foreign languages.

Senator ALLOTT. And you say the bill does not authorize—

Mr. WATERMAN. That is my understanding.

Senator ALLOTT (continuing). Institutes for upgrading teachers in either mathematics or science?

Mr. WATERMAN. I think that is our province.

Senator ALLOTT. Have you recommended to the Labor Committee, Labor, Education, and Public Welfare Committee, of either the House or the Senate that they amend their act so that this can be done?

Mr. WATERMAN. You mean to include science and mathematics?

Senator ALLOTT. As summertime institutions in upgrading?

Mr. WATERMAN. Well, we have had years of experience in this and it is going extremely well. As long as we coordinate properly with the Office of Education, I should think this would be all right as it is.

We have not made that recommendation.

Senator ALLOTT. You are still dispersing the effort in this one-area, the fundamental effort to upgrade secondary teachers in the subjects which they teach; is this correct?

Mr. WATERMAN. That is correct for science and mathematics teachers only.

Senator ALLOTT. And with the National Defense Education Act providing fellowships, providing other help for this specific purpose, even though they do not specifically authorize institutions, as you say—and I want to investigate that because I am sure it was the intention of the committee that they would not be precluded when the NDEA was passed—you are in effect duplicating the purposes of the NDEA.

Mr. WATERMAN. Of course their field goes far beyond science and mathematics, so I would not say that was duplicating what they are doing.

Senator ALLOTT. Well, it involves other things that were concerned at that time. Dr. Bronk testified to these matters at that time. It does go beyond, despite the fact that we now have people studying organ and glass blowing and heaven knows what other nonsense under the NDEA, and it is still for the purpose, the fundamental purpose, of upgrading people and stimulating effort, and stimulating mental ability in sciences and in mathematics, and in languages—because communication is a necessary part of this—and in a few adjuncts which were considered necessary.

USE OF TV IN EDUCATION

One of course was the study of the use of other aids in education, such as TV and such as is conducted up at—

Mr. BRONK. MIT.

Senator ALLOTT. And there is one high school in Frederick, or just north of here in Maryland.

For the fundamental purpose of the NDEA, no matter how it has been subverted or even prostituted, in some instances, is the same. There can be no doubt about this from the record, from the report. And its fundamental purpose is the same purpose you are accomplishing, or doing, here.

Mr. WATERMAN. I suppose one way of putting it, which we feel very strongly, is that there is a great urgency about science and mathematics education at the present time; we have the capability and the responsibility for pursuing this energetically. The others are important, too, and we have always said so and we have encouraged the Office of Education to pick up on these other subjects, but in the field of science and mathematics the National Science Foundation has a special responsibility.

Senator ALLOTT. There is one other subject there and that is languages.

SPECIAL URGENCY OF SCIENCE AND MATHEMATICS

Mr. WATERMAN. The subject of science and mathematics has a very special urgency in the world today. We cannot afford to limit our efforts to improve science and mathematics education at all levels.

Now in the Foundation we started years ago doing these things, we have had a great deal of experience, we have the scientists' confidence, and they know how to do these things well. So, certainly it looks to us at the present time that, with this background and experience, the right way to get on with it is for us to carry on, in that area, very strongly and for the Office of Education to concentrate on the fields where we do not have a strong and effective competence, and in the meantime keep in close touch with them.

TOTAL INSTITUTES IN UPGRADING PROGRAM

Senator ALLOTT. Well now, how many institutes, for example, did you hold last year for the upgrading of secondary teachers, and how many do you have planned for this summer?

Mr. WATERMAN. Dr. Dees.

Mr. DEES. The number in the summer of 1960, Senator, was a total of 341 summer institutes. This summer we will have approximately 348. This was the number as this particular document went to press.

Senator ALLOTT. Will you repeat those again?

Mr. DEES. Yes.

Three hundred and forty-one institutes.

Senator ALLOTT. Where did you find that on your page here?

Mr. DEES. On page 243. It is about the ninth line from the bottom, the total number of institutes line.

The second line in the table, at the bottom of the page.

Senator ALLOTT. All right. The total number of institutes in 1960, 341; in 1961, 348; and 1962, 348.

Mr. DEES. That is right.

Senator ALLOTT. Now the total number participating is in the neighborhood of 18,000.

Mr. WATERMAN. That is right.

COST PER INDIVIDUAL PARTICIPANT

Senator ALLOTT. And the average individual participation cost is about \$1,100 in round figures. Now this 17,000, almost 18,000 participants, this is the number who participated out of, say an average of, 160,000 people?

Mr. DEES. This number is going up, of course.

Mr. WATERMAN. About 11 percent.

Senator ALLOTT. Which is going up all the time, and is about 11 percent.

Now, what does this mean here? And the percentage I see below that, a little over 11 percent.

METHOD OF SELECTING PARTICIPANTS

Now this question occurs because I have had called to my attention, not with relation to your program, but with relation to the NDEA program, I have had several letters from people who are just burning,

and I mean burning, to upgrade themselves in various areas and who cannot get access, for one reason or other, to the NDEA institutes. Now will you explain to me, for the record, how people are selected for these, what percentage you are unable to accept—I do not want the exact percentages, but rough figures will do for this—so that we will know where we are on it?

Mr. WATERMAN. Dr. Dees, could you answer?

Dr. DEES. First of all, Senator, it should be made clear that the operation of this program is by means of grants to universities and colleges which means that the Foundation supplies to the institution of higher education the money necessary to run the program, plus the funds which are given to the teachers. The policy of the Foundation has been to set certain general guidelines which are rather general and which have been worked out with the academic community on the basis of which the proposals for these institutes are submitted. When the grants are made, the choice as between those who apply is made by a committee that is on the local campus where the institute is to be held.

Senator ALLOTT. All right. So the admission of teachers to your institute is controlled by the local university or college?

Mr. DEES. Quite so.

Senator ALLOTT. All right.

APPLICATIONS AND REJECTIONS

Mr. DEES. There are a few general guidelines which, as I say, have been agreed to in various meetings that we have held around over the country of the directors of these institutes.

Now in the summer of 1960, for the 341 institutes that we were referring to a few minutes ago, my recollection is that more than 150,000 applications were submitted to these institutes. But this, of course, represented a number of people who apply to more than one.

And, again estimating the total number of separate individuals who applied, one comes up with a figure of approximately 50,000, which means that more than two-thirds of those who applied had to be rejected or declined because there were, as you note, something under 18,000 spaces.

This summer, preliminary data show that we have had, altogether, over 200,000 applications, and it is estimated that some 60,000 people applied for something like 18,000 spaces in summer institutes for this summer.

Therefore, it is easy to see why a lot of people are disappointed—because there just are not enough spaces.

BASIS OF SELECTIONS

Senator ALLOTT. Now let me go a little bit further. You have explained, Dr. Dees, that these are controlled by the local universities or colleges. How, within your guidelines, are these people selected? Are they selected upon the basis of academic grades or are they selected primarily upon the basis of recommendations that accompany their applications?

Mr. DEES. Both factors, of course, are taken into account. It should be mentioned that there are several different types of institutes that are supported each summer.

Some are for very highly trained teachers who are leaders among their group, and we sometimes call these institutes in special topics. They carry well-trained teachers to a point where they can exert their leadership and pull the field forward somewhat better. A majority of the institutes are for teachers who for one reason or another need, badly, additional training in one or another of the fields of science, either because they have been out of school too long and have become less up to date than they should be, or because they never had adequate training in the first place.

Now in this latter type of institute, one would in general look for the type of person who, I like to say, has a large amount of undeveloped potential—who, as is shown from his grades, has done good work in some fields but has not necessarily had the opportunity to obtain the training in, let us say, chemistry or mathematics, in the fields in which he is teaching, that he needs in order to do an adequate job in this kind of instruction.

BASIC GUIDELINES

Now the basic guidelines, therefore, that have been worked out—
Senator ALLOTT. By you?

Mr. DEES. Jointly. I want to make it clear that we have not laid down from Washington to the institutions the specifications as to where and when they will and will not accept a student. In the first place, every one of these institutions is autonomous in its own right and would not accept a student chosen through arbitrary rules that we might set up. But they are perfectly willing to work with us, and their own colleagues, the directors of other institutes, in trying to come at this problem from a reasonable, rational, and consistent point of view in terms of their own institutions. Many of these programs, you see, offer credit, and an institution, therefore, enrolls these people as students. They cannot, therefore, waive their usual rules in admitting individuals as students.

What the Foundation has said, therefore, in general is:

The job of choosing these individual applicants is up to you in terms of the type of instruction, the type of institute, that you have set up. Clearly, if you have set up an institute, which is in effect going to give individuals who have had little or no training in physics at the college level that kind of training which they need, it would make no sense to take a man who is close to his Ph. D. in physics as a participant in that institute. What you should do, therefore, is to take a look at the total range of applications that you receive and the 50 people that you choose should be fitted—as neatly and as homogeneously as possible—into the plan that you have submitted and the plan that you propose to follow through on for this particular institute.

Mr. WATERMAN. You understand the Foundation's role is making a selection of proposals from the colleges and universities, to set up institutes. We judge these in terms of the competence of their staff, the soundness of their plan and their experience in dealing with these matters.

Senator ALLOTT. Yes.

Now would I be correct in this assumption—and I do not care who answers this—that the person you would select, for example, for a fellowship should not be judged, and would not be judged, by the same

standards as the people that you select for upgrading our secondary educational teachers?

Mr. DEES. That is a perfectly valid assumption. I should say that we do have one small fellowship program for secondary school teachers. But it is separate from the fellowship program for predoctoral candidates who are immediately graduating from colleges with baccalaureate degrees. And I think it is not an invidious statement to say that, in general, those who are going ahead with doctoral training are, in terms of their scientific ability, somewhat higher on an absolute scale than the teachers who apply in the program we refer to as the graduate fellowship program.

Senator ALLOTT. Now you get to the nub of the proposition, which is that the people that you are really trying to assist by your general overall program to become No. 1 researchers and scientists are not necessarily, and do not necessarily follow the same educational requirements as the people who would participate in this particular program.

Mr. DEES. Quite so.

Mr. WATERMAN. That is correct.

Senator ALLOTT. And you are attempting to hold this to the upgrading of teachers in the scientific areas so that they may more adequately and more competently instruct and motivate their own students in this area.

Now I would like to ask a question before I yield to Senator Schoepfel, who I am sure has some questions.

GRANTS TO ORGANIZATIONS, ASSOCIATIONS, OR CORPORATIONS

What grants have been made to outside organizations, or associations, or corporations? What is your general policy with respect to this, with respect to the basic research aside from the colleges and universities of this country?

I am not interested in the specifics, Doctor, as much as I am in your general policy.

Mr. WATERMAN. Yes.

Senator ALLOTT. If you have a place in your book I can refer to I would be interested in that.

Mr. WATERMAN. In appendix B.

In the first place, we do make grants and contracts for certain service functions like studies of what should be done in certain programs, and other things such as conducting surveys. That is not for the conduct of research in the scientific sense. Generally speaking, our research grants go to an institution, usually a university or college, for a particular scientific problem which has been proposed by some of their members. The proposal contains a statement from the man in charge of the investigation, or his group, outlining the scientific problem he wants to do, stating what their experience is, how he proposes to undertake the problem, and his requirements in the way of manpower and equipment to get the job done.

This then comes to us with the endorsement of his institution, and then we judge these on the basis of the promise and significance of the work. Only about one-third of the grants that come to us in that form are made. That is the general form of the grants we make for research.

Senator ALLOTT. I have scanned very hastily the projects under appendix B and I find none to any private corporation or association. These are all to universities of either of these States or foreign governments—universities or colleges.

CALIFORNIA GROUPS

Mr. WATERMAN. No—for example, there are institutions other than colleges in California, you see at the bottom of the first page of the table, Institute for Medical Research and Kaiser Foundation Research Institution. They are private institutions for research to whom we make research grants as well as colleges and universities.

UNTAPPED SOURCE OF SCIENTIFIC ABILITY

Senator ALLOTT. One of the reasons I ask this questions is it has come to my attention, and I can quote a specific example in my own State, and has come to my attention from other places, too, to the extent that I am convinced that there is a great untapped source of scientific ability available in this country which is sitting, literally sitting. I would like to know if your policy then generally—well, Lowell Observatory, under Arizona.

Is that the Kitt Peak?

Mr. WATERMAN. No. Lowell Observatory is at Flagstaff, Ariz. That is a separate organization.

Senator ALLOTT. What kind of an organization is that?

Mr. WATERMAN. That is a regular astronomical observatory, one which has had a very distinguished history. It does research in astronomy.

Senator ALLOTT. I mean, is it a part of the State, or part of —

Mr. WATERMAN. No, this is a privately endowed institution.

GROUP IN COLORADO UNIVERSITY

Senator ALLOTT. I do not like to do this, but I want to give you a specific example of a group of scientists in physics, chemistry and electronics at the University of Colorado who have set themselves up in a private corporation, not as a normal moneymaking thing but the University of Colorado has not only assented to this, but encouraged it as a means of widening the scope of its scientific people, and also to some extent helping their income.

And this policy is accepted at the ACC by the University of Colorado and encouraged. And they have attempted, and have literally, I must say with my help, beaten on the doors of almost every Government agency that you can imagine for 3 or 4 years now in an attempt to put their scientific know-how to work. This is headed by, no less, at least a part of this scheme is, a man by the name of George Gamow, whom I am sure you both know well, a very prominent Japanese physicist who I am sure could go out with any private corporation in the United States and triple his salary tomorrow—either one of these men—and many other prominent people.

Now what is the answer in the terms of your basic mission in this field, and with which I am completely in sympathy, the idea and concept of basic research? What is the answer, Dr. Waterman, to such groups as this? Now I hate to use this single observer, because it bothers my own State and University and it involves specific people. But I must say that this has come to my attention, and in my work in the Senate similar situations have come to my attention, over and over again.

And the use that these people get, and others get, when they go to specific companies who are working in this area, ask "Why should we work with you because to that extent we deplete our own Government contracts, to put it bluntly, and to that extent we detract from our own reputation in the field."

WASTED SCIENTIFIC MANPOWER

And yet if a survey could be made of this area I am confident and I am really confident, that there is a great wealth of scientific capability in this country today, when we are supposed to be screaming for scientists, that is going to waste, because there simply is no place for them to go.

And I am sure, Dr. Bronk, for the record, you would not question the great scientific ability of George Gamow.

Mr. BRONK. Certainly not.

Mr. WATERMAN. I think the answer is very simple, Senator Allott. We do give grants in this way. For example, perhaps the clearest indication is in the case of biological field stations which often are separate entities, where they do excellent research in biology and also marine biological stations.

Actually, in a case like this, all that needs to be done is to have the individuals, or groups, come to us with some application, and we will evaluate it along with others in the same field and do the best we can. These all have to qualify under pretty high selection rules because our money does not go very far.

But it depends upon the quality of the work they do. One other thing—

Senator ALLOTT. Just to get at that, you never know the quality of the work they do until they have done it?

Mr. WATERMAN. You know the quality of the men.

Senator ALLOTT. You know the quality of the men and that is as far as you can go.

Mr. WATERMAN. Well, it is judged in several ways. In the first place, there is the experience and the competence of the men. Now in the case of George Gamow there is no hesitation about his competence. The second is the problem he proposes to do, and the significance of that problem. Also, the staff he has with him. And, also, as judged by others in the same field who are also highly competent, whether the approach which is contemplated seems to be suitable and feasible.

Now in the case of Gamow's proposals, of course his great experience and distinction would count very heavily.

APPLIED RESEARCH

I should make one more statement about this. The groups which have an independent existence like this quite often are concerned with applied research, and that of course we generally do not do. Our mission is basic research. But any proposal from a group of this kind would certainly be given careful attention, if it were basic research and if it competed successfully with others.

Senator ALLOTT. Well, now, we get to another question. Now Dr. Burkhardt has sort of headed up this particular group at the university, who through some considerable long association I have the greatest personal confidence in, and I think he is in the same category, he could quit the university and double and triple his salary overnight but he is dedicated to the job he is doing, as are all of these men.

ADVISORY FUNCTION

Now isn't it the function of the National Science Foundation, to some extent, to indicate the general areas of basic research which are most advisable, and these people would be qualified—not these specific people but others would be qualified—to go into this general basic area of research?

Mr. WATERMAN. That is a somewhat complicated question, Senator Allott, because in the field of basic research a highly competent person like George Gamow would know where he can best turn up a problem which to him is significant, in which he sees promise of success, than anyone else. And if he finds such an area the chances are it is an important one.

From our standpoint in the Foundation, we have to exercise care in proclaiming to scientists what are the important areas, because the best scientists know what they are. When they meet together as a group, as in our advisory panels, they are very well aware of the most important areas, in the sense of where to make the best progress in science. Thus in the first instance we turn to the scientists of the country to get their ideas—this is a great strength of a democracy—we get the ideas from the people who are most expert and skilled. And superimposed on that we do have to take into account and emphasize areas which we may identify as being critical for the moment and where more work should be done, or areas which have a general national significance.

Senator ALLOTT. Now is there any reason why these areas should not be disclosed to outside scientists?

Mr. WATERMAN. Oh, they are. We talk informally with scientists all the time, get their ideas, and suggest to them various problems, and they suggest them to us. We generally do not make a point of announcing these because it is better to get the scientists who are most knowledgeable interested in doing this. They are the ones who are going to make the most progress after all. When we do identify such an area, we very commonly adopt the expedient of calling a conference on the subject so that all in the field will know that this deserves special attention, and the report of the conference will be disseminated to all scientists, and they will thereby get this information.

ADVANTAGE OF UNIVERSITY RESEARCH

I might add there is one other advantage in the college and university plan over a private group which is only doing research. I do not say this is an overriding consideration. But when one supports basic research in universities, one trains students, graduate students. This we need very much to do to keep the supply of fully trained scientists coming along. Generally speaking the private research group which concentrates only on research will be good for getting research results, but does not have the advantage of this training—

Senator ALLOTT. This would not be true with a group such as this, and there are others in the country who are closely associated with the universities.

Mr. WATERMAN. Not if it is associated with the university, that is quite correct, yes.

Senator ALLOTT. And acting in cooperation and with the consent of the university.

Mr. WATERMAN. That is right.

Senator ALLOTT. I am sure if there were 198 other Senators sitting here and all of them would have a similar situation they would want to ask questions about. And, as I say, I hate to ask questions about this one particular, but I know, as I said before, I am confident, that there is in this country, when we say we have a crying, almost screaming need, for scientists and scientific research, a terrific wealth of scientific ability which is not being utilized. And I only use this specific example because I have no other way of emphasizing at this time this point, which I think is so important.

Mr. WATERMAN. I would agree with you, and this is borne out by the figures we gave you, that only about one-third of the grants that come to us can be supported.

HIGH ALTITUDE OBSERVATORY

By the way, it occurs to me, Senator Allott, in your State we are now supporting work at the high altitude observatory which is associated with the University of Colorado.

Senator ALLOTT. And which will soon be merged with the atmospheric research.

Mr. WATERMAN. But in the past this was a group such as you speak of, and we have been supporting them.

Senator ALLOTT. I think the Senator from Kansas probably has some questions at this point. I will yield to him.

SERVICE TO GOVERNMENT BY TRAINEES

Senator SCHOEPPEL. Thank you, Senator Allott.

I want to say to you, Doctor, this is my first experience on this subcommittee, and when I look over this voluminous document here, your report and your accounting and things, I am amazed at the extent to which you men in this Foundation group here have to indulge yourselves. I want to ask you a few preliminary questions that may seem rather simple and maybe academic to you.

In listening here, and in going over and trying to familiarize myself with the work and responsibility that you are performing in pre-

paring this request, this thought occurred to me, does our Government have a call on these peoples' services who have been the recipients of these funds in various and sundry activities that may be sorely needed?

Mr. WATERMAN. No, sir.

Senator SCHOEPPPEL. In other words, all we can expect of this group that we have assisted here in various and sundry ways goes into the general knowledgeable pool of scientific trained people with the hope and expectation that they will render and do their bit as they go through whatever their vocations might be in life afterward?

Mr. WATERMAN. That is correct. Their careers may take them into government work in science, in industry, or in university research, secondary school teaching—

FREE SERVICES OF SCIENTISTS

Mr. BRONK. May I amend that a bit because I have just come down, at quarter to two this morning, from a study of desalination of water which the National Academy of Science is carrying on at Woods Hole at the present time for a period of 4 weeks. For some 16 years I have been concerned with the exploration and study of various problems of national importance to the National Academy of Science Research Council, and during that period of time I suppose there were over 15,000 to 20,000 scientists who have served on all sorts of problems, studies, such as this on desalination, that will be followed by a study of fire control in forests, and all sorts of structures. Last year we had a 5-week study of problems on transportation, the year before that on maritime administration problems, and several years on Air Force studies. I can think of more than 2,000 studies of various sorts that we have conducted, and not a single cent of money has ever been paid by the Academy Research Council for the services of any one of these people. So I think Dr. Waterman is being too modest in his statement as to what the consequence of this training is. Because we are building up a great pool of scientists, and they serve our country continuously, our Government, both on request and on initiated requests for advice, and for no part of this have they ever received compensation other than from their universities and from their industry.

But they give their time, usually taking it out of vacations and weekends. Down at 2101 Constitution Avenue there is hardly a Sunday you will not find 50 or 60 people working there because that is the only time you can get them away from their usual duties. So I think we do get a tremendous amount of service to our Government, freely given, by these people whom we have trained.

Senator SCHOEPPPEL. I hope you do not infer from my question that these people hold themselves aloof.

Mr. BRONK. I understand the question.

Senator SCHOEPPPEL. Hold themselves aloof on giving freely of their great talent and background and educational qualifications in a scientific way. Because you speak about one thing that I am very much interested in, as we all are. I know the President yesterday pushed a button to start the operation of a great plant down in Texas. As a member of the National Water Resources Committee we did have the benefit of very fine trained minds along that line, trying to break through on this very important problem of desalting water that means

so much to us not only in this country but throughout the world where we have these deficient water areas.

I was just wondering whether, when we train these people, offer training avenues and opportunities and help to finance them, whether any program is worked out where we could call on some of these people that show great proficiency. You have answered my question in regard to that, Doctor.

Mr. WATERMAN. We do the same thing, Senator, in our program. We have hundreds, that consult in one way or another, and they are always very free with their time.

COOPERATION OF INDUSTRY

Senator SCHOEPEL. Now pursuing a little further the matter Senator Allott has mentioned, we have in this country, under our tax laws certain exemptions to those who contribute to fellowship programs. Do these private concerns or corporations come to you frequently and offer, or do you cooperate with them in developing, scientific programs and studies along any of their lines?

Mr. WATERMAN. Yes. When we have pressing problems, when they are either brought to us from someone else, or whether we initiate them, we use the highest competence and cooperation we can get, whether this is in industry, universities, Government, or any other way.

GRANTS ABROAD

Senator SCHOEPEL. Now turning to your report. I know that you have grants and contracts, basic research and facilities for the support of science grants, for the support of scientific manpower and fellowships offered in many of the foreign nations around the world.

Mr. WATERMAN. We have a limited number of grants that we make abroad, and when we do that it is because there is something unique about them. Now occasionally a man on research in this country has to go abroad to get certain information for his research. This would be permitted. And our fellowship applicants may go abroad to study. This is their choice. The only requirement is they have to be accepted by the institution where they study.

Senator SCHOEPEL. And you direct that, do you not, in the initial approach?

Mr. WATERMAN. In the initial stage. This we approve, when the original proposition comes to us.

Senator SCHOEPEL. Do we have, in a corresponding way, some of the scientific-minded people from some of these foreign countries coming over to our country under any of your programs, over which you exert some guidance, not exactly controlled but certainly guidance?

Mr. WATERMAN. Yes, the National Academy of Science-Research Council is the leading institute in the country that does this, and we very often provide funds for the Academy to do that. Dr. Bronk can speak to that in some detail.

Mr. BRONK. Yes, there are such fellowship programs. Also, in the case of the grants which are made to professors in universities, they very frequently have as workers on the project which they are undertaking people who come from other countries over here for training

but who are also contributing to the work which is supported by the Foundation, as assistant to the senior investigator.

TOTAL FELLOWSHIPS FOR STUDY ABROAD

Senator SCHOEPEL. About how many fellowships and grants do you have at the present time in a number of these foreign countries, in the aggregate?

Mr. WATERMAN. You mean fellows that go abroad? Dr. Dees, will you give this information?

Mr. DEES. In fiscal year 1960, which is the last batch of data I have, Senator, out of a total of 3,701 fellows, in all programs, 185 studied overseas.

Senator SCHOEPEL. Are presently studying overseas in 1960?

Mr. DEES. This was a group of people who probably would, in most cases, be completing their studies about now.

Senator SCHOEPEL. What grade, or what academic level, would they be? Would they be the graduate students or—

Mr. DEES. I can give you this in categories: 23 of these 185 were graduate students, that is to say they were still working toward a doctorate in most cases; 79 were what we call postdoctoral students because they have just completed, typically, when they receive one of these awards, a Ph. D. in this country; 57 were so-called senior postdoctoral fellows, individuals who must have had, at the time they got the fellowship, their Ph. D. for at least 5 years; and 26 were individuals in a program that we refer to as the science faculty fellowship, which is a program for college teachers.

SELECTION PROCEDURE

Senator SCHOEPEL. How do you choose those? Does that come via the institution in our country here through your Foundation, or do you establish the criteria for those people going abroad?

Mr. DEES. All of these that I have just referred to are chosen through central channels that operate here in Washington, going over a complete dossier for each individual applicant, including such things as transfers of his records, recommendation with respect to his abilities. And with respect to the graduate students, they must also take a special graduate examination.

Senator SCHOEPEL. In other words, you determine their proficiency in every respect before you, or this particular group that supervises it, finally gives the OK, upon which you spend the money?

Mr. DEES. Quite so. In most of these programs the Academy of Science serves as the evaluating body.

Senator SCHOEPEL. Or clearinghouse, so to speak?

Mr. DEES. In a sense.

Senator SCHOEPEL. Evaluation and clearing them?

Mr. DEES. That is to say, they take these applications, they assemble a panel for each field, as a rule, of eminent scientists, and the more eminent the applicant the more eminent the group of panelists. You can easily see it is somewhat easier to screen a man who is still a student, than it is a peer, an individual who may be 20 years beyond his doctorate. So that the Academy of Scientists assembles a group of carefully chosen panelists. They then recommend to the Foundation, either in rank order or in some other fashion, the most able

people as they have evaluated them on the basis of all of the evidence available. The Foundation then, by law, is responsible for actually completing the evaluation process and making the awards.

In general, the question of whether a man is to study in this country or overseas is taken into account with respect to his ability only to the extent that if he makes an irrational choice, or a poor choice of where he wishes to study, clearly this reflects his ability. But the statute itself specifies that an individual under any one of these fellowship programs may study at any appropriate nonprofit institution of higher education in this country or any appropriate institution overseas.

Senator SCHOEPEL. I note that in practically every country you have, I presume, out of the number that you have indicated here for the record, where they have been pursuing some of their advanced studies.

Mr. DEES. Quite so. It is a small percentage you will have noticed if you total them.

Senator SCHOEPEL. Yes; I noticed that.

RESTORATION REQUEST

Now getting back to the practical side of this, I understand that you have a request here for \$27 million which was reduced by the House. And you desire that we put that back in your appropriation request?

Mr. WATERMAN. That is right.

Senator SCHOEPEL. I take it you have covered that in your letter to the chairman here and justification?

Mr. WATERMAN. Yes.

Senator SCHOEPEL. I just had the opportunity of seeing this for the first time this morning.

I think those are all the questions I have.

UNIVERSITY NUCLEAR RESEARCH FACILITIES

Senator MAGNUSON (presiding). Dr. Waterman, getting back to the university nuclear research facilities, the proposed budget estimate for which was \$6 million for fiscal 1962, did the House cut that amount?

Mr. WATERMAN. They made an overall cut. They made no specific statement with respect to this particular item.

But what we have done is gone through the budget and tried to allocate the cuts where they would seem the most reasonable to us to take into account.

Senator ALLOTT. This would mean a \$2 million cut in your allocation; would it not?

Senator MAGNUSON. Of the nuclear facilities?

Mr. WATERMAN. Yes.

UNIVERSITY COMPUTING FACILITIES

Senator MAGNUSON. Now let's take first the university computing facilities. What will the cut do to them?

Mr. WATERMAN. This would be reduced from \$4 to \$3 million. That is a \$1 million cut. On the university nuclear research facilities, it will be a reduction of \$2 million.

Senator MAGNUSON. \$2 million. You did write me a letter on May 19 regarding a letter from the University of Washington, department of physics, in which you mentioned the accelerators. Is that included in this program?

Mr. WATERMAN. Yes; it is.

Senator MAGNUSON. That is included in this program of which the Universities of Chicago, Iowa, Kansas, Kentucky, Minnesota, Michigan State, Ohio, Pittsburgh, Stamford, Virginia, and Yale have sot of qualified, let's put it that way, in this particular field, including the University of Washington?

Mr. WATERMAN. Yes.

Senator MAGNUSON. If this cut remains it is my understanding then you will have to go back and eliminate some of these qualified people—

Mr. WATERMAN. That is correct.

Senator MAGNUSON. Who have gone to the time and trouble and maybe some expense in some cases, to get ready for the thing that they thought they could do.

Mr. WATERMAN. That is correct.

Senator MAGNUSON. And the same situation will be true as to the computer program?

Mr. WATERMAN. The situation will be the same; yes.

Both of these are very heavily oversubscribed, so the selection is a difficult one to make at best.

Senator MAGNUSON. But what I am getting at is there is no guess about the eligibility of this thing in these places—

Mr. WATERMAN. That is correct.

Senator MAGNUSON. It is well established, it is well needed.

Mr. WATERMAN. Yes, sir.

Senator MAGNUSON. And this is the sort of program we know we can go ahead with and get some results?

Mr. WATERMAN. That is very true.

Senator MAGNUSON. Yes. I will put the letter in the record from the Director to me on this matter. I do not think we need to put the rest of this in. I will submit to you for your office a letter from the president of Washington State on the computer thing. You can have it for your files.

Mr. WATERMAN. Thank you very much.

(The letter referred to follows:)

NATIONAL SCIENCE FOUNDATION,
OFFICE OF THE DIRECTOR,
Washington, D.C., May 19, 1961.

Hon. WARREN G. MAGNUSON,
U.S. Senate,
Washington, D.C.

MY DEAR SENATOR MAGNUSON: Thank you for your letter of May 8, 1961, inquiring about the status of the University of Washington's request for a National Science Foundation grant to assist in acquiring a Van de Graaff accelerator facility. Some progress pertinent to the university's application has been made since our letter of March 27 on this subject.

First of all, you probably know that the amended budget for fiscal year 1962 now before Congress requests \$6 million for university nuclear research facilities, rather than the \$2 million included in the budget presented to Congress in January. Also, sufficient progress has been made on the evaluation of the University of Washington proposal to know that it will be a worthy competitor for the nuclear research facility funds once these funds become available to the Foundation.

A number of other universities are proposing to acquire new accelerators, including the University of Chicago, State University of Iowa, University of Kansas, University of Kentucky, University of Minnesota, University of Mississippi, Michigan State University, Ohio State University, University of Pittsburgh, Stanford University, University of Virginia, and Yale University. It will be possible to help certain of these universities get started on the most meritorious accelerator projects in fiscal year 1962. The number of projects supported will, of course, be determined largely by the amount appropriated.

It is not possible at this time to state where any one grant application stands with respect to the others. Once funds are available, we try to make those grants which are in the best interests of our Nation's science. Under the circumstances, you can understand why we are not able to give you at this time an indication of our final decision regarding the University of Washington grant application. We will keep you informed concerning our progress in this matter.

Kindest personal regards.

Sincerely yours,

ALAN T. WATERMAN, *Director.*

OCEANOGRAPHIC RESEARCH VESSELS AND FACILITIES

Senator MAGNUSON. Now you have how much in here for oceanographic research vessels and facilities?

Mr. WATERMAN. The research vessels and the facilities for them were initially \$8,500,000, and there now is a reduction of \$1,500,000 and it becomes \$7 million.

Senator MAGNUSON. What will that do to the two ships?

Mr. WATERMAN. Well this is going to be very awkward.

Will you speak to that, Dr. Robertson?

Mr. ROBERTSON. Well, \$3.5 million is included in the original estimate to make it possible to complete the two large oceanographic vessels. If the total is cut by \$1 million, I should think that the reduction would have to come out of our planned support for shore facilities rather than out of the ship items.

I think we will be able to carry on our ship program.

Senator MAGNUSON. I do not know, if I had to make a choice, just what I would do in this case.

Mr. WATERMAN. The point is very critical because what good are the ships unless you can outfit them and take care of them?

Senator MAGNUSON. I have listened to a lot of reports and testimony that the shore facilities, and let's take Johns Hopkins, for example, over here where they are up in an attic some place. I do not know how I would make a choice if this cut be made.

It would be most difficult.

Mr. ROBERTSON. It is extremely difficult.

Senator MAGNUSON. You might go to the ship hoping in the meantime the shore facilities will come along, because it takes a little longer to finish the ships. But they are not much good unless you have these shore facilities.

Mr. WATERMAN. Certainly not. And the research which was done on the ships has to be handled ashore.

"WOODS HOLE" SHIP

Senator MAGNUSON. What is the construction status of the one we put in last year?

Mr. WATERMAN. Dr. Robertson.

Mr. ROBERTSON. The *Woods Hole* ship, the first ship for which initial funds were appropriated in fiscal year 1960, has been completely

designed, and they are in the process of opening and analyzing the bids. So it should be completed in about 1 year.

Senator MAGNUSON. All right, thank you. I just wanted to get that information.

Senator ALLOTT. Mr. Chairman, at that point, as long as we are going through these, could we get a brief rundown on the status on your Antarctic program?

ANTARCTIC PROGRAM

Mr. WATERMAN. The Antarctic program. We had requested \$6.5 million for that, and this requires a cut of half a million, making it \$6 million.

Dr. Jones, will you speak of the effect of that?

Mr. JONES. The Antarctic program involves a "technique" of scientific exploration, that is scientific research, in this area which involves biology, geology, the nature of the underlying ground itself, and the ice; trying to relate it to the rest of the earth through studies, and at the same time including studies of meteorology, and the upper atmosphere about it. The latter because it is near the south geomagnetic pole of the earth.

HOUSE REDUCTION

In the reduction from \$6.5 to \$6 million in this item, we analyzed the problem and felt the only area that we could drop was our plan to set up a radio propagation study station which was at the other end of the magnetic lines of force to the northeastern United States—an area where we do not presently have a station to make these studies. The half million was to make a start on the equipment for this conjugate point—communication type study which may be exceedingly important to us.

Senator ALLOTT. Now your statement says the temporary land based mobile research station to be located on Ellsworth Highland region of Antarctica. How far are you in that project?

ELLSWORTH HIGHLAND STATION

Mr. JONES. We have not started on the Ellsworth Highland station.

Senator ALLOTT. But this would provide funds for it?

Mr. JONES. This would provide funds to start on this mobile type structure. It is so far away we do not want to build an ordinary station, we want to do it in a specially designed way so it can be done quickly. It is 1,700 miles out over the ice, and we would have to fly it out in big ski airplanes to set it up.

Senator ALLOTT. How much more would be involved in this program?

Mr. WATERMAN. After it was set up?

Senator ALLOTT. After this \$6.5 million that you wish?

Mr. WATERMAN. This is an annual cost, roughly speaking.

Senator ALLOTT. This is an annual cost?

Mr. WATERMAN. Of that order of magnitude.

DISSEMINATION OF SCIENTIFIC INFORMATION

Senator ALLOTT. Now I would like to go into one area that you covered last year considerably, just to get a report on the advance in it, Doctor, which is the next item in your letter, which is the dissemination of scientific information.

According to your allocation you were out \$1,400,000, within the House recommended \$27 million reduction. What have we done? I notice you have set up under the Agricultural Trade Development and Assistance Act programs in three countries for the use of soft currencies, which are for the purpose of collecting, translating, and abstracting valuable foreign scientific and technical information.

The three countries are Israel, Poland, and Yugoslavia, two of which are Communist.

How has this progress gone on, and will you give us the rundown on that?

Mr. WATERMAN. Yes, the purpose here is by use of these currencies to take advantage of the fact that in these countries are competent scientists who can translate foreign languages into English for us. Will you expand on this, Dr. Adkinson?

TRANSLATING ACTIVITIES IN FOREIGN COUNTRIES

Mr. ADKINSON. In all three of these countries the nations involved, the governments involved, have set up separate organizations to handle the work. The way this is developed is that scientists within the Federal Government here in the United States select those items which they feel they need translated, and these are then consolidated from the various agencies of the Government, priorities are set by an interdepartmental committee, and then these requests are sent to these countries. In addition, from Poland, the scientists in Poland have suggested titles where they thought there was some important information for the people in the United States. The same has been true of the scientists in Israel. Now these things are moving along quite rapidly.

Both countries are anxious to expand their activity because we have a large number of titles waiting to be translated. And this is not just translating articles, it is translating books and translating patents and translating abstracts. In Israel the concentration has been on Russian material. In Poland it has been on the Polish material. In Yugoslavia we have been working on the Yugoslavian languages and they are willing to go into the other Eastern European languages, such as Czech, if we can continue these programs.

EFFECT OF HOUSE REDUCTION

The \$1 million cut will result in three things. One, it will be a reduction of roughly 19,000 pages of translation of Russian material in Israel, 14,000 pages of material in Poland, and it will mean the phasing out of the Yugoslavia project which is not quite as effective as the others. It is developing, and it will mean we cannot explore the possibility of getting translations done in India and in Egypt.

Senator ALLOTT. At that point, Doctor, may I ask this question, because a lot of people read this record, the pages that you have mentioned of translation do not represent the total amount of work done,

but this represents the reading of thousands, perhaps of other documents and pages, and a sifting out of the final things which would be of benefit for our scientists here? Is this a correct statement?

Mr. ADKINSON. What it means is that the scientist in this country, with the cooperation that I spoke about a minute ago, has gone through the material that is being produced in these countries, such as Russia, and selected the highest quality.

Senator ALLOTT. Yes, but answer my question if you will, sir. I am trying to help you. You have said so many pages from Israel, so many pages from Yugoslavia, so many pages from Poland, and you are going to have an awful time trying to justify this many pages in terms of \$1,400,000. It represents—and answer this yes or no if you will—a tremendous amount of reading and evaluation of other documents in these particular countries from which these specific pages which you have mentioned are then selected by our scientists and translated into English for American use?

PERCENTAGE OF RUSSIAN WORKS BEING TRANSLATED

Mr. ADKINSON. The answer is "Yes." In Russian, for instance, we are only translating in the total program of about 5 percent of their output into English.

Senator ALLOTT. That is the question I wanted to get in the record.

Mr. WATERMAN. The answer is "Yes."

Senator ALLOTT. Mr. Chairman, I would like to go into another matter on the dissemination of information.

And I will have to ask you this, Mr. Chairman, more than these gentlemen. However, on page 6 of your letter, Dr. Waterman, in the third paragraph it says:

The fiscal year 1962 budget estimate provides for the appropriation of \$2 million to be made directly to the Foundation for the purpose of continuing the development of programs of this type.

Then it goes on to say:

The appropriation recommended by the House authorizes the Foundation to purchase \$1,600,000 in excess foreign currencies but is not adequate to provide funds for this purpose.

PURCHASE OF SOFT CURRENCIES

Now, Mr. Chairman, I must confess ignorance in this matter. Is there any way that we can avoid the use of American dollars in the purchase of soft currencies, which are running out of our ears in almost every country in the world? And it seems to me that if an authorization could be made for this, I do not know, frankly, what the limitations are, but we have soft currencies running out of our ears and yet we appropriate American dollars to buy soft currencies.

Senator MAGNUSON. Well, when we speak of counterpart funds, we have them some places and some places we do not have them.

Senator ALLOTT. I am sure we have enough of this currency, whatever they call it in Poland, and undoubtedly with our relation with Yugoslavia and Israel we must have a lot of their currency. And yet here we are appropriating American dollars to purchase these things. I do not know, this is a question I cannot answer—

Senator MAGNUSON. The problem is that the counterpart funds came into being in the soft currencies in different places, through dif-

ferent agreements in different countries, and their use in different countries is entirely limited in some cases, and in some cases it is not. Then the State Department has also said that this is a situation where we should not use them, that these people, if they are going to do this work, should be given the money. We have to purchase their money and give them the dollars. This has been a matter of national policy. Because it is not the same all over. This is my understanding of it, that you can use it for some things in some places, and some places you cannot. There are limitations.

OPERATION OF PUBLIC LAW 480

Mr. WATERMAN. This question has bothered us. Will you speak to this, Mr. LUTON?

Mr. LUTON. Mr. Chairman, the money that is appropriated to the Foundation in dollars goes primarily to purchase currencies that have already accumulated as surplus currencies in these foreign countries, and they have accumulated primarily through the operations of the Commodity Credit Corporation. When we make these purchases—

Senator ALLOTT. Public Law 480.

Mr. LUTON. Yes, sir. When we make these purchases with dollars, these dollars go to the Commodity Credit Corporation to reimburse them for excess foreign currencies that they have accumulated through their operations. This presumably reduces the number of dollars that the Commodity Credit Corporation has to ask the Congress to appropriate.

Senator MAGNUSON. But what is bothering me, that is the way it is supposed to work but is that the way it does work?

Mr. LUTON. Yes.

Senator MAGNUSON. Does the CCC get their money?

Mr. LUTON. Yes, sir.

Senator MAGNUSON. There is no actual transfer then. To make this simple, you take your money and you arrange this with the country, and then you go down and give it to the CCC, and that never leaves the country, does it?

Mr. LUTON. The dollars do not leave this country.

Senator ALLOTT. That is all right then. If it is not a purchase of the soft currencies on the market, but is only a purchase from the CCC, then we are in fact helping ourselves by this. But if it is a question of going out and purchasing on the world market foreign currencies, soft currencies, then we are really being taken for a sleigh ride.

Senator MAGNUSON. Yes, but some places we do not have CCC credits.

Mr. LUTON. The foreign currencies that are involved in this program are ones that have already accumulated. They are surplus. They have already been accumulated through the operation of CCC. We arrange through the Treasury Department to purchase them.

BOOKKEEPING ITEM

Senator MAGNUSON. But am I correct in my understanding that on counterpart funds, what we call counterpart funds, that they are accumulated under certain bilateral agreements, and that each agreement has certain different limitations on the use of those funds?

Mr. LUTON. That is right.

Senator MAGNUSON. And one may not be the same as the other?

Mr. LUTON. That is true.

Senator MAGNUSON. Actually in the next room in here they are in there right now in controversy over the use of American dollars to guarantee the purchase of American books under the information program in certain areas, which guarantees the publishers of the books X number of volumes so they can go ahead—where we have counterpart funds.

Senator ALLOTT. This question I raise is very akin to that.

Senator MAGNUSON. Yes.

Senator SCHOEPEL. I understand this is largely a bookkeeping item. Some of these counterpart funds are subject to agreements that we have entered into with the governments of the various countries. In some of these countries certain restrictions upon expenditures of those funds exist and we have to get their approval?

Senator MAGNUSON. Yes.

AGREEMENTS TO USE FUNDS

Mr. ADKINSON. Mr. Chairman, could I add one thing? In all of the countries that are mentioned here in this particular program we already have, or in the process of getting, agreements with those countries to use these funds.

Senator MAGNUSON. You are talking about countries where we have actually piled up a surplus?

Mr. ADKINSON. That is the only place where we are asking for funds, where we have the surplus, and where the countries have agreed we can use that surplus.

Mr. SCHOEN. This is only where we have excess funds.

Senator MAGNUSON. All right.

Senator ALLOTT. I think this is a very vital program.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

LACY-ZARUBIN EXCHANGE AGREEMENT

Senator MAGNUSON. Now there are some funds in here for the completion of the National Academy of Science-Russian Embassy exchange program. What is that?

Mr. WATERMAN. This is the financing of the expenses connected with an exchange agreement for visiting scientists between the National Academy of Sciences and the Soviet Academy of Science.

Senator MAGNUSON. In other words, Dr. Bronk, do they have meetings together, or do they exchange information, or just how does it work?

Mr. BRONK. This is a part of the Lacy-Zaroubin exchange agreement. Bill Lacey asked me to go over and negotiate with the Russians for the exchange. There are really very few scientists who have gone there, and come over here, under this agreement. I would say a total of perhaps 30 to 35 at the most.

The idea was to see whether we could find out, at a high level, the sort of thing that they were doing, both by being over there, and for having their people over here. We have had one joint conference

that lasted for approximately 4 days in the field of radio astronomy. They sent over 7 or 8 of their people and there were about 15 U.S. regular astronomers, who met down at Green Bank for this period of 4 or 5 days. But it is mostly people going from here to there for periods of 2 or 3 weeks for discussion and trying to find out what is going on. But I think the significance of this is to see whether there are—you see in the case of the exchange between the United States and Britain, the United States and Sweden, we do not have any such agreement and people move naturally. But because of the barrier we thought perhaps we could break it down somewhat.

Senator MAGNUSON. And you limit it to certain fields of science, and you figure, on the combination, you might get a breakthrough to a greater exchange?

Mr. BRONK. They were spelled out by them and by us as to areas which we wanted to exchange.

Mr. WATERMAN. The State Department was very much in approval of this.

Mr. BRONK. It was at the request of the State Department that it was done.

KITT PEAK PROJECT

Senator ALLOTT. You spoke to me privately, and I believe testified last year, about the project, which I believe is not classified, connected with Kitt Peak. That is not classified any more?

Mr. WATERMAN. No.

Senator ALLOTT. How is that project coming?

Mr. WATERMAN. It is getting a great deal of interest, and they are making quite a bit of progress. This is the one on construction of a space telescope.

Senator ALLOTT. That is right.

Mr. WATERMAN. This is a long-range plan. It is the astronomers' best version of what they think will answer the most important, urgent questions the astronomers have by making observations completely outside the earth's atmosphere. And it is in complete cooperation with the Space Agency, NASA.

Senator ALLOTT. And it is going along, is it?

Mr. WATERMAN. We are looking for a head, a director for that element of the program now. But they have been making very good progress. They have a lot of competence.

Senator MAGNUSON. All right, Doctor, thank you very much, and we thank all you gentlemen.

Mr. WATERMAN. Thank you.

Senator MAGNUSON. We will recess until 2 o'clock this afternoon when we will hear the Renegotiation Board, the Securities and Exchange Commission, and National Capital Housing Authority.

(Whereupon, at 11:55 a.m., a recess was taken until 2 p.m. of the same day.)

AFTERNOON SESSION—THURSDAY, JUNE 22, 1961

SECURITIES AND EXCHANGE COMMISSION

STATEMENTS OF WILLIAM L. CARY, CHAIRMAN; J. ALLEN FREAR, JR., COMMISSIONER; ALLAN F. CONWILL, GENERAL COUNSEL; WALTER P. NORTH, ASSISTANT GENERAL COUNSEL; MANUEL F. COHEN, DIRECTOR, DIVISION OF CORPORATION FINANCE; PHILIP A. LOOMIS, JR., DIRECTOR, DIVISION OF TRADING AND EXCHANGES; W. ALLEN JOHNSON, ASSOCIATE DIRECTOR, DIVISION OF CORPORATE REGULATION; AND FRANK J. DONATY, COMPTROLLER

AMENDMENT AND JUSTIFICATION

Senator MAGNUSON. The committee will come to order.

We have the Securities and Exchange Commission.

We will put your letter in the record in full, and the justification of the proposed amendment on salaries and expenses.

(The letter and justification follow:)

SECURITIES AND EXCHANGE COMMISSION,
Washington, D.C., June 9, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of the Independent Offices Appropriation Bill,
for 1962, U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: In reply to your letter of June 2, 1961, the action taken by the House on funds for the Commission is acceptable as provided in H.R. 7445, the independent offices appropriation bill, 1962.

The Commission requests the opportunity to appear before your committee regarding a proposed amendment to the appropriation language which would permit payment to experts and consultants at a rate higher than the limitation contained in section 15 of the act of August 2, 1946 (5 U.S.C. 55a). A copy of the proposed change and justification is attached.

Sincerely yours,

WILLIAM L. CARY, *Chairman.*

CHANGE REQUESTED BY THE SECURITIES AND EXCHANGE COMMISSION IN H.R. 7445
AS APPROVED BY THE HOUSE OF REPRESENTATIVES ON JUNE 7, 1961

"SALARIES AND EXPENSES

"For necessary expenses, including uniforms or allowances therefor, as authorized by law (5 U.S.C. 2131), and services as authorized by section 15 of the Act of August 2, 1946 (5 U.S.C. 55a), at rates for individuals not to exceed \$100 per diem, \$11,000,000."

JUSTIFICATION

Occasionally, the Commission has found it necessary to engage the services of a consultant who is a recognized expert in his particular field. In certain instances, experts or consultants have refused part-time or temporary employment with the Commission since they believe that the maximum statutory rate of \$60.80 is inadequate as compared to their minimum daily rate of approximately \$100 per day. As a result, proceedings are delayed while time-consuming efforts are made to employ individuals who will accept compensation at the present daily rate.

AMOUNT REQUESTED

Senator MAGNUSON. And for the purpose of the record, the Commission had in the appropriations for 1961 \$9,517,500. The budget for 1962 is \$10,915,000, approximately \$1.4 million more. And the amended budget was \$11,015,000, approximately \$100,000 more.

The House recommended that \$11 million, and this is plus \$1,482,500 over 1961, but a reduction of \$15,000 from the estimate as amended, which I understand that you have no testimony on, but the one amendment you are concerned with here is the limitation on the employment of consultants.

Is that correct, sir?

Mr. CARY. That is generally correct.

Senator MAGNUSON. We will be glad to hear from you on that subject.

You have a very short statement.

Mr. CARY. Yes.

I am William L. Cary, of the State of New York, and I appear as Chairman of the Securities and Exchange Commission.

I should like to introduce my colleagues. I think Senator Frear is or will be here in one moment. He was here a moment ago.

Senator MAGNUSON. I will be glad to see him again.

Mr. CARY. One of my colleagues is on vacation, one is ill, and another one is unfortunately tied up at the moment.

I also have beside me on the right members of the staff, the directors of the division and heads of offices.

HOUSE ALLOWANCE

This independent office's appropriations bill for fiscal 1962, as you have indicated, and as passed by the House of Representatives, includes the amount of \$11 million for the Commission as compared with this request for \$11,015,000.

Senator MAGNUSON. Mr. Cary, this will give you for the record, 153 new jobs, or a total of 1,188 in the Commission?

Mr. DONATY. That would be 153 positions average employment. The total number of positions would be approximately 164 gross.

Mr. CARY. Yes, it would be in that magnitude.

Now, as you indicated further, that merely makes a difference of \$15,000. And the amount of \$11 million is considered the minimum acceptable appropriation for fiscal 1962.

Now, really, we have only two points, relatively minor in terms of the whole budget, which we would like to bring to your attention.

Senator MAGNUSON. You know, you fellows don't always want to come up here and say we are just going to discuss the items that the House cut you out on, we may cut you too.

Mr. CARY. I fully appreciate that, Senator Magnuson, and that is one of the reasons I wanted to be sure to be here.

Senator MAGNUSON. You may proceed with your statement, then.

Mr. CARY. All right, sir.

EMPLOYMENT OF EXPERTS AND CONSULTANTS

The first problem that I wanted to mention is this employment and payment of experts and consultants. As you know, section XV of Public Law 600 authorizes the head of an agency to procure temporary or intermittent services of experts at rates not in excess of the per diem equivalent of the highest rate payable under the Classification Act which would be \$60.80.

And now, I might say, adding to this statement, that in recent times we have employed two experts, one a distinguished lawyer, who at one time was Director of the Public Utilities Division of the Securities and Exchange Commission some years ago, and another a very successful businessman. We have in past times found it necessary to engage the services of consultants who are recognized experts in their particular fields. For example, we have engaged a geologist. Employment of an actuary is a problem we have at the present time, and in one other case we had to have a cement expert.

Now, in some instances—

Senator MAGNUSON. In other words, the type of experts you have to get is varied and that it depends on the type of the offering you are looking at?

Mr. CARY. Precisely.

Senator MAGNUSON. It may be in the chemical field, where you would have to have some one who knew something about that particular field.

Mr. CARY. That is exactly right.

Senator MAGNUSON. Or the mining industry, geologist, things of that kind.

REQUEST FOR AMENDED LIMITATION

Mr. CARY. So, as you say, we have a whole variety of types of experts. So when I mentioned the actuary, Senator Magnuson, I had in mind the problems we will encounter under the so-called variable annuity, which comes within our Investment Company Act. And actuaries don't come very cheap.

Under these circumstances—and I think you have indicated your appreciation of the problem—our request is that the appropriation language be amended to permit the maximum payment of \$100 per day to these experts or consultants.

Now, that is our first request.

ADDITIONAL SUPERGRADE POSITIONS

The second problem that I wanted to raise with you involves the acute need for more supergrade positions than have been made available to us by the Civil Service Commission.

I am submitting with this statement a listing of the supergrade positions, which are presently allocated to the Commission, and the positions for which we are most in need of additional supergrades.

In summary, we have 15 supergrade positions: 1, GS-18; 5, GS-17; and 9, GS-16. And of these 15 positions, 2 are assigned to the field; namely, 2 of our regional administrators.

Senator ALLOTT. What are the salaries? 18 is what?

Mr. CARY. An 18 is \$18,500.

Senator ALLOTT. And 17 is what?

Mr. CARY. Seventeen is \$17,000—it starts at \$16,530, and after a period of time it moves up to \$17,570.

Senator ALLOTT. And 16 is what?

Mr. CARY. Sixteen, sir, starts at \$15,255 and goes up to \$16,295.

We need, as I say, 12 additional supergrade positions, that is, 4, GS-18; 2, GS-17; and 6, GS-16.

Of the 12 additional supergrades, 8 would be allocated to our field offices; namely, primarily, to our regional administrators.

Our request for the new or revised supergrade positions are for the Commission's top operating officers. These individuals have broad and complex responsibilities to the Commission for the administration and enforcement of the Federal securities laws.

LOSS OF COMPETENT PERSONNEL

In recent years, the Commission has lost the services of many of its most competent career executives who have been lured away because of substantially more attractive salary offers in law or investment firms. It is essential that we retain the services of those individuals with characteristics of outstanding competence, professional attainment, and expert knowledge in the field of securities and finance.

As you know, our staff is expected to deal with well-qualified, well-paid legal, accounting, financial, and engineering staffs of private industry.

Of equal importance is the fact that the additional supergrades would permit a much needed adjustment of grade structure for some of our subordinate professional positions. Unquestionably, this would directly affect our ability to attract or retain personnel of competence.

In summary, my fellow Commissioners and I feel strongly that the additional grades requested are well warranted. We seek your assistance in obtaining these additional supergrade positions by an amendment to our appropriation language.

That concludes my statement, sir.

(The complete prepared statement of Mr. Cary follows:)

STATEMENT OF CHAIRMAN WILLIAM L. CARY

Mr. Chairman and members of the committee, I am William L. Cary of the State of New York and I appear as Chairman of the Securities and Exchange Commission. My fellow Commissioners and I as well as our staff appreciate this opportunity of being here today with respect to the appropriation presently proposed for the Commission for the fiscal year beginning next July 1.

The independent offices appropriation bill for fiscal year 1962 as passed by the House of Representatives includes the amount of \$11 million for the Commission as compared with its request of \$11,015,000—a minor difference of \$15,000. The amount of \$11 million is considered the minimum acceptable appropriation for fiscal 1962. The Commission has, however, two major problems which should be brought to the attention of this committee.

EMPLOYMENT OF EXPERTS OR CONSULTANTS

Our first problem is the employment and payment of experts or consultants. As you know, section 15 of Public Law 600 authorizes the head of an agency to procure temporary or intermittent services of experts or consultants at rates not in excess of the per diem equivalent of the highest rate payable under the Classification Act. Since the Commission is subject to the Classification Act, the maximum statutory rate is \$60.80 per day.

On occasion, the Commission has found it necessary to engage the services of a consultant, who is a recognized expert in his particular field. For example: a geologist, an actuary, or a cement expert. In certain instances, experts or consultants have refused part-time or temporary employment with the Commission since they believe that the prevailing rate of \$60.80 is inadequate as compared to their minimum daily rate of approximately \$100 per day. As a result, investigations or administrative proceedings are sometimes delayed while time-consuming efforts are made to employ individuals who will accept compensation at the present daily rate. Accordingly, the Commission requests that its appropriation language be amended to permit maximum payment of \$100 per day to experts or consultants.

SUPERGRADE POSITIONS

Our other problem involves the acute need for more supergrade positions than have been made available to us by the Civil Service Commission. I am submitting with this statement a listing of the supergrade positions, which are presently allocated to the Commission, and the positions for which we are in most immediate need of additional supergrades.

In summary, we presently have 15 supergrade positions: 1 GS-18, 5 GS-17, and 9 GS-16. Of the 15 positions, 2 positions are assigned to the field. We need 12 additional supergrade positions; that is, 4 GS-18, 2 GS-17, and 6 GS-16. Of the 12 additional supergrades, 8 would be allocated to our field offices. Our request for the new or revised supergrade positions are for the Commission's top operating officers. These individuals have broad and complex responsibilities to the Commission for the administration and enforcement of the Federal securities laws.

In recent years, the Commission has lost the services of many of its most competent career executives who have been lured away because of substantially more attractive salary offers from law or investment firms. It is essential that we retain the services of those individuals with characteristics of outstanding competence, professional attainment and expert knowledge in the fields of securities and finance. As you know, our staff is expected to deal with well qualified and well paid legal, accounting, financial, and engineering staffs of private industry.

Of equal importance is the fact that the additional supergrades would permit a much needed adjustment of grade structure for some of our subordinate professional positions. Unquestionably, this would directly affect our ability to attract and retain personnel of competence. In summary, my fellow Commissioners and I feel strongly that the additional grades requested are well warranted. We seek your assistance in obtaining these additional supergrade positions by an amendment to our appropriation language.

I will be very happy to answer any questions you may have, with the assistance of the other Commissioners and the staff members who are present.

Securities and Exchange Commission—Statement of supergrade requirements

Title	Existing allocation to SEC by the Civil Service Commission (CSC)	Minimum additional positions requested by amendment to 1962 appropriation language	Total minimum requirements
	(1)	(2)	(3)
Grade GS-18:			
Executive director.....	1	(1)	1
General Counsel.....	1	1	1
Director, Division of Corporation Finance.....	1	1	1
Director, Division of Corporate Regulation.....	1	1	1
Director, Division of Trading and Exchanges.....	1	1	1
Chief accountant.....	1	1	1
Grade GS-17:			
General Counsel.....	1	(1)	1
Chief accountant.....	1	(1)	1
Director, Division of Corporation Finance.....	1	(1)	1
Director, Division of Corporate Regulation.....	1	(1)	1
Director, Division of Trading and Exchanges.....	1	(1)	1
Associate General Counsel.....	1	1	1
Associate Director, Division of Corporation Finance.....	1	1	1
Associate Director, Division of Trading and Exchanges.....	1	1	1
Associate Director, Division of Corporate Regulation.....	1	1	1
Regional administrator, New York, N. Y.....	1	1	1
Regional administrator, Chicago, Ill.....	1	1	1
Director, Office of Opinion Writing.....	1	1	1
Grade GS-16:			
Director, Office of Opinion Writing.....	1	(1)	1
Regional administrator, New York, N. Y.....	1	(1)	1
Regional administrator, Chicago, Ill.....	1	(1)	1
Associate Executive Director.....	1	1	1
Associate General Counsel.....	1	(1)	1
Associate Director, Division of Corporation Finance.....	1	(1)	1
Associate Director, Division of Corporate Regulation.....	1	(1)	1
Associate Director, Division of Trading and Exchanges.....	1	(1)	1
Assistant General Counsel.....	1	1	1
Regional administrators, except New York and Chicago.....	7	7	7
Assistant Director, Division of Corporation Finance.....	5	5	5
Associate regional administrator, New York, N. Y.....	1	1	1
Total.....	15	12	27
Summary:			
GS-18.....	1	4	5
GS-17.....	5	2	7
GS-16.....	9	6	15
Total.....	15	12	27

NOTE.—Parentheses in col. 2 represent reallocation of positions to next higher grade except for the position of executive director.

LOCATION OF NEW PERSONNEL

Senator MAGNUSON. Will you state for the record where you are going to use the 153 additional jobs?

Mr. CARY. Yes, sir.

Senator MAGNUSON. What part of your activity.

Mr. CARY. The principal place at which the largest number of additions will be located is the Division of Corporation Finance, sir. That will be one-half, it will be about 68 persons.

Probably the second largest will be in the regional offices, and would be in the neighborhood of about 70 positions. There will, in addition, be a substantial increase in the Division of Trading Exchanges, and in the Division of Corporate Regulation, primarily relating to the Investment Company Act.

Those are the primary areas, sir.

Senator MAGNUSON. So the bulk of your work, of course, is the Division of Corporation Finance?

Mr. CARY. That is the largest single division by far.

Senator Magnuson. So these are spread pretty well pro rata in ratio to the amount of work you have in each division.

Mr. CARY. And there is one other factor involved, at the present time we have an enormous flood of registration statements, and the purpose of the increase for the Division of Corporation Finance, therefore, is to try to cut down the backlog of registration statements which we presently have.

URANIUM SECURITIES

Senator MAGNUSON. Now, last year, or the year before, when the Commission was in here, we added a number of new people because of the sort of epidemic that was going on of this boilerroom stuff over the Canadian border and in mining, and things of that kind. Has that activity slowed up a little?

Mr. CARY. We would say no, sir. I will put it this way. Actually the fraudulent sale of uranium securities has slowed down, but that doesn't mean that other types of fraud haven't taken their place. Therefore, we recognize an almost equal need for additional personnel in the field of investigation. And, for that reason, our other great allocation is toward the field offices.

FIELD OFFICES

Senator MAGNUSON. Now, I believe you have indicated, Mr. Cary, a belief that field offices could be strengthened a little more personnel-wise, so that the actual offerings and things that are more local in nature could be handled there easier and more efficiently than having the people come all the way here.

I am thinking particularly of my area, the Spokane area, where this mining exchange—I suppose there are only two or three larger companies, the rest are little firms—and the strengthening of the field office will give the kind of service which you envisage in those places to the small offerings of small business.

Mr. CARY. That is correct, sir.

The function of adding to the field offices is twofold, one in the very area you refer to, where the so-called regulation A offerings are filed. They are really small offerings handled directly in the field. Therefore, some of this personnel will be allocated to this field.

The other will be to detect fraud, make investigations, and things of that kind.

Senator MAGNUSON. It seems to me, then, that your field offices have got to have enough personnel to handle a lot of individual complaints, run them down, and save you a lot of time and trouble here in Washington.

Mr. CARY. Absolutely necessary. In other words, we can't send everybody out from Washington in connection with the variety of complaints which we receive.

SUPERGRADE POSITIONS

Senator MAGNUSON. Now, the committee will consider your supergrade positions. But I am sure you understand—I know Allen understands—that we are subject to a point of order on this. And it is

legislation on the appropriations bill. And if we should decide to put them in, we can easily—anyone can knock us out.

So we will consider them and take a look at them. And I think we understand that problem.

Any questions, Senator Allott?

HIRE OF CONSULTANTS

Senator ALLOTT. Yes, I have a few questions.

Can you give us specific examples of where you have been unable to obtain consultants at the going rate?

Mr. CARY. I have only been in the Commission 3 months, sir, and therefore the only one I am aware of—it is not specific, but as I understand it, there is a problem in connection with actuaries, because their rates are extremely high.

Mr. Donaty may be able to add more to it, because he has been with the Commission a longer time.

TIME FACTOR

Mr. DONATY. I think the important factor here, Senator Allott, is that we can find them if we have sufficient time to look for them, but it is quite time consuming. I know in one instance a few years ago that the investigation had to be delayed for 2 or 3 days until we could find someone who, at that time, we could pay approximately \$50 a day. This was about 2 years ago before we had the latest pay increase. The important fact is that we have to take time out to look for these people.

Now, as far as this actuary is concerned, I know our personnel office contacted some local consulting actuaries, checked with several educational institutions, and finally, after several inquiries, was able to find an individual.

Mr. JOHNSON. I might add to that. The actuary that we did find considers that he is doing a public service at the going rate, and he said he likes to do this sort of thing once in a while, considering that he is helping out in the overall Government field.

Senator ALLOTT. Why shouldn't he feel that way?

Mr. JOHNSON. Well, his going rate is \$250.

Senator ALLOTT. Well, we have this thing come up, and we have had it come up, I think, with almost every independent agency that we have had before us who wants to employ consultants, they want to raise the rate of pay under the classification act, they want to raise it up to \$100 or more. And I am still naive enough to think that you can find qualified men who are willing to serve their Government in this capacity at the going rates.

Mr. COHEN. May I speak to that, sir.

Senator ALLOTT. You can't employ lawyers, I realize that. And I realize there is an unusual situation with these actuaries, who often get you in as big a hole as they are trying to keep you out of.

But I am naive enough to think still that you can get them.

POLICY ON CONSULTANTS

Mr. COHEN. May I just say a few words on that, to explain a little more fully the Commission's practice in this area.

The Commission, to the extent possible avoids the necessity for employing outside consultants. We attempt to use all the scientists in the U.S. Government, in the Bureau of Standards, the Army, the Signal Corps, the Bureau of Mines. We make a complete search of the facilities and the persons available to the Government before we consider seeking outside consultation.

There are areas, however, and problems do arise in some of these complex offerings, which require a special expertise which we are unable to find in the Government. Beyond this, the SEC has employed, and we do now employ, three engineers in our Washington office, and we attempt to have people who have the widest and the broadest experience possible. But that necessarily has meant that these people are not specialists in one area or another which may be a relatively rare area.

Now, I can say this, that we have been successful in the past in ultimately finding people who have taken on these jobs as a matter of public service. Our success in the past has been mainly prior to this whole period of rising costs and rising expense and rising activity.

Our problem is also complicated by the fact that if we seek people outside the Government we have to be sure we find the kind of people who are untrammelled by personal relationships, by loyalties of one kind or another. This necessarily narrows the area of the people from whom we can choose, and complicates our problem.

Now, while we have been able to find people, we have done it really on the basis of public service. In all these cases we feel that our problem and the Government's problem generally will be improved immeasurably if there is some greater flexibility. That is what it gets down to.

Senator ALLOTT. Well, \$60.80 is on the basis of \$19,000 a year. And I realize that this is a part-time job, and for a qualified man, in many instances, of course—in most instances perhaps—it represents a sacrifice. But generally I am opposed to the employment of outside consultants.

I would like to ask this question. When you employ outside consultants, do they take an oath of office?

Mr. CARY. Yes.

Senator ALLOTT. And that is the same oath generally that you take?

Mr. CARY. Yes, sir.

Mr. COHEN. I can give instances of the kind of people—

Senator MAGNUSON. I want to suggest to the Commission—and this isn't any problem of yours—but every agency, pretty nearly every one has been in here with the same story.

Mr. COHEN. May I illustrate with some examples of the kind of people we had difficulty in obtaining. Some years ago—

Senator MAGNUSON. I was just going to add, let's take the Agriculture Department. We know pretty well where their agricultural experts are, they are in one group. But I do think this Commission has a real varied problem, they don't know from day to day where they are going to have to go. And this makes a little difference.

Mr. COHEN. Exactly, sir.

EXAMPLE OF HIRING PROBLEM

I would like to illustrate. A few years ago an offering was proposed by someone who indicated that he had invented a new process of color photography. This involved the explanation of colors and lenses as well as cameras specially devised. We used people from the Signal Corps, we used people from the Bureau of Standards, and people from the Department of Commerce, and yet we couldn't get the final expert on some aspects of optics as well as of photography. We finally found a man, but it took a good deal of work. This man is a very high type of man. He is presently the assistant to the president of one of our largest corporations. At that time he was a practicing engineer.

Another case we had recently involves—

Senator ALLOTT. Did he work for you?

Mr. COHEN. Yes, sir, he did.

Senator ALLOTT. Did he work at this figure?

Mr. COHEN. Yes, he did.

Senator ALLOTT. Isn't that the answer to your question, then?

Mr. CARY. It took a long time to get him, did it not?

Senator ALLOTT. It took a long time to find him, he says.

Mr. COHEN. Yes, it did. And it was a personal sacrifice to him.

Senator MAGNUSON. Well, I think even \$100 is to some of them.

Senator ALLOTT. Let me say this, that anybody who can make \$100 a day is not sacrificing a lot when they devote a month or two of their time to the Government at \$60 a day, \$61 a day.

Mr. COHEN. I understand their position is that, so far as the compensation is concerned, that may not be beyond what you have suggested. In order to assist the Government in preparing a case, it means that they can't take on private employment which they might otherwise do at a somewhat higher rate.

It is in that area that they suggest, more than the actual dollars received, that they are working at a sacrifice. It means turning away a client or turning away a job for a month or two.

Senator ALLOTT. If they are in that category, they are not sacrificing an awful lot—\$100 a day is \$36,500 a year. They are not sacrificing an awful lot to work for the Government for \$61 a day for a month or 2 months.

Mr. COHEN. I can't quarrel with that, sir. I have just indicated what our experience has been.

REFUSALS BECAUSE OF PAY RATE

Senator ALLOTT. I would like to ask this question again. Do you have any specific example of where you have been refused by competent people in the last year to work at the \$60.80 rate?

Mr. JOHNSON. We had six actuaries this year who did refuse to do so.

Senator ALLOTT. All right, let's leave the actuaries and the lawyers out.

Where else did you go?

Mr. COHEN. I know of no case to my own knowledge where we have not ultimately been able to retain a consultant. I cannot say that there were not some people who refused the suggestion when first made.

TOTAL EMPLOYMENT

Senator ALLOTT. Now, what was your employment figure in the fiscal year—will you give it to me for 1959, 1960, and I believe we have 1961 here, or it is in the House report—it isn't in the House report.

Senator MAGNUSON. 153 from 1,188.

Senator ALLOTT. That makes 1,035 for 1961.

Mr. CARY. That is roughly correct.

Let me just give these employment figures specifically.

In fiscal 1959, sir, the number was 910. Average employment in fiscal 1960 was 954. We are now asking for an addition of 164, which would bring that figure from 954 to roughly 1,118.

Senator ALLOTT. There is some discrepancy, because the total given in the House report is 1,188, less the 153 jobs they designate, would make, 1,035, 1,035 for last year.

Mr. DONATY. Senator Allott, may I mention this. For the fiscal year 1961, the average employment was 1,035.

Senator ALLOTT. For 1961 it was 1,035.

Mr. DONATY. Yes. Now, the figure in the House report of 1,188, I believe, is also average employment. The difference is an increase of 153 average employment that we are seeking for 1962. That is next year.

Senator ALLOTT. Well, you show an increase, then from 1959 to 1962, from 910 to 1,188?

Mr. DONATY. Yes, sir.

Senator ALLOTT. That would be 278, or an increase roughly of 20 percent?

Mr. CARY. That is correct, sir, and it is not enough. We very desperately need help, as the entire industry will indicate to you, in terms of our backlog of registration statements, which is at an all time high, and in view—

Senator ALLOTT. Let's get some figures on that, if you will, Mr. Cary.

Mr. CARY. Yes, I think we can supply them.

TOTAL WORKLOAD

In our presentation before the House committee we stated that our total workload for the current year will be about 1,985 registration statements, representing 1,650 new ones filed, and a carryover of 335 from 1960. For the 9 months ending March 31, 1961, 1,237 statements were filed and we had a current backlog at that time of about 474 statements.

By way of comparison, this number of statements filed in 9 months is greater than the number of registration statements filed in any one year during the period of 1947 to 1954, inclusive.

We have estimated that a total workload for fiscal 1962 will be 1,985 registration statements composed of 1,700 new filings in the carryover of 285 statements from 1961.

I can say that this is an all-time high, and I believe that it does not quite seem to be dropping off.

Senator ALLOTT. Under the figures you have given me, hasn't your carryover decreased?

Mr. CARY. Our carryover in general has increased. As I recall the backlog, I said there was a carryover of 335 from 1960. And then for

the 9 months ending March 31 we have a current backlog carryover of 474. So it has increased.

Senator ALLOTT. And you estimated it will for 1961, is that it?

Mr. CARY. That is correct. When this figure was given we estimated for 1962 that if we have the personnel we will be able to reduce that backlog, if we can get this additional personnel.

TIME REQUIRED FOR PROCESSING CASES

Senator ALLOTT. Can you supply me with any figures—I realize that this is a technical situation, people make application and it requires amendment, and then more amendment, and finally you get to the place where the application satisfies you.

Let me say this so that my position won't be misunderstood, that I am fully in accord with what you are doing and the kind of a job I hope you will continue to do.

But what is the length of time from the time of the ordinary case or the average case is actually filed, is actually perfected as far as the technical requirements of your office are concerned before a determination is made on it?

Mr. CARY. May I ask Mr. Cohen to speak on that point. He is the Director of the Division of Corporation Finance.

Mr. COHEN. May I just add to the figures the chairman has given. I have figures as of last night, sir. Since the beginning of the fiscal year up to last night, we had received 1,720 registration statements. When our budget was prepared we estimated receiving, for the entire fiscal year, 1,650 registration statements. So that the number of statements received has already exceeded our expectation for this fiscal year.

Senator ALLOTT. Did you say 650?

Mr. COHEN. 1,650. We have already received 1,720, and the largest number of cases to be filed this month will come next week, because that is the end of a certain period within which registration statements may be filed.

I might say in this connection that the amount covered by these registration statements thus far is approximately \$20 billion, and that too exceeds our estimates by a very substantial amount. Thus far in June alone the number of filings has exceeded June of last year by 84 percent, far in excess of our own expectations as to what was coming along. I merely suggest that apparently there is an acceleration that is continuing this year, and it is very difficult to estimate from one month to the next the volume coming in.

Now, so far as the time is concerned: Last year we had an extraordinary bulge in the number of filings; it was something in excess of 30 percent greater than the filings in the previous year, most of which were filed in the last 4 months of that fiscal year. During those months we had, because of that problem, reached the point where the median number of days for the examination and completion of the applications was approximately 53 days in May. It was somewhat higher in June, I don't remember exactly but it was something like 59 or 60 days in June.

We have been working on this problem, and the Commission has insisted that the staff do whatever it can, including overtime, so on, to try to reduce this to a more manageable figure. And I am happy

to report that we have achieved this in some measure. Our figures for last month—and I have the figures with me—show an overall median time period of 49 days. This should be compared with a median figure for 11 months ended May 31, 1961, of 55 days.

It indicates the nature of the reduction in time which we are trying to achieve. But this has been at the expense of a good deal of overtime and a great deal of work on the part of the staff.

Senator ALLOTT. Your answer, then, is within the context of the question I asked?

Mr. COHEN. Yes.

Senator ALLOTT. Thank you.

ANALYSIS OF NEW COMPANIES

Mr. CARY. May I add one further point, Senator Allott? Not only is the quantity greater than it has ever been, but also the number of new companies which require much more careful analysis, companies going public for the first time, is rising. We have reached the point now where 50 percent of the filings represent new companies which require much more severe examination because of problems experienced because the company has accounting figures that need reexamination, in other words, it creates an additional number of problems which do not exist with respect to repeat filings.

Senator ALLOTT. And they all have the word "electronics" in their name whether they produce electronics or not.

Mr. COHEN. If I may add to what the chairman has said. The figures for May shows that these new registrations are now approaching a ratio of 60 percent. This is an accelerating thing. I just don't know where it is going to go, and I hope that we get the people to deal with it effectively.

PACIFIC COAST EXCHANGE

Senator ALLOTT. May I ask this question. Within what extent does the Pacific Coast Exchange come under your jurisdiction?

Mr. CARY. I will speak, and then I would like to ask Mr. Loomis to speak. In general, it is one of the exchanges which is under our general regulation and our jurisdiction pursuant to the Securities and Exchange Act of 1934.

I think Mr. Loomis ought to speak on that in more detail. He is Director of the Trading and Exchange Division.

Senator ALLOTT. It is under your jurisdiction, as are the American and New York?

Mr. CARY. Precisely, sir.

Mr. LOOMIS. That is right, sir. It is a registered national securities exchange, just as the New York Exchange and the American Exchange. Our jurisdiction over it is equivalent, though perhaps we aren't able to give it quite as much time as we devote to some of the others.

Senator ALLOTT. That answers my question.

Thank you very much.

Senator MAGNUSON. Senator Schoeppel, do you have any questions?

STOCK MARKET SITUATION

Senator SCHOEPEL. You people supervise and are responsible for market prices of all securities traded on the exchange and over the counter in the country, and you watch the manipulating practices and illegal distribution and all of those matters?

Mr. LOOMIS. Are you asking me?

Senator SCHOEPEL. Let me ask you this question. For the last several months there has been an upsurge in the stock market. You hear a lot about manipulations and crookedness, and all this and that. Do you make a distinction in your enforcement activities—do you make a sufficient distinction between suspension and cancellation?

Mr. LOOMIS. Are you asking me, sir?

Mr. CARY. I would like to have Mr. Loomis speak to that, because he is Director of the Division of Trading and Exchanges.

Mr. LOOMIS. There are several problems involved in your question. In the first place, we aren't, I don't believe, responsible for market prices as such. On the other hand, as you say, we are responsible for attempting to detect and prevent manipulations to the market prices.

Senator SCHOEPEL. That is right, as it goes to those market prices.

Mr. LOOMIS. Yes; as it affects those market prices. And we have been devoting an increasing amount of effort to that.

MANIPULATION CASES

I think we have had more manipulation cases opened in the last 6 months than in the entire prior fiscal year. We can suspend trading in a security on an exchange. We cannot do it over the counter. We have had a number of instances where the Commission has done that, primarily, however, where there is a lack of adequate information which would enable investors to evaluate the security. We have on occasion suspended a security because of a suspected manipulation. It is better from the viewpoint of the public where we can to stop the manipulation rather than to stop all people from trading in the security, and that is what we do where we can.

I am not quite sure what you had in mind by the distinction between suspension and cancellation.

SUSPENSIONS AND CANCELLATIONS

Senator SCHOEPEL. Do you find that you get greater adherence to regularity of decent practices where you suspend them for awhile, or where you get up on your hind legs and find that you have got good basis for it and cancel them out?

Mr. LOOMIS. You mean broker-dealers?

Senator SCHOEPEL. That is right.

Mr. LOOMIS. This is a remedial sanction. I would say that in the great majority of broker-dealer cases where the broker-dealer is found guilty of any significant misconduct, the Commission revokes, that is, cancels his registration. I think that suspensions, which occur in less serious cases, probably account for the disposition of less than 10 percent or so of the broker-dealer cases. The rest of them, either we don't prove our case, and which doesn't happen too often, or they are revoked. But revocation is the usual thing, I think, in this situation.

Senator SCHOEPEL. In revocation do you have an accelerated number of cases? Do you need additional help?

Mr. LOOMIS. Yes. Particularly, we have an accelerating problem with investigations which lead up to sanctions. We have increased our number of criminal cases and of injunctions and of broker-dealer cases, and we now have pending some 1,172 investigations. And we need more people in the regional offices to deal with those cases to close them up and take action. And when we find we have got more than a thousand pending cases, it is our experience that the thing is getting out of hand, and cases will get lost, they will be delayed too much before we can finish them all. And in the enforcement field, that is what we need, investigators to get after these cases and close them promptly.

Mr. CARY. That is why, Senator Schoepfel, our second largest allocation of manpower will be to the field, largely in investigations.

EFFECT OF DELAY

Senator SCHOEPEL. Where you have this long delay, who gets hurt, generally speaking?

Mr. LOOMIS. If there is delay in dealing with the case involving fraud or manipulation, the public will get hurt, because we don't stop this misconduct as quickly as we should.

Senator MAGNUSON. If it is a legitimate thing, you will find that the business will get hurt?

Mr. LOOMIS. That is right. It can hurt the business concerned also if there is a delay.

I was talking about the enforcement field.

Senator SCHOEPEL. I think that covers generally some of the things I have been hearing about.

Senator MAGNUSON. Thank you very much, gentlemen.

I thank you for coming up.

The committee will recess for about 15 minutes. We have the Renegotiation Board next.

(A recess was taken.)

NATIONAL CAPITAL HOUSING AUTHORITY

STATEMENTS OF WALTER E. WASHINGTON, ACTING EXECUTIVE DIRECTOR; WILLIAM R. SIMPSON, JR., GENERAL COUNSEL; HARVEY V. EVERETT, DIRECTOR OF MANAGEMENT; AND HERMAN EDWARDS, BUDGET OFFICER

BUDGET ESTIMATE

Senator MAGNUSON. The committee will come to order.

We have the National Capital Housing Authority. Mr. Washington here, and the General Counsel, and others. And the amount is the same, \$40,000. And there is no appeal. The House says that the committee has approved the budget for the operation and maintenance of properties in the District of Columbia under title I of the District of Columbia Alley Dwelling Act. This is the same amount as the 1961 appropriation, but it gives the Congress an opportunity to review the program in the Nation's Capital annually.

Now, I don't know that the committee has anything to ask you, Mr. Washington, or the Authority members. As you probably know, we have always tried to put you some place else, and the House has always tried to keep you in. So here you are again. And we are glad to see you. And we have no objection to it. But we do think you belong in the Housing and Home Finance Agency.

Mr. WASHINGTON. We do, too.

Senator MAGNUSON. But they seem to want to keep it in. So all we can do is to get into a conference with them and see what we can do again. But if they should agree with us in the conference, we will have to find some way to put your appropriation in either the Housing and Home Finance, or some other place, supplemental, probably.

Mr. WASHINGTON. As I understand it, that could be provided for by the Congress, not granting an appropriation. We would then request a budget for these dwellings from the Public Housing Administration.

AGENCY FUNCTIONS

Senator MAGNUSON. Now, Senator Schoeppel, this is the housing authority that manages a certain part, small part of the housing activities in the District of Columbia.

And this still involves a question of administration of rents in certain units.

Mr. WASHINGTON. Yes, it involves the administration and management and maintenance of some 7,700 units that are financed and budgeted from the Public Housing Administration. And the present involvement with respect to this request is 96 units, which is the reason that we are here each year, as the Senator has said—

Senator MAGNUSON. The rest of it, Senator Schoeppel, is in the Public Housing Administration. And they still have this small number of units which they manage which puts them in this bill.

Unless there are any further questions, we thank you. And we appreciate your coming.

Mr. WASHINGTON. Thank you. We wanted to make ourselves available.

Senator MAGNUSON. Thank you very much.

(The justifications of the National Capital Housing Authority follow:)

NATIONAL CAPITAL HOUSING AUTHORITY

BUDGET ESTIMATE, \$40,000, FISCAL YEAR 1962

General statement

The National Capital Housing Authority was established in 1934 under the District of Columbia Alley Dwelling Act (48 Stat. 930, amended by Public Law 733, 75th Cong.). In accordance with this law the Authority is the local public housing agency in the District of Columbia and has as its objective the assurance, at the least practicable cost to the Government, of an adequate supply of dwellings for families of low-income whose housing needs are not met by private enterprise. The Authority seeks to provide dwellings without profit or loss except for subsidy provided by law to reduce rents below cost levels.

Summary of the two programs

The Authority operates two housing programs, known as title I and title II:

	Dwelling units on June 1, 1961			
	Under management	Under construction	Preconstruction	Total
Title II.....	7,696	174	1,052	8,922
Title I.....	96			96
Total.....	7,792	174	1,052	9,018

The title II program is supervised by the Public Housing Administration and the subsidy requirements are included in the consolidated estimates of that agency. However, details of this program are furnished for informational purposes.

The title I program consists of 96 low-rent housing units constructed under the District of Columbia Alley Dwelling Act. Our budget estimate for fiscal year 1962 is \$40,000. The expense estimates are uniformly less than the rental receipts which are covered monthly into the Treasury.

TITLE I

In support of our estimate, we offer the following program performance schedule projected over a 5-year period:

	1960 actual	1961 estimate	1962 estimate	1963 estimate	1964 estimate
Rental receipts.....	\$43,446	\$44,000	\$44,000	\$44,000	\$44,000
Total obligations.....	39,959	40,000	40,000	40,000	40,000
Excess of receipts over obligations.....	3,487	4,000	4,000	4,000	4,000

Title I budget estimate for fiscal year 1962 compared with statement of operating receipts and expenditures for fiscal year 1960 for the title II program

	Operating statement title II fiscal year 1960, 6,715 units		Proposed budget title I fiscal year 1962, 96 units	
	Amount	Per unit per month	Amount	Per unit per month
Total operating receipts.....	4,015,367	50.63	44,000	38.19
Administration:				
Nontechnical salaries.....	437,694	5.52	7,600	6.60
Technical salaries.....	95,519	1.20	730	.63
Legal expense.....	22,916	.29	330	.29
Employee benefits.....	79,793	1.01	1,580	1.37
Other administration expense.....	89,895	1.13	1,420	1.23
Total.....	725,817	9.15	11,660	10.12
Utilities:				
Water.....	233,056	2.94	2,620	2.27
Electricity.....	268,664	3.39	900	.78
Gas.....	294,060	3.71	630	.55
Fuel.....	215,853	2.71	3,080	2.68
Heating labor.....	106,137	1.34	3,385	2.94
Total.....	1,117,770	14.09	10,615	9.22
Maintenance and operation:				
Labor.....	583,843	7.36	11,205	9.72
Materials.....	178,314	2.25	2,870	2.49
Contracts.....	49,540	.62	1,170	1.02
Total.....	811,697	10.23	15,245	13.23
General expense:				
Debt service.....	7,792	.10		
Insurance.....	40,619	.51		
Payments in lieu of taxes.....	282,032	3.56		
Collection losses.....	18,541	.23		
Terminal leave payments.....	5,216	.07		
Total.....	354,200	4.47		
Total routine expenses.....	3,009,484	37.94	37,520	32.57
Nonroutine expenses:				
Extraordinary maintenance.....	308,821	3.89	1,600	1.39
Replacement of equipment.....	40,936	.52	880	.76
Betterments and additions.....	418,258	5.27		
Casualty losses.....	14,636	.18		
Total.....	782,651	9.86	2,480	2.15
Total operating expenditures.....	3,792,135	47.80	40,000	34.72
Receipts less expenditures.....	223,232	2.83	4,000	3.47
Less: Prior year adjustments.....	(2,165)	(.01)		
Provision for operating reserve.....	6,356	.08		
Residual receipts (to reduce PHA subsidy).....	219,041	2.76	14,000	13.47
Maximum PHA subsidy.....	3,110,201	33.30		
Less:				
Residual receipts.....	219,041			
Accrued interest on bonds.....	172,836			
Total.....	391,877			
Actual PHA subsidy, fiscal year 1960.....	2,718,324	29.11		

¹ To U.S. Treasury.

TITLE II: PHA-AIDED PROGRAM

As of June 1, 1961, the Authority has the following title II program:

Projects and properties		Dwelling units			Total
Area	Name	Under management	Under construction	Preconstruction	
1 DC 1-3	James Creek	279			279
1-21	Greenleaf	456			456
1-24	Syphax Gardens	174			174
1-35	Greenleaf Addition	32			32
2 DC 1-2	Ellen Wilson	213			213
1-7	Carrollburg	314			314
1-20	Arthur Capper	612			612
1-30	Hopkins Apartments	158			158
3 DC 1-9	Barry Farm	432			432
1-31	Sheridan Terrace	183			183
4 DC 1-4	Frederick Douglass	302			302
1-14	Stanton	348			348
1-27	Knox Hill	250			250
5 DC 1-25	Langston	274			274
1-28	21st Street Houses	36			36
6 DC 1-8	Kelly Miller	169			169
1-34	Park-Morton		174		174
7 DC 1-18	East Capitol	577			577
8 DC 1-13	Lincoln Heights	440			440
1-17	Richardson	190			190
9 DC 1-16	Highland Addition	246			246
1-32	Highland	342			342
10 DC 1-1	Fort Dupont	322			322
1-22	Benning Terrace	274			274
1-23	Stoddert Terrace	200			200
1-26	Stoddert	46			46
11 DC 1-11	Parkside	363			363
1-15	Parkside Addition	42			42
1-19	Kenilworth Courts	422			422
DC 1-36:					
A	Woodland Terrace			230	230
B	Kentucky Courts			174	174
C	Carroll Apartments			60	60
1-37	Garfield Terrace			250	250
1-38	Eastgate Gardens			230	230
1-39	LeDroit Apartments			108	108
Total PHA-aided program		7,696	174	1,052	8,922

TITLE II

General statement

All activities under title II of the Alley Dwelling Act are conducted under supervision of Public Housing Administration.

As of July 1, 1960, all title II dwelling units under management were placed under one annual contribution contract. Operating costs, debt service, and provisions for operating reserves are met from rental income and Federal contributions.

Development activities are initially financed by loan notes which are subsequently retired with proceeds from bonds sold to private investors. At the end of the development period, debt service on bonds, and costs of operation are met from rental receipts and Federal contributions. The contributions permit the Authority to reduce rents for low-income families below cost levels.

The maximum permissible Federal contribution by contract approximates debt service on the development cost of properties. The actual contribution received annually is based upon the difference between rental income and (1) operating costs, (2) debt service, and (3) provision for operating reserves.

Income limits for admission and continued occupancy

As of July 1, 1960, the income limits for admission to and continued occupancy of NCHA low-rent housing are as follows:

Family composition	Maximum net income after exemptions	
	For admission	Continued occupancy
1 to 2 persons.....	\$3,200	\$4,000
3 to 4 persons.....	3,500	4,350
5 to 6 persons.....	3,800	4,750
7 to 7 plus persons.....	4,100	4,950

Annual reexamination of tenant incomes

The Authority's rental program is based upon serving a true cross section of the low-income families in the District of Columbia. To insure that we house only low-income families we reexamine the incomes of all tenants (except those who have been tenants for less than a year) on an annual basis. Presented herewith is the income pattern of our present tenant families, taken from our fiscal year 1960 records.

Income	Number of families in each income step	Percentage in each income step
\$1,950 and under.....	2,276	37
\$1,951 to \$2,300.....	700	11
2,301 to \$2,800.....	833	14
\$2,801 to \$3,300.....	902	15
\$3,301 to \$3,800.....	780	12
\$3,801 to \$4,300.....	456	7
\$4,301 and over.....	280	4
Number of families reexamined.....	6,227	100

The above tabulation shows that 37 percent of our tenants have incomes at or below \$1,950; while 77 percent have incomes at or below \$3,300.

Families receiving public assistance constitute an appreciable number of our total tenants. The number of public assistance families is constantly changing as a result of families going on and coming off the rolls. As of June 30, 1960, there were among our tenants 1,048 families who received all or a major part of their support from the Board of Public Welfare. Those families receiving public assistance amounted to 16 percent of our total tenant population.

RENEGOTIATION BOARD

STATEMENTS OF LAWRENCE E. HARTWIG, CHAIRMAN, HOWARD W. FENSTERSTOCK, GENERAL COUNSEL; AMOS J. COFFMAN, ASSISTANT GENERAL COUNSEL; ROBERT F. HAGGERTY, DIRECTOR OF ADMINISTRATION; PAUL T. SEMPLE, DIRECTOR OF ASSIGNMENTS; AND MISS ELFRIEDA EGBERT, BUDGET ANALYST

LETTER FROM AGENCY

Senator MAGNUSON. All right, the Renegotiation Board. Mr. Hartwig is here.

For the purpose of the record, the Renegotiation Board 1961 appropriations were \$3,015,000. The January budget for 1962 was \$3 million, and the amended budget was the same. And the House recommended \$2,900,000, which is \$115,000 under the 1961 appropriations and \$100,000 under the amended appropriations.

You have sent us a letter, which we will place in the record in full.
(The letter referred to follows:)

JUNE 9, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Subcommittee in Charge of the Independent Offices Appropriation
Bill for 1962, U.S. Senate, Washington, D.C.*

DEAR SENATOR MAGNUSON: I have your letter of June 2, 1961, referring to the independent offices appropriation bill for 1962 as reported to the House, and requesting that I indicate whether any changes are required in the public interest.

The Renegotiation Board does not request any change in the amount of its appropriation as set forth on page 33, line 6, of the bill. This amount is \$2,900,000, representing a reduction of \$100,000 from the \$3 million originally requested in the House.

It is the desire of the Board, however, to carry on a more active liaison program between the members and staff of the headquarters Board and the regional boards located in New York, Detroit, and Los Angeles. It is the opinion of the Board that its policies and procedures can be carried out in the field most effectively by periodic conferences with the personnel of such field offices. The Board also desires to insure that sufficient travel funds are available to enable its personnel to inspect the plant or plants of the contractor whenever deemed necessary. Such plant inspections are essential to the Board's understanding of the contractor's business and are therefore essential to a fair and equitable administration of the act.

The budget estimate of the Board, submitted for its 1962 appropriation, included an amount of \$21,000 for travel expenses. For the reasons set forth above, the Board has submitted to the Bureau of the Budget a supplemental estimate increasing its estimate for travel expenses to \$45,000, representing an increase of \$24,000. If such supplemental estimate is approved by the Bureau of the Budget, I assume that a request for the additional funds will be submitted by the President to the Congress in due course.

Sincerely yours,

LAWRENCE E. HARTWIG, *Chairman.*

BOARD POSITION

Senator MAGNUSON. And you also mention a language item on travel.

Maybe you had just better read us this letter. It is short.

Mr. HARTWIG. Yes; the Board position is set forth in this letter of June 9 to the committee.

DEAR SENATOR MAGNUSON: I have your letter of June 2, 1961, referring to the independent offices appropriation bill for 1962 as reported to the House, and requesting that I indicate whether any changes are required in the public interest.

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Budget, I assume that a request for the additional funds will be submitted by the President to the Congress in due course.

TRAVEL LANGUAGE

Senator MAGNUSON. Let's understand that. If we should agree to increase this to \$45,000, those funds are not included in this estimate; is that correct?

Mr. HARTWIG. The present estimate before you includes \$21,000 for travel.

Senator MAGNUSON. The present House figure—

Mr. HARTWIG. Is \$21,000.

Senator MAGNUSON (continuing). Includes only \$21,000?

Mr. HARTWIG. Yes.

Senator MAGNUSON. And if we should agree that you need to up it to \$45,000, would you have to have additional money or could you work within—

Mr. HARTWIG. We could work within the \$2,900,000 in those circumstances.

Senator MAGNUSON. Mr. Cooper, the committee clerk, tells me that the House has informed us that they will consider this in a supplemental.

Mr. HARTWIG. Yes, sir. We were advised that that was the appropriate procedure.

Senator MAGNUSON. But if we should put it in?

Mr. HARTWIG. Then I assume that a supplemental would be unnecessary.

Senator MAGNUSON. And you could live within this figure.

Mr. HARTWIG. That is right, sir.

Senator MAGNUSON. In other words, what you are striving at is to get more of the—

Mr. HARTWIG. Inasmuch as this is an earmarked figure, we want to be sure that the amount earmarked for travel next year is \$45,000.

Senator MAGNUSON. I am trying to save a little time. Instead of having that item in the supplemental, grinding it all through the processes, we might be able to put it in here, and then if the House agrees to it, why then you are out of the woods on it.

Mr. HARTWIG. I understood that the House preferred that we would—

Senator MAGNUSON. Yes; I am sure they would.

Mr. HARTWIG. And, in fact, I think the present status of the matter is that the Budget Bureau is just about ready to submit the item.

Mr. HAGGERTY. It was submitted this morning to the President, sir.

Mr. HARTWIG. It was submitted this morning.

Senator MAGNUSON. So we will have no trouble with budget approval.

Mr. HARTWIG. No, sir.

PENDING ACTIVE CASES

Senator MAGNUSON. Probably it is in the House record, but how many cases do you have now pending, active cases?

Mr. HARTWIG. Active cases, the total number of cases pending at the end of May was 865.

Senator MAGNUSON. How does that compare with last year's figure when you appeared before us last year.

Mr. HARTWIG. The backlog at the end of last year was 1,112.

Senator MAGNUSON. Which would be about the same time as now?

Mr. HARTWIG. Yes, sir.

Senator MAGNUSON. So you have been catching up a little bit on the number of cases?

Mr. HARTWIG. Yes, sir.

Senator MAGNUSON. That doesn't necessarily mean that 800 doesn't give you as much work as 100.

Mr. HARTWIG. That is right, sir, because some of the cases are more complicated.

Senator MAGNUSON. And the amounts involved aren't necessarily a criteria either, because there are cases where some involving a smaller amount might be more work than others with a greater amount.

Mr. HARTWIG. Exactly.

Senator MAGNUSON. But do you think that you are sufficiently up on your cases, or do you feel that there is a little regulatory lag in here.

Mr. HARTWIG. I think that we are sufficiently up on our cases. I have been Chairman of the Board since April 13, and I am very happy with the progress we have made since then. I think that we can make further progress in the months ahead. And as a matter of fact, I think that we will be greatly assisted in this program of reducing our backlog if the amount for travel is increased. Not only that, but I think it would be beneficial to the entire operation, because it is essential that we understand the nature of the operations that we are renegotiating.

TIME REQUIRED FOR FINAL SETTLEMENT OF CASES

Senator MAGNUSON. After a case is certified to you for renegotiation, what would be the average time until the final settlement? I appreciate that some are longer and some are shorter. But do you have an average?

Mr. HARTWIG. Is this an overall average you want?

Senator MAGNUSON. Yes.

Mr. HARTWIG. You mean the average for a refund case, or overall?

Senator MAGNUSON. An overall average, when the matter as far as the business is concerned is considered settled.

Mr. HARTWIG. About 15 to 18 months after we get the filing, in cases assigned to the field for full-scale renegotiation proceedings.

Senator ALLOTT. I hate for you to mention that refund business. Doesn't it occasionally work on the other side of the fence?

SCREENING PROCESS

Mr. HARTWIG. Yes; indeed. I mention that because we do have a screening process. We screen out a little more than 70 percent of the cases. And those cases are completed in a matter of weeks after the filing.

Senator ALLOTT. I notice that in your table 2, in the House part 1 report on page 12, those are the screen-outs you are talking about?

Mr. HARTWIG. Yes. Those naturally can be completed much more expeditiously than cases which require full renegotiation.

TOTAL EXCESS PROFITS DETERMINED

Senator MAGNUSON. I think we ought to put in the record, Senator Allott, on page 16 of the justification of this Board, that from the date of the establishment of the Board up to June 30, 1960, the Board has determined excess profits in total amount of \$836,520,934. And in addition, the agreements and orders in process as of June amounted to \$11,641,489.

Senator ALLOTT. The next sentence, too, Mr. Chairman.

Senator MAGNUSON (reading):

No figures for voluntary refunds or price reductions are available for contractors below the floor or withheld from renegotiation.

Senator ALLOTT. They say in their justification:

Further, as of the same date, contractors assigned for renegotiation have made voluntary refunds and price reductions in the amount of \$1,111,675,277.

TOTAL EMPLOYEES

Senator MAGNUSON. How many people do you have total?

Mr. HARTWIG. 273.

Senator MAGNUSON. Would you put in the record the spread between the field offices and the Washington office?

Senator ALLOTT. And I am sure this is included in here. What is the breakdown—and I don't know, you can refer me to it—what is the breakdown in the professional qualifications? How many of those are lawyers, and how many are accountants, for example?

Mr. HAGGERTY. We have nine lawyers and—you need it for the field, the total?

Senator ALLOTT. The total.

Mr. HAGGERTY. There are three in the field and six at headquarters.

Senator ALLOTT. And accountants?

Mr. HAGGERTY. We have 8 accountants in Los Angeles, 11 in Detroit, 21 in New York, and in the Washington office, we have 8.

Senator ALLOTT. What is the bulk of the balance—How would you classify from an occupational standpoint the bulk of the rest of your people, assistants to these people, what?

Mr. HAGGERTY. No, sir. We break it down into what we call professional and clerical. Now, in the Office of Review, all the reviewers are professionals, and in the field all the renegotiators—

Senator ALLOTT. You mean professionals in various fields of business?

Mr. HAGGERTY. Yes, sir. Our renegotiators are not necessarily all bankers, they are not necessarily all businessmen, but they all have experience in the business field.

Senator ALLOTT. You see, we only see you once a year, and this is the only opportunity we have to find out what this is.

REGIONAL BOARDS

Mr. HARTWIG. Well, we have three regional boards, five board members on each board. Those people we would classify as professionals, persons with broad business and financial experience.

In addition to that, in each regional board we have a Division of Renegotiating, and a Division of Accounting. And the Division of

Renegotiating would include renegotiators who also have broad business experience. Those are the people who evaluate the business to determine whether the profits are reasonable or not.

HEADQUARTERS PERSONNEL

In the headquarters the persons of comparable experience are those in the Office of Review who review the cases coming in from the field. They also are people with business experience.

And then you have the Division of Accounting in headquarters as well, and a legal staff.

Senator ALLOTT. I think that answers my question sufficiently.

FILING PROVISION

Senator MAGNUSON. You still are operating under the same formula where your contractors having a million dollars or less of receipts or accruals from renegotiable business, are not required to file, but may elect to do so?

Mr. HARTWIG. Yes; that is the statutory provision.

Senator MAGNUSON. For the purpose of the record, when you speak of the million-dollar minimum, you are talking about the prime contractor; are you not?

Mr. HARTWIG. No; we are talking about anybody who is subject to the act.

Senator MAGNUSON. Supposing I had a \$2 million contract, and I split it up into six subcontracts?

Mr. FENSTERSTOCK. Well, the million-dollar figure, Senator Magnuson, refers to any contractor's or subcontractor's total receipts or accruals under all his renegotiable contracts or subcontracts. It is not a figure applicable merely to prime contractors, it is applicable equally to subcontractors.

Senator MAGNUSON. But if the prime contract is over a million they are all subject—

Mr. FENSTERSTOCK. If the prime contractor's total renegotiable receipts are over \$1 million, then that prime contract is subject to renegotiation for that year. The figure of \$1 million refers not to the amount payable under any individual contract, but to the total receipts of the contractor under all his contracts and subcontracts in the course of his fiscal year.

Senator MAGNUSON. I see. And then in cases where you look over a contract and it shows patent losses, obviously no excess profits, that case can be settled right here quick at headquarters?

Mr. HARTWIG. Screened out. Over 70 percent of the cases are in that category.

Senator MAGNUSON. And the rest of them are sent out to the regional offices to be looked over. That is the way you have operated it for some time?

Mr. HARTWIG. Yes, sir.

Senator ALLOTT. Withholdings are shown I believe, on page 17—page 15 of your justification.

Mr. HARTWIG. Yes.

Senator ALLOTT. Thank you.

Senator MAGNUSON. I have no further questions.

Senator ALLOTT. I have no further questions.

Senator SCHOEPEL. I have no questions.

Senator MAGNUSON. We will recess until 2 o'clock tomorrow, when we will hear several outside witnesses on the whole bill. And then we will put the Veterans' Administration off until Monday morning at 10 o'clock, on the basis that we have a full committee markup of Commerce in the morning at 10 here, and all of us want to be there.

(Whereupon, at 3:25 p.m., Thursday, June 22, 1961, the subcommittee adjourned, to reconvene at 2 p.m., Friday, June 23, 1961.)

INDEPENDENT OFFICES APPROPRIATIONS FOR 1962

FRIDAY, JUNE 23, 1961

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 2 p.m., pursuant to recess, in room F-37, U.S. Capitol Building, Hon. Warren G. Magnuson (chairman) presiding.

Present: Senators Magnuson, Robertson, Monroney, Allott, Kuchel, and Schoeppel.

Also present: Senator Metcalf.

GENERAL SERVICES ADMINISTRATION

STOCKPILES OF MANGANESE AND CHROME

STATEMENT OF HON. LEE METCALF, A U.S. SENATOR FROM THE STATE OF MONTANA

GENERAL STATEMENT

Senator MAGNUSON. The committee will come to order.

My colleague from Montana is here. Lee, we will be glad to hear from you. I understand that you want to testify on the GSA up-grading of materials.

Senator METCALF. Yes, sir, Mr. Chairman.

Mr. Chairman, I am grateful for the chance to appear before this subcommittee and call attention to several items of special interest to Montana.

LETTER FROM SENATOR MANSFIELD

If the Chairman would permit me, I would like to read a letter addressed to Hon. Warren G. Magnuson, chairman, Subcommittee on Independent Offices Appropriations, U.S. Senate, Washington 25, D.C., dated June 23, 1961.

DEAR MR. CHAIRMAN: My colleague, Senator Lee Metcalf, is appearing before your subcommittee this afternoon in support of several different Independent Offices Appropriations items of considerable importance to the State of Montana.

I had also planned to testify before your subcommittee in support of the same programs but because of prior commitments on matters which will take me away from the Hill today, Senator Metcalf will be presenting a joint statement.

As the Chair knows, the prior commitments are commitments at the White House this afternoon.

The views as expressed by Senator Metcalf will have my complete concurrence and as you and the other members of the subcommittee will note we are especially interested in further clarification of language pertaining to the up-

grading of Government stockpiles of manganese and chrome. I hope to have an opportunity to discuss this matter with you personally before final action is taken on the appropriations bill.

The letter is signed by the distinguished Majority Leader, Mike Mansfield.

My colleague from the First Congressional District in Montana, Mr. Olsen, has asked me to speak for him, as well as Senator Mansfield and myself. As representatives of a mining State we naturally are quite interested in the appropriation for the strategic and critical materials stockpiling program.

HOUSE LANGUAGE

The House approved, in the section of H.R. 7445, page 23, dealing with this subject, this language:

Provided further, That during the current fiscal year materials in the inventory maintained under the Defense Production Act of 1950, as amended, shall be available, without reimbursement, for transfer at fair market value to contractors as payment for expenses of refining, processing, or otherwise beneficiating materials, pursuant to section 3(e) of the Strategic and Critical Materials Stockpiling Act, into a form best suitable for stockpiling.

This language represents a step in the right direction but in our judgment it should be amended to explicitly spell out congressional intent that:

(1) Payment for upgrading is not to be limited to "in kind" materials, but can include other materials or a combination of the two, or a combination of cash and materials; and

(2) Long-term contracts for performing upgrading are contemplated.

Accordingly, we suggest that the phrase "during the current fiscal year" be deleted from the above, and that to the paragraph should be added this concluding language (to follow the word "stockpiling," on line 10, page 23, of the House bill):

and the transfer of such materials either in kind or otherwise shall be in addition to funds appropriated herein for such purposes: *Provided further*, That the administrator is hereby authorized to enter into contracts for such refining, processing or beneficiating of materials without regard to any existing fiscal year limitations.

FUNDS REQUIRED

Further, Mr. Chairman, we believe that \$15 million should be appropriated for the upgrading, beneficiation and/or conversion of chrome and low-grade manganese ore or concentrates into a more usable form. Without such an appropriation it would be difficult for smaller companies with limited capital to undertake this work. On this point, Senator Mansfield already has asked that a telegram received from Mr. John H. Cole, of the Domestic Manganese & Development Co. at Butte, Mont., be put into the record.

Senator MAGNUSON. Without objection—I have the wire here, I will put this into the record.

Senator METCALF. Thank you, Mr. Chairman.

(The wire referred to follows:)

U.S. SENATE,
COMMITTEE ON RULES AND ADMINISTRATION,
June 21, 1961.

HON. WARREN MAGNUSON,
Chairman, Subcommittee on Independent Offices Appropriations,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Enclosed is a copy of telegram I have received from John H. Cole, of the Domestic Manganese & Development Co. in Butte, Mont.

Mr. Cole makes some recommendations concerning further clarification of the language contained in the independent offices appropriations bill relative to upgrading and beneficiation of Government stockpiles of low-grade ores.

This is a matter about which both Senator Metcalf and I intend to discuss at a later date with members of the subcommittee but we would appreciate having this telegram made part of the official record of your hearings.

Thanking you and with best personal wishes, I am,

Sincerely yours,

MIKE MANSFIELD.

BUTTE, MONT., June 14, 1961.

Senator MIKE MANSFIELD,
Senate Office Building, Washington, D.C.:

Following wire sent to Senator Magnuson: "Understand H.R. 7445, independent office appropriation bill passed the House June 7 and is now before your committee. It has been suggested to your committee that \$15 million be appropriated for the upgrading, beneficiation, and/or conversion of chrome and low-grade manganese ore or concentrates into a more usable form. We would appreciate greatly if you will give this suggestion consideration. We are familiar with House Report No. 449, pages 11 and 18, but prefer a straight appropriation. Whether a straight appropriation is made or payment in kind or other method of payment it should be definitely stated that manganese and chrome will be upgraded, the tonnages named, and the time required for so doing. In the case of manganese and chrome of which over 90 percent is produced in foreign countries at a much cheaper cost than it can be produced in the United States. It would almost be impossible for a producer of manganese or chrome to market either product at this time. Therefore legislation should provide that a contractor be paid in an orderly businesslike fashion without price cutting and dumping whether payment is in kind or in a combination with different material or materials now in the national stockpile in the form of finished product."

I expect to be in Washington Sunday.

DOMESTIC MANGANESE & DEVELOPMENT Co.,
By JOHN H. COLE.

CORRESPONDENCE

Senator METCALF. Also, I am pleased that a fellow Montanan, Mr. John Bley, vice president and general manager of American Chrome Co., at Nye, Mont., is here and will be available to testify to the committee later this afternoon.

At this point, I would like to insert in the record supporting telegrams from: Gov. Donald G. Nutter of Montana; George Debelly, president of the Columbus, Montana Jaycees; W. G. Maloney, secretary-manager of the Mining Association of Montana, Butte; Mayor Vern Griffith of Butte, Mont.; Thomas J. Collins, director of the Montana State Planning Board, Helena, Mont.; John William, chairman, Montana Chamber of Commerce Industrial Committee, Helena, Mont.; Trygve Brensdal, president, Columbus, Montana Kiwanis Club; William Hand, president, Southwestern Montana Mining Association, Dillon, Mont.; Dorothy Ferrero, secretary-treasurer, Butte Laundry and Dye Workers Union, Local 25, Butte, Mont.; George Blair, secretary, Metal Trades Council, Butte, Mont.; Matthew Cas-

sick, president Boilermakers Local No. 130, Butte, Mont.; Henry Hanson, president, Columbus, Montana Civic Club; Merchants Association, Absarokee, Mont.; Lions Club, Absarokee, Mont.; Junior Chamber of Commerce Civil Club, Absarokee, Mont.; Austin Smith, sub-district director, United Steel Workers of America, Spokane, Wash.; Dan Harrington, executive secretary, Butte Citizens' Project and John D. O'Brien, secretary, Brewery Workers Local 104, Butte, Mont.

Senator MAGNUSON. We shall put those in the record in full.
(The telegrams referred to follow:)

HELENA, MONT.

Senator LEE METCALF,
Senate Office Building, Washington, D.C.:

Respectfully urge your continued support of provisions of H.R. 7445 designed to aid and revitalize Montana mining industry. Likewise urge suitable amendment which will assure stockpiling of metallic materials including chrome and manganese in form readily available for defense uses. Emphasis need for action to preclude any possibility of discontinuance of extraction or processing of mineral in potential jeopardy caused by Nation's Dependence upon sources which are in or might fall into unfriendly hands. Cannot emphasize too strongly the importance to Montana economy and to current and future defense needs of the Nation.

DONALD G. NUTTER,
Governor.

COLUMBUS, MONT., June 15, 1961.

Senator LEE METCALF,
Senate Building, Washington, D.C.:

Give attention to Independent Offices Appropriations bill to include upgrading chrome and manganese stockpiles. Clarify language of House bill. Economic conditions in areas' several States could be improved, including Montana. Your cooperation will be appreciated.

GEO. DEBELLY,
President, Columbus Jaycees.

BUTTE, MONT., June 14, 1961.

Senator LEE METCALF,
Senate Office Building, Washington, D.C.:

We know that you have always supported the upgrading of chrome and manganese ores and concentrates. Therefore, we merely wish to advise you that we are for H.R. 7445 which passed the house on June 7. It is our information that hearings are to be held by the Independent Offices Subcommittee of the Senate Appropriations Committee, Monday or Tuesday of next week. Will you please support this bill with the proviso that it be amended so as to expressly spell out congressional intent (1) as to what materials are to be upgraded; (2) as to whether payment for upgrading is to be in kind, in other materials or a combination of the two, or a combination of cash and materials; (3) as to include authorization for long-term contracts—say up to 10 years—for performing upgrading. All three suggested amendments are vital to the successful operation of the projected upgrading program. All possible safeguards should be adopted to guard against disruption or interference with normal marketing and price structures. Chrome and manganese, of course, should be included in any spelled-out list of materials to be upgraded. The upgrading of all types of subspecification grade materials in the stockpile is desirable as a contribution to the overall national security, but of all the materials in the stockpile, upgrading of chrome and manganese offers the greatest opportunities in relieving unemployment and economic distress in widely dispersed geographic areas of the Nation as well as the depressed areas in Montana which have been so declared—namely, Butte and Nye, Mont., contiguous to Billings, will be entitled to the same ruling as the distressed areas if the chrome operations in that community are forced to shut down.

MINING ASSOCIATION OF MONTANA,
W. G. MALONEY, *Secretary-Manager.*

BUTTE, MONT., June 22, 1961.

Senator LEE METCALF,
Senate Office Building, Washington, D.C.:

We understand that \$15 million has been asked of Congress to upgrade stock piles of manganese in Butte, Mont. We heartily recommend that Congress approve this because of the economic situation in Butte. Regards.

VERN GRIFFITH, Mayor.

HELENA, MONT., June 22, 1961.

Senator LEE METCALF,
Senate Office Building, Washington, D.C.:

Respectfully urge you support H.R. 7445 as it pertains to aiding and revitalizing Montana's mining industry. Also urge you specifically support any other provisions of this act which will help Montana's economy and our national defense needs.

THOMAS J. COLLINS,
Director, Montana State Planning Board.

HELENA, MONT., June 22, 1961.

Senator LEE METCALF,
Washington, D.C.:

We commend your support of provisions in H.R. 7445 for defense stockpiling of metals, and strongly urge your continued effort for inclusion of chrome concentrates upgrading in that bill. We are informed appropriate amendments to H.R. 7445, now in Subcommittee of Senate Appropriations Committee, will upgrade chrome concentrates to ferrochrome and permit payment in kind from Federal metal stockpiles for this upgrading to a quality necessary for industrial use. We support such amendment and urge your efforts toward its adoption. Continued chrome production and processing is most essential to Montana's economy and to defense needs, since present chrome supplies could easily be jeopardized in emergency which will similarly and consistently aid Montana's metal extraction and processing industries, including manganese.

MONTANA CHAMBER OF COMMERCE
INDUSTRIAL COMMITTEE,
JOHN WILLIAM, Chairman.

COLUMBUS, MONT., June 14, 1961.

Hon. LEE METCALF,
U.S. Senate, Washington, D.C.:

We have been advised by American Chrome Co. that the independent offices appropriation bill does nothing for our chrome and manganese stockpiles in this area with little or no rain in this area. Economic conditions are strained. Respectfully request language in House-passed bill be clarified to include upgrading of chrome concentrates.

COLUMBUS KIWANIS CLUB,
TRYGVE BRENSDAL, President.

DILLON, MONT., June 13, 1961.

Senator LEE METCALF,
Senate House of Washington, D.C.:

We know you are in favor of and have assisted the mining industry relative to upgrading chromite and manganese ores and concentrates. We believe the bill passed by the House on upgrading of these metals will help the mining industry. Possibly some of the language used in the House bill should be clarified so that interpretation is more positive to the original intent. Thank you for your continued support.

SOUTHWESTERN MONTANA MINING
ASSOCIATION,
BILL HAND, President.

BUTTE, MONT.

Senator LEE METCALF,
Senate Office Building,
Washington, D.C.:

Please press for appropriation of \$15 million that has been asked of Congress to upgrade manganese ore stockpiled at Butte, Mont. We highly recommend that this be done because of the economic situation in Butte.

BUTTE LAUNDRY & DYE WORKERS UNION,
 LOCAL 25
 DOROTHY FERRERO, *Secretary-Treasurer.*

BUTTE, MONT., *June 22, 1961.*

Senator LEE METCALF,
Old Senate Building,
Washington, D.C.:

Due to the serious economic condition now existing in Butte, we of the Metal Trades Council, urge you to do everything possible to assure the passage of the \$15 million bill asked of Congress to upgrade the stockpile of manganese ore in Butte.

GEORGE BLAIR,
Secretary, Metal Trades Council.

BUTTE, MONT., *June 22, 1961.*

HON. LEE METCALF,
U.S. Senator,
Old Senate Building,
Washington, D.C.:

The \$15 million asked of Congress for the upgrading of the stockpiled manganese ore is of vital importance to our community and we strongly urge its passage because of economic conditions now existing in Butte.

MATTHEW CASSICK,
President, Boilermakers Local No. 130, Butte, Mont.

COLUMBUS, MONT., *June 13, 1961.*

Senator LEE METCALF,
Senate Building,
Washington, D.C.:

We respectfully request you do everything possible to include in independent offices appropriation bill a spelling out of provisions for upgrading chrome and manganese stockpiles. Economy in several areas of State, including our own, would greatly improve as a result. Language of bill as passed by House needs clarification. Your usual fine cooperation will be appreciated.

HENRY HANSON,
President, Columbus Civic Club.

ABSAROCKE, MONT., *June 13, 1961.*

Senator LEE METCALF,
Senate Building,
Washington, D.C.:

Request and urge your cooperation in having included in independent offices appropriations bill provisions for upgrading chrome and manganese stockpile. Language in House passed bill should be made clear. This would greatly benefit economic conditions in this area which produces chrome or a strategic metal for defense use.

MERCHANTS ASSOCIATION,
 LIONS CLUB,
 JUNIOR CHAMBER OF COMMERCE,
 CIVIC CLUB.

SPOKANE, WASH., June 12, 1961.

Senator LEE METCALF,
Senate Office Building, Washington, D.C.:

Spelled out provisions for upgrading chrome and magnesium stockpiles in the Industrial Office Appropriation bill would be of great benefit to area economic conditions. Language in House-passed bill should be clarified. Your cooperation will be greatly appreciated.

AUSTIN SMITH,
Subdistrict Director,
United Steel Workers of America.

BUTTE, MONT., June 23, 1961.

Senator LEE METCALF,
Senate Office Building, Washington, D.C.:

DEAR SENATOR METCALF: The Butte citizens' project again urges you to give favorable consideration to the request for assistance in upgrading manganese stockpile on hand in Butte. Any favorable action along this line would further assist in diminishing unemployment in this vicinity.

Sincerely,

DAN HARRINGTON,
Executive Secretary.

BUTTE, MONT., June 22, 1961.

Senator LEE METCALF,
Senate Office Building, Washington, D.C.:

Fifteen million dollars has been asked of Congress to upgrade stockpiled manganese ore at Butte. We heartily recommend that this be done because of the economic situation in Butte.

JOHN D. O'BRIEN,
Secretary, Brewery Workers Local No. 104,
Butte, Mont.

HOUSE REPORT

Senator METCALF. Now, Mr. Chairman, let me turn now to a few other items.

Senator MAGNUSON. Well, now, before you leave that, I have a copy of the House report, page 11, which you read a part of. The other language provides authority to upgrade certain materials in the form best suitable for stockpiling and payments to contractors in kind and at their fair market value. Your suggestion is that they ought to have the flexibility, as I understand it, for payment either in kind or in cash.

Senator METCALF. Yes, but, Mr. Chairman, in that language, I want to be sure that somewhere in the report or maybe in a colloquy on the floor, it is clear that the minerals used for beneficiating or upgrading are any kind of minerals.

For instance, if you are going to beneficiate manganese, the inkind payment in addition to manganese can be copper or aluminum or something else or any other combination of minerals that are declared surplus in the stockpile.

To me, the language in the House report and in the bill may be misinterpreted as ambiguous.

Senator MAGNUSON. They say certain materials. Do they define that?

Senator METCALF. In the hearings and in the bill, it is not yet clear that that inkind refers to payment in the same type of mineral that is being upgraded or beneficiated. I think it should be made clear that if you are beneficiating, for instance, manganese, you can be paid

in copper or aluminum or a combination of copper and aluminum, as well as manganese or something else.

Senator MAGNUSON. Well, I would think that the House really meant that, because they go on to say "with excess materials" you use the plural—"in storage."

Senator METCALF. That is right. I would think they meant that and I think it would be in the public interest to point that out.

Senator MAGNUSON. All right.

FEDERAL AVIATION ADMINISTRATION

Senator METCALF. Mr. Chairman, the House has approved the \$70 million budget estimate for matching grants to cities for airport construction, an appropriation that we endorse.

Senator MAGNUSON. For the record, this is in the section relating to the Federal Aviation Administration.

Senator METCALF. Continuing this program certainly will be of benefit to Montana.

HOUSING AND HOME FINANCE AGENCY

We also want to express a particular interest in two items for the Housing and Home Finance Agency: the \$25 million for the housing for the elderly fund and the \$1,900,000 for college housing loans. Both these items have received the approval of the House and we hope the Senate will approve them also.

VETERANS' ADMINISTRATION

The Veterans' Administration appropriation approved by the House includes \$50,000 to start a \$850,000 alterations project on the VA hospital at Fort Harrison, Mont. We hope the committee will look favorably on the \$70 million hospital construction item in the House bill. Our veterans in Montana and other States will benefit from the expansion and improvement in hospital facilities this appropriation would make possible.

Senator MAGNUSON. We appreciate your statement on that. We will be having the Veterans' Administration witness up here on Monday and we will ask him about this item.

Senator METCALF. Thank you very much, Mr. Chairman.

Is the Congressman here, and does he want to testify, too?

Mr. BATTIN. Yes, sir.

GENERAL SERVICES ADMINISTRATION

STATEMENT OF HON. JAMES F. BATTIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MONTANA

GENERAL STATEMENT

Mr. BATTIN. Mr. Chairman, I shall direct my remarks mostly to those dealing with upgrading of materials. Montana is the largest source of supplies for chromite in the United States, and the American Chrome Co. is our country's largest producer.

AMERICAN CHROME CO.

The company, I am informed, will close its operations at Nye, Mont., this fall if congressional action is not taken to continue to aid in stockpiling and participating in a ferrochrome process which in reality puts chromite in more readily usable form.

This request, I think, is vital to our national security. Much of the chromite presently used by the strategic industries in America is imported from Turkey, Africa, and other sources. Under the ferrochrome process chromite can be converted and stockpiled without deterioration and ready for immediate use in the event of an emergency.

Even in the event of limited warfare, the country would be in serious trouble if our supply of this metal were cut off.

We have the experience of World War II and the Korean War to show what can happen. With sabers rattling today, we certainly have to look to the future.

This is truly a strategic material and one which is vital to our industrial economy. With the United States consuming 36.6 percent of the world supply, based on the 1959 world production figure, and producing only 2.5 percent of the same supply, we must think of our situation in the event Russia stopped shipments, or prevented other exporters of chromite—which Russia controls or can control by threat of war—from shipping this vital metal to us, we would have a hard time keeping our efforts going.

REQUEST FOR AMENDMENT

By authorizing the proposed amendment and the language referred to by Senator Metcalf to H.R. 7445, the committee would be taking the needed action in this field.

With all due respect, I urge the committee to act favorably on this proposed amendment, keeping in mind that 80 percent of the known reserves of chromite on the entire North American continent are to be found in one place, that is Nye, Mont. Should we lose this, I am sure we would be at the mercy of whatever might come.

Senator MAGNUSON. I appreciate that and we shall take a long look at the language that Senator Metcalf suggests because I, for one, have felt, and the members of the committee have on other occasions, that if we have this here, we might as well get it as close to its final useful form as possible.

Mr. BATTIN. I certainly agree, sir.

Senator MAGNUSON. All right, thank you very much.

LETTER FROM HAROLD J. WARREN

Senator ROBERTSON. Mr. Chairman, before you take up another item, I ask unanimous consent to have a letter printed in the record, following the testimony on manganese. This letter was prepared for me by Harold J. Warren, of the Joint Committee on Defense Production.

Senator MAGNUSON. All right, we shall put that in the record in full.

(The letter referred to follows:)

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON DEFENSE PRODUCTION,
June 23, 1961.

HON. A. WILLIS ROBERTSON,
Chairman, Joint Committee on Defense Production,
U.S. Senate, Washington, D.C.

DEAR SENATOR ROBERTSON: In response to your telephone call yesterday regarding the upgrading of manganese, I am outlining the facts which have been ascertained as of this time.

You inquired as to the policy of the Office of Civil and Defense Mobilization and of the Department of the Interior on the upgrading of manganese with payments in kind. Mr. John Croston, who is in charge of formulating disposal plans and related matters for the General Services Administration, states that he considers payments in kind for the upgrading of manganese to be more in competition with foreign producers than with domestic producers. This would be true if the grade of the manganese used for payments in kind is higher than the grade produced by the domestic producers. The General Services Administration could avoid this impact on the domestic market by making adequate provision in each contract as to the grade of the material to be used as payment in kind.

The Office of Civil and Defense Mobilization has a classified directive dated December 1, 1960, called "Strategic Stockpile Procurement Directive." An amendment to this directive was issued on March 23, 1961, and is said to provide for the upgrading of manganese ore in the stockpile to manganese metal. The amendment also states that upgrading costs may be financed by using materials in the Defense Production Act inventory as payment in kind. It is my understanding that the material used for payment in kind may be the same as the material upgraded or it may be a different material. For example, it is my understanding that one contract for upgrading manganese has been in the process of negotiation which would provide for nickel to be used as payment in kind for the cost of upgrading.

The Department of the Interior has usually opposed making payments in kind, as they have usually opposed most of the disposal plans which have been drawn up by the General Services Administration. The most frequent reason given is the impact on the market. However, these decisions have been made on a case-by-case basis and there are no published standards or policy statements which have been issued by the Department of the Interior that would clearly set forth their position. Under the procedure which has been followed, each department and agency having an interest may veto a proposed sale or proposed payment in kind for upgrading. This procedure was established under the Eisenhower administration at the highest level, the previous procedure having been one of OCDM making the decision after obtaining recommendations from the agencies having an interest. In some cases the Department of the Interior has exercised the veto for the sale of materials which were very small in quantity, amounts which could not possibly have an impact on the U.S. market or the world market. As I mentioned to you on the phone, we recently discussed these arbitrary decisions with Mr. Flory in the Department of the Interior. Since that time a few sales have been approved, but the quantities are small. The Department of the Interior is not likely to approve sales or payments in any kind where there is any possibility of an impact on the market.

Payment in kind for the upgrading of materials, made from the Defense Production Act inventory, must be approved by OCDM and each department and agency concerned except for materials for which disposal has been authorized previously.

A period of up to 2 years from the date of the contract plus necessary leadtime may be allowed for the upgrading. This length of time is said to be allowed to avoid impact on the normal markets of industry and to obtain more advantageous terms.

A specific case involving the upgrading of metallurgical manganese to electrolytic manganese metal is now being considered by GSA and the Union Carbide Co. Under the proposed contract the processing would be carried out in the Marietta, Ohio, plant. This plant is located in a surplus labor area. The proposed contract has been awaiting approval of the interested agencies for the payment in kind. I understand that on June 22, 1961, the Union Carbide Co. indicated to GSA that they are interested in taking only Chilean manganese ore

as payment in kind, which type is not in the Defense Production Act inventory. The quantities in the stockpile and supplemental stockpile could not be released without congressional approval. It has also been reported that there has been some discussion as to the use of nickel for payment in kind for the cost of upgrading under this contract.

The General Services Administration advises that there are no funds available in the 1962 appropriated funds for upgrading. The amount of \$465,000, plus transportation and handling, is available in the 1961 budget for upgrading. Therefore, contracts for upgrading must be entered into by June 30, 1961, for payment in cash.

I have attempted to ascertain the quantity of manganese which could be placed on the market through payments in kind, as related to the quantity to be upgraded. The figures that have been obtained indicate that the cost of upgrading 44.81 percent manganese to electrolytic metal amounts to 24.81 cents per pound for the metal, which metal would have a value of 33.75 cents per pound. For \$679,898 worth of metal, the value of the ore used is said to be \$108,714. The processing cost amounts to \$520,600, plus freight and handling charges. The original value of the ore figures out to be about one-fifth of the processing cost, according to the figures obtained by phone.

It is my understanding that the same consideration is being given to the impact on the market for the use of materials for payment in kind as would be given to the sale of any material.

Sincerely yours,

HAROLD J. WARREN.

Senator MAGNUSON. All right.

You are Mr. Adkerson, the American Manganese Producers Association, and you are Mr. Bley of the American Chrome Co.

AMERICAN MANGANESE PRODUCERS ASSOCIATION

STATEMENT OF J. CARSON ADKERSON, PRESIDENT

GENERAL STATEMENT

Mr. ADKERSON. Mr. Chairman, I am J. Carson Adkerson, Woodstock, Va. I appear as president of the American Manganese Producers Association, and for myself as an individual operator in manganese.

I appreciate the opportunity to appear before this committee. First and foremost I want to support, endorse, and recommend the statement and the recommendations made before this committee today by Senator Metcalf in behalf of himself and Senator Mansfield with reference to stockpile upgrading and processing of strategic materials. Manganese is the No. 1 strategic mineral. It is important in defense.

I have a short statement here in regard to the uses and importance of manganese. Instead of reading it, I will ask that it be inserted in the record, and that will conclude my statement. I hope the recommendations will be approved. To save time of the committee I will limit my statement to this. Thank you.

(The statement referred to follows:)

In hearings before the House Committee on Appropriations for 1958, Mr. Marling J. Ankeny, Director of the Bureau of Mines said "Manganese is perhaps the most critical of all the strategic materials. Steel in quantity cannot be made without it, yet the United States normally must import over 90 percent of its needs" (p. 283). And in hearings on appropriations for 1959, he said "Because of its essential use in the production of virtually all steel, manganese is fundamental to the economic and strategic strength of the United States" (p. 189).

Senator MAGNUSON. Thank you for being so considerate. Now we will hear from Mr. Bley.

AMERICAN CHROME CO.

STATEMENT OF JOHN BLEY, VICE PRESIDENT AND GENERAL
MANAGER

PREPARED STATEMENT

Mr. BLEY. I have a prepared statement.
Senator MAGNUSON. We will put that in the record in full.
(The statement referred to follows:)

Mr. Chairman and members of the committee, my name is John Bley and I am vice president and general manager of the American Chrome Co., which operates a chromite mine and mill at Nye, Mont. We recently expanded our operation to include a semicommercial size pilot plant to produce ferrochrome.

I wish to thank members of the committee for this opportunity to appear before it to present my company's views with respect to upgrading stockpile materials, and also to express my appreciation of the interest you have shown in the past in the problems facing the domestic mining industry.

Hereafter, I shall refer to the American Chrome Co. as my company, with the understanding that in so doing, I am speaking only in a representative capacity.

Briefly, my company holds a long-term lease on chromite ore bodies, which are a major portion of the Stillwater complex reserves, which, according to the U.S. Bureau of Mines, constitute 80 percent of the known reserves of chromite on the North American Continent. Our mining and milling facilities have a capacity of 1,000 tons ore per day, and could be doubled easily, through the installation of additional equipment, should the occasion and necessity arise.

The American Chrome Co. was originally organized to undertake the production of 900,000 tons of 38 percent or better chromite concentrates for the Government. Under the present production schedules this contract will be fulfilled in October of this year. The company has invested in these facilities at Nye nearly \$4½ million, and provides the only industrial employment of any consequence within 65 miles.

Shutting down of our facility when our Government contract is completed just 4 months hence, which is inevitable under present conditions unless provisions are adopted which will allow economic upgrading of the 900,000 tons of chromite stockpile at Nye, will result in another small economically distressed area, with attendant human suffering, in a State already so plagued with unemployment that 10.8 percent of its total insured work force is on the unemployment rolls, compared with a national average of 7 percent. Percentage-wise, only Alaska, Maine, West Virginia, and Kentucky have a higher level of unemployment. As a Montanan and as an employer of labor, I would hate to see more unemployment in our State.

Since its inception, my company has not been content to just fulfill its contract with the Government. At its own expense, a \$285,000 research and development program has been vigorously pursued in search for an economic process and technologies for upgrading chromite concentrates into a form readily usable by the U.S. steel industry. A total of \$684,000 has been invested in the aforementioned semicommercial pilot plant, and nearly \$1 million in operating it.

The end results of these tests have been gratifying. These concentrates can be converted into a readily usable form—that is, into good quality ferrochrome but it takes a long time, foreign competition being what it is, for a new producing company to obtain that volume of the market necessary to keep its production costs on a competitive level.

The production and stockpiling of chromite concentrate does not complete the job that needs to be done since the concentrate is not readily usable by the steel alloy industry and, in addition, a towering heap of concentrated chromite is a wasting asset. Now, in making this latter statement, I am cognizant of the fact that some of those present may think I am sticking my neck out in view of the fact that some people have discounted the idea that chromite concentrates deteriorate, as they term it.

Mr. Chairman, I particularly call attention that I did not say stockpiled chromite concentrates deteriorate, rather I said such concentrates are a wasting asset. The finely ground concentrates are dispersed by wind and rain action

despite preventive measures such as spraying the top of the pile with oil, as we do at the Nye stockpile. Over a period of time, despite everything that can be done, there will be a loss that would not occur in the case of ferrochrome.

So, at Nye the Government has a wasting asset, but an asset that does not lend itself, in its present form, to either usage or economic disposal to eastern ferroalloy producers, because if it did so, it would recover less than one-fourth of its total investment. First, the concentrate would have to be trucked to Columbus, Mont., a distance of 45 miles, then loaded for rail shipment to the Cleveland-Pittsburgh area, the main alloying centers. Since only 1 ton of ferrochrome can be recovered from approximately 2½ tons of concentrate, there would be high-cost transportation charges on about 1½ tons of waste material. Shipping the concentrate in its present form would involve transportation charges approximating \$17 million.

Before the concentrate can be used in alloy steel production, its ultimate use and the reason for it having been mined, it must be processed into ferrochrome. Some of the advantages to be achieved through upgrading the chromite concentrate on hand at this time are:

(a) The stockpile will be converted into a ferrochrome readily usable by the steel industry.

(b) The ferrochrome can be stockpiled without deterioration and ready for immediate use in an emergency.

(c) The stockpiled chromite concentrate has little value if shipped to a market in its present form because of bulk and resulting freight charges.

(d) After upgrading into ferrochrome, the Government could recapture the smelting cost in addition to a major portion of the mining and milling cost based on average prices for the past 18 months.

(e) The Government's only expenditure would be for upgrading, which will sooner or later be necessary before the chromite concentrate, now in stockpile, can be used.

(f) The American Chrome Co. will be enabled to continue its operations, thereby providing:

(1) continued employment for many families;

(2) aid to area and national economy;

(3) development of a permanent mining, milling, and smelting industry utilizing the large reserves (80 percent of known reserves on North American Continent) of low-grade chromite ores available at the site of present operations;

(4) an experienced and efficient operation ready for immediate and increased output of ferrochrome in time of emergency or interruption of foreign supply; and

(5) the company, during the upgrading period, will be enabled to pursue its efforts to increase its domestic market for ferrochrome and establish a permanent industry.

I find myself in complete agreement with the statement of the able chairman of this committee made in 1958 when he stated, in respect to upgrading stockpiled chromite and manganese, and I quote: "The time to upgrade it is when the manpower is available * * * if we follow this program, we will not only stockpile raw ore, but electricity and manpower that is now idle."

The chairman, Senator Magnuson, was right at that time because there was then a surplus of manpower, and today there is an even greater number of idle workers who are looking for the inauguration of programs and policies that will provide jobs.

During Senate discussion of the desirability of upgrading during times of surplus labor, my own Senator, Senator Mike Mansfield, inquired if materials stockpiled in Montana were included in any contemplated upgrading programs, and Chairman Magnuson replied: "It does apply to Montana. The first work under the program will probably be in connection with ferrochrome. Next in order should be manganese."

On the House side, during this period, Senator Lee Metcalf, the then Congressman from Montana, concurred with the viewpoint of Chairman Magnuson and Senator Mansfield that a chromite and manganese upgrading program was in the interest of national defense and "would help relieve unemployment in the most depressed city in the Nation, Butte, Mont."

Mr. Chairman, we in the minerals industry greatly appreciate your efforts and those of your colleagues in former years to set the stage for a comprehensive program for upgrading certain materials in the stockpile. It is my personal opinion that we would now be well along in an upgrading program if

the Congress had seen fit to spell out more explicitly your intent and that of other members of this committee when it made available \$3 million in the independent offices appropriations bill for 1959 for such purpose.

In view of what happened in 1959, with respect to upgrading, I am fearful of the future when I read the limiting language of the upgrading provision of H.R. 7445 as it now stands.

For instance, the limitation, "during the current fiscal year," would compel, if there were to be any upgrading of the Nye chromite stockpile, the extravagant and wasteful shipping of the concentrates nearly 2,000 miles because it would take more than the current fiscal year to get an on-the-scene upgrading plant in operation. In this connection, it is worthy to note that in addition to the time required to incorporate, acquire leases, and negotiate terms of its Government contract, it required my company approximately a year to bring its Nye operation to the break-in stage even though mine facilities and development and concentrator buildings already existed.

I am also fearful of the language, as it now stands, unless there is a clear-cut spelling out of the provision relating to transfer of materials as payment of expenses of refining, processing, or otherwise beneficiating materials. If the contractor were to be paid in kind, and a strict interpretation should be applied to the phrase "in kind" he might easily run into serious marketing troubles when he attempts to dispose of the material received in payment for his services.

I also respectfully submit that any upgrading program that does not include provisions for entering into long-term contracts makes the program self-limiting and unnecessarily costly to the Government in that contractors, to keep their costs down, must have a contract calling for sufficient volume to permit amortization of plant equipment.

It would be helpful if an appropriation is made available that will permit contractors to be paid part in cash and part in materials. Some potential upgrading contractors, in the absence of a partial cash payment, might find it difficult to market their share of the toll material in an orderly fashion and without disrupting normal price patterns and structures. For all potential upgrading contractors, a system of part cash and part materials payment would be advantageous.

I endorse entirely and wholeheartedly the amendment covering the three aforementioned points which has been submitted by Senators Mansfield and Metcalf.

I am happy to be able to tell the committee that if the proposed amendment is adopted, my company will be in a position to enter into negotiations for a contract to upgrade all or part of the Nye chromite concentrates stockpile, and if such a contract is executed, will further be in a position to make the necessary plant investment without Government assistance.

In summary, Mr. Chairman, a chromite concentrate upgrading program would not only benefit industry, but would also greatly benefit the economy of those communities in which the stockpiles are located, and would lessen human misery in distressed areas and place stockpiled raw materials in a usable form and a better form for storage. It also would insure greater return in money to the Government.

Thank you.

GENERAL STATEMENT

Mr. BLEY. Thank you. Mr. Chairman and members of the committee, my name is John Bley. I am vice president and general manager of the American Chrome Co. which operates a chrome mine and mill at Nye, Mont. We recently expanded our operation to include a semicommercial size pilot plant to produce ferrochrome.

I wish to thank the members of the committee for this opportunity to appear before it to present my company's views with respect to upgrading stockpile materials and also to express my appreciation of the interest you have shown in the past in the problems facing the domestic mining industry.

The American Chrome Co. was originally organized to undertake the production of 900,000 tons of 38 percent or better chromite concen-

trates for the Government. Under the present production schedule the contract will be fulfilled in October of this year. The company has invested in these facilities nearly \$4.5 million and provides the only industrial employment of any consequence within 65 miles.

SHUTDOWN OF FACTORY

Shutting down our facility when our Government contract is completed just 4 months hence, which is inevitable, under present conditions unless provisions are adopted which will allow economic upgrading of the 900,000-ton chromite stockpile at Nye, will result in another small economic-distressed area.

RESEARCH BY ORGANIZATION

Since its inception my company has not been content to just fulfill its contract with the Government. At its own expense, a \$285,000 research and development program has been vigorously pursued in search for an economic process and technologies for upgrading chromite concentrates into a form readily usable by the U.S. steel industry. A total of \$684,000 has been invested in the aforementioned semicommercial pilot plant, and nearly \$1 million in operating it.

The end results of these tests have been gratifying.

DETERIORATION

Senator MAGNUSON. I want to ask you a question here because this matter comes up year after year. I am glad you mentioned on page 2, the next to the last paragraph, where you say:

Mr. Chairman, I particularly call attention that I did not say stockpiled chromite concentrates deteriorate, rather I said such concentrates are a wasting asset. The finely ground concentrates are dispersed by wind and rain action despite preventive measures such as spraying the top of the pile with oil, as we do at the Nye stockpile. Over a period of time, despite everything that can be done there will be a loss that would not occur in the case of ferrochrome.

In other words, the argument of some of us who try to get them to upgrade this thing is that the stockpile as it lies now is only half complete. If you are going to stockpile chrome, you ought to put it in this particular shape to stockpile it—ferro.

Mr. BLEY. That is correct.

Senator MAGNUSON. Because if you are going to use it, you are going to have to do so sooner or later anyway, ultimately, I mean.

Mr. BLEY. That is correct, and that is why we are here to show the Government what should be done with this chromite stockpile.

CHEMICAL COMPOSITION

Senator ALLOTT. What is the chemical composition of chromite as it is now?

Mr. BLEY. Chrome, iron, aluminum, magnesium, silicon oxide, and the chrome—

Senator ALLOTT. And this would make it into just a ferrochromite?

FERROCHROME POSSIBLE TO STORE

Mr. BLEY. No. It would make it into a ferrochrome which would contain chromium, iron, carbon and silicon.

Senator MAGNUSON. And then it would be susceptible to longtime storage. We would save time if we wanted to use it in a hurry because you have gone through this step, and it is of some value and its disposal value, if you want to dispose of it, is far greater in ferrochrome than it is in this wasted stockpile.

Mr. BLEY. That is right. In putting it into ferrochrome, the Government stands a good opportunity of earning its entire investment in the smelting of the ferrochrome plus a substantial portion of what was spent in the mining and milling.

Senator ALLOTT. What form would it be in, then? I am familiar, for example, with the production of raw tungsten, vanadium.

CHARACTERISTICS OF FERROCHROME

Mr. BLEY. The difference would be that vanadium is a single metal and ferrochrome is classed as an alloy.

Senator ALLOTT. Is it solid?

Mr. BLEY. It is solid in form.

Senator ALLOTT. And crystalline?

Mr. BLEY. Well, it could be.

Senator ALLOTT. Or metallic?

Mr. BLEY. Metallic. Yes. It will weigh about 350 pounds to the cubic foot.

Senator MAGNUSON. It is pretty heavy. And then, of course, the other members of the committee will recall that in 1958 we went into this and we said at that time, "The time to upgrade it"—this is another factor—"is when manpower is available."

If we follow this program, we will not only stockpile the raw ore but electricity and manpower which is not now being used because if something should happen and we needed all of this, then we have got a problem of manpower and use of all the things needed to do it, and we have got them now available to do it without any trouble.

This is the economy of the thing in the long run.

Mr. BLEY. This is actually asking to put a plant into an area that is essentially a one-economy community.

Senator MAGNUSON. Well, let us leave that out. You can even leave that out and it still seems commonsense to do that.

Mr. BLEY. That is right.

Senator MAGNUSON. No matter where it is. But I don't know why we never can seem to get them to continue this program to get this in the shape where it is going to be the way we want it and be worth more, and we don't have any storage problem.

Mr. BLEY. Absolutely no storage problem. It won't deteriorate at all.

SHIPPING BULK

Senator ALLOTT. He has one other point to which he refers twice here. As I read his statement, it is the fact that if it is not done there now, it means shipping a bulk of $2\frac{1}{2}$ times the ultimate weight, 2,000 miles east to get the job done.

Mr. BLEY. That is right. It requires $2\frac{1}{2}$ tons of concentrate to make up 1 ton of ferrochrome. In other words, we would be shipping $1\frac{1}{2}$ tons of waste material.

Senator MAGNUSON. All right. Thank you, Mr. Bley.

And we have put your statement in the record in full, and I have several telegrams on the matter.

(The telegrams referred to follow :)

HELENA, MONT., June 22, 1961.

Senator WARREN MAGNUSON,
Senate Office Building, Washington, D.C.:

Respectfully urge your continued support of provisions of H.R. 7445 designed to aid and revitalize Montana mining industry. Likewise urge suitable amendment which will assure stockpiling of metallic materials including chrome and manganese in form readily available for defense uses. Emphasize need for action to preclude any possibility of discontinuance of extraction or processing of mineral in potential jeopardy caused by Nation's dependence upon sources which are in or might fall into unfriendly hands. Cannot emphasize too strongly the importance to Montana economy and to current and future defense needs of the Nation.

Gov. DONALD G. NUTTER.

HELENA, MONT., June 22, 1961.

Senator WARREN G. MAGNUSON,
Senate Office Building, Washington, D.C.:

Respectfully urge you support H.R. 7445 as it pertains to aiding and revitalizing Montana's mining industry. Also urge you specifically support any other provisions of this act which will help Montana's economy and our national defense needs.

THOMAS J. COLLINS,
Director, Montana State Planning Board.

HELENA, MONT., June 22, 1961.

Senator WARREN G. MAGNUSON,
Washington, D.C.:

We commend your support of provisions in H.R. 7445 for defense stockpiling of metals and strongly urge your continued effort for inclusion of chrome concentrates upgrading in that bill. We are informed appropriate amendments to H.R. 7445, now in subcommittee of Senate Appropriations Committee, will upgrade chrome concentrates to ferrochrome and permit payment in kind from Federal metal stockpiles for this upgrading to a quality necessary for industrial use. We support such amendment and urge your efforts toward its adoption. Continued chrome production and processing is most essential to Montana's economy and to defense needs, since present chrome supplies could easily be jeopardized in emergency. We also urge support of other provisions in this legislation which will similarly and consistently aid Montana's metal extraction and processing industries, including manganese.

MONTANA CHAMBERS OF COMMERCE INDUSTRIAL COMMITTEE,
JOHN WILLIAMS, *Chairman.*

CIVIL SERVICE COMMISSION

OFFICIAL REGISTER

Senator MAGNUSON. We have a suggested amendment to the bill regarding the Official Register of the United States from the Senator from New York, Senator Javits, joined by his colleague, Senator Keating, and Senator Williams from New Jersey. We have asked the Civil Service Commission for a reply to their query and we shall put both of those in the record in full.

(The suggested amendment and correspondence referred to follows:)

[H.R. 7445, 87th Cong., 1st sess.]

AMENDMENT Intended to be proposed by Mr. JAVITS (for himself and Mr. KEATING) to the bill (H.R. 7445) making appropriations for sundry independent executive bureaus, boards, commissions, corporations, agencies, and offices for the fiscal year ending June 30, 1962, and for other purposes, viz: On page 10, following line 16, insert the following:

OFFICIAL REGISTER OF THE UNITED STATES

For necessary expenses incurred in the compilation, editing, indexing, and publishing of the Official Register of the United States, \$30,000: *Provided*, That the United States Civil Service Commission shall cause to be compiled, edited, indexed, and published each year an Official Register of the United States, which shall contain a full and complete list of all persons occupying administrative and supervisory positions in the legislative, executive, and judicial branches of the Government, including the District of Columbia, in connection with which salaries are paid from the Treasury of the United States. The register shall show the name; official title; salary, compensation, and emolument; legal residence and place of employment for each person listed therein: *Provided, however*, That the Official Register shall not contain the name of any postmaster or assistant postmaster, of any officer of the Army, Navy, and Marine Corps, unless such officer is assigned as an administrative officer. To enable the United States Civil Service Commission to compile and publish the Official Register of the United States on or before December 31 of each year, the Executive Office, the legislative and judicial branches of the Government, the Commissioners of the District of Columbia, and the head of each executive department, independent office, establishment, and commission of the Government shall, as of the 1st day of May of each year, supply to the United States Civil Service Commission the data required by this section, upon forms approved and furnished by the Commission, in due time to permit the publication of the Official Register as provided in this section; and no extra compensation shall be allowed to any officer, clerk, or employee of the United States Civil Service Commission for compiling the Official Register.

U.S. SENATE,
COMMITTEE ON LABOR AND PUBLIC WELFARE,
June 15, 1961.

HON. WARREN MAGNUSON,
Chairman, Subcommittee on Independent Offices Appropriations,
U.S. Senate, Washington, D.C.

DEAR MAGGIE: I have introduced an amendment to the Independent Offices Appropriations bill for 1962 which would provide for an appropriation of \$30,000 for the Official Register of the United States and which contains a legislative provision restoring the authority of the Civil Service Commission to publish this important document. I realize that it is unusual to propose basic legislative language in such a manner, and I had previously introduced S. 1350, to grant such authorization, which is pending before the Senate Committee on Post Office and Civil Service. However, the authority of the Civil Service Commission to publish the Official Register was also repealed by the legislative process in the Independent Offices Appropriations Act of 1961, and I believe it is therefore appropriate for the committee to restore the authorization in the same manner.

Many representatives of the Washington press corps have expressed concern that the discontinuance of this publication after 144 years represented an incursion into the traditional freedom of information to which the public is entitled with respect to Federal officials. The Official Register has been an invaluable reference work since the days of President Madison not only to the various media of information but to the general public. The Register contained the most comprehensive list of Federal officials and was the only practical source from which could be determined their salaries, job titles, departments, and State and congressional district of appointment. Nothing is more sacred than the public's right to information about its Government officials. Depriving the public of a convenient means for implementing this is hardly justified in the

name of economy, especially when the publication cost is relatively so small. Moreover, the change in administration, with the resulting vast turnover in personnel, makes it even more essential that such information be accessible to the public.

I hope that the subcommittee and full Committee on Appropriations will give sympathetic consideration to the inclusion of this proposal in the bill.

Sincerely,

JACOB K. JAVITS.

STATEMENT OF SENATOR JACOB K. JAVITS IN SUPPORT OF HIS AMENDMENT TO
AUTHORIZE PUBLICATION OF THE OFFICIAL REGISTER OF THE UNITED STATES

I appear in support of my amendment to appropriate \$30,000 for the preparation and publishing of the Official Register of the United States, and to authorize the resumption of publication of this important public document. Senator Keating has joined me as a cosponsor of this amendment.

I realize that it is unusual to propose the inclusion of substantive provisions of this type in an appropriations bill, and realize that it will require suspension of the rules to permit adoption of this provision. But I believe it to be appropriate in this case, since the legislation which had authorized the publication of the Official Register for 144 years was repealed in 1960 through a legislative amendment to this same bill.

The amount of \$30,000 which would be appropriated for this purpose is the amount which was recommended in the 1961 budget for this purpose.

Many members of the Washington press corps have expressed concern that the discontinuance of this publication represented an incursion into the traditional freedom of information to which the public is entitled with respect to Federal officials.

The Official Register has been an invaluable reference work since the days of President Madison not only to the various media of information, but to the general public. The Register contained the most comprehensive list of Federal officials and was the only practical source from which could be determined their salaries, job titles, department, and State and congressional district of appointment.

In response to an inquiry I made with the Chairman of the Civil Service Commission regarding this publication, and the possibility of making the same information available through other means, he replied that the best means would be to resume publication under the old title and in the old format. He also indicated that the agency would be happy to cooperate in whatever decision the Congress might make in this matter. I ask that the letter of Chairman Macy, dated March 28, 1961, be incorporated in the committee hearings as part of my remarks.

Nothing is more sacred than the public's right to information about its Government officials. Depriving the public of a convenient means for implementing this is hardly justified in the name of economy, especially when the publication cost is relatively so small. Moreover, the change in administration, with the resulting vast turnover in personnel, makes it even more essential that such information be accessible to the public. I earnestly hope the committee will rectify its action of last year and restore this historic and valuable document.

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., March 28, 1961.

HON. JACOB K. JAVITS,
U.S. Senate, Washington, D.C.

DEAR SENATOR JAVITS: In reference to your letter of March 6, 1961, the Civil Service Commission would have no objection to resuming publication of the Official Register of the United States if the Congress decides it should be done and provides the funds to do it. It was discontinued by the 86th Congress as an economy measure because it duplicated some material found in other publications.

I do not believe the suggestion that we make the information available to the press at the offices of the Civil Service Commission is practical. This would save only the printing cost; all the cost of collecting the data would still be incurred. In addition, there would be maintenance cost on such files.

Another alternative would be to combine information now shown in the Congressional Directory with that previously published in the Official Register. This

would probably require a new title for the new publication and would increase the size of the volume. Savings would be small.

I do not believe that incorporating the same information in another informational bulletin of the Commission would result in any savings. It would be better to resume publication under the old title and in the old format. Whatever the Congress decides on this matter, we will be glad to cooperate in carrying out its decision.

Sincerely yours,

JOHN W. MACY, JR.,
Chairman.

U. S. SENATE,
COMMITTEE ON THE JUDICIARY,
June 23, 1961.

HON. WARREN G. MAGNUSON,
U.S. Senate,
Washington, D.C.

DEAR SENATOR: It is my understanding that you will today consider the amendment which I cosponsored with my colleague, Senator Javits, to authorize the resumption of the publication of the Official Register of the United States.

I believe this is an extremely important proposal. It is my hope that your subcommittee will act favorably on the inclusion of this measure in the independent offices appropriations bill.

I was quite concerned that a decision was made some months ago to suspend the publication of this extremely useful publication. There is no other single, comprehensive source for obtaining information about the people who hold key positions in our Government and the relative importance of these positions as indicated by the salaries which they receive. The right of the public to know and have ready access to this information is certainly basic to our system of government.

I know that your subcommittee will give this legislation the full attention which I believe it deserves. If in any way I can be of further assistance, I shall be glad to do so.

With best personal regards, I am,
Very sincerely yours,

KENNETH B. KEATING.

U.S. SENATE,
Washington, D.C., June 23, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Senate Subcommittee on Independent Offices Appropriations, Senate
Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: I had intended to appear before the subcommittee today to testify in support of Senator Javits' amendment to H.R. 7445 in order to reconstitute authorization for printing of the Official Register. Unfortunately, I cannot testify directly, but I appreciate the courtesy of the chairman in permitting me to enter this statement into the record.

My first purpose here today is to ask you to enter into the record a letter from John H. Colburn, chairman of the Freedom of Information Committee for the American Society of Newspaper Editors. Mr. Colburn could not be here today, but he asked me to submit his letter.

You can see from his comments that he believes the publication has been of invaluable assistance to the press during its long history of service. Mr. Colburn makes it quite clear I think, that the Register serves a unique function of great importance in a nation which depends to a very large degree on accurate, thoughtful journalism for understanding of an increasingly complex government.

It is my understanding that Thomas Jefferson, in his Inaugural Address, described the need for a listing of Government personnel to help citizens, and journalists, as well as Government officials themselves. In 1802 the first complete roster was issued. Over the years, this roster has increased in size and importance as new agencies and offices were added. Last year, however, the Register was not printed. A long tradition of public service was suddenly ended.

As Mr. Colburn has explained, journalists are particularly hard hit by this decision. I might add that the Official Register was also a useful document in my office and, I am sure, in any other office with a relationship to the Federal Government. It seems to me that the Register will be of particular help, too, to historians of the future.

We spend many hundreds of thousands of dollars every year in the departments of our Government for information programs and other efforts to give newspapermen and the general public the information they should have about some of our Government operations. It seems to me that the Official Register, at a cost of only \$30,000, had made a very definite and valuable contribution to public understanding of public affairs. I hope, therefore, that it will be possible for the subcommittee to restore this document to public use.

Thank you again for permitting me to address the subcommittee in this way.

Sincerely,

HARRISON A. WILLIAMS, JR.

AMERICAN SOCIETY OF NEWSPAPER EDITORS,
June 21, 1961.

HON. HARRISON A. WILLIAMS, JR.,
Senate Office Building,
Washington, D.C.

DEAR SENATOR WILLIAMS: As chairman of the Freedom of Information Committee of the American Society of Newspaper Editors, I would like to endorse Senator Javits' amendment to the Appropriations measure to reconstitute authorization for printing of the Official Register.

This publication has a long history of useful service. It is an extremely valuable source of information for newspapermen and its value is proportionately greater whenever there is a change of administration in Washington. A directory of Government personnel, with assigned positions and pay scales, permits the public to keep a check on those in Government service.

An argument can be made that this information is available through the Government Manual or through departmental sources. This argument is more theoretical than real. From your own experience, you know how difficult it is to trace information on personnel when there is official reluctance to disclose such information. This is especially true when there is no official publication to check against the statements of Government public information officials.

This would be particularly true also if someone in Washington attempting to check on personnel assignments in the many Government agencies located outside of the District of Columbia.

As a strong advocate of economy, I would like to suggest that the \$30,000 saved annually by not printing the Official Register is not a true saving and furthermore is false economy in that there is a genuine need for the Register. It is not a net saving because the time expended by the various agencies in tracking down requests for personnel information and locations has not been taken into consideration.

With the Federal Government expanding, as it has been in the past decade, this is a time to economize all along the line. However, I firmly believe that the public interest would be better served through restoration of the Official Register and that diligent pruning will provide comparable savings in day-to-day operations.

I respectfully suggest that these views be submitted to the Subcommittee on Appropriations at the hearing on Friday, June 23.

Sincerely yours,

JOHN H. COLBURN.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., June 23, 1961.

HON. WARREN MAGNUSON,
Senate Office Building,
Washington, D.C.

DEAR SENATOR MAGNUSON: I am writing to express my strong support for the amendment to the Independent Offices Appropriation bill which would permit the resumption of the publication of the Federal Register.

This document has proved invaluable in our office in determining the names of Government officials, their titles, duty stations, and the like. Its absence is keenly felt.

In view of the need for economy in Government, it would appear to me that it might be possible to print the Register in a somewhat more abbreviated form

than the last edition which was published. For example, it does not appear that it is necessary to publish the names, salaries, etc. of all the rather obscure officials serving at field stations.

There is, however, a definite need for a published list of departmental heads and their chief assistants in our growing Federal Government. As a source of information for Congress and other agencies, and as a simple matter of providing the public with the names of administrative and executive officials in their Government, I believe the publication of the Federal Register is justified, and I strongly recommend that every consideration be given to providing funds for renewal of its publication.

Warmest personal regards.

Sincerely,

KEN HECHLER.

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., June 22, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Subcommittee in Charge of the Independent Offices Appropriation
Bill for 1962, U.S. Senate*

DEAR SENATOR MAGNUSON: Reference is made to the proposed amendment to H.R. 7445 by Senator Javits concerning the printing of the Official Register of the United States. The Commission annually published the Register until the Congress specifically denied funds for this purpose in fiscal year 1961 and repealed the acts requiring its publication.

In evaluating the usefulness of the Official Register, the Commission made a survey of the views of a representative number of departments and agencies during 1958. There were no strong reactions one way or other. Some wanted it continued, others believed there would be no loss if it were discontinued. Further, during the House hearings on the budget for fiscal year 1961 my predecessor, Chairman Jones, was asked whether or not the Commission considered the publishing of this document to be important. He expressed the view that it was not important. A similar question was raised in the House hearings on the budget for fiscal year 1962. I pointed out that the elimination of the Official Register did not appear to constitute any particular loss of information and that the Congressional Directory and the Organization Manual, which are still being published, provide part of the information that used to be contained in the Official Register. Because of the time required to obtain information from the agencies and to prepare it for printing the personnel information is inaccurate prior to publication. The Commission has had no complaints from within the executive branch and, as indicated in the hearings, only one or two organizations from outside the Government have asked about it.

If the Official Register is a valuable source publication for the Congress and there is a desire to have its preparation and distribution resumed, the Commission will be happy to compile and publish it. However, with respect to the proposed amendment to H.R. 7445, the Commission would like to suggest that in lieu of the provision in the annual Appropriation Act for the publication of the Official Register, the Congress reenact basic legislation directing the Commission to compile and publish the Official Register annually.

Adoption of the above (1) would provide a permanent authority for publication of the Official Register, as existed prior to the action of the Congress last year; (2) would not result in substantive legislation in an Appropriation Act; and (3) would avoid requiring the Congress to reenact such authority annually.

The cost of publication to the Commission would be considerably more than \$30,000 annually, the amount appearing in the proposed amendment. Based upon past experience \$30,000 will cover only the cost of printing and binding which the Commission will pay to the Government Printing Office. The compilation of the data will require 3 man-years of clerical assistance at an annual cost of approximately \$12,000 or a total annual cost to the Commission of \$42,000. If basic legislation is reenacted we ask that the fiscal year 1962 budget request now pending before your subcommittee be increased in the amount of \$30,000 for printing and \$12,000 for personal services inasmuch as our budget request did not contemplate the printing of the Official Register.

In addition to the costs the Commission would incur if it is to resume the publication of the Official Register the departments and agencies will incur

greater costs because they will have the responsibility for compiling and furnishing all the information and data that will go into the publication.

In the event that the Congress prefers to require the printing of the Official Register through an amendment to the Appropriation Act we would suggest that the Appropriation Act not contain a limitation on the amount the Commission may spend on the publication of the Official Register.

The placing of a limitation on the amount could hamper the Commission and may actually serve to delay publication due to unforeseen increases in printing costs or other factors.

Please advise me if you find need for additional information in considering this matter.

By direction of the Commission.

Sincerely yours,

JOHN W. MACY, Jr., *Director.*

Senator MAGNUSON. Now, Mr. George D. Riley is here representing the AFL-CIO and he wants to address himself particularly to the items in the Office of Civil and Defense Mobilization.

Mr. RILEY. I know you have a timetable to maintain and I will ask you if I may file this statement and read three or four paragraphs.

Senator MAGNUSON. We will highlight it and file it in the record in full.

OFFICE OF CIVIL AND DEFENSE MOBILIZATION

STATEMENT OF GEORGE D. RILEY, LEGISLATIVE
REPRESENTATIVE, AFL-CIO

REQUEST FOR CIVIL DEFENSE FUNDS

Mr. RILEY. I am George D. Riley, legislative representative, AFL-CIO.

The AFL-CIO requests restoration to the original budget figure of some \$25 million deducted from H.R. 7445 in the House Appropriations Committee and which cut was sustained by the House of Representatives.

I doubt that any organization has appeared so consistently before your committee to plead the cause of civil defense for so many years and with more earnestness than has the AFL-CIO.

The AFL-CIO has consistently stated its policy of opposing anything designed to transfer other than normal operational functions of a civil defense nature to the military. We want the record to show our continued opposition in this matter and particularly in the announcement of transfer of the shelter program to the Department of Defense. Planning and programing for civilian shelter would, in our opinion, logically be delegated to the agency of Government presently charged with housing or, if in its wisdom Congress creates a new Department of Urban Affairs, the shelter program for civilians would as logically become a part of this Department.

The nearest approximation I can make to the per capita appropriation proposed by the House for the fiscal year starting next week is 42 cents, man, woman and child. To restore the full budget of \$25 million would mean approximately 10 cents per capita more or about 52 cents.

We believe that the American population is well worth 52 cents apiece to come up to the figure set by the White House on the items involved in the originally suggested appropriation for OCDM.

SHELTERS AND NEAR

Speaking of shelters, we are reminded of the civil defense program known as NEAR. We have observed this program on a test basis at Charlotte, Mich., and are convinced that this comes closest to being what the American people need and can afford, and with greater effectiveness in warning them of approaching danger with the greatest possible margin of time. The NEAR system brings into the home, day or night, the alert to which we are entitled. I have attached to this statement an appendix A which sets forth what NEAR is all about and the necessity for its installation and operation.

As for the feature in the legislation titled "Federal contributions," and which item in the bill as passed by the House assumes a realistic figure, after several years of delay, I also include as appendix B a discussion of this subject.

Senator MAGNUSON. Before we leave the NEAR system—that is a warning system. In your appendix A, you mention that \$900,000 has been spent on research and development. Has that been by the OCDM?

Mr. RILEY. In appendix A, we say the national emergency alarm, which is the NEAR system.

Senator MAGNUSON. Who spent the \$900,000 to develop that you say was spent in research?

CHARLOTTE DEMONSTRATION

Mr. RILEY. I can tell you this, Mr. Chairman. At this demonstration in Charlotte, there came from all over the country men in the electronics field, notably from the Consumers Power Co. of Michigan. President Campbell of that organization has gone into this thing thoroughly and I am sure that he has been liberal with the resources of the company to develop this system.

Senator MAGNUSON. I see. It has been a private research and development?

Mr. RILEY. That is true. A good part of that development has been private money.

With this, Mr. Chairman, we feel that we have, in this script, given full and sufficient reason for a second look at this appropriation.

Thank you very much.

Senator MAGNUSON. OK.

Any questions of Mr. Riley?

Senator KUCHEL. Very good statement.

Mr. RILEY. Thank you, sir.

Senator MAGNUSON. We will put this in the record in full. I was pleased to have you say that when you read about the \$20-billion program, it was a little bit vague and your concern, I think, is quite well taken.

Mr. RILEY. It is portrayed as vague.

I might point out something historical on this, if you will permit me. You may remember 5 or 6 years ago, under the former administration, there was some \$40 billion program proposed at that time and it was seriously considered at the top echelon. I think the American people did not realize we were at one of those brinks at

that time. This seems to be a second one, but rather than be on the demolition shelter basis, it is more now on a fallout basis.

Senator MAGNUSON. Thank you.

(The statement referred to follows:)

STATEMENT OF GEORGE D. RILEY, LEGISLATIVE REPRESENTATIVE, AFL-CIO

The AFL-CIO requests restoration to the original budget figure of some \$25 million deducted from H.R. 7445 in the House Appropriations Committee and which cut was sustained by the House of Representatives.

I doubt that any organization has appeared so consistently before your committee to plead the cause of civil defense for so many years and with more earnestness than has the AFL-CIO.

We believe that our sincerity in this matter has brought worthwhile results in the face of carpers and detractors who have assumed cynical views with but scant concept of the true purposes of civil defense and, further, without offering any constructive and better arrangement for such defense.

I am convinced that those attacks on our national defense—or the lack thereof—should long since have been answered with chapter and verse by more and better informed proponents of civil defense. They have been answered by such able Members of the House as Representative Chet Holifield who knows as much as any one man, I believe, just what the civil defense score really is. There was former Representative Carl Durham who likewise recognized our needs in this regard.

And, if I may be pardoned a personal reference, your own Subcommittee on Independent Offices of the Senate has answered, through deeds, many of the assaults on our national civilian ramparts.

We come here once more to ask that a close, clear look again be given to what has been knocked off this civil defense budget in the House and to repair that damage.

The AFL-CIO has consistently stated its policy of opposing anything designed to transfer other than normal operational functions of a civil defense nature to the military. We want the record to show our continued opposition in this matter and particularly in the announcement of transfer of the shelter program to the Department of Defense. Planning and programing for civilian shelter would, in our opinion, logically be delegated to the agency of Government presently charged with housing or, if in its wisdom Congress creates a new Department of Urban Affairs, the shelter program for civilians would as logically become a part of this Department.

We also are concerned when we read of a \$20 billion program of shelters before it is determined where the operational responsibility for this program is to be vested. Our concern stems from the added confusion this staggering figure lends to the present reorganization problems within OCDM.

The leadership necessary to formulate policy and provide efficient and effective guidance in program areas should be recruited without further delay. The AFL-CIO firmly believes shelter to be a program of such vital importance as to require serious and careful consideration of those charged with its programing and implementation.

The nearest approximation I can make to the per capita appropriation proposed by the House for the fiscal year starting next week is 42 cents, man, woman, and child. To restore the full budget of \$25 million would mean approximately 10 cents per capita more, or about 52 cents.

We believe that the American population is well worth 52 cents apiece to come up to the figure set by the White House on the items involved in the originally suggested appropriation for OCDM.

As you know, the House declined even to provide \$1,227,000 for a fallout shelter in the projected White House offices to be constructed on West Executive Place. Certainly, in view of the shelters already provided and being provided with little fanfare in the public buildings of Washington and elsewhere, we would look a long time before we would wish to encourage denial of protection for the staff of the President of the United States.

Speaking of shelters, we are reminded of the civil defense program known as NEAR. We have observed this program on a test basis at Charlotte, Mich., and are convinced that this comes closest to being what the American people need and can afford, and with greater effectiveness in warning them of approaching

danger with the greatest possible margin of time. The NEAR system brings into the home, day or night, the alert to which we are entitled. I have attached to this statement an appendix A which sets forth what NEAR is all about and the necessity for its installation and operation.

As for the feature in the legislation titled "Federal contributions," and which item in the bill as passed by the House assumes a realistic figure, after several years of delay, I also include as appendix B a discussion of this subject.

We are pleased to note that the House has granted the \$22 million which was budgeted for fiscal year 1962.

It is noted that under the heading "Research and development," some \$1,500,000 has been trimmed from the proposal for \$4,500,000. If prototype fallout shelters for demonstration purposes are to have their value, we believe that a realistic sum is necessary in this regard.

We also note that the bill as passed by the House carries \$21,600,000 for "Emergency supplies and equipment," as against \$36 million in the budget, or a drop of \$14,400,000.

While the House report states that, "There are 1,932 emergency hospitals of 200 beds each assembled now," it certainly is important, even with the "additional 500 hospitals instead of the 1,000 as the agency had requested," to realize that the population of the United States is growing at the rate of nearly 2.5 million annually.

When the emergencies arise and there is an insufficient number of hospitals and insufficient number of beds, when the bedload is at its peak, that is going to be the time when hospitals are going to have to make decisions and fast—whether to rout from their beds patients they deem dispensable or even expendable. The 500 hospitals multiplied by the 200 beds will obviously be 10,000 beds to be spread around the country, probably much too thin to meet the crises wherever they be found.

We would wish to depend upon the agency responsible for planning civil defense to provide what it believes to be the realistic figure in this regard and not rely upon a formula of dividing 1,000 by 2.

Under the heading, "Salaries and expenses," it is noted that the House placed a limitation of 303 persons to be employed in the District of Columbia during fiscal year 1961, and proposes to maintain 303 as the arbitrary figure for 1962, adding that the 303 level has been exceeded by 50 jobs. It is difficult to know how the 303, rather than 300 or 313 or any other figure, is arrived at to specify how many jobs shall be in the District of Columbia.

We do not concur in the proposal that civil defense operations, including the shelter program, be delivered to the Department of Defense and that OCDM be relegated to a mere planning agency. We maintain and have said to several committees, including the House Government Operations Committee, that we feel strongly that civil functions should never be subordinate to military operations, though they may be closely allied and essential one to the other.

In this connection, on May 3, 1961, Representative Melvin Price of Illinois, among the best informed members of the House Committee on Armed Services, stated:

"In my view we need more in the way of basic legislation than any amendments to Public Law 920 can accomplish. We need to establish a completely new legislative framework which acknowledges that nonmilitary defense is primarily a Federal responsibility and which conceives this responsibility in the broader context of total national security preparedness."

He continued: "The type of national plan of action I am speaking of would conceive of nonmilitary defense as embracing the total complex of activities, other than military, required to prepare our people and our economy against the effects of possible war, to survive and emerge from the ashes of attack, to maintain the continuity of Government and essential production, to proceed toward partial recovery and then toward full resumption of peacetime pursuits."

Speaking on mobilization planning and civil defense just 1 year ago, President Meany presented detailed recommendations to the Democratic platform committee in which he said, in part:

"While the hope of all Americans is for successful international negotiations leading toward disarmament, our Nation must remain strong in the face of the continued threat posed by the Soviet Union.

"A major Government function must be to continue to develop an effective civil defense and mobilization planning program. The Federal Government must assume the leadership in developing a greater awareness of the danger

among the general public and in demonstrating how adequate protection can be achieved against the danger of atomic blast as well as fallout radiation."

The Republican platform on this subject contained the following language in 1960: "Intensified development of active civil defense to enable our people to protect themselves against the deadly hazards of atomic attack, particularly fallout; and to develop a new program to build a reserve of storable food, adequate to the needs of the population after an atomic attack."

Only this year, the President of the United States, in part, has said:

"The primary objective of civil defense, survival of our people in the event of nuclear war, is of utmost importance to our Government and to every person in the United States. Protection of our population should be the basic concern of every American who loves his country above his own personal gain.

"Each one of us should actively seek to give wholehearted support and participation to our local civil defense corps and its objectives. Survival in disaster can be achieved by each of us only when we join hands together in a team effort for mutual protection. Civil defense cannot give us survival until we give civil defense our service in the interest of our families, children, and Government."

The AFL-CIO is not expert on the requirements of the population of the United States in this field. We necessarily rely upon the thinking of those who are employed to do the job. We have been represented on the advisory council to the OCDM and have what we know to be valuable advice available to those in authority. Any failure to call for that advice can be a loss to all.

We are not expert on the cost of small or large programs, but we willingly pay our share in the earnest endeavor to have America protected from all enemies "from within and without."

We do rely upon the estimates and conclusions of the Hollifield House Subcommittee on Military Operations and have said so in appearances before that group. Labor at all times is ready to take its position in the frontlines of public interest groups, to share their responsibilities and to encourage what is required in the way of programs and administration of such programs to strengthen us in all quarters that we may stand and deliver against the common enemy who has declared that he intends to "bury us."

APPENDIX A

NATIONAL EMERGENCY ALARM REPEATER (NEAR) SYSTEM

The need for a better and more widespread method of warning became acute as the missile era commenced. Since the entire Nation is subject to attack with little advance notice, rapidity of dissemination of attack warning to the greatest possible number of people is essential.

Various methods of dissemination were analyzed, that is, telephone, radio, and powerlines. The last method, it was determined, provides the greatest coverage. Research efforts, therefore, were channeled into this area.

One means of utilizing the powerlines for the conveyance of warning is by interruption of the current on the system, thereby triggering a warning device. This means, however, has the obvious disadvantage of being activated by any power failure caused by lightning, wind, and so forth. Therefore, it was discarded.

The European-developed method of superimposing a signal of a different cyclic rate than that of the normal current was also examined. This proved to be the best solution to the problem. The National Emergency Alarm Repeater (NEAR) system resulted. Some \$900,000 was spent in the research and development leading to this system.

The system is composed of specially designed static type generators installed at certain substations in each power system, and of a receiver plugged into an electrical outlet in each home, factory, and so forth. The generators convert a small portion of the 60-cycle current to 240 cycles. This latter current activates the receiver which then emits a loud buzz. The action taken by the recipient has yet to be decided, but might include turning on his radio for further instructions, going to his shelter, and so forth.

Experimental installations were made on the Consumers Power Co. system of Michigan at Battle Creek and Grand Rapids. The system received its first public demonstration at Charlotte, Mich., October 12, 1960. Officials of Govern-

ment, labor, and of the power and other industry, and members of the news media were in attendance. The demonstration's cost of \$29,840 included the purchase of 2,000 receivers which were used in the test, and miscellaneous other requirements. Complete live television coverage was afforded the test. The consensus was that the demonstration was an unqualified success.

The AFL-CIO was officially represented at the NEAR demonstration.

In fiscal year 1961, \$100,000 was allotted to the program. An analysis of the entire Consumers Power system was thus made possible. This analysis is a necessary preliminary step to completing the installation of the NEAR system upon that power network.

In fiscal year 1962, \$400,000 has been requested. This amount will be used toward making NEAR operational in Michigan.

Fiscal year 1963 plans contemplate the appropriation of \$10 million for the program. Michigan will be completed and the State made operational. National installation will be commenced in fiscal year 1963, also.

The balance of the funds required, \$50 million, may be requested for fiscal year 1964. The system should be operational nationally by July 1, 1965. NEAR will be integrated into the existing attack-warning system as it is installed.

The receiver design is undergoing analysis by several highly reputable firms with the hope that its design can be improved and/or its cost reduced. This analysis is being performed voluntarily by these companies at no cost to the Government.

With the implementation of the system nationally, the Nation will have an attack-warning system capable of reaching an average of 96 percent of the population at any time, almost instantaneously.

APPENDIX B

FEDERAL CONTRIBUTIONS

PERSONNEL AND ADMINISTRATIVE EXPENSES

The Federal Civil Defense Act of 1950 (Public Law 920) first designated the primary responsibility for civil defense as that of the States and their political subdivisions. Public Law 85-606 later amended the original act and declared this responsibility to be vested jointly in the Federal Government and the States and their political subdivisions. Thus OCDM, for the first time, could match the costs involved in the staffing and administration of civil defense organizations at State and local levels.

In fiscal year 1961, Congress first appropriated funds for this program with the understanding that the program would be started on January 1, 1961. Under the provisions of Public Law 85-606, coupled with instructions and regulations later issued by OCDM, the following conditions had to be met or firmly scheduled for completion by all States and political subdivisions prior to their participation in the program:

- (1) Installation of an acceptable merit system to encompass all participants.
- (2) Acceptance of the national plan for civil defense and defense mobilization.
- (3) Establishment of State and local operational plans in line with the national plan, to be in effect in all political subdivisions of the State and to be mandatory on them.
- (4) Operational plans to be administered by a single State agency.
- (5) Establishment of a full-time civil defense director, or deputy director, by all States.

Under these conditions we find that civil defense has reached a new stature in national recognition. Personnel can no longer be hired and fired at the whim of an individual. Various civil defense organizations can no longer determine their individual areas of responsibility and methods of meeting emergency requirements. Differences within a particular State or area must be resolved within a single emergency plan or within the State or national plan. In short, we are convinced that civil defense has become a profession.

FEDERAL TRADE COMMISSION

NATIONAL ASSOCIATION OF RETAIL GROCERS

STATEMENT OF HENRY BISON, JR., GENERAL COUNSEL

GENERAL STATEMENT

Senator MAGNUSON. Mr. Bison, of the National Retail Grocers Association.

Mr. Bison, you are restricting your testimony to the section of the bill relating to the Federal Trade Commission?

Mr. BISON. That is right, Mr. Chairman. I have copies of my statement.

Senator MAGNUSON. All right, we will be glad to have them.

It is a short statement. You go right ahead, Mr. Bison, and read it.

Mr. BISON. Mr. Chairman and gentlemen, we are very grateful for this opportunity to present our views on the 1962 appropriation for the Federal Trade Commission. For a number of years, this association has urged a substantial increase in the staff of the Federal Trade Commission.

The National Association of Retail Grocers represent so-called independent, or locally owned and operated, food retailers. Its membership includes single unit, multiunit, small store, and supermarket operators.

Eight out of ten members have an annual sales volume of less than \$500,000. Forty-eight percent of the membership operate in towns under 25,000 population; 18 percent in towns with a population of 25,000 to 50,000; 9 percent in towns 50,000 to 100,000; and 25 percent in cities over 100,000 population. Slightly over 80 percent operate just one store.

RESTORATION REQUESTED

This association urges that the Federal Trade Commission receives its full requested appropriation of \$10,690,000 for the coming year. We do so for several reasons.

The first is because there are many violations of the antitrust laws taking place in food distribution. In a recent annual report of the Senate Small Business Committee, reference is made to the unhealthy competitive trends taking place in this industry.

A few years ago the same committee stated:

Probably nowhere, is the double standard of personal and executive morality more in evidence than in the food and grocery field—to the smaller elements within it, a horror chamber of corrupt competitive practices.

These practices include price discriminations, secret rebates, hidden discounts, discriminatory advertising and promotional payments, special services, undercounter payments, and secret deals given to favored retailers. In addition, the merger trend in food retailing has been substantial in the last few years, and in recent months this trend has increased.

RESPONSIBILITIES OF COMMISSION

The Federal Trade Commission has a heavy burden of responsibilities administering and enforcing the Clayton Act, the Federal Trade

Commission Act and various additional trade regulation laws. A substantial percentage of its antimonopoly investigations and pending cases involve numerous types of violations by food industry members.

The most serious economic problem in food distribution today is the growing concentration of economic power at the retail level. Because of this, a large number of harmful trade practices are taking place. These practices injure competition and destroy or curtail competitive opportunities for independent retailers.

The major purpose of the Clayton Act and the Federal Trade Commission Act is to prevent injury to competition and a tendency toward monopoly. The design of these statutes is to stop harmful practices before substantial harm takes place.

To carry out this intent of Congress, it is necessary that the Federal Trade Commission have an adequate staff and sufficient resources to secure adherence to the law without undue delay. Since the prevention of injury to the competitive system is a major responsibility of the Federal Trade Commission, it is clear that quick action in bringing about compliance is essential for this agency. The Commission must act with speed to prevent irreparable injury to competition. If it is unable to do this, the purpose of the law is defeated.

EFFECTS OF DELAY IN ACTION

It is also a matter of concern to us that prolonged delay by the Federal Trade Commission in enforcing the laws it administers frequently results in severe competitive injuries to individual businesses. In food retailing, it invariably happens that independent operators are injured by violations. This association generally represents the victims of law violations coming within the Commission's jurisdiction.

Because of this fact, we have a longstanding policy of supporting and assisting the Commissioner's efforts to secure compliance with the statutes under its administration. We have filed with the Commission many applications for complaints along with factual evidence of violations that are brought to our attention. As you can see, small- and medium-size food retailers are strong supporters of the Commission and the work it is doing.

A long delay in investigating cases and bringing them to a satisfactory conclusion encourages violations. The longer violators successfully evade the law, the less respect they and the business community have for the law. This makes the problem of enforcement more difficult and consequently more expensive. It is more economical, as well as more effective, to provide the Commission with the personnel it needs to perform its work expeditiously.

WORK INCREASE

It is clear that the work of the Federal Trade Commission in the past 12 months has increased. As of May 31 this year, it had 2,519 pending investigations, whereas on the same date last year it had 1,808, or an increase of 39 percent in pending investigations during this 12-month period. Restraint of trade investigations jumped from 931 to 1,203, or a 29-percent increase. Deceptive practice investigations increased from 877 last year to 1,316 this year, an increase of 50 percent.

We understand that in some of the Commission's field offices a matter referred to it for investigation will not ordinarily be reached for a year or more.

The long delay in commencing and completing investigations sometimes means that the Commission is unable to decide on whether to file a complaint until it is too late to provide an effective remedy against serious injury resulting from a violation.

Injured parties can be driven out of business during the year or more it takes before an investigation is started. If 2 or 3 additional years are required to secure a final cease-and-desist order, the violation can continue for a period of 3 or 4 years, and sometimes more.

The Commission has requested an appropriation of \$10,690,000 for the coming year. This is \$2,680,500 more than its present appropriation. But only \$1,630,500 of this increase is for the regular work of the Commission.

The remaining part of the increase, or \$1,050,000, is for supplemental duties required by the request of the Attorney General to investigate compliance with a large number of court decrees entered in antitrust cases brought by the Department of Justice.

HOUSE REDUCTION

The House of Representatives has reduced this increase in the Commission's appropriation for the coming year from \$2,680,500 to \$1,990,500. This represents a reduction of 25.7 percent.

In terms of the Commission's regular program, the reduction by the House of Representatives of \$420,000 means that the Commission will have 54 fewer people on its staff than it needs.

In our view, \$10,690,000 is not too much to spend for the purpose of preventing restraints of trade, and deceptive acts and practices. We believe that the competitive enterprise system is worth whatever it takes to preserve its health and vigor.

There are forces at work in the economy which, if not restrained, will seriously injure competition. We urge that the Commission's requested appropriation be granted in full. We believe that this money will be well spent.

Many times that amount can be saved by preventing substantial injuries to competition and tendencies toward monopoly. An ounce of prevention is worth a pound of cure. This is why we urge the Commission be provided with the necessary means for doing its job in the most effective way possible.

Senator MAGNUSON. Thank you, Mr. Bison.

Any questions?

Senator SCHOEPEL. I would like to ask one question.

CONCENTRATION OF POWER AT RETAIL LEVEL

On page 2, you say the most serious economic problem in the field of food distribution today is the growing concentration of economic power at the retail level.

Give us some illustrations of what you mean by that.

Mr. BISON. Well, I can say to you, Senator, that every year the percentage of national sales by all food stores or grocery stores is a

larger—a larger percentage of those sales are in fewer and fewer stores across the Nation.

Senator SCHOEPEL. In other words, consolidations.

Mr. BISON. Yes, sir.

Senator SCHOEPEL. What are they going into, the big chains?

Mr. BISON. Yes, sir.

Senator SCHOEPEL. In other words, you are speaking from the standpoint of the independent operators in these areas?

Mr. BISON. That is correct, sir.

Senator SCHOEPEL. I presume, of course, you have taken into consideration the growth of these urban areas, consolidated shopping centers, which of course, have eliminated a lot of downtown, traffic. Business has been eliminated in some of those areas because of parking difficulties and all attendant changes that have come about.

PLIGHT OF INDEPENDENT OPERATOR

Mr. BISON. One of the problems an independent operator has today is that he cannot get into these shopping centers, because a lease signed by a local operator will not have any credit on the part of the people who loan money for these centers. Therefore, the people who build the centers have to have a national chain as a lessee in order to get money to put up the shopping center in the first place.

So, in many cases, even the most successful local or independent operator is excluded from such shopping centers, irrespective of his ability to operate a successful enterprise. This is a very serious problem. It contributes to the concentration.

Senator MAGNUSON. The contractor must come up with several leases in order to make the loan?

Mr. BISON. Seventy or seventy-five percent of the space, Senator, must be generally leased to triple A, No. 1 credit risks, national credit-rated risks.

Otherwise, the promoter will not be able to get the loan to construct the center. The initial companies do not regard a lease signed by a local operator as merchantable. It makes no difference what the experience of this local operator is, how successful he is. The fact that he is local is enough. This is a very serious problem and there is no answer to it right now, because there is no provision for insuring leases, as it were, as you insure home mortgages under FHA. There is no provision for insuring leases.

Senator MAGNUSON. In most of those cases, too, Mr. Bison, the local lender has not been to the local bank and the local people are circumvented because the insurance companies make the loan. They have very little to say about it, too.

Mr. BISON. That is right, the insurance companies look upon it as a matter of routine. Either the lease is signed by a national chain or it is not. It is a simple matter.

GUARANTEED LEASING PROGRAM

Senator SCHOEPEL. I understand that at a hearing of the Small Business Committee the other day, there was testimony to the effect that the Small Business Committee is going to look into the guaranteed leasing problem.

Are you familiar with that?

Mr. BISON. Yes; I am, Senator. I hope that it will be successful, because as the local moving increases, the operator—I am not thinking

of the successful local operator, because essentially that is the type of person who would go into a shopping center—today in many cases he is prohibited from even being considered as a lessee because of the mere fact that he is small. All the other contributions he could make to the center are disregarded.

As I said before, either the lessee is a national rated—national credit-rated tenant or he is not.

Senator ALLOTT. Mr. Chairman, I think there are a lot of things that contribute—taxation and other things—that contribute to the general worsening of the situation of the small independent grocery owner. This is true with drugstores, true with many other lines vis-a-vis the big ones.

As I said the other day at the hearings, I think the most important part of your statement for me is that unless the complaints can be investigated, processed, and acted on, it does not matter what you do a year from now or 2 years from now. The fellow is out of business, he has lost his shirt, and that is the end of him.

So, unless you can act speedily, with reasonable speed, the FTC is of no avail.

Mr. BISON. I could not—

Senator ALLOTT. I think this is the most important thing about it, as far as small business is concerned.

ANTITRUST LAW ENFORCEMENT

Mr. BISON. Senator, of all the things we do to increase the effectiveness of the antitrust laws, this appearance here today is more important than any other because we can have the finest laws on the books, Congress can create the most fair situation under law. But if it is not enforced expeditiously, it is of absolutely no value to us at all. Because our people are put out of business and gone and what can Federal Trade Commission do with an order? It cannot recreate the business.

So we consider that of all the antitrust efforts we go to during the law, this is the most important.

Senator MAGNUSON. We have been urging the Federal Trade Commission for some years, with some moderate success, to beef up the field operations where this sort of thing of which you complain will be under complaints and compliance and give more autonomy in the field, hoping that will expedite matters.

The new chairman testified on this appropriation that a great part of it was—more of it was—to beef up the field offices than the headquarters.

Mr. BISON. That would be very helpful. For instance, we understand that in the New York field office, under normal routine, if we were to go in today and file an application for a complaint, which is what we file, an application for a complaint, it will be a year or more before even an investigation can be conducted. You know how long it takes for an investigation. By that time we might just as well have saved our breath, because if it takes a year to start the investigation, it is going to be 3 or 4 years before the case is concluded. By that time, it is a waste of time.

Senator MAGNUSON. Any further questions of Mr. Bison?

(No response.)

Senator MAGNUSON. Thank you very much.

Mr. BISON. Thank you.

Senator MAGNUSON. Is Mr. Plaisted here?

(No response.)

Senator MAGNUSON. I do not see him here.

All right. Now we have Mr. Gorman here who is going to direct himself to the Veterans' Administration Medical Research. All of us know Mr. Gorman. He has appeared before us on other occasions on this particular matter.

Mike, you can proceed.

VETERANS' ADMINISTRATION

NATIONAL COMMITTEE AGAINST MENTAL ILLNESS

STATEMENT OF MIKE GORMAN, EXECUTIVE DIRECTOR

PREPARED STATEMENT

Mr. GORMAN. Mr. Chairman, I will just highlight if I may my statement.

Senator MAGNUSON. We will put this in the record in full.

(The statement referred to follows:)

STATEMENT BY MIKE GORMAN, EXECUTIVE DIRECTOR, NATIONAL COMMITTEE AGAINST MENTAL ILLNESS

Mr. Chairman and members of the committee, for fiscal 1962, the administration proposes \$22 million for the entire medical research program of the Veterans' Administration.

This is an increase of only \$500,000 above the amount appropriated by the Congress for the current year. Furthermore, it is \$5 million less than the allocation for medical research approved and submitted by former VA Administrator Sumner Whittier to the Bureau of the Budget in November 1960.

We are recommending a budget of \$34 million for the VA medical research program in fiscal 1962. This is approximately 3 percent of the \$1.1 billion which the Administration proposes to spend for all the medical care activities of the Veterans' Administration during the coming year.

Those of us who have been testifying for increased VA medical research over the past 6 years are most gratified that a rigorous, yearlong study of medical research in the Veterans' Administration by the National Research Council has given enthusiastic scientific approval to the high quality of this medical research program. As a matter of fact, in comparing the research productivity of VA scientists as against those employed by the National Institutes of Health, the National Research Council gives a slight edge to the Veterans' Administration. Interestingly enough, the Council report expressed the view that the patient-care responsibilities of the average VA research worker actually enhanced his research productivity.

The National Research Council report was most critical of the previous administration's inconsistent cuts in the budgets for VA medical research, pointing out that "continuation of the recent feast and famine financing will demoralize those concerned with research in the VA."

As its major recommendation, the National Research Council report stated emphatically that "the importance of research to the VA and the well-established trend toward increasing the support for research could amply justify at least the doubling of research activity in the Veterans' Administration, in a stepwise fashion, over the course of the next 5 years."

The National Research Council report also stressed the desperate need for adequate research laboratories in the VA.

Most of the VA hospitals built prior to World War II have no research laboratories and a high percentage of the hospitals built in the decade after World

War II contain inadequate laboratory space, particularly with regard to animal research facilities.

Inspection visits made by the members of the study committee of the National Research Council disclosed that converted garages, quonset huts, closed-in porches, and abandoned temporary buildings were presently being used for research. The Council report noted that "very little laboratory space now in use for research was originally designed for that purpose."

The Council estimated that it would cost about \$12 million to bring VA labs up to par with other parts of the research program. Two years ago, the Congress voted \$1.5 million for research construction, but this has been the only specific allocation for this purpose.

We are therefore recommending \$3 million for research construction in fiscal 1962 as a modest start toward meeting the total need.

Noting that the medical care program of the Veterans' Administration currently encompasses 125,000 beds, 114,000 patients and 7,800 physicians, it is the largest such program under a single administration in the world. The 1960 report, "Medical Research in the Veterans' Administration," points out that this operational control of 10 percent of the hospital patients and 4 percent of the physicians of the Nation "makes it imperative for the VA to assume responsibility for its potential research contribution. While the research program has only begun to exploit its enormous research potential, its accomplishments have been considerable and compare favorably in number and quality with those of any recognized national program."

The opportunity to do high quality medical research significantly assists the VA in recruiting and maintaining the most competent physicians.

Even more important, the existence of a dynamic medical research program guarantees the highest quality of patient care. As the 1960 annual report observes, the patients of some VA research hospitals may receive the benefits of medical advances months, or even years, ahead of patients in nonresearch institutions.

It is also important to note that all VA medical research is related to the medical care responsibilities of the entire hospital system. Any member of a VA hospital professional staff who wants to do research presents his proposal in competition for funds and space with other staff members, and its value is based largely upon how closely it relates to the potential improvement of medical care in the hospital.

During the past year, fortified by the wise congressional action in considerably lifting the inadequate medical research allocation originally proposed by the previous administration, medical research in the Veterans' Administration enjoyed its most significant and productive year. Many of its magnificent research studies were published in some of the Nation's top medical journals.

Time does not permit a detailed discussion of the more than 6,000 research projects carried on during fiscal 1961. But the following categories of research relating to the major medical care responsibilities of the Veterans' Administration are worthy of particular mention:

TUBERCULOSIS

As the committee well knows, the Veterans' Administration has been a world pioneer in the testing and evaluation of new drugs effective against tuberculosis. Over the past 6 years, this research program has reduced the number of hospitalized tuberculosis patients by more than 6,000 and has saved the Veterans' Administration considerably more than \$100 million.

During fiscal 1961, the VA conducted more than 300 individual research projects in the field of tuberculosis with particular emphasis upon new drugs which may be effective in patients whose tubercle bacilli no longer respond to the standard drug combinations.

AGING

The increasing age of the average veteran poses the greatest challenge to medical research.

As the 1960 annual report notes:

"The average age of the nearly 23 million veterans has now passed into that time of life when more persons have more serious physical ailments, and when mental disorders increase in frequency. At 40 years of age there begins an increase in the occurrence rates of many illnesses which become striking by the age of 45. * * * The increase in the demands on the VA system that will be

caused by this imminent and enormous influx has placed aging in first place among the agency's concerns. It is of extreme importance that every possible way to check the flood be investigated."

The flood is already upon us. Three years ago, when we brought out our first factbook on the Veterans' Administration, 18,000 hospitalized veterans were over 65 years of age. Today, 27,000 hospitalized veterans are over 65 years of age—approximately 25 percent of the entire patient load of the VA hospital system.

During fiscal 1961, the VA stepped up its research programs on aging, but the sums it currently spends in this area are woefully inadequate to the tasks at hand.

MENTAL ILLNESS

Victims of mental illness fill more than 50 percent of the beds in the Veterans' Administration.

The cost of care and maintenance of 61,000 psychiatric patients in VA hospitals in 1960 was \$315 million. In the short period of 14 years, hospital costs for mentally ill veterans have increased by more than 800 percent—from \$38 million in 1946 to \$315 million in 1960.

Lengthy hospitalization of mentally ill veterans is an important contributing factor in these rapidly rising costs. Forty-four percent of these veterans have been hospitalized 10 years or more, with 19 percent hospitalized for more than 20 years.

Over and above this, compensation and pension payments by the Veterans' Administration to veterans with neuropsychiatric disabilities totaled \$570 million in 1960 alone.

The VA has begun the mounting of a large-scale research offensive against mental illness.

Over the past 4 years, it has conducted the largest evaluation ever done in any part of the world on the efficacy of the new drugs against various forms of mental illness.

Because of its ability to bring as many as 40 hospitals into this cooperative evaluation, and because its medical records are the most complete in the country, its research results in this field have been accepted and hailed by the entire scientific community.

These cooperative studies have demonstrated conclusively the effectiveness of the tranquilizing drugs as potent therapeutic agents.

Prior to the VA mass studies, there were relatively few evaluations that used adequate controls and the results were frequently based on too small numbers, so that there was conflicting opinion about the tranquilizers. The results from the first four VA cooperative studies provided unequivocal evidence regarding the efficacy of the tranquilizing drugs in treating schizophrenic reactions, and research investigators throughout the country have borrowed the VA protocols and instruments for measuring changes in patients' behavior.

Due to the use of these drugs upon several hundred thousand veterans over the past 4 years, there has been a remarkable 40-percent increase in the discharge of mentally ill veterans. Apart from humanitarian considerations, this remarkable increase in the discharge rate has obviated the necessity of building thousands of additional hospital beds costing millions of dollars.

CANCER

On the basis of prevailing statistics as to the incidence of cancer in this country, 5.6 million veterans will at some time be hospitalized, or will be entitled to hospitalization, for cancer. If 80 percent of the veterans developing cancer receive hospitalization for this condition from the VA, they will cost the taxpayers a total of \$6.3 billion.

The VA has established 74 separate research teams to evaluate chemicals showing promise against various forms of cancer. In fact, the VA cancer research effort constitutes approximately one-third of the national screening program to find new drugs effective against cancer.

Through these activities, the Veterans' Administration has earned additional high praise in the scientific community by its demonstration once more that the VA hospitals are ideally suited to carry out well-controlled, well-documented group studies in a minimum of time with minimum expense and maximum productivity in quantity and quality.

For example, lung cancer is the most rapidly increasing form of cancer in this country. Early diagnosis, followed swiftly by adequate treatment, is the only

current means of decreasing the alarming mortality from lung cancer, of which some 4,000 cases are seen in the VA hospitals annually.

In cooperation with the American Cancer Society, the Veterans' Administration is currently financing a 2-year study involving chest X-rays and other diagnostic procedures on 15,000 domiciliary residents.

In one phase of this massive study, it has been established that early cancer of the lung can be detected as easily and satisfactorily as cancer of the cervix by examination of the cells in a smear.

As the veteran population ages, the volume of cancer patients under the VA's supervision and care is increasing. This poses the obligation of closely following these individuals in order to afford the earliest and best treatment for each. For this reason, the Veterans' Administration has developed a central registry of all cancer admissions to VA hospitals, including up-to-date clinical data on each case. In 1958, 26,000 malignancies were registered, 14,000 of these being newly diagnosed in that year.

HEART DISEASE

Last year, the Veterans' Administration spent \$32 million for the hospital care of victims of heart disease. Over and above this, more than 500,000 veterans in 1960 received approximately \$460 million in compensation and pension payments for disabilities resulting from heart disease.

During 1961, there were more than 400 research projects in the area of cardiovascular disease. In approximately 40 hospitals, there is highly sophisticated cardiovascular surgical research; 30 hospitals have equipment for open heart surgery; and 20 are equipped for the most complicated types of chest surgery.

Among the many surgical and instrumental improvements resulting from this research effort, the following should be mentioned:

(1) In an effort to salvage patients faced with the loss of a lower extremity due to heart disease, bypass arterial grafts were successfully performed for the first time at the Memphis V.A. hospital.

(2) A device for stapling blood vessels with stainless steel staples has been constructed and used successfully at the Oteen VA hospital.

(3) A mechanical device to massage the heart has been perfected at the Coral Gables VA hospital.

(4) A simple, easy, quick, and cheap method for connecting blood vessels has been developed and tested at the Buffalo VA hospital.

Veterans' Administration researchers have achieved national renown for their cooperative evaluation and demonstration of two drugs successfully used in combination against hypertension.

The VA is continuing its many studies in the field of atherosclerosis, with particular reference to the roles of fat and cholesterol in the production of this disease.

In conclusion, may I state that we face a simple choice: either we accelerate the sums available for VA medical research or we resign ourselves to an intolerable tax burden for the hospitalization of thousands upon thousands of additional veterans whose increasing age renders them susceptible to one or another of the major diseases of our time.

On behalf of Dr. Michael E. De Bakey, professor and chairman of the department of surgery, Baylor University, Houston Tex.; Dr. Frederick J. Stare, professor and chairman, department of nutrition, Harvard University; Dr. Sidney Farber, professor of pathology, Harvard University, and medical director of the Children's Cancer Research Foundation, Boston, Mass., and Dr. Nathan S. Kline, director of research, Rockland State Mental Hospital, Orangeburg, N.Y., I appended to this statement our collective judgment as to the minimum budget needed by the Veterans' Administration to carry out its responsibilities in the field of medical research.

Mr. Chairman, I have just a couple of comments on the action of the House of Representatives with regard to this appropriation.

We are deeply gratified that the House appropriated \$27 million for VA medical research—this is the exact sum approved by former VA Administrator Sumner Whittier, and recommended to the Bureau of the Budget late last year.

We are also pleased that the debate on the floor of the House on this appropriation indicated strong support for a specific allocation for construction of medical research laboratories. Speaking to the House with regard to the \$27

million allocated for VA medical research, Congressman Sidney Yates of Illinois noted:

"There is provision not only for a specific program of projects, but an allocation as well for construction of laboratories. Such laboratories are an essential part of a good research program and they are needed for the VA medical program."

For a further discussion of the desperate need for these research laboratories, may I refer this committee to page 538 of the House hearings on Independent Offices where there is listed emergency construction needs in VA hospitals in all parts of the country totaling \$12,930,000.

We are confident that the Senate will uphold the House action and allocate a minimum of \$3 million specifically for a good beginning in cutting down this research construction backlog in fiscal 1962.

Citizens' request for selected increases in Veterans' Administration medical research budget for fiscal 1962

[In thousands]

	Estimated fiscal 1961 expenditure	Fiscal 1962 citizens increase
Cancer.....	\$2,252	\$1,500
Heart disease.....	3,192	1,000
Mental illness.....	2,498	1,500
Aging.....	1,757	1,500
Tuberculosis.....	1,423	500
Neurology.....	775	1,000
Cooperative studies.....	845	2,000
Total cost of additional research in VA.....		9,000
Additional research laboratory facilities.....		3,000
Total increase requested.....		12,000
Fiscal 1961 appropriation.....		21,500
Fiscal 1962 President's budget.....		22,000
Fiscal 1962 citizens request.....		34,000

ADDENDUM, VA SENATE TESTIMONY

Mr. Chairman, one final observation: I understand from very good authority that the Chief Medical Director of the Veterans' Administration has instructed the Director of the medical research program and his associates to hold to a rigid defense of the administration figure for VA medical research.

We think this is totally unfair. We believe that this distinguished committee should hear the honest, frank, professional judgment of the Director of Medical Research as to what he thinks is the minimum amount needed to develop a medical research program in all parts of the country designed to save the lives of veterans and return thousands upon thousands of hospitalized veterans to useful lives in the community. The Director of the medical research program is not a budget official, he is an eminent doctor who should be allowed to state his opinion as a doctor as to the funds needed to develop this program. It is then up to this committee to equate his professional request with the fiscal policy of the country.

It is, we submit, not the function of the Chief Medical Director of the Veterans' Administration to give rigid budget ceilings to professional people who know and have stated their beliefs that the administration budget for VA medical research is totally inadequate to the magnificent research potential in the 170 VA hospitals throughout this country.

GENERAL STATEMENT

Mr. GORMAN. I thank you, sir.

I have with me on my right—

Senator MAGNUSON. Dr. Farber is here and Dr. Fred Stare, who is with the Department of Nutrition at Harvard University, and Dr. Farber who is one of the world's most distinguished cancer specialists.

Mr. GORMAN. Mr. Chairman, briefly our case runs along this line. The administration proposes \$22 million for the entire medical research program of the Veterans' Administration and we are recommending a budget of \$34 million for this medical research program. And as you well know, Mr. Chairman, this is the sixth year we have appeared on the subject.

MEDICAL RESEARCH, VETERAN'S ADMINISTRATION

We are tremendously interested in creating a very fine medical research potential in the Veterans' Administration. We think it has the finest medical research system in the world and it is 120,000 beds in 170 hospitals throughout the Nation, but we are somewhat disturbed by the fact that it spends approximately \$1 billion for medical care at the present time which is very sizable. It spends another \$75 million for construction and additional money, and yet it spends less than 2 percent of that at the present time for medical research.

Now, we don't think that any business like the Du Pont Chemical or any other good industry would run long on that small a percentage for research. And we think the product in this case is not a helicopter but a human being. We think there ought to be lots more research on human beings, and their efficiency and functioning. We are all for helicopters, too, but we think the human race is terribly important, too.

So the contention we make, Mr. Chairman, this year—and I think we have been pretty consistent in our contention over the years, and we are terribly grateful to this committee—

Senator MAGNUSON. Let us start on page 4. This is very important. And let us get down to cases here where you start on TB.

VA WORK IN T.B.

Mr. GORMAN. Now, I think the TB is the most dramatic example of this. The VA, starting in 1946, pioneered in the evaluation of new drugs against TB. This was the largest research evaluation ever done on streptomycin, PAS, and isoniazid. And through these studies which were then translated throughout the research world, in the Veterans' Administration alone there has been a drop from 16,000 TB beds to 8,000.

Now, that saving is estimated, and I think that is a very conservative estimate, at about \$100 million. I think it is much more now. My figure is a fiscal 1959 figure.

One example is that Veterans' Administration TB hospitals have closed in all parts of the country. This is a real saving, a tremendous one.

PROBLEM OF AGING

In the aging area, I advert to this problem for one very simple reason. As a veteran myself, I don't like to refer to aging problems too much—

Senator MAGNUSON. There is nothing personal in this because we are all getting in that shape, we World War II guys, too.

Mr. GORMAN. Well, this aging process which we haven't found a cure for yet, Mr. Chairman, now means that the average hospitalized veteran is 50 years of age. This is a problem that is going to—

Senator KUCHEL. Just a young man.

Mr. GORMAN. Young men of about 50, Senator Kuchel. But as these young men grow older, they are going to be faced with the chronic illnesses, mainly cancer, heart disease, mental illness, and the other degenerative illnesses.

Now we don't, Mr. Chairman, want these to turn into rocking chair homes or old domiciliaries and we are kind of afraid—I remember as a journalist back in 1945 when I was quite critical of the old Veterans' Administration hospitals under General Hines and was up before Mr. Rankin because of some remarks I had made in Collier's magazine, I said that I think we ought to have first-rate medical hospitals for veterans of World War II and not fur-lined rocking chairs.

This was a beginning, as so many of us know, under Paul Hawley, and I think it is today the finest public hospital system in the world, but we don't want it to degenerate and we don't want it to be just a rocking chair place where little ladies from the Red Cross come in with nice baked turkeys. I am all for the Red Cross, too, but we want medical care and we want these veterans to get back and become productive.

MENTAL ILLNESS

The other example I am interested in particularly, and the other doctors will talk to this in a little more detail, is the problem of mental illness, for one simple reason, that it fills more than 50 percent of the hospital beds in the Veterans' Administration: 61,000.

Senator MAGNUSON. Let me ask this question, and we will talk to the Veterans' Administration about it on Monday. The mental illness line is still going upward; that is, in the sense that every other bed is a NP case now.

Mr. GORMAN. Yes.

Senator MAGNUSON. But there are more of them in the hospitals, let us put it that way. The ratio of mental illness cases in the Veterans' Administration hospitals is still remaining about the same.

Mr. GORMAN. About the same, Mr. Chairman. A little rise but not too perceptible. One reason for that is that there are 22,000 veterans awaiting admission to Veterans' Administration hospitals now. Of those who are awaiting admission, and practically all of these are non-service-connected cases—I think maybe about 95 percent—16,000 of the 22,000 are mentally ill. As soon as we empty beds or increase our discharge rates, the problem in mental illness is so great that the Veterans' Administration bed is quickly filled.

As soon as we close a TB ward we convert it and open a neuropsychiatric ward. That is the problem because of the waiting list.

VETERANS IN STATE HOSPITALS

Many of the veterans are being cared for on a contract basis in the field of mental illness in State mental hospitals, but that is far from satisfactory. I have toured most of them in my day and time as a veteran myself, and having any member of my family a veteran, I wouldn't want them to go in the average State mental hospital. I would exempt very definitely the State of California from this statement because they have an excellent State hospital system. I would not accept the State of West Virginia where the American Legion raised holy heck because of the inadequate veterans' hospitals.

Senator KUCHEL. Is the incidence of mental illness or distress among veterans markedly greater than among the rest of the citizens in the country?

Mr. GORMAN. Senator Kuchel, that is a difficult question. I can answer it this way from the literature and the studies in the field. It is comparable in terms of its incidence. In other words, if you took a broad indication of the population in this country, you would find very little more incidence among veterans than among nonveterans. The great incidence of it occurred right after World War II with the results, the afterwar effects, that you then had a great incidence of it which has kind of leveled off as they returned to civilian life and returned to normal activities.

Senator KUCHEL. Those people you talk about, those unfortunate people right after the war, during and after the war, aren't reflected in your problem now with respect to mental illness.

Mr. GORMAN. They are not reflected now, Senator Kuchel, because the thing kind of leveled off. The first few years were very tough. And all your big NP hospitals were built in the Veterans' Administration system during that time for all these fellows who "cracked up" during the war.

LONGTIME PATIENTS

Senator ALLOTT. Mr. Gorman, there is something wrong in either the way he stated his question or the way you answered it. On page 6 you have 44 percent of these veterans have been hospitalized 10 years or more. So there is a reflection of that in your present load, isn't there?

Mr. GORMAN. Yes. There is some. Of those who were in, unfortunately a lot are still in. Yes. That is correct. A lot of those who were admitted in the 1945-50 period, unfortunately before we had the drugs or any medications, are still there today. These are the facts as they are.

But I think the—

INCREASE IN COSTS FOR MENTALLY ILL

Senator MAGNUSON. But I think we ought to—this should be in the record, that in the past 14 years the hospital costs for the mentally ill veteran has increased by more than 600 percent, and for the purposes of the record, I just checked, the veterans' hospital bill—the hospital bill for the veterans this year is \$1,900 million.

Mr. GORMAN. Yes. Of course, we think this has been going up, too, Mr. Chairman, and the only way to stop it is through medical research to find some cures or some forms of treatment.

Senator MAGNUSON. So approximately about a third of the total hospitalization costs of the Veterans' Administration is in this field. Direct costs.

Mr. GORMAN. Yes. That is right.

Senator MAGNUSON. Of course, the total cost includes a lot of other things, but about a third is in this particular field.

Mr. GORMAN. In the field of mental disorders, covering the 62,000 beds in which we have mental illness. We don't want to be too pessimistic about this, in one sense, that during the last 6 years during the use of tranquilizers, tranquilizing drugs in the Veterans' Administra-

tion, they were used in the Veterans' Administration more than any other system.

Senator MAGNUSON. The doctor can testify to that, can't he?

INCREASE IN DISCHARGES

Mr. GORMAN. I have got a heart man and a cancer man. My mental illness man is in Indonesia.

All I can say is I can use the Veterans' Administration figures and say that there has been a 95-percent increase in the discharges in the last 6 years, from 28,000 discharged in 1955 to 44,000 in 1960. That is a very impressive increase due to drugs.

The only problem there is that people say, "Why don't you have less beds for the mentally ill," but there is that waiting list. We are cutting down and discharging people but the waiting list is still in order. We will one day get on top of it but I think we are about 10 years away from being on top of it to where we can say there is no longer any waiting list and we are on top of the problem of mental illness.

I will pass the cancer field because Dr. Farber is here.

RESEARCH IN MENTAL ILLNESS

Senator MAGNUSON. Let us get this also in the record. Research in mental illness, if there is any place in our country that lends itself to research in this great field, it is the 180-some veterans' hospitals because here you have a laboratory of patients which you can keep track of, which you can have records on, which you can pretty near watch all the time, whereas out in the public you lose them. So the results of your research can be pretty well established. The problem can be better established and what to do about it can be better established than in any other field of governmental activity of research in medicine.

Mr. GORMAN. I think that is right, Mr. Chairman. I think most of the complete reports of the veterans go back to at least the beginning of their World War II experience and is of invaluable aid to any kind of treatment. This is a superb record of previous cases of mental illness, breakdowns, or anything else. In the State hospitals in the country you don't have identical statistics and you have a heck of a time following a guy who has been in a hospital in Colorado one time and in Oklahoma another time and in another State at another time.

Senator MAGNUSON. Let us go on to the cancer field.

Mr. GORMAN. Dr. Farber will speak on cancer and Dr. Stare on heart.

HOUSE ACTION

I may skip to page 10, at the bottom, where I come to the House action, and that is to say that the House appropriated \$27 million for Veterans' Administration medical research, and we point out that this is the exact sum approved by former Veterans' Administration Administrator, Sumner Whittier, and recommended to the Budget Bureau at that time, a year ago.

We are also pleased that the debate on the floor of the House on this appropriation indicated strong support for a specific allocation

for construction of medical research laboratories. We think this is a real need in the Veterans' Administration. And speaking to the House with regard to the \$27 million allocated for Veterans' Administration medical research, Congressman Sidney Yates, of Illinois, noted:

There is provision not only for a specific program of projects, but an allocation as well for construction of laboratories. Such laboratories are an essential part of a good research program and they are needed for the VA medical program.

For a further discussion of the desperate need for these research laboratories, may I refer this committee to page 538 of the House hearings on independent offices where there is listed emergency construction needs in the Veterans' Administration hospitals totaling \$12,930,000, specified by States and locations. So this is a sound figure.

PROPOSED BUDGET

And the budget that we are proposing, Mr. Chairman, is appended to the statement following page 9. It has been arrived at after much soul searching, talking to most of the officials in the Veterans' Administration responsible for this, and in the case of myself, if I may refer to that, in visiting some 40 VA hospitals in the past year and having a pretty close knowledge of what they do.

I have one little addendum here since the Veterans' Administration officials themselves will come on before this committee at 2 p.m. on Monday, and that is that I do understand from very good authority that the Chief Medical Director of the Veterans' Administration has instructed the Director of the medical research program and his associates to hold to a rigid defense of the Administration figure for VA medical research.

We think this is totally unfair. We believe that this distinguished committee should hear the honest, frank, professional judgment of the Director of Medical Research as to what he thinks the minimum amount needed to develop a medical research program in all parts of the country designed to save the lives of veterans and return thousands upon thousands of hospitalized veterans to useful lives in the community.

Now, it is our contention also, and I think this is a fairly obvious point, that the Director of the medical research program is not a budget official. He is an eminent doctor. He should be allowed to state his opinion as a doctor as to the funds needed to develop this program. It is then up to this committee to equate his professional request with the fiscal policy of the country.

BUDGET POLICY

It is, we submit, not the function of the Chief Medical Director of the Veterans' Administration to give rigid budget ceilings to professional people who know and have stated their beliefs that the Administration budget for the VA medical research is totally inadequate to the magnificent research potential in the 170 VA hospitals throughout this country.

That concludes my statement, Mr. Chairman.

Senator MAGNUSON. Well, of course, Mr. Gorman, you know this is an old story, this situation down there.

Mr. GORMAN. Yes.

Senator MAGNUSON. And I don't say this because I am here, but a great deal of the research we have had to almost force upon the Veterans' Administration, and yet after it has been done, they all not only testified but they make talks all over the country and they point with pride to what has been done in this particular field, and a lot of good has been done. They have a right to do this. But it has been a most difficult situation to do just what you said there in the end because of these instructions, and the same is true in some other departments of medical research. But it always seems to crop up here. And they always use the point, well, we don't want to take away from our total budget anything that is needed in the other phases of their activity, and, of course—what is it, as \$5 billion budget—I don't think \$12 million is going to take away much any place here, an extra \$12 million.

Mr. GORMAN. The only thing, I put that little observation on the end there because I would like for you to hear their professional judgment, the professional judgment of these people, what they really need.

Senator MAGNUSON. I think the group performed a great service.

Now, on cancer, the doctor is here, and I would like to read this statement for the record, though. This is page 7, and this is correct. All my evidence bears this out.

On the basis of prevailing statistics—

if things remain as they are and you don't make any progress in research as to the incidence of cancer in this country—

5,600,000 veterans will at some time be hospitalized or will be entitled to hospitalization for cancer.

And every figure bears that out that unless we can make some progress in this field.

Now, Doctor, we are glad to hear from you. Dr. Farber.

RESEARCH ACTIVITIES IN VETERANS' ADMINISTRATION

STATEMENT OF DR. SIDNEY FARBER, HARVARD UNIVERSITY

GENERAL STATEMENT

Dr. FARBER. Thank you, Mr. Chairman, and gentlemen of the committee.

Senator MAGNUSON. Dr. Farber, we are glad to see you here again. We would be glad to hear from you briefly.

Dr. FARBER. I am delighted to have this opportunity to say just a word in behalf of the budget which Mr. Gorman has presented to you in support of research activities in the Veterans' Administration.

The history of what your committee and its counterpart in the House has accomplished in behalf of the Veterans' Administration represents one of the finest chapters in the development of medical research in this country, and this is in a matter of only a few years. What has been done through this research program has been, first, to insure a much finer type of doctor in the Veterans' Administration hospitals, and it has not only enabled a better kind of man to be recruited but we

have been able to keep them in the Veterans' Administration hospitals, which otherwise would not have been the case because of the tremendous competition for good men in medical research, medical care in other kinds of facilities in the country.

Secondly, the medical research in recruiting better men has obviously given much finer care to the large number of veterans who are patients in the veterans' hospitals in the country. And in addition to giving better care, this medical research has paid a dividend in behalf of the country as a whole and mankind as a whole by adding to the total sum of our medical knowledge.

Now, in the field of cancer, the Veterans' Administration research program has made a truly enormous contribution, and I use that word advisedly. The largest cooperative voluntary research program in the history of medicine in this country is the cancer chemotherapy national program which was instituted through the action of Congress in supporting this program at the National Cancer Institute, the National Institutes of Health, and when we inaugurated that program just 6 years ago—

Senator MAGNUSON. The Chairman is quite interested in that. He authorized that bill nearly 25 years ago.

Dr. FARBER. And the chairman will be particularly happy to learn of the program which is now being formulated in celebration of the 25th anniversary of the founding of the Cancer Institute, in 1962—1937 when you offered that very important bill which has made medical history, sir.

Senator MAGNUSON. Thank you.

RESEARCH ON CHEMOTHERAPY IN CANCER

Dr. FARBER. This program looked for a source of research workers, and a source of patients who could be benefitted by this research, and as you see in the notes which Mr. Gorman has placed before you, nearly one-third of the total number of research programs in cancer chemotherapy in our national study, nearly one-third of the total are to be found in the Veterans' Administration hospitals, and I am not—I want to say here for the record—officially connected with the Veterans' Administration in any way.

I come as a citizen in support of this program, and I speak in open admiration of the caliber of the work that they have done, and I emphasize this because at the beginning of the research program in the Veterans' Administration, the question was raised frequently whether this was the place where research could be carried out.

Their record is a splendid one, and I would say that the finest work in our clinical programs in cancer chemotherapy is today being carried out in the many installations in the Veterans' Administration.

Senator KUCHEL. That is high praise, Doctor.

This is a very carefully considered statement, Senator. The reason that I arrive at this is because this group of research workers is able to work more closely together than any university or teaching hospital or research hospital group because of their very administrative arrangement which makes this kind of thing possible.

Their patients are under very much better control, and furthermore they have this remarkable opportunity to study patients who are hospitalized for other purposes and costs of hospitalization do not have

to be added to the research program. That is already there for the primary purpose.

Now, I think that the last point I want to make, Mr. Chairman, and gentlemen, is that their research in the Veterans' Administration should no longer be circumscribed. They should not be restricted to collaborative programs nor should they be restricted to the evaluation of the new chemicals or new methods of treatment. You cannot restrict good research workers, because when you do, you soon have a sterile research program, and I would like to see the veterans' research program so well supported that they will be able to continue to attract fine minds, to keep them there, and these fine minds must have a place in which to work, and I want to close by emphasizing the great importance of providing research facilities which will be commensurate with the quality of the work which these men are capable of carrying out.

GROWTH IN COOPERATIVE SPIRIT

Senator MAGNUSON. Doctor, another added thing that has happened since we started this, which you have devoted a lot of your valuable time to helping us on, we found I would say 10 years ago, 14 years ago, that there wasn't the cooperation or the liaison—it wasn't the lack of desire—between the Veterans' Administration work, what little research they were doing, and a close-by medical school or a large county hospital or a private institution, and I find that since we have started this movement, in many places in the United States you will find that the university and the other people are all gathered together and the liaison is becoming just excellent.

Now, this helps keep these people in there. It makes them feel better. They are dealing with their colleagues here and there. They are working these things out the best they know how together. And prior to that time the veterans' thing was sort of an isolated thing sitting over here. People wouldn't think of using it. But that liaison is really growing.

Dr. FARBER. I agree with your very clear summary of this, Mr. Chairman.

Senator MAGNUSON. In California they have the University of California and the VA hospital.

Senator KUCHEL. Stanford.

Senator MAGNUSON. Up in my town, the new medical school of the University of Washington. They are working back and forth all the time. We draw a lot out of them because we do this thing.

Senator KUCHEL. The chairman is absolutely right.

Senator MONRONEY. There is a new VA hospital in Oklahoma City exactly opposite the University of Oklahoma Research Center. So they are all pooled together.

Senator MAGNUSON. This never happened before. The VA hospital would be isolated out there some place. Nobody would particularly go out there. There wouldn't be any cooperation in research at all, and now they are all getting together.

VA RESEARCH AND MEDICAL SCHOOL

Dr. FARBER. I think it is a very fair statement to say that if you took away the research programs in the Veterans' Administration hos-

pitals, you would soon lose the medical school connections because you could not have the first-class and second-class citizens in the same medical school area.

Senator MAGNUSON. Any questions?

Senator KUCHEL. How would you break down the—perhaps the doctor or maybe Mr. Gorman can answer this—how would you break down the lump-sum increase which you recommend? I am most interested.

Senator MAGNUSON. It is right here.

Mr. GORMAN. We have appended to our statement—

Senator KUCHEL. But in addition to that I find the people around this table are most interested in this subject.

BREAKDOWN OF FUNDS

Mr. GORMAN. We have broken down by the increases of the \$9 million that we ask, we have broken it down into increases by categories, sir, and we have done this pretty carefully on the basis of what we think the potential is in each of these categorial diseases.

Senator KUCHEL. What I am anticipating in view of your statement is that we are going to have some testimony before this committee—let us take the cancer, for example, the \$1,500,000 could feasibly be used. What my question is directed to is a breakdown of how you arrived at that figure.

BASIS OF ARRIVAL AT FIGURE

Dr. FARBER. This figure in the case of cancer, and this applies to the other categories, was arrived at on the basis of study of the present program of research, the study of the potential for increase, the money that could be wisely and properly expended, and money which, the amount which must be spent in order to maintain the research program in its very carefully controlled increase over the years.

Senator KUCHEL. For example, Doctor, in the suggested increase for cancer, would part of that be for additional professional personnel, part for laboratory equipment that is necessary?

Dr. FARBER. Yes. This is for additional personnel and for the cost of increased equipment. There is a separate item of construction of \$3 million for laboratory construction, and that is not included in the \$1.5 million for cancer. It is essentially for personnel and for the necessary laboratory equipment and technicians, and so forth, who will be required to carry out this program.

Senator KUCHEL. Across the board.

LUNG CANCER

Senator MAGNUSON. I might say I think part of this could be justified because you see on page 8 of Mr. Gorman's statement, lung cancer, the program of lung cancer, and if we can get into this massive study and establish, like we did in the cervix, the smear tests, they are going to need to do some more things about it, and the place to do it is in these VA hospitals. That is increasing more rapidly than any other type of cancer apparently.

Mr. GORMAN. I think Dr. Farber is a little modest. He is the chairman of the national cancer chemotherapy program. This is the most

distinguished effort in the history of the country in medical research. They are examining 50,000 compounds a year to find compounds effective against cancer. They have already found 5-year cures in three kinds of cancer, not large ones, but perceptible evidence that thing is going forward, and when Dr. Farber speaks with admiration of the VA medical research program, it is not self-serving and he is a very tough man when he looks at a program, I know. He has looked at many programs in his day.

Senator KUCHEL. Off the record.

(Discussion off the record.)

Senator MAGNUSON. All right. Any further questions? Thank you, Doctor.

Now we go to the heart man.

Mr. GORMAN. Dr. Fred Stare is a heart specialist.

EXPENDITURES OF VA ON HEART DISEASE

Senator MAGNUSON. I think the record should show here that last year the VA spent in the hospitals—it is a large amount but comparatively it is not too large an amount considering the item of nearly \$1,032 million in the hospital care of victims of heart diseases, but more than 500,000 veterans received approximately \$460 million in compensation on this, and, of course, a lot of this, as we understand, a lot of this is outpatient care. So it is not reflected.

The huge cost to the Government is not necessarily reflected in just those that are in the Veterans' Administration hospitals. This is the big outpatient thing. This is the big compensation thing on the outside.

So we are glad to hear from you, Doctor.

HARVARD UNIVERSITY SCHOOL OF PUBLIC HEALTH

STATEMENT OF DR. FREDERICK J. STARE, CHAIRMAN, DEPARTMENT OF NUTRITION

GENERAL STATEMENT

Dr. STARE. My name is Dr. Frederick J. Stare and I am a professor of nutrition at Harvard University and an associate in medicine at the Peter Bent Brigham Hospital in Boston, and a physician licensed to practice medicine in the Commonwealth of Massachusetts.

I think this is the third time I have been before this committee in support of increased research appropriations for the Veterans' Administration. Actually I think when we are dealing with a medical bill that is—I don't know where—you mentioned a figure of \$1.9 billion—I don't know how much the cost in care and pensions and so forth is, but it is big.

INCREASED EXPENDITURES

I know it is \$2 million, \$3 million, \$4 million, or \$5 million. It is awfully damn big. And it is going to get bigger.

The reason why is that veterans now—the average age of veterans now is 50. Next year it will be 51, and as you get to be a little older, you have more infirmities. Everybody does. So the cost of the medical care program and of taking care of the veterans can't do anything

but go up for the time, but go up, and the only way in God's green earth that you can ever keep it from getting sky high is to have more research to try to find better methods of treatment, better methods of care to shorten these periods, and in some cases, I think, actually to prevent some of these illnesses which today are responsible for so much cost. This can only come about through research.

Now, when you think—I believe the figure that Mr. Gorman gave was somewhere around 3 percent of \$1 billion being spent for research—I believe this year that the Veterans' Administration had somewhere around \$21 million or \$22 million. I just heard 5 minutes ago when Mr. Gorman was testifying that the House apparently has recommended \$27 million.

AMOUNT REQUESTED

We are putting in a plea for \$34 million, which, to me, is really awfully puny, an awfully puny amount for the potential that will come to the taxpayer. I am a taxpayer. I would like in the coming 10 or 20 years, and my children some 30 or 40 years from now, that they would not have to be paying so much of their tax money for support of veterans, and the only way we can ever do this is to spend more money now and in the next few years cut out these costs.

PERCENTAGE OF FUNDS FOR RESEARCH

I think that the veterans almost ought to have a rider put in all veterans' legislation that 10 percent of these costs must go to support research to lessen the cost, and here all we are doing is asking for 3 percent. I think there are probably three good reasons why we should have a fair amount of good medical research in the VA—more than we have.

What we have I think is very good. I certainly would support what my colleague, Dr. Farber, had to say.

One is that you need good research for good patient care. Second is you need it to have a good staff and to recruit a good staff. And the third thing I would say is the economy. You have got to have some research to lessen the costs of taking care of the veterans.

RISE IN STATUS OF VA RESEARCH

Now, actually I think the research in the Veterans' Administration—I think one of the great happenings really in American medicine of the last 10 years is that the care and the research activities in these Veterans' hospitals has, I would say, become respectable. In fact, it is damn good. As you yourself implied a little while ago, 15 or 20 years ago there was no great status to be Chief of Medicine or to be associated with the Veterans' hospitals. Other people kind of looked down their noses. That is not the case today. Twice in the past year I have been out in the medical school in your State of Washington, and I have visited in your State, Senator Monroney, in Oklahoma, and I have been to a fair number of these places.

I spent last year twice out in California, and you can hardly tell the difference really between who is working for whom. The rapport among the physicians in the Veterans' Administration with people in Seattle in the medical school, in Los Angeles, at Stanford, in Oklahoma City, and in Boston is excellent and I think that is one of the

outstanding things that has happened in medical research in the VA. The people in the VA who have been directing this research in the last 5 or 6 years, which is the only time I can speak of with any assurance, I think have been very excellent.

Martin Cummings, who used to be in charge, was excellent. He left the Veterans' Administration, unfortunately, about a year or so ago. He was replaced by a young man by the name of Jim Musser who is now the current Director of Medical Research, and he is an excellent person to handle that.

I think you brought out, one of you two gentlemen in your remarks, that the VA has gotten the biggest, I suppose you would say, captive audience in the world as far as medical research goes.

IMPORTANCE OF RECORDS

I think another thing that should be stressed is the importance of records—the medical records of the admissions and medical history of what happened to this fellow 2 years ago, 4 years ago, which is one of the important things in medical research.

I was amused just this afternoon on the way down from Boston on the plane when reading today's New York Times. Apparently the President's physician had a news conference yesterday and someone asked her why she brought this orthopedic specialist from New York down to see the President yesterday morning, whenever it was that he came down, and she pointed out because he had seen the President 4 or 5 years ago and was reasonably well acquainted with his specific case.

This is what is the situation in the Veterans' Administration.

COOPERATIVE STUDIES

I think another great highlight of the current research activities in the Veterans' Administration, and the future possibilities, is the cooperative studies that they have done. Now, I am sure you will hear from the VA people things I just heard today, when you are talking with them on Monday. In this volume that was put out a few months ago by their Department of Medicine and Surgery are described a number of cooperative studies, cooperative studies in medicine and some in surgery, studies that are cooperative in most cases between one, two, three, and in one case I think there were 26 VA hospitals and a number of academic or university medical centers.

STUDIES IN HEART DISEASE

In the field of heart diseases, which is my particular interest, and particularly the role of diet in heart diseases, the fat in the diets, the type of fat, cholesterol, and all this sort of stuff, the VA has been doing and I am sure will continue to do a wonderful job. Within the last 2 or 3 years there have been devised a half dozen or so drugs, pharmaceuticals, which under certain cases lower the blood cholesterol, which, if true, is very desirable thing.

Now, why do I say "if true"? Well, you really don't know until you have an opportunity to test these things out on a large number of individuals for a relatively long period of time. And while as far as

I know today there is no cooperative study as yet underway in the VA on cholesterol lowering drugs, I feel certain that one will be started in the very near future because this has been a little shy.

LABORATORY CONSTRUCTION

I would like to just, before closing, put in a very strong plea to keep, or I would hope actually increase, the measly \$3 million that the House has recommended for laboratory construction, research laboratory construction, and the reason for that is the following:

I think most of all of the Veterans' Administration hospitals were built in a day when they were building hospitals. They weren't building hospitals that were going to be taking part in and running a medical research program. So there are no laboratories in the place. So while the Veterans' Administration hospital—I think you mentioned 180 hospitals—

Senator MAGNUSON. 173.

Dr. STARE. 173 hospitals—very few of those 173 hospitals actually have the physical facilities in the way of research laboratories to carry out much of a program. That is one of the reasons why the cooperative programs have developed so much, because a good bit of the laboratory work in these cooperative studies are done at places like the laboratories at the Oklahoma Medical Center, the University of Washington School of Medicine, and really done in the laboratories of universities because the VA doesn't have any laboratories to amount to anything.

That is why it is most important to see that that little figure of \$3 million at least remains in this request that I hope will be made.

POTENTIAL FOR MEDICAL RESEARCH

I will say in conclusion simply that the VA has really a tremendous potential for medical research because of the patients that are available to study, the fact that they can be followed.

And another thing that should be mentioned is not only do the veterans benefit from that but the entire American public benefits from it in the fact that medical discoveries made in the Veterans' Administration spill over so that everybody can use them. So that all Americans benefit. It actually is going to cost the taxpayer less 10 years from now for the money we spend today, and it will continue to give good care for the veterans.

I brought with me, which I didn't even look at, a very brief 3-page statement which would be a—

Senator MAGNUSON. We will put that in the record in full.

Dr. STARE. I am sure the language will be better than the extemporaneous words.

(The statement referred to follows:)

STATEMENT OF FREDERICK J. STARE, M.D., PROFESSOR OF NUTRITION AND CHAIRMAN, DEPARTMENT OF NUTRITION, HARVARD UNIVERSITY SCHOOL OF PUBLIC HEALTH

An expansion of medical research—well planned, orderly, and of some magnitude—over the next several years—is vitally necessary, necessary for maintaining the good quality of medical care provided the veteran, and necessary for the American taxpayer.

The best medical care of the patient is given by those physicians, hospitals, and organizations that have a strong research program. The Veterans' Administration has the largest medical bill in the world, and one paid by the taxpayer. The only way this can ever be kept from getting completely out of hand is by research and more research into better treatment and prevention. Not only will an expanding program of medical research lessen the tax burden on Americans over the next 10 to 20 years, but all of us will benefit in improved health from the knowledge thus obtained.

For fiscal 1962, I support fully the citizens' request of \$34 million for the research budget of the VA. This is only about 3 percent of the \$1.1 billion that will be spent for all medical care activities of the VA. This research budget ought to go up to at least 10 percent of the total medical care program as soon as it can be done in an efficient manner.

Included in this \$34 million recommendation is \$3 million for additional research laboratory facilities. This is an absolute must. In fact, if I had my way, the appropriation for research laboratory facilities would be \$10 to \$12 million each year until the facilities caught up with the demands and the potentialities available for research in the VA. In my opinion, lack of anything approaching adequate research laboratories is the single greatest handicap today to medical research in the VA. By no means should you let anyone take one penny off this \$3 million research facilities item.

As I believe you know, this past year a special committee appointed by our National Research Council did a thorough study of medical research in the VA. This committee gave enthusiastic scientific approval to the high quality of the VA medical research programs. They recommended a continuing increase in medical research over the next several years. And of the necessity of funds for research laboratory facilities this committee wrote: "If any growth of research is to occur in a healthy fashion in the VA medical research programs, it must be accomplished by the construction of research laboratories." So don't let anyone remove the \$3 million we are recommending for this purpose.

As one would expect, the limited funds available for medical research have gone mostly into those areas that confront veterans the most—problems of aging which include principally heart and blood vessel disease and cancer, and mental, behavior and psychiatric problems.

The VA has unparalleled resources for the study of disease because of its large number of subjects, its fine group of hospitals, physicians, and other professional health personnel, and its excellent and uniform record.

I shall not take your time to recount the numerous advances made via VA medical research. They are many and they are given in detail in the reports prepared by the Department of Medicine and Surgery of the VA.

In closing, I wish again to mention the cardinal reason why I feel the citizens request of \$34 million for medical research for the VA for fiscal 1962 is a very modest request, and in the best interest of the veteran and the taxpayer.

1. This sum is only about 3 percent of the total medical care program.
2. It will do much to insure that the veteran medical services keep up with advances in medicine.
3. Results from VA medical research benefit all Americans.
4. Only through research can we ever stabilize and eventually decrease the total medical care costs of the VA, so money spent on research is a net savings to the taxpayer.

The citizens recommendation of \$34 million of which \$3 million should be earmarked for construction of research laboratory facilities, is a very conservative and minimum request.

Thank you for your attention and careful consideration.

Senator MAGNUSON. Any questions of the doctor?

Senator ALLOTT. No. I am disappointed to hear that the University of Colorado isn't making any strides in this area.

Dr. STARE. The State of Colorado? You have an excellent dean, Bob Fraser, a good friend of mine.

Senator ALLOTT. I know we have. I am not worried about that at all.

Senator MAGNUSON. Senator Kuchel, any questions?

Senator KUCHEL. No, but it is kind of refreshing that someone comes down here and testifies simply as a citizen.

Dr. STARE. I should say I have no connection with the Veterans' Administration.

Senator KUCHEL. I understand.

Dr. STARE. I will probably have to pay my own expenses even to come down.

Mr. GORMAN. You will.

Senator KUCHEL. I don't know whether they are deductible or not.

Dr. STARE. It is a small amount. There isn't any point in worrying about that.

Senator KUCHEL. I have no questions. I am interested like all my colleagues are, and particularly my chairman. I am a little bit acquainted with the problem in that we have our fair share of veterans in my State. I recognize what the chairman has said, and his interest. I very much enjoyed listening to the statement.

DIETARY EFFECTS STUDY

Senator MONRONEY. With reference to your interest, Doctor, in the dietary effects, this is one place, as you pointed out, wherein no other type of hospital can the controlled test long range be handled. Is that not a fact?

Dr. STARE. That is right.

Senator MONRONEY. In such great numbers that would be important.

Dr. STARE. For instance, I don't know why it wouldn't be possible in a veterans' hospital here to just almost tomorrow morning say, well, from now on the fat that is going to be used in all of your dietary menus is going to be X fat and we are going to reduce it down to such a level, and that can be done provided you don't get too many squawks from the customers about how bad the food tastes, but you can reduce it a little bit and it can be carried on for 6 months and you can then start on another type of dietary problem.

Senator MAGNUSON. And then you can follow it up and see what happens 2 or 3 years from now.

Dr. STARE. It is a wonderful opportunity that doesn't exist in any other place in the world, and that is why we should make the most of it. But please remember they do have to have some research laboratories to carry out these things.

Senator MAGNUSON. I think you are right. As we have moved along, that has been a little bit of an orphan, the equipment part of it, and I think we should pay more attention to it.

This is the first time the House has ever paid any attention.

Mr. GORMAN. The only specific allocation was done by your committee 2 years ago, a million and a half dollars. That is the only time we ever had a chance to say to the Budget Bureau, this is allocated for that purpose; under the construction funds, \$75 million a year, they don't give any for research laboratories. They want bigger things than that. So we plead with you and the members of the committee if you can line out this particular item and say "Hands off, this is \$3 million for medical research desperately needed" and maybe the pencil boys won't get at it.

Senator MAGNUSON. Thank all three of you. We appreciate your coming.

Dr. STARE. Thank you.

Mr. GORMAN. Thank you.

Senator MAGNUSON. Let us take up the helicopter thing.

Is Mr. Belinn here?

Mr. BELINN. Yes, sir.

Senator KUCHEL. Off the record.

(Discussion off the record.)

CIVIL AERONAUTICS BOARD

STATEMENT OF CLARENCE BELINN, LOS ANGELES AIRWAYS

SUBSIDIES FOR HELICOPTERS

Senator MAGNUSON. All right, Mr. Belinn, you are addressing yourself to the Civil Aeronautics Board, requesting an appropriation for subsidies for the helicopter operations in the United States, of which there are three, New York, Chicago, and Los Angeles.

Mr. BELINN. Right.

Senator MAGNUSON. And of which the House committee cut the amount from \$6 million plus, which is the computed amount under the law, with the subsidy, to \$5 million and then added some language.

Mr. BELINN. Correct.

Senator MAGNUSON. We will be glad to hear from you.

Mr. BELINN. Mr. Chairman, I have a short statement. In addition to that, I have a couple of briefs which I would like to have included in the record subsequent to the statement.

Senator MAGNUSON. All right. Read your short statement.

Mr. BELINN. My name is Clarence M. Belinn. I am president of Los Angeles Airways, Inc., a scheduled helicopter airline certificated by the Civil Aeronautics Board in May 1947. We operate a fleet of 8 single-engine machines ranging from the original 3-place Sikorsky mail plane to the 10-passenger turbine type. We also have five 28-passenger, twin-engine machines on order, the first of which is scheduled for delivery late next month.

Senator KUCHEL. Mr. Belinn, those are the turbine type?

Mr. BELINN. Yes, sir, they are the twin-engine turbine type, Senator.

Senator ALLOTT. How many of the turbine type do you now have?

Mr. BELINN. We have one, a single engine which is being used as an assimilator, also to study the turbine engine concept versus the piston engine concept.

Senator ROBERTSON. You said a single engine. Do some have more than one engine?

MULTIENGINE HELICOPTERS

Mr. BELINN. Yes, sir; the new generation of transport type helicopters will be multiengine.

Senator ROBERTSON. Where would the engines be?

Mr. BELINN. They will be located right alongside of each other. We have a photograph here, sir, in which they are shown right alongside each other on top of the cabin.

Senator ROBERTSON. If there is only one engine and two sets of blades operating, center blades and tail blades, you operate both with that one engine?

Mr. BELINN. That is correct.

Senator ROBERTSON. If that one engine goes out of commission, you fall?

Mr. BELINN. Yes, sir.

Senator ROBERTSON. If you put two engines in, can you depend on one of them if the other goes out of commission?

Mr. BELINN. Yes, sir.

Senator ROBERTSON. I have been told that the one-engine helicopter is more dangerous than an airplane. I thought it was the safest thing possible.

Mr. BELINN. We feel the two-engine helicopter is the safest device capable of being flown despite the fact that the single-engine helicopters have a very enviable record of safety.

Senator KUCHEL. What type do they use to transport the President back and forth?

Mr. BELINN. They are the piston-powered, single-engine Sikorsky model S-58, to my recollection.

AIR ROUTES AND TRAFFIC

Our routes cover a radius of approximately 65 miles from the Los Angeles International Air Terminal, which now accommodates 840 airline flights daily, serving 18,000 passengers every 24 hours. Our operation consists of a network of routes with heliports located at 20 major cities serving approximately 200 communities with about 100 flights daily, which is practically all their local air transportation.

Over these routes our traffic consists of passengers, mail and express, of which in excess of 90 percent makes direct connections with the fixed-wing carriers. Our flights and routes are so balanced that we enjoy full loads "in" as well as "out," and peak periods at a very minimum.

The southern California area which we serve is regarded as the fastest growing suburban area in the world. Its geographical characteristics and distances are such that neither fixed-wing aircraft nor surface vehicles are capable of solving the problems.

This, plus the rapid growth of new cities, has prevented the development of an urban network of either surface or subway type. We have had an average influx of 1,000 new automobiles each day for the last 10 years. We have had a population growth of 3 million during this period. We have built 1 million new homes at a value of \$15 billion.

During this period, we have also built a modern freeway system, which serves as a magnet for new industries, which in turn clog the freeways with all sorts of traffic so that by the time they are finished, they are of no practical value to the airline traveler. Coupled with this has been the gradual elimination of urban airports due to the combination of large jet planes, the building of homes and industrial growth.

HELICOPTER AND TRANSPORT EMERGENCY

The obvious conclusion is that the helicopter has emerged just in time to meet this challenge, just as other advances in technology have preceded it.

The economics of our proposition can be gaged in the light of the contributions to national defense, the commerce and the postal service. They are all substantial and noteworthy.

The term "subsidy," as applied to the helicopter operators, is no different in principle than when applied to the early airlines, except that the amount is much smaller.

Our own company has not received enormous amounts, and I believe that any cost increases are in line with the two major cost-governing elements, namely, rising cost indices together with increases in the level of service responsive to the public convenience and necessity.

NEW TYPE MACHINES

We are now on the threshold of introducing much larger and radically different aircraft. Our 10-place, single-engine machines will be replaced by 28-passenger machines. This will encourage more business from the standpoint of appeal, as well as general dependability of service.

To date, we believe we have exploited only 28 percent of the tendered potential in our area, and our estimates for the future look extremely bright.

The scheduled helicopter operators are gradually paving the way for the larger airlines, some subsidized, to drop close in, high-cost stations. This is an overall saving.

I believe this trend will continue, and to the extent where it will be feasible, to provide a multidimensional route and service pattern, involving little or no duplication and resulting in overall savings and great improvement in public service.

The load carrying capacity of our new model S-61 machines is estimated at approximately 3,500 seat-miles per flight-hour as compared with approximately 600 by the model S-55, our present main line of equipment.

"BACKUP" EQUIPMENT

This is an increase of about 600 percent, yet requires only one additional crew member. In addition, it will eliminate the need for a fleet of "backup" station wagons and trucks, which are now essential in order to guarantee service under situations of overload or foggy weather.

Senator ALLOTT. Mr. Belinn, I think perhaps you ought to explain this statement from an operational standpoint.

Mr. BELINN. The backup equipment?

Senator ALLOTT. Yes, sir.

Mr. BELINN. All right.

Senator MAGNUSON. Let him finish it first.

SEAT-MILE COSTS

Mr. BELINN. As a concrete example of the direct seat-mile cost reduction, our present fleet approximates 0.1785 cents as compared with 0.0925 cents per available seat-mile for the S-61. This is about in line, percentage-wise, with the showing now being made by the pure jet airliner as compared with the obsolescent piston types. As very high volume is attained, these ratios may well improve.

I have been employed continuously in the air transport industry for over 30 years, and have been associated with most technological advances related to its growth during this period. I believe the helicopter has advanced at least as fast as any other form of transporta-

tion; moreover, I believe the Congress should at least encourage a substantial expansion of the present operators, so as to provide an optimum criteria before passing judgment, rather than cause a retraction based upon unrealistic criteria.

Senator MAGNUSON. All right. Now, you go back to help Senator Allott.

EXPLANATION OF "BACKUP"

Senator ALLOTT. Go back to the bottom of page 3 and take the last sentence and explain that in terms of practical operation.

Mr. BELINN. Yes, sir.

First of all, of course, we have the weather to contend with. In the Los Angeles area we have what is known as stratus, in that in the early morning and late night, the seacoast weather moves in in a hurry during certain periods of the year which blocks out contact operation. We are at the present time restricted to contact flight operation limitations.

Senator ALLOTT. That is because of the single-engine operation?

Mr. BELINN. That is correct. In which event, of course, we have to make sudden changes during this period, not only the mail or express which has been committed to make connections to other airlines, but dozens of passengers are at outlying heliports with their tickets in hand waiting for the helicopter to carry them to the Los Angeles airport, to make connections which they would miss unless we provide them with a backup ride for which we own several station wagons.

When this condition impends, we dispatch these vehicles to make sure these people, if possible, make the connection they wanted, but certainly a secondary connection so our contract will not be abrogated, and that they may continue their flight, because we do interline ticketing over other airlines.

Senator ALLOTT. You are limited, then, by reason of the weather, and this would be true anywhere, to VHR flights because of your single-engine flights which cannot operate over populous areas because of FAA regulations?

Mr. BELINN. This is correct, Senator, and I should like to point out that our costs go on, even though we do not fly, coupled with the fact that the surface fleet which we must augment is added to this.

Now, under the new arrangement, we can eliminate that and go out and beat the bushes for new business.

Senator ALLOTT. What would be the situation with the twin-engine operation? Can you operate far over populous areas with twin-engine operation or not?

ROUTE STRUCTURE

Mr. BELINN. Yes. Our route structure is what we call peripheral. It is designed with a safe landing place, frequent landing spots; and under IFR conditions and two engines, either one of which is capable of climbing as much as 700 feet a minute, with full loads, we would consider this 100-percent flyability.

In fact, we believe we could fly, Senator, under conditions when it would be difficult for limousines, automobiles, and buses to drive in our area.

Senator MAGNUSON. The Senator from California?

AREA SERVED

Senator KUCHEL. First of all I wonder, Mr. Belinn, if you would indicate to members of the committee the area you serve in southern California?

Senator MAGNUSON. We have here the map. Is this the map of your area you serve?

Mr. BELINN. This is correct, Senator.

Senator MAGNUSON. I wanted to ask this question:

When you talk about schedules, are your schedules sort of circuitous around the area or do you go to one point and back or another point and back?

Mr. BELINN. Maybe I can answer those questions one at a time.

DISPATCH PATTERN

First of all, this is known as a clover-leaf network and it extends over to the mountain range at San Bernardino in the east and south coastal area of Newport, north up into the San Fernando Valley. This consists of four segments. One is northerly, which you see here and each one is circuitous.

Now, we dispatch in a circular pattern, based upon the traffic, the direction being based upon the traffic needs of that particular area.

For example, the Post Office Department insists that we dispatch mail to San Bernardino for first-carrier delivery in the morning at the same time as our shuttle to the Los Angeles rooftop post office so that the public may have their mail on the street at the same time at the farthestmost perimeter on our system as compared with its downtown city mail.

Now, this geographic area takes in—

Senator MAGNUSON. Suppose I get off at the airport and I want to go to San Bernardino. Do I go there direct or through Tom's hometown?

Mr. BELINN. We have many schedules which are one stop or non-stop.

Senator MAGNUSON. It depends on the load, would it not, too?

SCHEDULES

Mr. BELINN. Well, as I explained earlier, we have about 100 schedules a day.

Senator MAGNUSON. Are your schedules fixed or do you pick up a group of passengers and determine where you are going by how they are going?

Mr. BELINN. No, they are all fixed in connection with the other airlines. They are advertised fixed schedules, none of which we can recall, except through recourse back through the CAB.

Senator MAGNUSON. That is the schedule which you filed?

Mr. BELINN. That is correct.

We have some of these routes longer than others, if you will notice. This provides for balancing of our traffic. In other words, we have short flights and long flights which tend to eliminate valleys and peaks and increase the utilization of the aircraft, to the extent where we now have at least equal the daily utilization of the fixed-wing industry.

MODEL OF HELICOPTER

Senator MAGNUSON. Before you go on, would this be typical of the new type of helicopter, the two engine—that model?

Mr. BELINN. Yes, there are two basic models. This is Boeing, which is identical to the Sikorsky, except that it has two rotors, one at each end. This has a main rotor at the front. This has two rotors. This back rotor is used as a steering and lifting device as compared to the forward one being essentially that of the main rotor of the single type.

Senator MAGNUSON. This has two motors.

Mr. BELINN. This has two motors.

Senator MAGNUSON. That has two motors.

Mr. BELINN. From this we derive no lift from the steering mechanism. We depend on the center rotor to do all the steering and propelling. This other has a combination of steering and lift in the back.

Senator ALLOTT. Just as a matter of information on the twin rotor, do you have an engine for each rotor?

Mr. BELINN. No, sir; they are connected.

Senator ALLOTT. They are still connected and operate together on the same principle as the single rotor?

Mr. BELINN. There is a shaft running from one rotor to the other. Not only that but I understand they are integrated for best operating efficiency.

Senator KUCHEL. Would you tell the chairman again what kind of a flight he would have from the Los Angeles International Airport to San Bernardino?

Mr. BELINN. Yes. Assuming, Senator, that he originated his flight on the fixed airline, let us say from Washington, here. It is feasible as a very high percentage of these passengers buy their tickets in Washington direct to San Bernardino.

Now, our airline participates with the major carriers in what we call an all-inclusive fare. So that for about \$2 extra—adding \$2 to your Los Angeles fare, we would carry you all the way to San Bernardino, exchange your baggage at the Los Angeles terminal, do all of the service work at the airport, and the difference between the \$2 which you pay and the fare, \$8 fare, is absorbed by the major carrier, so that in effect, they absorb part of the subsidy for that continued flight.

Senator KUCHEL. Are there any nonstops out to San Bernardino? Or do you stop along the way?

Mr. BELINN. We have at least one one-stop.

Senator KUCHEL. Is that to Pomona?

Mr. BELINN. That is to Pomona and we resort to the flag stop principle, in order to accommodate last-minute passengers who say "I want to get in here."

Senator KUCHEL. This map you have given to the committee indicates the present coverage of the Los Angeles airways helicopter system?

Mr. BELINN. This is the present coverage. We feel that in the very near future, we will come in for an adjustment of our routes to accommodate this new equipment similar to that which the major airlines underwent when they modernized their equipment. We have operated for 14 years without an improvement in our route pattern and it

looks now, Senator as if our buildup in the Los Angeles area will be a solid city within the foreseeable future from Santa Barbara to San Diego. This territory is not the type of territory for short haul with fixed-wing aircraft.

Even the local lines—

REVISED ROUTES

Senator KUCHEL. What you contemplate requesting for a revised route pattern would geographically extend from Santa Barbara in the north to San Diego in the south?

Mr. BELINN. That is right, sir.

Senator KUCHEL. Would you go any farther east than San Bernardino?

Mr. BELINN. We have not looked with too much enthusiasm going beyond perhaps to the Arrowhead Mountain area. This is very high and isolated. We are not certain yet whether Palm Springs would be the eastern terminus or not. We have held to the policy, sir, to do things which we can do best and which no other type of transportation can do.

Senator KUCHEL. Off the record.

(Discussion off the record.)

Senator KUCHEL. And you said, or did you, how many passengers you carried over your present route system last year?

Mr. BELINN. I would have to resort to some figures, but I believe—

Senator KUCHEL. Just roughly.

Mr. BELINN. Approximately 40,000. That is right.

Of course, that is in addition, Senator, to 2½ million pounds of air express and 5 million pounds of mail.

Senator KUCHEL. And have you increased over your 14 years in each of those areas of transportation?

Mr. BELINN. Yes. It is quite interesting. This brings me to the indexes of the Post Office Department. In your own city of Anaheim, they tell me that we dispatch over 100 pounds of airmail every night as compared with when we commenced operation in 1947, it ranged somewhere in the neighborhood of 15 pounds. A hundred pounds of airmail is a lot of letters as airmail averages 35 letters to the pound.

The helicopter service at San Bernardino, Anaheim, and all the cities on this perimeter, makes first carrier delivery on the eastern seaboard next morning. If it were not for this service, they would miss first carrier or even second carrier which, for all practical purposes, delays it to the following day for the businessman, by the time it is on his desk.

This also pertains with air express.

STEPS NEEDED TO STRENGTHEN INDUSTRY

Senator KUCHEL. Let me ask you, Mr. Belinn, to explain to the committee what, in your judgment, might be done for the helicopter transportation industry in this country to strengthen this position.

Mr. BELINN. I would be very happy to do this, Senator.

It would appear that three basic steps could be taken—perhaps one at a time or perhaps collectively. These are predicated upon the results of 14 years of operation, the practical analysis resulting therefrom.

First of all, we think that the industry should be taken off this temporary basis.

Senator KUCHEL. How long have you been temporary?

Mr. BELINN. Fourteen years.

Senator MAGNUSON. What is the term of your license, or certificate?

DIFFICULTY OF TEMPORARY OPERATION

Mr. BELINN. It is now 1964. We have a 7-year certificate, which is about halfway over. We find that operating under a temporary cloud of uncertainty increases costs, because all of our dealings with the communities, for example, upon which we rely for ground aids, heliports and the enthusiasm of the population declines somewhat when the facts are brought to light that, well, maybe, if they spend \$5,000 or \$10,000 on a heliport, for example, as a contributory matter, they say, well, this cannot be for very long. How do you know you are going to be in business very long?

Now, this carries on into everything we do—contracts of all kinds and planning for real estate.

For example, we are leasing space at the Los Angeles International Airport on a short-term basis. We explained to the Civil Aeronautics Board at the time of our renewal that if we had a longer period of life, we probably would construct our own facilities and not have to go through the 50 or 60 percent to add lessors' profit. We would select a spot somewhere in the periphery of our area. We would not be in this high-priced area competitive with the other large carriers, for example.

There are many items like that, that add to the increased cost.

PERMANENT CERTIFICATION

Senator MAGNUSON. Let us get down to the permanent certification. Some 4 years ago, I believe, I sponsored a bill to give permanent certificates to the local air transport carrier and the justification for it, or one of the main justifications, was the fact that the subsidies would get bigger if they could not move into new equipment, more economical equipment and if they could not serve more cities or more communities, which they were about quadrupling, as you well know, throughout the country. And they could not get in new equipment, in the new equipment field, for the simple reason that the permanent certificate was the biggest stumbling block for any kind of credit line to allow them to buy the equipment.

Now, the result has been that most of the 14 local air transport carriers are either now completely—two or three of them—completely in new equipment—since they have been able to have a permanent certificate, they have been able to finance this new equipment and for about 3½ years now, they either all have the equipment on order or they are phasing into it. They are giving better service. Their subsidies have not gone down, they have gone up, as a matter of fact. But that can be mainly attributed to the fact that since they received new equipment, they have been serving new cities—they have served 729 cities in the United States.

Now, they say in the CAB that they will reach now—this is after some 14 or 15 years experience in this—since right after the war, for

2 years they will still be going up because of the new services they had to provide. Then they will reach a plateau. Then as they get new equipment, they ought to be able to come down.

Now, this is in their subsidy. This is their prediction.

We tried to put helicopters in that bill, as you recall, all you helicopter guys here. But we did not get it done. We tried to do it on the same theory.

Now, would that same theory and justification apply today to buy in buying or trying to buy or having on order 28 new helicopters? I mean in general?

Mr. BELINN. Yes, with one exception, Senator. There has been an addition, of course, since then in law. The guarantee in financing has taken some of that onus out.

GUARANTEE LOANS

Senator MAGNUSON. I was going to add that we followed that up with another bill that I introduced which would guarantee the loans, a certain percentage for this bona fide purpose. Can you take advantage of the guarantee loans?

Mr. BELINN. Yes.

Senator MAGNUSON. Even though you did not get in the bill on permanent certification?

Mr. BELINN. Yes.

Senator MAGNUSON. Have you done that?

Mr. BELINN. Yes; we have an application in it with the Civil Aeronautics Board at this time.

Senator MAGNUSON. And this is the way you were able to finance the ordering of 28 new helicopters.

Mr. BELINN. Had it not been for that, Senator, it would have been impossible for us to proceed through this barrier of new equipment. We could not have raised the money through any other means. The only security we have today is a guaranteed loan because the depreciation in the life of the next generation of equipment goes beyond the life of some of our certificates.

EFFECT OF HOUSE LANGUAGE

Senator MAGNUSON. Where would your credit line go or be if the House language was lived up to?

Mr. BELINN. Well, it already has had a little effect, sir. Our good bank in California, the Bank of America, saw this in one of the aviation dailies.

Senator MAGNUSON. That is, the fellow who has all the money.

Mr. BELINN. That is true and he called up and said, to any further extent to which you want borrowings that are not blanketed in under the loan, do not come in. We have some unsecured. You see, our finances are both guaranteed loan and straight chattel. Well, that is out.

Senator MAGNUSON. I see the Senator from Oklahoma just came in and he was also the cosponsor of this legislation we talked about.

Mr. BELINN. I remember that very vividly.

NEW PLANES INVESTMENT

Senator MAGNUSON. No, how much investment would these 28 new planes total?

Mr. BELINN. For our own company?

Senator MAGNUSON. Yes.

Mr. BELINN. Each unit is \$650,000, plus spares and shop equipment, so that 5 helicopters runs us up in the neighborhood of \$5 million, if I remember correctly, in that area. I would have to resort to figures in that, Senator.

Senator MAGNUSON. What was your gross revenue last year?

Mr. BELINN. Our gross revenues were in the neighborhood of \$1,600,000, I believe, as I remember; that is right.

Senator MAGNUSON. What was your subsidy last year, the Los Angeles?

THE 1961 SUBSIDY

Mr. BELINN. Under—our subsidy last year was a little over \$1 million—\$1,100,000, somewhere in there.

Senator MAGNUSON. So the subsidy has amounted to about one-half or the subsidy has been equal to the gross revenue?

Mr. BELINN. A little more, sir. This is all inclusive. We are a little more than 65 percent supported by subsidy and I think that compares with around 30 for the locals.

Senator MAGNUSON. Would you put in the record, if you have it with you, the total subsidy Los Angeles Airways has received since you began operation?

Mr. BELINN. I am not sure we have it.

Senator MAGNUSON. You can put that in the record, and I wish the other two who are here would do the same thing.

Mr. BELINN. I am sure we can provide it, Senator. If it is not included in exhibit A, I will see that it is provided.

Senator MAGNUSON. I just want to finish one line of questioning.

PASSENGERS CARRIED, 1960

You have carried, you said—last year you carried how many passengers?

Mr. BELINN. 39,140. I should like to call your attention to the fact that there is a little drop in passenger totals as compared with 1959, which is absorbed in tonnage of mail and express.

Senator MAGNUSON. Passengers have been approximately 40,000?

Mr. BELINN. That is correct, sir. This is our total capacity, and I would again like to point out that our total load factor is the highest in the industry, including the fixed wing and local airlines. We have the highest ton-mile load factor of any scheduled air carrier, trunk or local. This means utilization of space and mileage.

Senator MAGNUSON. I understand how you arrive at that figure.

Mr. BELINN. In other words, this is why the figures are stabilized. We have had no equipment change over a period of years so we have been right at 100 percent of our capabilities over this period of time.

RATE ADJUSTMENTS

Senator MAGNUSON. Now, have you asked the CAB at any time for a rate increase, a schedule of rates?

Mr. BELINN. Yes, we have rate adjustments, Senator, from time to time. If I remember correctly, we had a small change about a year ago, and prior to that time I believe we carried on for almost 4 years without any substantial changes.

Senator MAGNUSON. What would be the percentage of rate increase in the past 10 years?

Mr. BELINN. In terms of unit—

Senator MAGNUSON. Let us take passenger rate, unit, per person—overall rates. You have a percentage, do you not?

Mr. BELINN. Let me see—

Mr. MAGNUSON. Well, you can put that in the record. But have they been substantial?

Mr. BELINN. There has been very little change upward, if that is the question.

Senator MAGNUSON. That is the question. What I am trying to say is that the CAB in many of these cases have frowned upon rate increases.

Mr. BELINN. Yes. Well, let me say this: That first of all the facts are in this exhibit.

Secondly, I should like to say that we have experienced no difficulty whatsoever in rate adjustments so far as we are concerned. I am not aware of any. They make us justify them; they run you through the wringer. But we have had no serious difficulties, as far as I know.

Senator MAGNUSON. Well, now, obviously if you charged more, your revenues would be greater and your subsidy would be less.

Mr. BELINN. Correct.

VARYING CHARGES

Senator MAGNUSON. Now, the \$64 question: Why do you not charge Kuchel more when he goes from the airport to Anaheim?

Mr. BELINN. I would be very glad to dwell on that, Senator, because it is a good point.

Senator MAGNUSON. I want to establish whether the CAB has refused this to you or whether you voluntarily feel that you should not charge the amount so that you can get somewhere and cut down the subsidies—or whether you are charging enough, let us put it that way.

TARIFF ZONES

Mr. BELINN. First of all, I should like to explain the theory of our tariff. We have three zones of tariff. One is the city zone, another is an urban zone, and the third is a long-distance zone, as we call it.

In each case, we base our tariffs on twice that of what any substantial competition would charge. In other words, twice limousine fare in the city zones, twice limousine fare in the interurban zone, and twice whatever the other carriers charge in the outlying zone, because we do have carrier competition in the extreme area from other carriers. So we do use that as a basis for charging.

Now, we do not render what we call a completely dependable service in terms of first-class service today. As I explained earlier, part of it is with support of station wagons and part of it is irregular. But in each event, we rationalize on the theory I have just mentioned. We have a substantial portion of people who write and complain that the cost in relation to the character and class of the service is high. They complain that this is about all the traffic will bear.

Secondly, we think that with the advent of this new equipment, we have in mind to up the tariff substantially, because we believe we

have a more salable package, and this is in our plan right now. We do not know just how much, but it will be substantial, with that in mind, Senator.

EFFECT OF HOUSE ACTION

Senator MAGNUSON. How much was the House figure? You have projected your subsidy and thought you projected it fairly close for the next year. CAB has to do that when they come up here. This is a projection for the helicopter operation. How much would that cut from your particular subsidy? The \$5 million, if it is limited to \$5 million.

Mr. BELINN. We at this time do not have any information as to what it will do to us. We have an application in with a slight increase, taking into account the learning curve of this new equipment, but we have had no information back from the CAB as to whether they would slice the subsidy equally among the three operators or do it on a percentage basis.

Senator MAGNUSON. But if they did slice it in ratio, your cut would be approximately 30 percent, would it not?

Mr. BELINN. It would probably be in the neighborhood generally of 30 percent. I would think so, and this would be unlivable.

Senator KUCHEL. What would it do to you? Fold you up?

Mr. BELINN. Well, there is a minimum size of plant or operation you can conduct. I would say the minimum is five units. Well, we could not sustain the level of service pattern under that subsidy ceiling and to achieve any kind of utilization over five pieces of equipment, so that your—well, our indirect costs would skyrocket because you would be spreading so few flight miles and so few passenger-miles over so much fixed plant. So that you would wind up maybe with a three- or four-machine plant, which is very, very uneconomical.

Senator MAGNUSON. Now, one question.

Senator KUCHEL. You mentioned the need for permanent certification as one example of how you, the people in your industry, might improve their position. What else have you got, what else do you have to tell this committee as to what in your judgment might be done to improve it in addition to permanent certification?

RATE PATTERN CONSISTENT WITH EQUIPMENT

Mr. BELINN. Well, I think certainly step No. 2 would be to foster an adjustment of our route pattern to correlate, to upgrade our route pattern to be consistent with this new generation of equipment.

Senator KUCHEL. And this is what you have in mind doing?

Mr. BELINN. This is what we have in mind doing. In fact, we have the application pending before the Civil Aeronautics Board at this time which provides for that.

DELIVERY DATE OF NEW EQUIPMENT

Senator KUCHEL. When will that new equipment be available to you?

Mr. BELINN. My latest information is that unit No. 1, which incidentally was certificated, a provisional certification by the FAA about 10 days ago, is scheduled for delivery in Los Angeles on August 7.

Senator KUCHEL. Now, the action of the House of Representatives, you have testified, would be damaging to your airways in southern California where you have been operating. I take it part of your testimony before this committee is designed to urge this committee to restore what the Budget Bureau has previously recommended for that item with respect to the budget of the Civil Aeronautics Board.

INTEREST OF UNITED STATES IN HELICOPTER PROGRAM

Mr. BELINN. Precisely, Senator, and this goes to the third point that I had in mind to improve the climate of the industry. If this is not only restored but what we think is damaging language which gets out into the people whom we do business with, it precludes us from planning. Long-range planning has to be part of good management, or in reverse, whichever way you say it. We find ourselves unable to plan the peripheral effects. That is the manufacturers recourse back on us and they say, well, if you can't make long range plans, how can we make long-range plans to supply you with equipment that is compatible with your needs at the prices you want to pay, and this language and this act on the part of the House throws a kink in all long-range planning.

For example, in this brochure which I brought in here today, we conducted plans for our countryside which takes us up through 1982. We spent a lot of time and energy, and every effort with the authorities in the whole California area to find out what place we would play and what our needs would be, and responsibilities, up through the next 25 years. And at this point I must say we are right on course, and along comes this action.

Of course, the people we have been doing business with say, "Where do you stand in relation to this? This is something we have never included in our planning, or provided for."

LONG-RANGE PLANNING

Senator KUCHEL. Mr. Belinn, will you tell this committee what in your judgment is the justification for a policy by the Government of the United States to encourage and underwrite your operation in this country? How would you spell out the interest of the Government of the United States in this program?

Mr. BELINN. Well, I would say in general terms of course, the underwriting of aeronautics in the past has been the Defense, the Post Office, and Commerce. Now, in general terms the same prevails today. Now here, though, in addition to that we are at a period when the all-military are emphasizing helicopter growth. The Navy, for example, is buying substantial quantities of the same machine as we have on a commercial version. Now, we plow back very valuable information to the military. And if I could, I would like to take a moment to be specific on that.

We build up as much as 200 hours per month per aircraft. This service experience, of which the results are now plowed back to the military by way of the manufacturer, becomes immediately available for modification and improving of a substantial number of military aircraft, so that what we plow back from one high accelerated service

period becomes effective over maybe thousands of units. This results in savings of millions of dollars. This is a very difficult one to put in perspective from an accounting point of view, but the facts are there. This is demonstrated by the fact that we have as high as 10 times as many hours, we enjoy as much as 10 times as many hours between overhauls of our various components. This is, for example, the engine, transmissions, the rotor system.

In addition to that we provide a reservoir of trained specialists which are available for the national defense and civil defense. This is important. And I call your attention to an item here in this brochure in which our company was graduating a top specialist, rotorcraft specialist, who later became President Eisenhower's personal pilot, but we trained several of these, one of whom I am led to believe is the individual who brought back the original M.I.G. fuselage which had been forced down north of the Yalu River. This was a specialist who had been trained in our company on unusual types of helicopter operation.

NEW TECHNIQUES NECESSARY

Now, then, as far as techniques go, the commercial operators obviously have to develop many new techniques. We have developed one which we think is highly important. That is what we call a two-step auto-rotating system. This means that you can land a helicopter in distress, at zero speed, down, straight down, without any engine assistance. This is a very important thing. It doesn't sound like much, Senator, but it has to do with the performance curve of the machine because helicopters are loaded to their capability of making emergency landings, and if you have very well advanced emergency landing procedures, it is permissible to load the machine to a higher capacity which in turn eliminates the need for more machines.

In the Korean effort we are reliably told that we increased the utility of the 76 helicopters of the same type as we had in Los Angeles, the early model S-51, identical to the 76 machines they had in Korea. We increased the utility of that over 100 percent, which has been tabulated back to represent a saving of over \$18 million to the military. This can be very easily supported, which was much more than the total that we have ever received in terms of subsidy if you think of subsidy as being something that doesn't always do some other good which, of course, it does.

So, then, of course, the other segment, Senator, of this is that we increase the input to the large carriers. We put cities on the airline map which have no other means of being on the major airline maps. As we all know, we are having a suburban growth that is absolutely unparalleled. The cost of land, the air space congestion, makes it very difficult in metropolitan areas to have a great number of small airports as we used to have years back. Now they are being supplemented by a heliport program and I hope some day we will have our heliport program included in the master airport plan. So that there will be no duplication of efforts there. So that we are a benefit to commerce and I think all of us combined, we certainly justify the modest subsidies that so far have been attributable to the helicopters.

Senator MAGNUSON. Any further questions?

COMPARABLE TRAVEL TIMES

Senator ALLOTT. I have one further question with respect to this. I would like to have the answer to this. Let us take Los Angeles International Airport, the home of our distinguished friend here. What is your flying time between the airport and Anaheim?

Mr. BELINN. Eighteen minutes.

Senator ALLOTT. Now, what time would it take under ordinary circumstances during the day to do that in a car?

Mr. BELINN. Well, not less than an hour and a half.

Senator ALLOTT. All right. Now what time would it take by any other public conveyance that is available, such as buses—you have no trains I presume in that instance—let us say buses.

Mr. BELINN. Well, I don't have a bus schedule but I am reasonably certain that it is in excess of 2 hours. There is no bus in terms of a public bus. There is an airport limousine which goes to one point only.

Senator KUCHEL. You would have to take a bus from Anaheim to Los Angeles and then go over to one of the hotels that has a limousine service to the airport.

Mr. BELINN. This is correct. Well, there is now a limited service to Anaheim, Senator, but this is used pretty much for Disneyland.

Senator ALLOTT. Let me ask you one question. In this general area which you pointed out on your map, which is attached to your statement, does the like time factor prevail as between the three services? In other words, are the savings about on a comparable basis?

Mr. BELINN. I would think so. I don't have the—the nature of their service, of course, is tailored to the geographics of their area. Now, I am certain that the congestion factor would be the same. I don't know that their service patterns are identical with ours, but to the extent—

Senator ALLOTT. No. I am talking about the Los Angeles area.

Mr. BELINN. And our other points.

Senator ALLOTT. You have got 20 towns on this map. Would the same general situation with respect to the service between the International Airport and Anaheim exist with respect to the other spots here? In other words, the difference in—

Mr. BELINN. Anaheim is a poor example of what we do. Most of the places—

Senator ALLOTT. All right. Give me a good one.

Mr. BELINN. San Bernardino, Corona, San Fernando.

Senator ALLOTT. Let us take San Bernardino. What is the time situation—

Mr. BELINN. From 4½ to 10 hours.

Senator ALLOTT. By car?

Mr. BELINN. Under the best conditions, public transportation is 4½ hours. The best is 4½ hours and at the worst it is 10 hours.

Senator ALLOTT. What would it take by car?

Mr. BELINN. Well, a 2½-hour drive on the freeway providing your freeways are open.

Senator ALLOTT. Two and a half at the best.

Mr. BELINN. Yes.

Senator ALLOTT. And then what is the time of your service?

Mr. BELINN. Forty minutes, and it will be about 28 with the new equipment.

Senator ALLOTT. That answers my question.

PARKING PROBLEM FOR TRAVELERS

Mr. BELINN. There is a little tandem to that, Senator, which I would like to explain. We don't brag about saving time only. There are other factors involved. For example, a passenger making use of a helicopter from his city like Anaheim or Corona or San Bernardino, he has to drive his car to the airport and while he is away perhaps spend \$10 or \$15 in parking in addition to providing perhaps an additional car for the family. There are a lot of people who are not two-car families. So there is no other way for him. So time is only one of the components we deal with. Convenience is the other.

Senator KUCHEL. It is very true. Next week my brother and his wife are going to come back here. They could drive in. They would have to park the car at the airport, and I think that is \$1.50 a night.

Mr. BELINN. At least.

Senator KUCHEL. And they will stroll out to the heliport at Disneyland, get on and come on back here.

Mr. BELINN. We have people write us and say that the difference in savings of money by using helicopters compared with parking their car while they are away on vacation makes the difference between a good and a bad vacation.

Senator MAGNUSON. Maybe we ought to charge them a little more.

Mr. BELINN. We are prepared to do that. We are prepared to charge all the traffic will bear, I assure you, as soon as we have a good package.

Senator SCHOEPEL. Mr. Belinn, I think you have demonstrated that you have probably one of the most practical operations that there is in the country, and I am not speaking disparagingly of any of the others, but from the standpoint of lack of a central transportation system in Los Angeles and related areas, it lends itself to helicopter travel.

PERMANENT CERTIFICATION

Now in your extension, in your perimeter cities there which you hope sometime to get, it is probably contingent upon permanent certification, isn't it?

Mr. BELINN. Not entirely, sir. But it certainly would be an important factor.

Senator SCHOEPEL. It would be a helpful factor.

Mr. BELINN. It would be a tremendous help. There wouldn't be any question about that.

Senator SCHOEPEL. Now you are practically one of the pioneers in this field, aren't you?

Mr. BELINN. We were the first to be certificated.

Senator SCHOEPEL. That is what I understand by checking back in the records. How many officials do you have in your company, top-flight salary-drawing officials?

Mr. BELINN. Well, we have a president and three vice presidents, one of traffic, one of transportation, and one treasurer. Our executive staff consists of this.

Senator SCHOEPEL. All experienced men who have been with you for a number of years.

Mr. BELINN. That have been with us, most of them, from the time we started.

PROJECTION OF REQUIREMENTS TO 1982

They are all practical people, sir.

Senator SCHOEPEL. Yes. Now you say that you projected into the future some of your needs and requirements. I think you said 1980.

Mr. BELINN. 1982.

Senator SCHOEPEL. 1982. And in your loans and guaranteed loans, subsidy is an important factor for your credit institutions to take into consideration, isn't it?

Mr. BELINN. Correct.

Senator SCHOEPEL. Now when you project this program into the future in this operation in the Los Angeles area, do you anticipate you are going to be on subsidy from here on out?

Mr. BELINN. No, sir.

Senator SCHOEPEL. It is your desire to get off as quickly as you could, consistent with good business practices and the patronage that you enjoy, mail, express, people, getting on your helicopters.

Mr. BELINN. This is correct, Senator.

Senator SCHOEPEL. I think some of the criticisms that are in the minds of some of the Members of Congress are that there is a desire on the part of certain interested individuals that, once I get on subsidy I can stay on subsidy, and that is wrong. You agree that is wrong.

Mr. BELINN. We certainly agree to that. We subscribe to that that it is wrong, a wrong theory and no business should be—in fact, this is not the intent of the Civil Aeronautics Act or subsidy as I read it, sir, I understand this is to get us going and get us out on an efficient basis to the time that we should be on our own.

Senator SCHOEPEL. Let me ask you this. If you were permanently certificated—with the type of service you render, and it is excellent and appears that way to me, shouldn't some of this traffic stand a greater percentage of pay?

Mr. BELINN. I agree, completely.

Senator SCHOEPEL. And on that basis I assume you have made analyses on that as to what you could do in reducing the subsidy factor.

Mr. BELINN. That is correct, sir.

PERCENTAGE FACTOR TO BREAK EVEN

Senator SCHOEPEL. Could you give us—I am not asking you to commit yourselves—could you give us some idea in your percentage gross factor when you might break even?

Mr. BELINN. Senator, we have a projection, as I earlier stated, running up through 1982 which is based upon the population growth and the indexes available to us at this time. This is for planning purposes and made available to the CAB for their long-range projections. This is indicated on page 24 of this booklet that I have here.

It provides, among other things, that by 1964 we should be down somewhere in the 20 to 30 percent range, 20 to 25 percent, from 65 percent. I call your attention to the fact that this is based upon the fact that we would run the business our own way.

Senator SCHOEPEL. Yes.

Mr. BELINN. Now, if we get restricted service patterns or if we are regulated by something we don't know anything about now which has the effect of increasing our cost, which sometimes occurs—

Senator SCHOEPEL. Or inflationary trends.

Mr. BELINN. Or inflationary trends, this would not obtain but it certainly is our spirit and we would hope to do it.

Senator SCHOEPEL. And from your experience and your judgment you think that instead of this being an accelerating curve upward, you will be reaching a plateau somewhere down the line?

DEMONSTRATION FROM OPERATING EXPERIENCE

Mr. BELINN. This graph is based on facts. Right here.

Senator SCHOEPEL. And that actually reflects what you are able to demonstrate from your operating period over the period of years.

Mr. BELINN. It certainly does.

Senator SCHOEPEL. You have been with that company all the time.

Mr. BELINN. Fourteen years. I started it.

Senator SCHOEPEL. Well, sometimes we look these graphs over and say, is it meant for a salesman's proposition. From your personal knowledge then this represents an absolute factual correct picture in your area.

Mr. BELINN. As far as the facts are available to us at this point. Now, I again call your attention to the fact that this is about 2 years' old.

Senator SCHOEPEL. That is very encouraging.

Mr. BELINN. And certainly we have had a tremendous upswing in some of our wage rates, for example. Many things that we have to buy cost more money. But this curve is—this is the pattern we are talking about. Now, it could certainly vary and I wouldn't want to mislead anyone. But this is what we are trying to do.

Senator SCHOEPEL. Well, Mr. Belinn, in your business here you are one of three.

Mr. BELINN. Correct.

FUTURE OF SUBSIDY

Senator SCHOEPEL. As was testified here by the CAB, your application—there are probably dozens of them that are coming in or are likely to come in from different sections of the country, and naturally there is a desire on the part of those in Government to wonder where this subsidy picture is going to end. Once somebody gets on subsidy or organizes a group and gets in on an area, then he is in velvet for a while. I think those are the questions that are unanswered that have made some of our counterparts over in the House—and I am not saying whether I agree or disagree with them on what they put in this report; I am inclined to disagree with them; but it leaves a question mark.

Mr. BELINN. May I make a comment?

Senator SCHOEPEL. Certainly. I would be delighted to have you.

Mr. BELINN. We have been in the midst of this very serious question inasmuch as we were the first to be relied upon for source data. This was the purpose of setting up our operation in the beginning. It was sponsored very heartily by the Post office Department and Defense Department. In fact, we were more or less a third party in there.

CERTIFYING ADDITIONAL CARRIERS

The question came up as to whether or not and how far additional carriers should be certificated. We were called in and consulted on it in an informal manner. We advised that at least three carriers should be given serious consideration and they should be of divergent or different characteristics so that the total experience would not be entirely a duplication.

Now, furthermore, we have concluded pretty much, or lately it is our opinion that there are only a very few areas in the United States which can support a plant of a magnitude that each of our large metropolitan areas now have of a sufficient size to make each of them efficient.

Now, there are secondary cities in this country, metropolitan areas, and some very much smaller. It is our considered opinion that the ultimate will be for some long-range planning by the Congress and Civil Aeronautics Board and the operators that perhaps a pattern could evolve which would be somewhat along the lines of Greyhound system where they have area headquarters and small operating units where the public convenience demands it, but on a self-supporting basis, and that perhaps you would wind up with half a dozen centers sufficiently large to support—like New York, Los Angeles, Chicago—to support this but with perhaps operating satellites within the influence area of each of those. Great economic savings could result in that.

Then I think further that the much smaller cities which we have many, many of, which could not support this type of service, certainly should enjoy a well-organized taxi-type of service. The new helicopters that are about to come in in the smaller categories are also evidencing great increases in efficiency. For example, there will be some 8- to 10-passenger single-engine equipment available within the foreseeable future that may well break even or make a profit on a fair level which the public can afford, which will be attractive to the public. There are many, many cities in the United States which could support that type of service.

Senator SCHOEPEL. I appreciate having this explanation.

HOUSE REPORT

Senator MONRONEY. I want to address myself to the middle of page 4 of the House report where it states that this is the last year the committee plans to recommend funds for subsidy of helicopter operations. Would there be any helicopter market for common carriage if these three present subsidized helicopter operations were to be denied sub-

sidy? Common carriage now. I am not talking about the taxi service or specialized flow planes.

Mr. BELINN. Would there be—

Senator MONRONEY. Any market to encourage the use of VTOL aircraft for commercial use?

Mr. BELINN. I can't think of any.

VTOL AIRCRAFT

Senator MONRONEY. This is, I think, the key to this whole thing. You fold up the present experiment and you fold up the development of VTOL, which many people that I talk to in the aviation industry think is the missing link in aviation. Only the day before yesterday before this committee we were asked for \$12 million to begin what will look like a \$50 million study, not production, but merely paperwork on a supersonic transport aircraft. We have developed out of the billions of dollars spent on jet tankers and other types, the present-day jets of mach 1 speed. When we come to filling in this missing gap, if these three lines with their operating experience, and which carry, as your line does, 39,000 passengers a year, I see no way in which we will not go backward in this phase of aviation instead of moving forward and breaking the technical barrier which is the sole result, as I see it, of the requirement for subsidy. There is nothing that a cheap 10-mile plane can't crack. I mean there are no champagne flights on helicopters. There are no massive station or airport facilities. I think you probably have two men, a bunch of kids, working there in the dispatching of your planes at Los Angeles International.

Mr. BELINN. Right.

Senator MONRONEY. So the cost and the result of subsidy is the technology or lack of advancement of the art of VTOL.

Mr. BELINN. You are so correct, Senator, and I could amplify this, in fact, what is taking place in our Los Angeles area.

Senator MAGNUSON. I might say right here we have letters from the Boeing people. They are faced with the realities right now.

Mr. BELINN. Boeing and all these people.

Senator MAGNUSON. We will put these in the record, as well as your exhibits A and C and your full statement.

(The information referred to follows:)

STATEMENT OF C. M. BELINN

My name is Clarence M. Belinn. I am President of Los Angeles Airways, Inc., a scheduled helicopter airline certificated by the Civil Aeronautics Board in May, 1947. We operate a fleet of 8 single-engine machines ranging from the original 4-place Sikorsky mail plane to the 10-passenger turbine type. We also have five 28-passenger, twin-engine machines on order, the first of which is scheduled for delivery late next month.

Our routes cover a radius of approximately 65 miles from the Los Angeles International Air Terminal, which now accommodates 840 airline flights daily, serving 18,000 passengers every 24 hours. Our operation consists of a network of routes with heliports located at 20 major cities serving approximately 200 communities with 120 flights daily, which is practically all their local air transportation.

Our traffic consists of Passengers, Mail and Express, of which in excess of 90% makes direct connections with the fixed wing carriers. Our flights and routes are so balanced that we enjoy full loads "in" as well as "out", and peak periods are at a very minimum.

The Southern California area which we serve is regarded as the fastest growing suburban area in the world. Its geographical characteristics and distances are such that neither fixed wing aircraft nor surface vehicles are capable of solving the problems. This, plus the rapid growth of new cities, has prevented the development of

an urban network of either surface or subway type. We have had an average influx of 1,000 new automobiles each day for the last ten years. We have had a population growth of 3,000,000 during this period. We have built 1,000,000 new homes at a value of \$15,000,000,000. During this period, we have also built a modern freeway system, which serves as a magnet for new industries, which in turn clog the freeways with all sorts of traffic so that by the time they are finished, they are of no practical value to the airline traveler. Coupled with this has been the gradual elimination of urban airports due to the combination of large jet planes, the building of homes and industrial growth.

The obvious conclusion is that the helicopter has emerged just in time to meet this challenge, just as other advances in technology have preceded it.

The economics of our proposition can be gauged in the light of the contributions to National Defense, the Commerce and the Postal Service. They are all substantial and noteworthy.

The term "subsidy", as applied to the helicopter operators, is no different in principle than when applied to the early airlines, except that the amount is much smaller. Our own company has not received enormous amounts, and I believe that any cost increases are in line with the two major cost governing elements, namely, rising cost indices together with increases in the level of service responsive to the public convenience and necessity.

We are now on the threshold of introducing much larger and radically different aircraft. Our 10-place single-engine machines will be replaced by 28-passenger machines. This will encourage more business from the standpoint of appeal, as well as general dependability of service.

To date, we believe we have exploited only 28% of the potential in our area, and our estimates for the future look extremely bright.

The scheduled helicopter operators are gradually paving the way for the larger airlines, some subsidized, to drop close-in high cost stations. This is an overall saving. I believe this trend will continue, and to the extent where it will be feasible to provide a multi-dimensional route and service pattern, involving little or no duplication and resulting in overall savings and great improvement in public service.

The load carrying capacity of our new model S-61 machines is estimated at approximately 3500 seat miles per flight ^{hour} as compared with approximately 600 by the model S-55, our present main line of equipment. This is an increase of about 600%, yet requires only one additional crew member. In addition, it will eliminate the need for a fleet of "back up" station wagons and trucks, which are now essential in order to guarantee service under situations of overload or foggy weather.

As a concrete example of the direct seat mile cost reduction, our present fleet approximates .1785 cents as compared with .0925 cents for the S-61. This is about in line (percentage-wise) with the showing now being made by the pure jet airliner as compared with the obsolescent piston types. As very high volume is attained, these ratios may well improve.

I have been employed continuously in the Air Transport Industry for over 30 years, and have been associated with most technological advances related to its growth during this period. I believe the helicopter has advanced at least as fast as any other form of transportation; moreover, I believe the Congress should at least encourage a substantial expansion of the present operators, so as to provide an optimum criteria before passing judgment, rather than cause a retraction based upon unrealistic criteria.

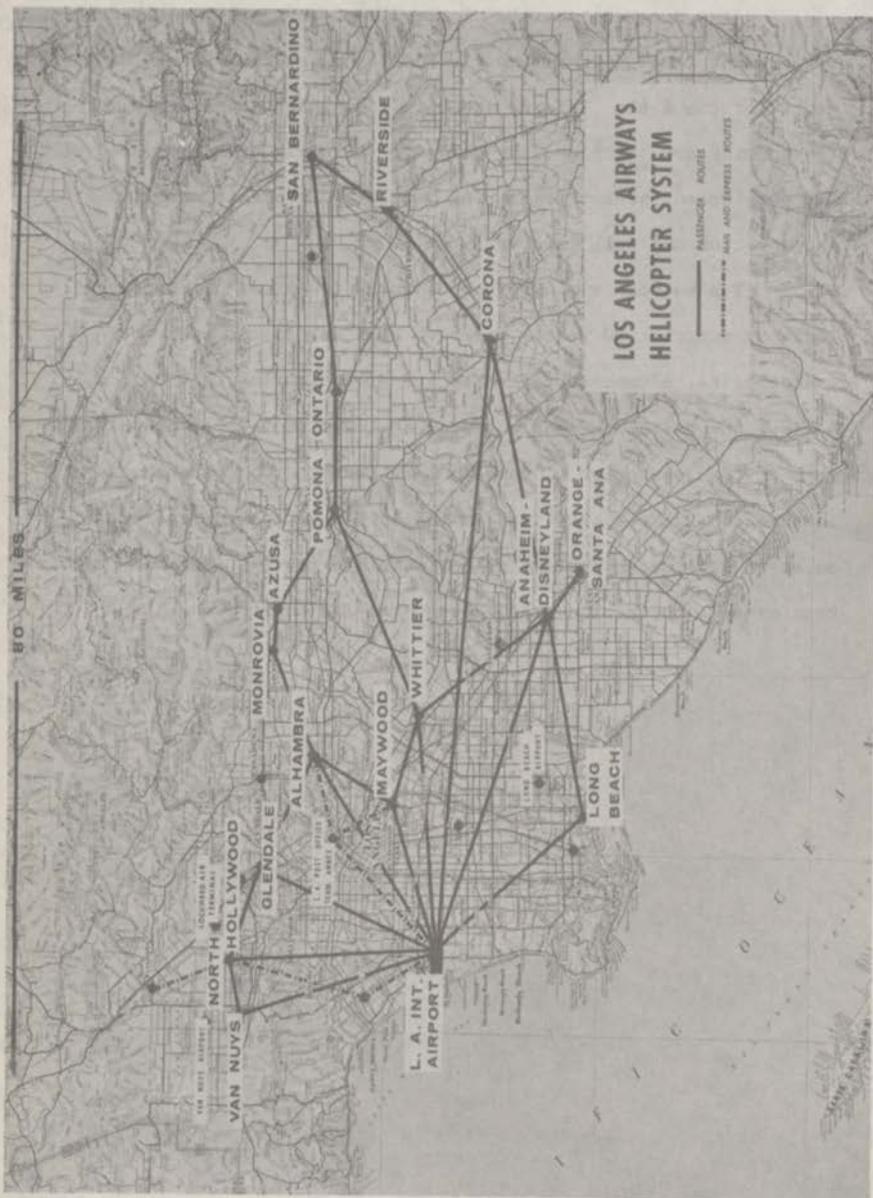


EXHIBIT A

LOS ANGELES AIRWAYS . . . TEN POINTS

- I. THE NEED
- II. THE SYSTEM
- III. ABILITY
- IV. COOPERATIVE DEVELOPMENT
- V. PLANNING
- VI. WILLINGNESS
- VII. OPERATION
- VIII. METHOD
- IX. CITIZENSHIP
- X. STATUTORY COMPLIANCE

Los Angeles Airways, Inc.
5901 West Imperial Highway
Los Angeles 45, California

LOS ANGELES AIRWAYS . . . TEN POINTS

I. THE NEED

Los Angeles Airways integrates naturally with the new "Suburbia" concept, the vast complex comprising Greater Los Angeles, which is the fastest growing metropolitan area in the world--both from a population and an economic standpoint.

- A. The four-county area of Los Angeles, Orange, Riverside, and San Bernardino has a population in excess of seven million persons, representing an increase in population of about three million since LAA was certificated in May, 1947.
- B. The population of this four-county area has been increasing at about 40,000 persons per month, and reliable forecasts indicate the population will almost double in the next 20 years.
- C. The four-county area is comprised of 300 cities/communities and embraces an area of 5,000 square miles, an area which is greater than the entire state of Connecticut. There is little, if any, public transportation between the Los Angeles International Airport and the surrounding cities and communities.
- D. The gigantic economy of the area is graphically shown by the budgets of the four counties, exclusive of cities within them, for 1960:

Los Angeles County	\$ 488,470,652
San Bernardino County	\$ 40,914,280
Orange County	\$ 36,861,546
Riverside County	\$ 27,190,869

The budget of the City of

Los Angeles alone was: \$ 222,200,709

- E. Throughout the four-county area, aside from the urban developments, there are geographical barriers which have prevented good ground transportation; i.e., rivers, hills, and mountains up to 5,000 feet.

F. The population, geographical characteristics, and economy show that there is an unlimited potential, plus an urgent need, at the present time for increased service by Los Angeles Airways.

During the next decade the most critical component associated with the phenomenal growth of this area will be transportation--in all categories, including the freeways. Unfortunately, residents are already faced with the dismaying fact that despite the tremendous construction of new freeways, each is overloaded and inadequate almost as soon as the ribbon is cut.

Consequently, Los Angeles Airways must be regarded as a permanent and continuously expanding transportation facility in Southern California, serving a chain of urban development stretching ultimately from Santa Barbara to San Diego. The consistent trend toward expansion of outlying areas can only mean that the helicopter is an indispensable factor in the growth potential of Southern California.

II. THE SYSTEM

Los Angeles Airways is the sole point-to-point local air service within the Greater Los Angeles Metropolitan Area. It operates over a network providing high speed connecting service for passengers, mail, and express from 200 outlying communities to Los Angeles International Airport, the one airport serving the entire area. In so doing, Los Angeles Airways connects with

schedules of:	19 airlines
	3 railroads
	3 transcontinental bus companies
	102 trucking lines
	16 steamship lines

For almost 14 years it has built up a mail, passenger, and express system:

	<u>Mail Lbs.</u>	<u>Express Lbs.</u>	<u>Passengers</u>
1947	209,325 *	-	-
1948	2,573,608	-	-
1949	4,310,775	-	-
1950	4,424,052	-	-
1951	4,759,839	-	-
1952	4,633,977	-	-
1953	5,624,223	** 5,568	-
1954	6,148,552	686,616	*** 210
1955	6,015,842	1,549,948	4,779
1956	5,761,367	1,820,698	20,856
1957	4,575,057	1,675,922	30,095
1958	4,321,211	1,778,984	30,718
1959	4,781,284	2,346,356	41,736
1960	5,274,199	2,491,768	39,140

* Operation started 10-1-47 with Sikorsky S-51 helicopters.

** Service started 12-17-53 with Sikorsky S-55 helicopters.

*** Service started 11-22-54.

As shown above, there has been a continuous increase in traffic carried; however, this is only "token service" offered to the market over the system. At NO point on LAA's system has a sufficient number of schedules ever been available to handle the demands for passengers, for mail, or for air express. On flights making primary airline connections, LAA is able to accommodate only one passenger for every ten requests--for example, on January 20, 1959, San Bernardino flight 573, with a passenger capacity of six, had a total of 100 persons waitlisted. With little or no advertising and with the discouraging repeated waitlisting of potential passengers, there are thousands of persons each month who inquire about or request transportation on LAA whom we are unable to accommodate.

The public consistently demands more service, greater frequency, more convenient flights, and service to additional cities. As evidenced by high load factors, by thousands of written requests and suggestions on file, and by comments from the cities and communities of Southern California,

there is no doubt that the public insists upon better helicopter service. The new twin turbine S-61 helicopter which LAA has purchased and is placing into service this summer will for the first time fulfill the requirements of air service to the traveling public and shippers of Greater Los Angeles.

III. ABILITY

Los Angeles Airways has pioneered and developed practically all concepts of modern commercial rotary-wing aircraft operation. The official motto of Los Angeles Airways is "SIEMPRE PRIMERO", which means "FOREVER FIRST".

Firsts

- LAA was the world's first scheduled helicopter airline.
- LAA was the first airline to be certificated by the Civil Aeronautics Board for a scheduled helicopter operation.
- LAA was the first scheduled helicopter airline to receive a Type Certificate for night flying.
- LAA was the first scheduled helicopter airline to receive a Type Certificate for instrument flying.
- LAA was the first scheduled helicopter airline to conduct special military flight training during a combat period (Korea).
- LAA was the first to operate turbojet helicopters in scheduled service.
- LAA was the first scheduled helicopter airline to purchase multi-engined helicopters.

Conceptions

LAA conceived a method for the night flying and landing of helicopters, without the use of expensive ground aids.



LAA was the first helicopter airline to conceive, design, and utilize fully convertible cargo-passenger aircraft.

LAA conceived the design of cargo pods to expedite property handling in helicopter service.

Development

LAA was the first and only helicopter airline to obtain 10 hours of flight time per day utilization of a helicopter. Its average helicopter utilization is in excess of six hours flight time per operating day.

LAA has the world's highest utilization of flight time on aircraft and components between overhauls.

IV. COOPERATIVE DEVELOPMENT

Los Angeles Airways, throughout its history, has worked closely with the Federal Government, cities, and private industry in the development of cooperative projects, improving routes and service and providing heliports and facilities on a nominal rental basis. These include:

- A. Design and operation of rooftop heliport at the Los Angeles Post Office Terminal Annex, a structure which was the first of its type in the world.
- B. Development of the heliport at the National Orange Show grounds in San Bernardino, serving the passenger, postal, and express requirements of that city.
- C. Design and operation of the heliport at Disneyland in cooperation with Disneyland, Inc., and to which LAA has flown many dignitaries of national and international stature.
- D. Construction underway for LAA's helicopter service to a central point on the Irvine Ranch master plan in Orange County. The project will eventually transform this 93,000 acre ranch into a thriving community with a university, shopping centers and

manufacturing areas, and a population of more than a quarter million people.

V. PLANNING

The projections of Los Angeles Airways anticipate a network expansion to include 71 communities in Southern California, serving a population of 10,000,000 residents and many thousands of businesses. The table below shows these projections and those announced by the Los Angeles International Airport.

A. Actual and Projected Traffic for L. A. International Airport

	<u>Passengers</u>	<u>Mail (Lbs)</u>	<u>Express (Lbs)</u>	<u>Air Freight</u>
1959	8,893,387	46,239,370	27,755,178	101,533,884
1960	6,605,036	48,507,905	21,773,244	125,718,245
1961	7,400,000			
1965	12,460,000			
1970	23,770,000			

B. LAA's Projections of Traffic in Current Guaranty Loan Application Based on a Limited Number of Helicopters

1961*	53,158	5,609,521	3,166,961
1962	197,214	8,005,797	3,482,557
1963	357,094	8,406,087	4,635,284
1964	405,751	8,826,392	4,213,895
1965	459,140	9,267,712	4,635,284
1966	482,097	9,731,098	5,098,812

*Sikorsky S-61L 25-28 passenger helicopter being put into service.

C. LAA's Long Range Future Projections Based on a Larger Fleet of Helicopters

1965	800,000	10,000,000	6,000,000
1970	1,500,000	12,500,000	9,000,000

VI. WILLINGNESS

Los Angeles Airways presently has investments and has made long-term firm commitments as follows:

A. Operating Investment	<u>S-51</u>	<u>S-55</u>	<u>S-61L</u>	<u>Total</u>
Aircraft	\$148,000	\$1,025,000	\$3,326,000	\$4,499,000
Materials & Supplies	\$ 30,000	\$ 40,000	\$ 47,000	\$ 117,000
S-61L Development & Preoperating Expense	-	-	\$ 19,000	\$ 19,000
Shop & Office Equipment				\$ 176,000
S-61L Shop and Tool Equipment				\$ 116,000
 B. Long-Term Lease Investments		<u>5 Years</u>	<u>10 years</u>	<u>20 years</u>
20 heliports		\$ 25,372		
General Offices and Hangars		\$ 17,000		
L.A. Int'l Airport New Terminal			\$ 36,000	
Anaheim Heliport (New)			\$ 30,000	
Newport Beach Heliport (New)				\$ 33,000
San Bernardino Heliport (New)			\$ 23,000	

It is to be noted that these figures represent actual and projected investments made by LAA, since no assistance is granted for heliport construction under the terms of the Federal Airport Assistance Act.

C. Investment of Stockholders and Long-Term Debt Financing Arrangements	
Stockholder Equity	\$1,048,000
Present Bank Loan	\$ 225,000
S-61L Helicopter Bank Loan Commitment under Application for Guaranty Loan	\$2,892,000

VII. OPERATION

Los Angeles Airways' system is designed for maximum operational efficiency based upon the following criteria:

- A. Mails and cargo flow inversely to passenger carriage, thus insuring maximum load factor for two-way haul.
- B. Route lengths have been designed so as to minimize peak period problems. The scheduling of equipment during peak periods to terminal and important intermediate points with shorter segments receiving secondary traffic patterns has

resulted in achieving the highest equipment utilization in the industry.

VIII. METHOD

Los Angeles Airways' equipment has been designed by experts to meet the specific need created by traffic problems in the metropolitan area, thus all aircraft are wholly or partly convertible to all-cargo or all-passenger configurations. As indicated above, 100 per cent mail and cargo capacity can be utilized for outbound morning flights with rapid change of internal arrangement permitting the changeover to 100 per cent passenger-carrying capacity for the inbound flights, or variations of the two. As a result, Los Angeles Airways can proudly point to the industry's highest tonnage load factor:

1958	58.42%
1959	63.23%
1960	64.34%

IX. CITIZENSHIP

Los Angeles Airways provides employment to approximately 150 highly skilled specialists in the complex field of short-haul helicopter operation. These include: pilots, line mechanics, overhaul specialists, flight dispatchers, radio technicians, instructors, designers, engineers, and experts in the field of airline accounting, sales, development, and management. The salaries of these employees represented a total of \$826,880.00 in 1960, with federal taxes withheld during the year of \$132,436.00. Furthermore, a new field of part-time employment to our senior citizens was maintained in that a number are employed as field agents in outlying heliport facilities.

Most important of all, the technical skills of these individuals provide an important ready reserve of thoroughly trained personnel in the interests of the national and civil defense of the United States of America.

X. STATUTORY COMPLIANCE

In granting Los Angeles Airways its certificate the Civil Aeronautics Board has found that the public convenience and necessity require this service "to maintain and continue the development of air transportation to the extent and of the character and quality required for the commerce of the United States, the postal service, and the national defense." (Federal Aviation Act, 1958, Section 406(b).)

In this connection, in a recent certificate renewal (Board Orders Nos. E-12832 and E-12833 dated July 28, 1958) the Board stated as follows:

..."Continuation of helicopter service in Los Angeles Metropolitan area for a further experimental period found required by needs of the national defense and commerce of the United States. LAA has provided substantial public benefits and its record of achievement as a certificated helicopter operator, despite lack of adequate equipment, has been outstanding; it has greatly aided civil and national defense, benefitted the postal service, contributed materially to the technical advancement and economic development of rotary-wing aircraft as a feasible and accepted means of air transportation, and has inconvenienced a comparatively large volume of traffic."...

The Board recognized that Los Angeles Airways has a statutory responsibility to establish a new type of air service which is truly responsive to the public convenience and necessity.

In appraising the benefits that accrue to the public, in connection with the above, the following factors may be taken into consideration:

A. Postal Service

For the past three years Los Angeles Airways has transported an average of almost six million pounds of air mail per year with present equipment. The S-61L helicopter will provide a potential of four times this load. The Post Office utilizes the service of Los Angeles Airways between the airport, suburban areas, and the Post Office Terminal Annex Building. In so doing, this service

has expedited the delivery of air mail as much as twelve hours or more than would be obtained by use of surface transportation. Also, Los Angeles Airways has been able to expedite the mail from suburban communities by directly transferring the mail to the trunk and local service airlines without the handling by postal personnel. With the advent of the jet age, the schedules of the jets and Los Angeles Airways have been so coordinated in the Los Angeles area as to permit early morning delivery of trans-continental air mail posted late on the previous evening.

B. National Defense

The operations of Los Angeles Airways have served as a helicopter testing laboratory for the armed forces and to train instructors of the armed forces in new techniques of instrument flying, which we were first to prove. Both the Civil Aeronautics Board and Congressional committees have recognized the tremendous contributions that the pioneer Los Angeles Airways operations made available to our military forces in the Korean conflict.

C. Civil Defense

Over a period of years Los Angeles Airways has maintained a liaison with the Civil Defense authorities. In strongly supporting our operation before the Civil Aeronautics Board, the Office of Civil Defense testified that the existence of established helicopter service conducting day-to-day operations in the Los Angeles area represents a valuable asset from the civil defense standpoint in case of emergencies, local disasters, and for the movement of key governmental personnel from sensitive areas to outlying control

centers in the event of an impending attack. The Administrator pointed out that the helicopter demonstrated its value in disaster operations in the California northern counties floods in 1955, a tidal wave threat to Southern California in March, 1957, etc.

D. Railway Express Agency

The Air Express Division has testified in public hearings that "with the insugural of the service of Los Angeles Airways, we are now able to give the purchasing public in those outlying areas the same type of service engaged by the people of the metropolitan area. Furthermore, this has resulted in appreciable time savings for those users".

EXHIBIT C

ANNUAL REPORT**LOS ANGELES AIRWAYS, INC. 1960**

LOS ANGELES AIRWAYS, INC.**DIRECTORS**

C. M. Belinn	William C. Jordan
Kenneth W. Dyal	Henry C. Judd
James G. Lombardi	

OFFICERS

C. M. Belinn	<i>President</i>
Martin J. Burke	<i>Secretary</i>
John T. Kane	<i>Vice President, Treasurer, and Assistant Secretary</i>
Fred W. Milam	<i>Vice President — Transportation</i>
Robert P. Hubley	<i>Vice President — Sales</i>
E. H. Slingsby	<i>Assistant Treasurer and Assistant Secretary</i>

STOCK TRANSFER AGENT

Security First National Bank

AUDITORS

Peat, Marwick, Mitchell & Co.

GENERAL COUNSEL

Burke, Williams and Sorensen

To Our Stockholders, Employees and Friends:

In my last Annual Report, I pointed out that your Company had attained an all-time high in load factors. The fact that this trend still prevails reflects the popular reliance upon both the service pattern and the dependability of the system.

First Turbine

During the past year, the saturation point of fleet capacity in all categories—mail—passengers—express—was reached. To relieve this situation, your Company added one 10-passenger Turbine Powered Model S-62 Single-Engine helicopter on an interim lease basis, thus providing the first instance of operating a modern turbine helicopter on a certificated system anywhere. Passenger and public acceptance of this aircraft has been uniformly enthusiastic. This is noteworthy because many of its basic characteristics are identical to those of the S-61L.

This step was occasioned also by a delay of several months in delivery of the large Multi-Engine Model S-61L 28-passenger machines which are on order. The delay was caused primarily by type certification technicalities, and is not unusual in forerunner proceedings. Present plans contemplate placing the first unit of the new equipment in service early in August. It is hoped that we will be able to display this unit to our stockholders at the Annual Meeting now planned for July 28.

Financial

The attached report of Peat, Marwick, Mitchell & Co., certified public accountants, accompanied by our year-end statement of financial position, indicates earnings of \$3.52 per share as compared with \$1.27 in 1959, subject to the adjustments referred to in Note 1 to the Financial Statements relating to 1960 recorded earnings applicable to 1959. The improvement in earnings was due in part to the newly adopted rate making formula of the Civil Aeronautics Board referred to in my special report dated September 23, 1960. Also of significance is a new rate formula consummated during 1960 between the airlines and the REA Express Agency, for the carriage of air express, which accounts for a substantial segment of your Company's revenue.

As a principal means of financing the initial units of the S-61L re-equipment program, your Company has a loan commitment in the amount of \$2,891,637 from the Bank of America National Trust and Savings Association, supported by a recently filed revised application of guarantee made to the Civil Aeronautics Board under the provisions of Federal law.

This financing represents the maximum obtainable under our existing ratio of equity capital to debt. This limitation has restricted the primary equipment purchase program to four new aircraft.

It is apparent that the time has come to take appropriate steps for expanding your Company's capital structure. At the Annual Meeting of Stockholders, there will be submitted a proposal to increase the authorized capital as well as to reduce the par value of the shares as a prelude to a stock split. These preliminary steps will provide a basis for the contemplated public offering of shares at a later date.

Personnel Relations

Demand for wage increases in the air transportation industry remains strong. The duration of labor agreements within the industry continues to be extremely short. The effect of these two factors is largely responsible for rising unit and administrative costs. Contracts with both the Airline Pilots Association and the Teamsters Union are currently in negotiation and the outcome cannot be precisely determined at this time.

Towards the close of the year, your Company inaugurated a retirement plan for its pilots, funded through deposits with a major insurance company and to which our pilots contribute a portion of earned salary. This plan is in keeping with others negotiated in the industry.

There has already been submitted to the stockholders a Restricted Stock Option Plan for key employees. The number of the shares to be available for option is 3,800, or less than 10% of our presently outstanding shares. While I do not propose to participate in this plan, I do advocate the incentive principles on which it is predicated, and I am impressed by the spontaneous favorable reaction already received from the stockholders.

1960 Performance

Approximately 5% less revenue miles were flown in 1960 as compared with 1959. This was due to a substantial number of non-recurrent extra schedules flown during the previous year, in addition to a slightly lower completion factor caused by adverse weather conditions during 1960.

Despite this situation, your Company's overall revenue load factor increased in 1960 from 63.23% to 64.34%. This resulted primarily from substantial gains in air express and air mail traffic.

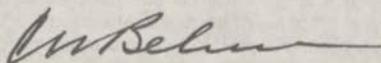
Outlook

Over the past several years, the most vexing problems under which your Company has been operating have been inherent to the limitations of single-engine aircraft, manifested in both operational characteristics as well as extremely limited carrying capacity. I believe these handicaps will largely be overcome by acquisition of the new fleet of aircraft. This should also form a basis for initiating service to new points, some of which are located within our presently authorized area, and some on its periphery and subject to approval by the Civil Aeronautics Board. It is the plan of your Management to press for these authorizations as soon as feasible.

Your Company recently filed an application with the Civil Aeronautics Board for authorization to provide service in the San Francisco area. Studies are under way to determine whether certain other points on the West Coast could benefit from the use of centralized facilities at a possible overall savings, having the net effect of reducing dependence on Government support.

Once the new aircraft are placed in operation, our industry for the first time will have adequate equipment upon which to sell real service to the traveling public. Of course, the new aircraft will pose new problems of a pioneering nature; but your Company has thrived in this type of climate since it first commenced operations in 1947. You may rest assured that everyone connected with the Company will be diligent and zealous of maintaining its position of leadership in this vital segment of air commerce.

Respectfully submitted,



C. M. Belinn
President

June 5, 1961

ACCOUNTANTS' REPORT

The Board of Directors

Los Angeles Airways, Inc.:

We have examined the balance sheet of Los Angeles Airways, Inc. as of December 31, 1960 and the related statements of earnings, additional paid-in capital and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The company's accounts have been consistently maintained in accordance with accounting requirements of the Civil Aeronautics Board, which differ in certain respects from those prescribed for Federal income tax purposes. In the absence of a request for permission to use deferred tax accounting, the Civil Aeronautics Board further requires that operations be charged each year with the actual Federal income taxes payable for that year. Generally accepted accounting principles would require that such taxes be computed consistent with the accounting methods used in the accounts, and would further require that the difference between Federal income taxes on the two bases be handled as prepaid or deferred taxes, as the case may be. The effect of this deviation from generally accepted accounting principles with respect to accounting for Federal income taxes is shown in Note 4 to financial statements.

In our opinion, except for the effect of the method used in recording Federal income taxes as described in the preceding paragraph, the accompanying balance sheet and statements of earnings, additional paid-in capital and retained earnings present fairly the financial position of Los Angeles Airways, Inc. at December 31, 1960 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

Los Angeles, California

March 13, 1961

Balance Sheet—December 31, 1960

with comparative figures for 1959

ASSETS

	1960	1959
Current assets:		
Cash	\$ 387,601.20	293,223.90
Receivables:		
United States Government	169,677.82	137,144.66
Other	67,033.36	50,674.57
Total receivables	236,711.18	187,819.23
Expendable parts and supplies, at cost	132,558.66	103,162.07
Prepaid expenses:		
Insurance	60,162.32	62,365.96
Other	2,354.74	2,493.45
Total prepaid expenses	62,517.06	64,859.41
Total current assets	819,388.10	649,064.61
Investments	507.56	507.56
Deposit on purchase of equipment (Note 2)	432,050.00	126,000.00
Equipment, at cost:		
Flight equipment (Note 3)	1,150,826.54	1,150,307.11
Ground and other equipment	254,680.65	188,421.63
Less allowance for depreciation and maintenance of flight equipment	1,405,507.19	1,338,728.74
Net equipment	1,109,000.26	1,061,025.10
Net equipment	296,506.93	277,703.64
Deferred charges:		
Extension and development expense	40,804.17	14,954.38
Past service pension costs (Note 5)	41,407.17	—
Total deferred charges	82,211.34	14,954.38
	\$1,630,663.93	1,068,230.19

See accompanying notes to financial statements.

LOS ANGELES AIRWAYS, INC.

LIABILITIES

	1960	1959
Current liabilities:		
Note payable to bank (Note 3)	\$ 225,000.00	—
Accounts payable	110,920.71	61,839.85
Collections as agent	55,393.55	51,499.11
Accrued expenses	32,067.25	42,948.67
Contribution to pilots' pension plan (Note 5)	22,826.18	—
Unearned passenger revenue	2,447.19	2,395.59
Federal taxes on income, estimated (Note 4)	120,296.70	16,138.01
Total current liabilities	568,951.58	174,821.23
 Liability for past service pension costs, less \$10,351.80 included in current liabilities (Note 5)	31,055.37	—
 Stockholders' equity:		
Capital stock of \$10.00 par value per share.		
Authorized 50,000 shares; outstanding 38,958 shares	389,580.00	389,580.00
Additional paid-in capital	278,701.00	278,701.00
Retained earnings	362,375.98	225,127.96
Total stockholders' equity	1,030,656.98	893,408.96
 Commitments (Note 2)		
	\$1,630,663.93	1,068,230.19

LOS ANGELES AIRWAYS, INC.

Statement of Earnings

Year ended December 31, 1960 with comparative figures for 1959

	1960	1959
Operating revenue:		
Mail (Note 1)	\$1,239,576.12	1,063,975.00
Express (Note 1)	153,674.10	105,721.71
Passenger	228,811.62	243,142.90
Other	7,624.89	10,020.55
	1,629,686.73	1,422,860.16
Operating expenses:		
Flying operations	322,245.99	281,400.28
Direct maintenance	300,727.95	300,157.67
Maintenance burden	139,391.98	116,566.29
General and administrative	604,490.70	565,436.67
Depreciation	73,221.36	80,417.22
	1,440,077.98	1,343,978.13
Operating income	189,608.75	78,882.03
Non-operating income:		
Interest (Note 6)	15,609.99	—
Gain (loss) on disposition of property	(499.41)	2,056.14
Other	442.64	9,227.87
	15,553.22	11,284.01
	205,161.97	90,166.04
Non-operating charges:		
Interest	—	2,462.30
Other	372.21	284.72
	372.21	2,747.02
Earnings before Federal taxes on income	204,789.76	87,419.02
Federal taxes on income, estimated (Note 4)	92,896.70	16,138.01
Net earnings	111,893.06	71,281.01
Special credit (charge):		
Additional prior year's mail and express revenue, less applicable income taxes		
\$27,400.00 (Note 1)	25,354.96	—
Federal income taxes for prior years	—	(21,811.19)
Net earnings and special items	\$ 137,248.02	49,469.82

Statement of Additional Paid-in Capital and Retained Earnings

Year ended December 31, 1960 with comparative figures for 1959

	1960	1959
Additional paid-in capital:		
Balance at beginning and end of year	\$ 278,701.00	278,701.00
Retained earnings:		
Balance at beginning of year	\$ 225,127.96	175,658.14
Net earnings and special items	137,248.02	49,469.82
Balance at end of year	\$ 362,375.98	225,127.96

See accompanying notes to financial statements.

LOS ANGELES AIRWAYS, INC.**Notes to Financial Statements**

December 31, 1960

Note 1. Prior Year's Mail and Express Revenue.

During 1960, the Civil Aeronautics Board issued an order fixing the final mail rate retroactive to October 20, 1959. Additional mail revenue received in 1960 and applicable to 1959 amounted to \$34,442.86. In addition, the final determination of prior year's express revenues resulted in the receipt of \$18,312.10 which was entirely applicable to 1959.

Note 2. Deposit and Commitments.

At December 31, 1960, the company had \$432,050.00 on deposit for the future purchase of five helicopters to be delivered commencing in 1961. The total commitment for the purchase of these aircraft, exclusive of spare parts, is approximately \$2,500,000.00 and negotiations are presently under way to finance a substantial portion of the total purchase price on a long-term basis.

Note 3. Flight Equipment Pledged.

Five S-55 helicopters with an aggregate cost of approximately \$790,000.00 are pledged to secure note payable to bank, \$225,000.00.

Note 4. Federal Taxes on Income.

The company's Federal income tax returns through 1958 have been examined by the Internal Revenue Service and all additional assessments have been paid.

Depreciation of equipment is provided in the accounts based on rates recognized by the Civil Aeronautics Board which differ from rates allowed for Federal income tax purposes, and provisions for maintenance of flight equipment and certain other charges to operating expenses in 1960 are not deductible for Federal income tax purposes until subsequent years. Accordingly, the provision for Federal taxes on income for 1960 reflects the actual amount payable by the company, and is approximately \$8,000.00 less than would have been required if the company recognized deferred Federal income taxes. The cumulative unrecorded deferred Federal income taxes at December 31, 1960 amounted to approximately \$21,000.00. However, the amounts received as mail revenue from the Civil Aeronautics Board include an allowance for taxes computed in conformity with the basis used for Federal income tax purposes.

Note 5. Pension Plan.

Effective July 1, 1960, the company adopted an insured contributory pension plan for all eligible pilots. The cost of this plan, for both current and past services, charged to operating expenses in 1960 amounted to \$12,474.38. The entire remaining past service costs as of December 31, 1960, \$41,407.17, has been recorded in the company's accounts and will be funded over a four-year period at the annual rate of \$10,351.80.

Note 6. Interest Capitalized.

During 1960, the company capitalized interest aggregating \$19,922.49 as a cost of acquiring flight equipment. Such capitalization is in accordance with the accounting regulations of the Civil Aeronautics Board and included the capitalization of an increment of interest income, in the amount of \$15,609.99, on company funds deposited on the purchase of flight equipment.

LOS ANGELES AIRWAYS, INC.

Comparative Statistics

	1960	1959	% Change
OPERATIONS AND STATISTICAL SUMMARY			
Flight Mileage			
Revenue Miles Flown	637,698	672,063	- 5.11
Schedule Completion Factor	86.93%	89.73%	- 3.12
Traffic Carried			
Passengers	39,184	43,351	- 9.61
Express (lbs)	2,898,000	2,629,576	+ 10.21
Mail (lbs)	5,362,861	4,843,110	+ 10.73
Total Ton Miles	216,808	224,088	- 3.25
Overall Revenue Load Factor	64.34%	63.23%	+ 1.76
Equipment Utilization			
Total Hours Flown	9,436	9,638	- 2.10
S-55 (Hrs. per calendar day)	4:55	5:09	- 4.53
S-62 " " " " "	:54	—	—
Operating Expense per Ton Mile	\$6.64	\$5.92	+ 12.16
<hr style="width: 20%; margin: 10px auto;"/>			
FINANCIAL SUMMARIES			
Number of Stockholders	467	352	+ 32.67
Shares Outstanding	38,958	38,958	—
Shareholders Equity per Share	\$26.46	\$22.93	+ 15.39
Earnings per Share	\$ 3.52	\$ 1.27	+177.17
<hr style="width: 20%; margin: 10px auto;"/>			
BALANCE SHEET RATIOS			
Current Assets to Current Liabilities	1.44:1	3.7:1	
Net Worth to Debt	1.7 :1	3.1:1	
<hr style="width: 20%; margin: 10px auto;"/>			
Number of Aircraft			
Sikorsky S-51	2	2	
Sikorsky S-55	5	5	
Sikorsky S-62 (leased)	1	—	
Sikorsky S-61 (on order)	5	—	
Number of Employees	133	122	

STATEMENT OF BOEING-VERTOL

One of the greatest impacts on the air transportation industry in recent years has been the availability of the commercially economical turbo jet engine. The many benefits and advantages accruing to the trunk line operators of the large fixed wing jet transports, i.e., higher speeds, longer periods between engine overhaul, cheaper engine operation, lower vibration level, lower sound level, greater safety because of engine reliability, greater passenger acceptance and the many other benefits resulting from a generally greatly improved service to their passengers, are to be expected and will be experienced by the helicopter airline operators when they introduce the turbine powered helicopters into service during the late summer and fall of 1961.

The Boeing-Vertol 107 Model II helicopter is the product of fifteen (15) years continuous design of tandem rotor helicopters, including severe military experience under extreme conditions of weather, terrain and loading. This has resulted in a highly reliable configuration which is further improved in the latest Model II by the use of two powerful turbine type engines of the same general design that have set such excellent records in airline operations permitting the operation gains listed above.

To the helicopter operator the advent of the small, light weight, high performance, free shaft turbine engine and its twin installation in the helicopter mean that two long sought operational gains have become a reality, namely, improved economy and the many safety benefits from the twin engine installation, thereby providing one engine out operational capability.

In discussing the safety and accident experience in helicopter operation it is important to properly identify any statistics as to the type of operation, i.e., scheduled airline operation, nonscheduled operations such as contractor, executive, independent and military. It must be kept in mind that military operation by its very nature, involves higher accident rates. Higher risks are accepted, such as operation over water with single engine aircraft, operation under marginal weather conditions, etc. Many of the operations of the contract operators and the independent operators are of this same nature.

The types of operations referred to above are obviously subject to considerably more risks than scheduled airline operations under strictly controlled IFR and VFR conditions and the use of equipment that is maintained and inspected in accordance with strict FAA regulations. Operations in this latter category are conducted with less risks and are therefore less likely to suffer accidents. The accident rates for the Boeing-Vertol HUP, H-21 and Model 44 bear this out and also show the effect of design improvements in the later models resulting from advancement in the state of the art.

Within the past year Vertol completed a comparison study of accident rates per 100,000 flights for Boeing-Vertol, Boeing-Vertol Air Carrier, Trunk Air Carrier, International Air Carrier, Alaskan Air Carrier and all Helicopter Air Carrier Service. Statistics were available for the periods 1950 through 1959, 1957 through 1959 and 1958 only. The results of this study are shown in the attached chart.

From the chart it is seen that the total Vertol military accident rate per 100,000 flights, 1950-1959, is slightly above the Alaskan Air Carrier rate for 1958. This military experience is composed 100% of single engine operations. It is valid to assume, when projecting this data to a multi-turbine aircraft, that the accident rate resulting from engine failure will be reduced. Eliminating engine failure brings even the military accident rate down to 8.7 accidents per 100,000 flights compared to Alaskan Air Carriers' rate of 9.4.

The Vertol Air Carrier operations, 1957-1959, show a rate of 3.3 accidents per 100,000 flights which becomes 2.0 when 1960 data is included. This period covers all Vertol scheduled air carrier history. Again, by omitting engine failures, the rate drops to 1.0 per 100,000 flights. This is far below the accident rate for fixed wing air carriers (see attached chart).

In terms of fatal accidents, the Vertol military record is comparable to the 1958 International Air Carrier record and substantially better than the Alaskan Air Carrier record (1.3 fatal accidents per 100,000 flights versus 2.3). The fatal accident record for all Vertol Air Carrier operations is zero. It is important to note that there were no fatal accidents for the entire ten years of Helicopter Air Carrier service prior to 1960, with one accident in that year resulting in fatalities.

This indicates that the helicopter, properly maintained and operated in scheduled service, is an inherently safe flying vehicle.

The comparison study shows the steady, progressive improvement within each generation of helicopters with sharp reductions in accident rates with each new generation. It is anticipated further, that the multi-engine design, all-weather capability, improved power margins and many other detailed safety improvements will provide a significant reduction in operational and engine caused accidents. The extensive background of knowledge gained from previous helicopters coupled with a comprehensive reliability test program will likewise sharply reduce the material failure rates. Thus, it may be stated that the already low accident rate of Boeing-Vertol Air Carrier operations will be substantially improved in the 107 Model II. See chart II for state of the art design items.

The operating characteristics of the new twin turbine helicopters hold great promise for the scheduled helicopter airline operator. The culmination of its many advantages spells improved financial stability for the future. The performance and operating characteristics that will insure a more economical operation in the future are set forth in the following discussion.

In addition to the many improvements in the modern helicopter, made possible by the advanced state of the art, the major single beneficial factor in the new generation of helicopters is the multi-engine installation of the lightweight free shaft turbine engine to replace the outmoded reciprocating internal combustion engine. These new engines are much lighter per horse power allowing a saving in weight which can be used to provide additional safety in structural and equipment design. The turbine engine will permit longer periods between overhauls with less man hours per overhaul and with less replacement of parts at each overhaul. This results in fewer overhauls per year with an overall reduction in yearly engine operating costs.

The twin engine installation with its increased power permits higher operating cruise speeds and increased passenger capacity, thereby reducing the direct operating cost per

available seat mile. Because of the single engine operating capability more direct routes can be flown with less restriction because of terrain conditions or densely populated city areas. The single engine capability also permits more flight completions during inclement weather thus further increasing revenue.

It is well known that the operating cost of any type of transportation vehicle is directly dependent on the utilization achieved. The twin turbine engine installation discussed above directly effects utilization. The installation of dual control systems and dual instrumentation are also items to insure that an aircraft will be ready to go when called upon to do so. Here again is an improvement in the chances for increased utilization. Improved maintenance features insure less ground time, improving utilization and reducing direct operating costs.

It is anticipated that with these many improvements in performance and operating economy, the new generation of helicopters will reduce direct operating costs per available seat by approximately 50%.

CHART I

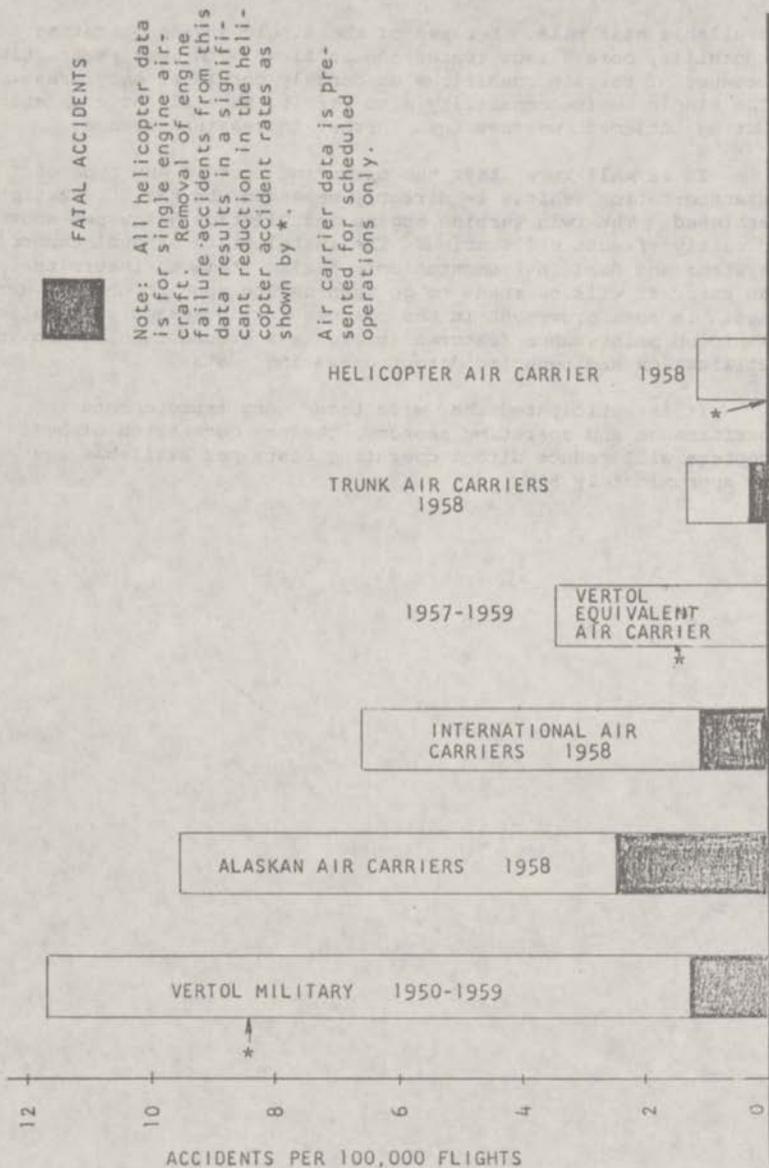


CHART II

MAJOR FACTORS AFFECTING
HELICOPTER FLIGHT SAFETY

FACTOR	PREVENTIVE DESIGN ACTION
I. OPERATIONAL ERRORS-----	<ul style="list-style-type: none"> a. IMPROVED STABILITY b. INCREASED CONTROL ABILITY c. RPM GOVERNING d. IMPROVED POWER PLANT RELIABILITY & MULTI-ENGINE (DECREASING NEED TO PRACTICE ACCIDENT-CAUSING AUTOROTATION TRAINING) e. IMPROVED IFR CAPABILITY
II. ENGINE FAILURES-----	<ul style="list-style-type: none"> a. IMPROVED RELIABILITY OF TURBINES b. MULTI-ENGINE c. EMERGENCY WATER LANDING CAPABILITY
III. DYNAMIC SYSTEM FAILURES-----	<ul style="list-style-type: none"> a. IMPROVED QUALITY CONTROL <ul style="list-style-type: none"> 1. DESIGN FOR IMPROVED INSPECTABILITY 2. IMPROVED FACILITIES & PROCEDURES b. INCREASED TESTING & IMPROVED TECHNIQUES c. MORE COMPREHENSIVE ACCELERATED SERVICE TESTING d. SCIENTIFIC RELIABILITY PROCEDURES e. USE OF FAIL-SAFE STRUCTURES
IV. MAINTENANCE ERRORS-----	<ul style="list-style-type: none"> a. SCIENTIFIC ANALYSIS OF DESIGN FOR MAINTAINABILITY <ul style="list-style-type: none"> 1. DESIGN FOR MURPHY'S LAW 2. ELIMINATION OF GREASE FITTINGS IN CRITICAL AREAS 3. DESIGN FOR EASE OF FIELD INSPECTION

STATEMENT OF BELL HELICOPTER COMPANY

Recent Appropriations Hearings, both Civil and Defense, have focused attention on the Safety record of helicopters. We would, therefore, like to submit the following facts for the record to clear up some of the "they say" statements that have been made.

U. S. Civil Operations: The following are the Civil Aeronautic Board's, Bureau of Safety figures:

HELICOPTER ACCIDENTS

1950 - 1960

<u>Year</u>	<u>Total Accidents</u>	<u>Fatal Accidents</u>
<u>AIR CARRIER</u>		
1950	4	0
1951	3	2
1952	1	0
1953	1	0
1954	4	0
1955	0	0
1956	11	0
1957	2	1
1958	4	1
1959	1	0
1960	4	1
Total	<u>39</u>	<u>5</u>

Under controlled conditions as is the case of the three helicopter air carrier operations, the helicopter safety record matches that of fixed wing airline operations. In fact, the CAB's Bureau of Safety figures for 1959 show helicopters with 1.4 accidents per 100,000 departures, with fixed wing operations having 1.6 accidents per 100,000 departures. The 1960 figures are not as yet complete but a preliminary look indicates that these rates will not change appreciably.

STATEMENT OF SIKORSKY AIRCRAFT DIVISION
UNITED AIRCRAFT CORPORATION

Sikorsky Aircraft is aware of the concern of the House and Senate relative to the need for subsidy by the three existing helicopter air carriers. At the same time, we sincerely believe that improvement of short haul air transportation for the convenience of the public is more necessary today than ever before, and the helicopter, without question, is a means to this need.

In 1947 Sikorsky wholeheartedly supported the U.S. Post Office and CAB in the initial experiment of carrying mail in the Los Angeles area by helicopter. Since that time Sikorsky has been designing helicopters with the goal of supplying to the short haul market an aircraft operable on an economical basis. We believe that we are on our way to reaching this goal. It might be noted that Sikorsky has spent over 15 million dollars in the development and certification of the initial production quantity of turbine-powered S-61L aircraft for two of the helicopter airlines. Only about half of this amount will be realized from actual sales of these aircraft.

Helicopter Traffic Growth

Civil Aeronautics Board records have been plotted on the attached graph entitled "Growth of Scheduled Helicopter

Airlines." For your information the number of passengers carried annually, 490,268 in 1960, represents a growth of over 50% per year for the past four years.

A second graph shows the reduction in direct cost of operation per seat mile.

<u>Model</u>	<u>Year Introduced</u>	<u>Number of Passengers</u>	<u>D.O.C. Per Seat Mile</u>
S-51	1947	3	31¢
S-55	1952	7	19¢
S-58	1957	12	16¢
S-61	1961	25-28	8¢
S-64	1966	45-55	5¢

It is significant that the forthcoming S-61 with its twin turbine power represents a minimum 50% reduction in seat mile cost over any previous transport helicopter. Furthermore, it is apparent that a reduction in percent of subsidy will be associated with this reduction in seat mile cost, as indicated on the first graph. The percent of subsidy to total operating expenses was 95% in 1954 and reduced to 59% in 1960.

Safety of Helicopters

During testimony before the House Sub-Committee questions were asked regarding helicopter safety records. The helicopter's safety record is without question an exceptionally outstanding one.

1. Accident records from the U. S. Navy, per 10,000 flight hours for all ship-based aircraft during FY 1959 and 1960, indicate an accident rate of 8.95 for fixed wing

aircraft and 4.95 for helicopters. The Navy over-all helicopter accident record has been improving each year:

<u>Year</u>	<u>Accidents per 10,000 flight hours</u>
1957	5.2
1958	4.6
1959	4.0
1960	2.3

2. The U. S. Army, world's largest single user of helicopters, as one example, flew 23,995 hours (over 119,975 landings and take-offs) during the past two years at their Operational Training Center at Fort Benning, Georgia with only one accident. That was due to pilot error and did not involve any personal injury.

3. It must be remembered that comparison of helicopter and fixed wing airline experience on a per-plane-mile or per-passenger-mile basis is not valid because: (a) of the considerably slower speed that helicopters fly; (b) the scheduled helicopter operators average six landings and take-offs per flying hour whereas fixed-wing operators average less than one. Since the greater majority of all accidents occur during take-offs and landings, the most equitable basis of comparison is on plane departures. On this basis (since the inauguration of scheduled helicopter passenger service, 1953 to date) the fatal accident rate per 100,000 departures is .11 for the helicopters as compared to .16 for all domestic fixed wing airlines. Furthermore, it should be realized that the scheduled helicopter

carriers have achieved this remarkable record since the beginning of their passenger service.

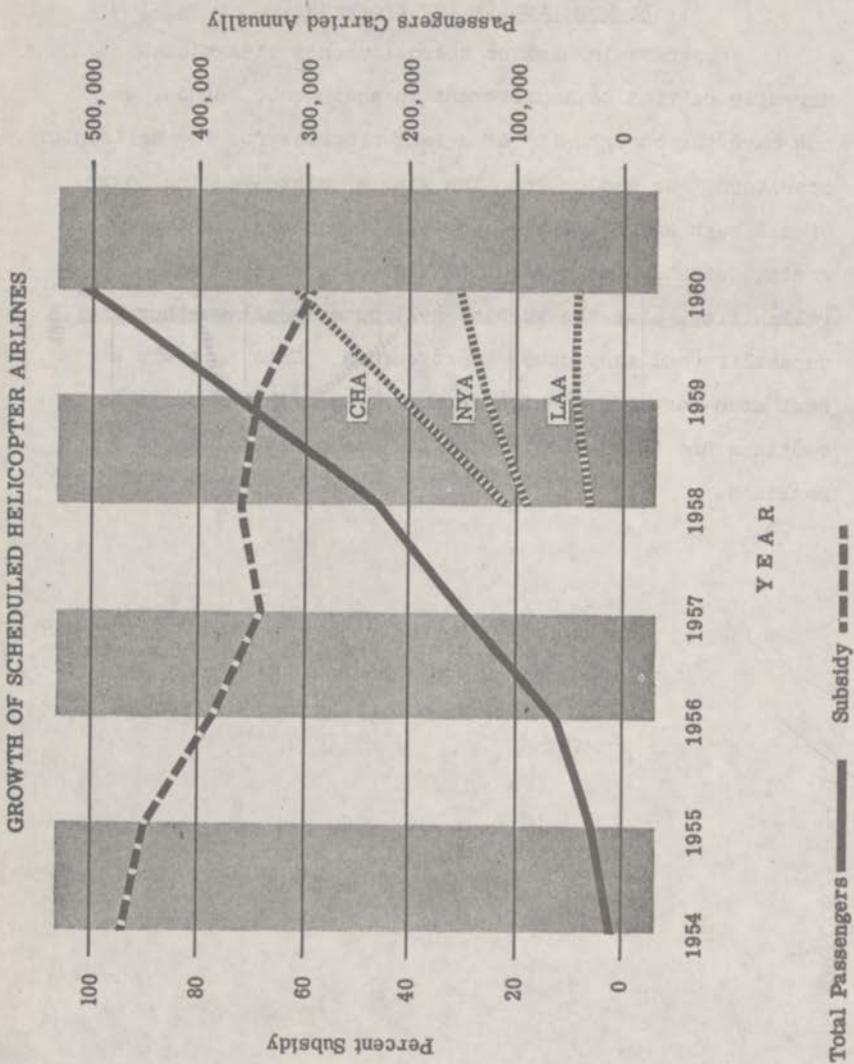
4. All of the helicopter airline flight time accumulated to date has been on single-engine aircraft, whereas practically all of the fixed wing airline operation has been with multi-engine aircraft. The added safety of twin engines is an important improvement in future scheduled helicopter operations -- an improvement which will make their already fine safety record even better.

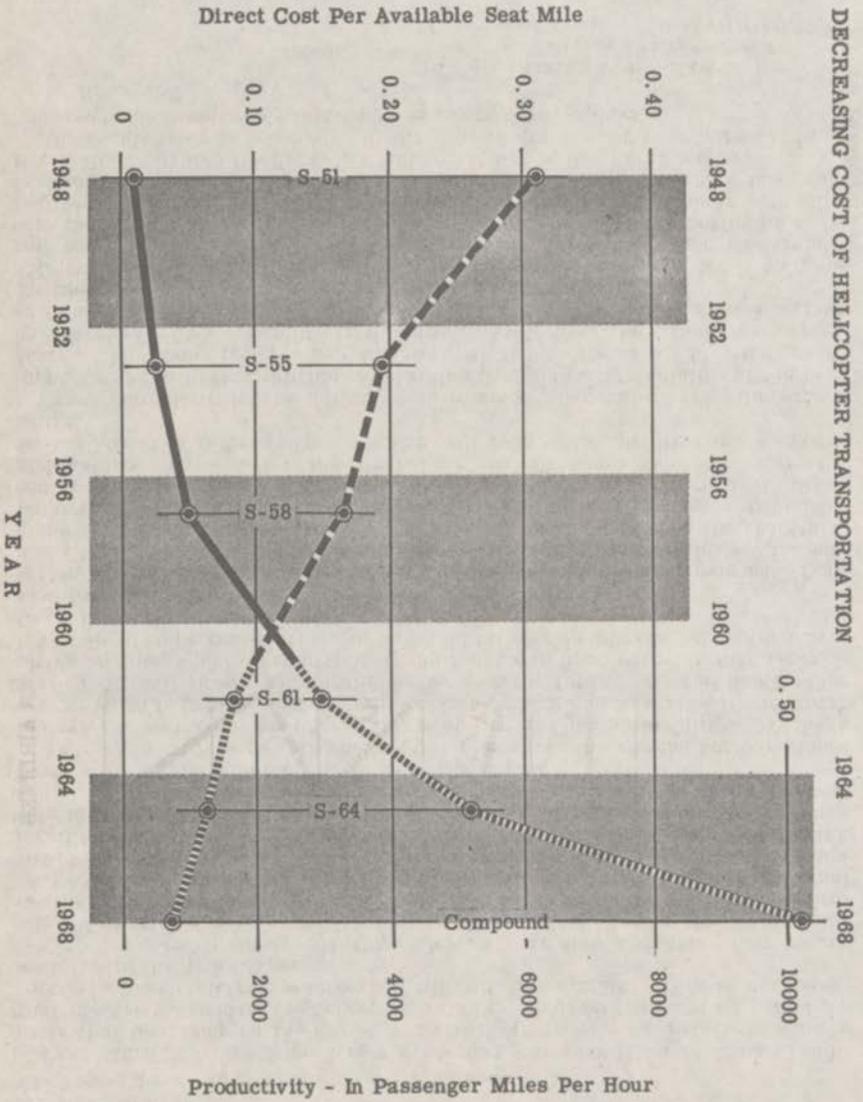
Benefits to Military

It is worth noting that most helicopters operated by the scheduled operators are commercial models of aircraft originally developed for the military. The U. S. Military has benefited significantly from the service experience of the scheduled commercial operators. Primarily, the benefit is in reduction of maintenance costs due to increase in overhaul periods of dynamic components such as gear boxes and rotor blades. The commercial helicopter operators have been able to substantiate these overhaul periods by rapid accumulation of service experience. This results not only in a lower direct operating cost for the military operators, but in significantly increased aircraft utilization.

An Opportunity for Progress

Progress in airline operations has always been directly related to improvement in equipment. Hence, we now have the opportunity of a real progress for the helicopter operators. We can go from the single, piston-engine power of all past and present scheduled helicopters, to the incoming twin turbine-power with its added safety, and reliability, plus the turbine helicopter's all-weather capability and many other improvements. This is truly a real step forward -- which we must take if progress is to continue and if the helicopter airline potential is to be realized.





HEADQUARTERS, DEPARTMENT OF THE ARMY,
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR MILITARY OPERATION,
Washington, D.C., June 22, 1961.

Mr. LEE S. JOHNSON,
Chairman, American Helicopter Society, New York, N.Y.

DEAR MR. JOHNSON: I am deeply concerned that your letter of June 19 indicates that testimony on the use of Army helicopters is being distorted to imply that the Army considers the helicopter unsafe, even dangerous, and that the helicopter is inordinately expensive and difficult to maintain. This is not representative of the Army experience.

First, concerning safety. During calendar year 1960 the Army flew rotary wing aircraft 571,000 hours. There were 16 fatalities during this time or 2.8 deaths per 100,000 hours of flight time. You must remember that this tactical usage of these helicopters involves field operations in rugged terrain, external lift of heavy weapons and equipment, flights where weather approaches marginal conditions, as well as student pilot training. Under these circumstances, I think this is an excellent record. Of course, we would like to see this rate approach zero. However, flying under a simulated combat environment cannot be compared with normal administrative commercial flying.

As the new turbine powered helicopters phase into the system, our experience indicates a marked improvement in reliability and maintainability. We have every reason to believe that our accident rate, which has been steadily declining since 1957, will show a significant decrease in the future. As you know, older piston engines, which were extremely dependable in fixed wing aircraft (operating at about 60 percent power), did not hold up very well in the helicopter where we required 90 percent or more continuous power at higher temperatures. The new turbine engine family will remove this problem.

Concerning expense, no one can deny that the helicopter is more expensive than a fixed wing aircraft, but the Army believes the unique capabilities of this machine are well worth the extra cost. The Army carefully weighs the cost/effectiveness of every item in its inventory, and the shift of our fleet toward the helicopter is ample evidence of the importance the Army attaches to vertical takeoff and landing. We do believe the new helicopters will show a reduced requirement for maintenance and spare parts which will reduce the operating costs equivalently.

Every hour flown by the military and commercial operators is an important input toward achieving this improved reliability and maintainability of the helicopter. The Army believes it is important to the Nation as a whole that there be a strong civilian capability in this area. Aside from the commercial aspect, such a capability would be an invaluable national asset in a time of grave emergency.

In summary, I do not think the testimony you quoted in your letter is an accurate reflection of the Army's experience in rotary wing aircraft, nor does it indicate the Army's belief that the potential of this machine is only beginning to be realized. The Army believes that the helicopter will fill a vital role in both military and civilian applications for years to come. No other machine has practically demonstrated the flexibility and versatility in this flight regime.

I hope this reply is responsive to the general question of your letter. Please feel free to quote this reply if it can be of any positive value.

Sincerely,

CLIFTON F. VON KANN,
Brigadier General, GS,
Director of Army Aviation, ODCSOPS.

STATEMENT BY AUSTIN J. TOBIN, EXECUTIVE DIRECTOR, PORT OF NEW YORK
AUTHORITY, IN REGARD TO SUBSIDY FUNDS FOR HELICOPTER OPERATIONS

Mr. Chairman and members of the subcommittee, there is before you for your consideration the "Independent offices" appropriations bill for fiscal year 1962 which includes an appropriation for Federal subsidy funds for helicopter operations to be administered by the Civil Aeronautics Board. The budget estimate requests appropriations in the amount of \$6.9 million for Federal subsidy funds for helicopter operations. In the bill passed by the House of Representatives, the appropriation for helicopter operations was reduced to \$5 million. In light

of the strong endorsement by the Civil Aeronautics Board for appropriations in the amount originally proposed in the budget estimate and in view of the public need for the continued development of helicopter services, the Port of New York Authority urges an appropriation of \$6.9 million for Federal subsidy funds for helicopter operations in fiscal year 1962.

The port of New York district has enjoyed scheduled helicopter service for the past 8 years. This was only possible with the assistance of Federal funds. The service has met an increasingly important public need during this initial developmental period. The further development of this unique mode of transportation in the region would be seriously impaired in direct relation to the extent that a reduction in appropriations from the originally proposed \$6.9 million would reduce the amount of Federal funds available for helicopter operations in the New York-New Jersey metropolitan area.

The port authority has long been convinced that helicopter service could and should play an important part in the transportation picture of the New York-New Jersey metropolitan area. The port district is uniquely suited to the type of transportation a helicopter provides by reason of its size, unusual geography, tremendous concentration of population and commerce, volume of air traffic, multiple airport system, surface traffic congestion problems and steady trend toward suburbanization.

This is especially important with regard to helicopter service provided to and from the region's four terminal airports; New York International, LaGuardia, Newark, and Teterboro. Service to and from these airports constitutes the vast majority of helicopter passengers. The airports are located at a considerable distance from each other and all are separated by various topographical barriers to surface travel from the center of the traffic generating areas they serve. This factor, combined with the increasingly heavy vehicular traffic at peak hours, creates surface travel delays which tend to impede the efficiency of our air transportation services into and out of the metropolitan area. The helicopter or other vertically rising aircraft with an ability to fly over surface traffic and topographical barriers is the ideal vehicle to surmount these impediments of time and distance. While in the foreseeable future there is little prospect that the helicopter will carry the bulk of airport-to-city-center passengers or become a high-volume carrier of commuter passengers between suburban points and city centers, the port authority is nevertheless convinced that an increasingly significant amount of airport-to-city-center and airport-to-airport transfer passengers will use this service.

Indeed, helicopter service in the New York-New Jersey metropolitan region is required to satisfy the needs not only of the residents of the region, but also the needs of a large segment of the Nation's air passengers who do not reside in the region at all. The bulk of the air passengers moving through the region's four airports are not residents of the area. Consequently, a large share of helicopter passengers, in fact, more than half, reside outside of the region. Thus, helicopter service is and will be of direct benefit not only to the New York region, but to the overall national air traffic.

Despite the unusually advantageous situation which the New York/New Jersey area offers for this service to air travelers from all parts of the Nation, New York Airways, New York's helicopter airline, and the Nation's other scheduled helicopter operators, are still faced with difficult problems which must be overcome if this type of air transport is ever to realize its full potential here and in other metropolitan areas in the Nation. Foremost among these is the lack of an aircraft truly capable of economic operation. However, the turbine engine helicopters which the helicopter airlines expect to introduce into scheduled service in the near future, promise to be an important step in attaining that economic operation.

This advanced equipment, with its greater capacity, higher speed, and lower operating costs than present equipment, will enable the helicopter operators to expand the frequency and range of their operations as demand for increased service materializes. In fact, the equipment itself may prove of substantial aid in helping to create this demand. In New York preliminary scheduling for the turbine aircraft calls for doubling the frequency of flights between the four airports and Manhattan heliports. However, in order to fully exploit the advantages of this improved equipment it is anticipated that the helicopter airlines will require additional short-term Federal support in order to realize the benefits of long-term lower operating costs.

Because of the port authority's convictions as to the role that vertically rising aircraft should play, it has, to the limit of its ability, joined with the Civil Aeronautics Board and New York Airways in fostering the development of this unique mode of intraregional transportation. Port authority efforts in this field have taken every practical form; to wit, the port authority has invested substantial sums of public moneys to provide downtown heliport facilities and helicopter landing areas at the region's airports. These investments cannot be amortized in a few short years.

The port authority is thus willing to back up its faith in the future of this service in a concrete fashion. If the Federal Government really shares this conviction, it should likewise back it up with adequate funds during this developmental period. On the other hand, to fail to provide adequate support at this time would run the grave risk of wasting large amounts of prior public investments—the port authority's and the Federal Government's. Accordingly, the port authority urges a fully adequate program of Federal support for the helicopter airlines.

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
June 20, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Independent Offices Appropriations Subcommittee,
Senate Office Building, Washington, D.C.*

DEAR SENATOR MAGNUSON: I regret my inability to be present when testimony was taken on the Civil Aeronautics Board item for subsidy payments to helicopter operators, which I consider highly significant assistance for a valuable type of air transport service.

The action of the House in placing a \$5 million ceiling on the amount allowed for such payments and the \$1,900,000 reduction in the budget estimate are very disturbing to me.

The record of performance of the three helicopter operations carried on for the past several years is truly impressive. The expeditious movement of mail, especially in congested metropolitan areas, is a decided advantage and the substantial passenger volume is impressive evidence of the value of such service to link suburban areas with central airports.

I believe the acquired experience and knowledge of the helicopter operators, which has been placed at the disposal of the armed services, is itself a strong justification for continuing assistance of these services. In this regard, I am impressed by the fact that demands for further improvement in such civil operations have supplied an incentive for the development of turbine-powered craft, expected to result in economies, greater efficiency, and even more safety.

Because I feel the limitation is ill advised, I am hopeful that the subcommittee will urge continued assistance of these operations, refuse to concur in the ceiling placed on such payments, and provide the additional sum requested for 1962 operations in marking up the independent offices bill.

With kind regards,
Sincerely,

THOMAS H. KUCHEL, *U.S. Senator.*

DANBURY, CONN., June 20, 1961.

SENATE APPROPRIATION COMMITTEE,
SUBCOMMITTEE ON INDEPENDENT OFFICES APPROPRIATION,
Capitol Building, Washington, D.C.:

Any cut in helicopter subsidy will seriously affect Fairfield County. Helicopter service particularly vital to isolated cities in Danbury area. We oppose subsidy reductions in H.R. 7445.

PAUL F. COLE,
Chairman, Air Service Committee, Danbury, Conn., Chamber of Commerce.

DANBURY CHAMBER OF COMMERCE, INC.,
Danbury, Conn., June 20, 1961.

Senator PRESCOTT BUSH,
Senate Office Building, Washington, D.C.

DEAR SENATOR BUSH: The helicopter subsidy reductions in H.R. 7445 will seriously affect air service requirements in the Danbury area and possibly prevent expanded service to Waterbury and Hartford.

We in the Danbury area have endured 11 long years of expense, delay, and frustration in our quest for air service. The rapid, efficient movement of our people and goods is of prime importance in meeting competition and maintaining our economy. It is vitally essential in meeting our commitments to national defense and to the public health and welfare.

A review of our exhibits in the *Northeastern States* case and the more recent *New York Airways* case will indicate our problems of isolation and its relief.

In March 1960, the CAB granted New York Airways a certificate to serve Danbury. Will this subsidy reduction now deny Danbury's right to air service before a single flight is made? Have we spent the last 11 years vainly pursuing a will-o'-the-wisp?

We need your help. You have been generous and helpful in the past in our need for service; will you help us now to keep it?

Sincerely,

PAUL F. COLE,
Chairman, Air Service Committee.

TRANSPORT WORKERS UNION OF AMERICA,
Washington, D.C., June 23, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Independent Offices Appropriations Subcommittee,
Senate Office Building, Washington D.C.

DEAR SENATOR MAGNUSON: The Air Transport Division, Transport Workers Union of America, AFL-CIO, wishes to register with your committee its most vigorous objection to the House of Representatives action on the helicopter subsidy appropriations measure.

The Civil Aeronautics Board has, within the authority granted it by the U.S. Congress, issued certificates of necessity and convenience to the three helicopter carriers in this country. The CAB functioning as an "arm of the Congress" before issuing these certificates, determined and rightfully so, that it was in the public interest and the need existed for this type service.

Congress many times in the past has seen fit to help the helicopter air carriers through the legislative process. It enacted legislation guaranteeing Government loans for the newer and more modern type of equipment. Likewise, Congress saw fit to provide tax relief on capital gains from the sale of obsolete equipment, providing the gains were reinvested in new-type aircraft, thereby encouraging and stimulating the operators to modernize their fleet and expand their services.

These operators are now at the threshold of the ultimate in service, having ordered the most modern-type helicopter available, the turbine-powered Boeing-Vertol 107, a 25-passenger 155-mile-per-hour rotorcraft.

For these reasons we believe it incumbent upon your committee and the Congress itself to provide the \$6.9 million in subsidy funds requested by the CAB. We further believe there was no basis or justification for the House to determine that subsidy payments for the helicopter carriers should arbitrarily be cut-off at the end of the fiscal year 1962.

We therefore respectfully request your committee's favorable action in appropriating the full CAB helicopter subsidy request and your refusal to agree with the House that this assistance be ended.

Sincerely yours,

JAMES F. HORST,
International Vice President, Director, Air Transport Division.

RESEARCH AND DEVELOPMENT EXPENDITURES

Senator MONRONEY. I venture a guess, and it is a guess, that far more of the entire helicopter subsidy is spent in research and development by Sikorsky and others working in this field trying to make this breakthrough.

Senator MAGNUSON. Well, thank you, Mr. Belinn. I think we have got to move along here. We have a lot of witnesses and I brought you in to fill in.

Mr. BELINN. I appreciate the opportunity.

CHICAGO HELICOPTER AIRWAYS, INC.

STATEMENT OF C. W. MOORE, EXECUTIVE VICE PRESIDENT

GENERAL STATEMENT

Senator MAGNUSON. Mr. Moore, who is the executive vice president of the Chicago Helicopter Airways is here. We are glad to hear from you.

You have a statement which we will place in the record in full along with the exhibit.

You can highlight it if you wish.

Mr. MOORE. As long as the hour is late, I will place this in the record.

My name is C. W. Moore and I am executive vice president—
Senator MAGNUSON. Your statement is only five pages. Go ahead and read the statement.

Mr. MOORE. My name is C. W. Moore and I am executive vice president of Chicago Helicopter Airways.

We appreciate this opportunity to appear before the committee to request that the Senate:

REQUEST TO COMMITTEE

1. Restore the \$1.9 million cut by the House from the \$6.9 million requested by the CAB for helicopter carriers for the fiscal year 1962;
2. Delete the language from lines 3 to 5 at page 6 of the bill which limits payments for helicopter operations; and
3. Reject the suggestion contained in House Report No. 449 that this be the last year that funds be provided for helicopter operations.

Senator MAGNUSON. I want the record to be clear here for you people who are testifying on this item. The Senate, of course, has no control over what the House says in their report nor can we change it. We can only put in our report different language or put in the same language or say nothing. But this is a matter for the House themselves, that language.

Go ahead.

Mr. MOORE. We were given no opportunity to appear before the House committee because its hearings were in executive session. No reasons are given by the House committee to support its action other than the reference in its report to the subsidy previously paid to the helicopter carriers.

When the CAB appeared before the House committee, it was not confronted with any proposal to cut off the helicopter carriers and therefore had no opportunity to apprise that committee of the CAB position subsequently expressed to this Senate committee to the effect that the three helicopter carriers have

amply fulfilled their role in fostering the development of air transportation and that their operations have been and will continue to be in the public interest.

Thus, the action in the House was taken without the benefit of any advice or expression from the expert body created by the Congress to regulate and develop air transportation, which expert body opposes the House proposal and strongly favors continuation of the helicopter carriers as a means of further developing air transportation. All three of the helicopter carriers hold certificates of public convenience and necessity issued by the CAB, two of which were renewed not long ago for a 7-year term.

EFFECT OF HOUSE ACTION

The effect of the House action, if allowed to stand, would prevent the helicopter carriers from acquiring the new and more efficient turbine helicopters about to be placed in service. It would put all three helicopter carriers entirely out of business after this next fiscal year, 1962, by eliminating all subsidy for helicopters. And this would occur at the very time that real progress is being made in the helicopter field, when the carriers should be aided instead of impeded in their further development of the helicopter as an economical and useful new transportation vehicle.

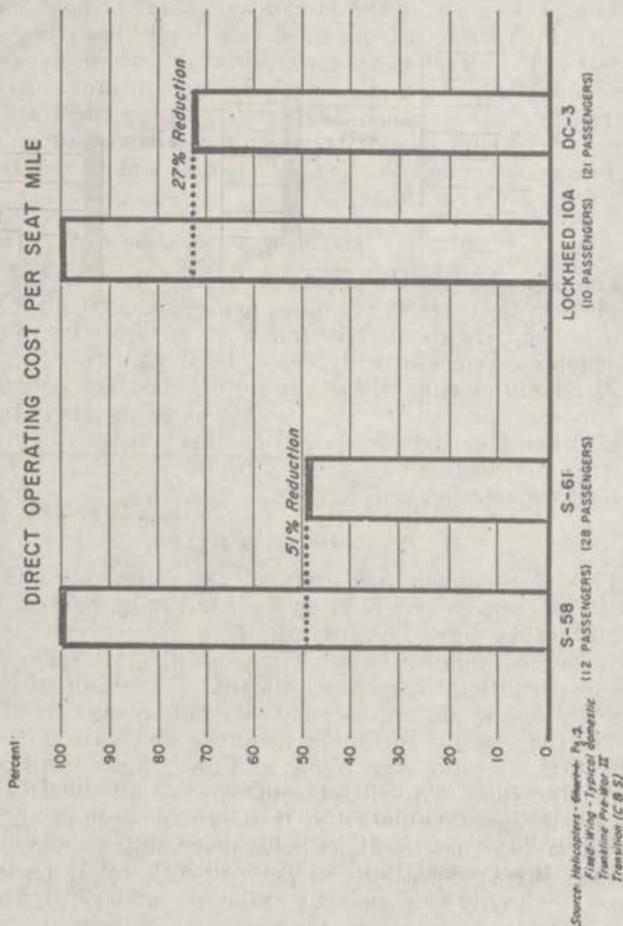
GOVERNMENT INVESTMENT

This Government has invested approximately \$38 million in the three helicopter carriers from their inception to date in mail pay and subsidy they have been paid. This investment has been made to achieve the kind of helicopter progress about to take place, and should not be permitted to "go down the drain" by eliminating the helicopter carriers just as this investment is about to bear fruit.

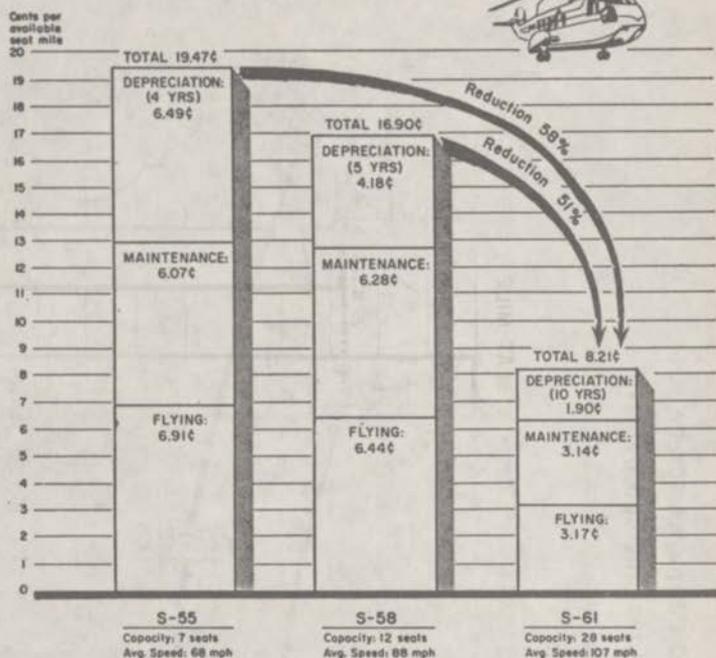
The twin-engine turbine helicopters which are scheduled to go into service in Chicago, New York, and Los Angeles will provide a bigger "breakthrough" toward self-sufficiency than the DC-3 provided for the trunklines. As shown by the chart in appendix A attached to this testimony, the new S-61 jet helicopter being acquired in Chicago will reduce direct operating cost per seat-mile by 51 percent. This compares with only a 27-percent reduction achieved by the DC-3 which started the trunklines on their way to self-sufficiency.

(App. A follows.)

The DC-3 is famous as the first truly economic fixed-wing transport. The S-61 will provide the helicopter airlines with a bigger "breakthrough" to self-sufficiency than the DC-3 provided the domestic trunk airlines...



The S-61 helicopter will substantially reduce
helicopter airline unit costs...



PROSPECTS FOR JET HELICOPTER

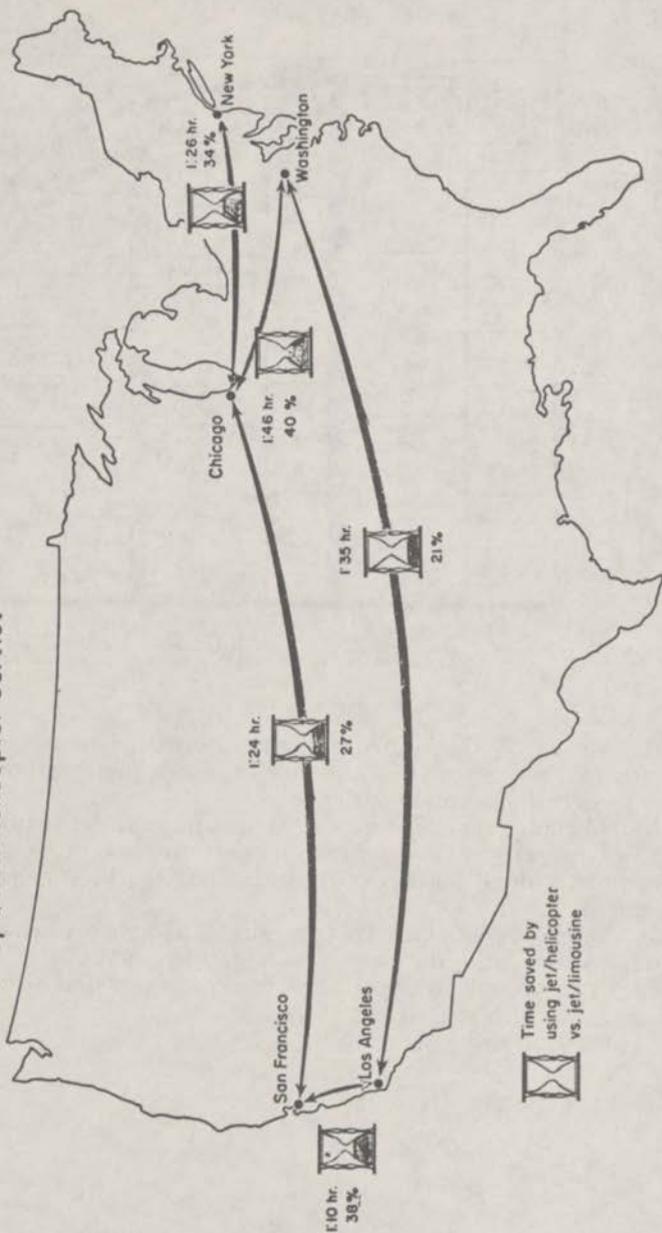
Mr. MOORE. With the prospect that the jet helicopter holds for the future, this is certainly not the time to contemplate withdrawing support from the helicopter carriers.

Jet helicopter service is a necessary adjunct to jet trunkline service in the large air traffic markets, in order to prevent slow airport-to-downtown ground transport from dissipating the time saving of jet air travel.

As shown by the chart in appendix B attached to this testimony, jet travel time from downtown to downtown in the large markets can be cut by 20 percent to 40 percent when complemented by metropolitan helicopter service at each end of the line.

(App. B follows:)

Jet travel time downtown ~~can~~ to downtown can be cut
by 20-40 percent when complemented by
metropolitan helicopter service



OUT IN TRIP TIME

Mr. MOORE. For example, between Chicago and New York—which already have helicopter service—the total trip time from downtown to downtown has already been cut by 34 percent due to the helicopters. Between Chicago and Washington, helicopters can cut the total travel time, from downtown to downtown, by 40 percent when helicopter service is instituted here in Washington.

Helicopter service is essential to a realization of the true potential of the fixed-wing jets.

The progress which the helicopter carriers have made to date may not be fully appreciated. Our operating results in Chicago already compare favorably with those of local service carriers even though we have been carrying passengers only 4 years.

As shown by the chart in appendix C attached to this testimony, our helicopter passenger traffic in Chicago has grown 460 percent in only 3 years, from 55,310 passengers in 1957 to 309,107 passengers in 1960. (App. C follows:)

DRAMATIC PROOF
 of
 CHA'S ACCEPTANCE

These are more passengers than were carried in 1960 by five of the thirteen local service carriers.

309,107 1960

204,389 1959

108,911 1958

55,310 1957

876

1956

Service inaugurated
 Nov. 12, 1956

PASSENGERS
 CARRIED BY
 CHICAGO HELICOPTER AIRWAYS

PASSENGERS CARRIED, 1960

Mr. MOORE. The 309,107 passengers we carried in 1960 are more than were carried in that same year by 5 of the 13 permanently certificated local service carriers.

AMOUNT OF SUBSIDY

In 1960, our subsidy in Chicago amounted to 45.6 percent of our total revenues. In that same year, two local carriers had a higher subsidy ratio than this, and two other local carriers had a comparable ratio.

Hence, it is seen that our Chicago helicopter service is comparable from an economic standpoint with a third of the local carrier industry. There is no more justification for terminating our helicopter service in Chicago than by wiping out the third of the local carrier industry with which we are comparable.

REASON FOR SUBSIDY

Actually, the justification for giving Federal assistance to the fixed-wing local service carriers is even more applicable to the helicopter carriers. We are not only performing a needed transportation function, but in the process are developing the most flexible and strategic vehicle we have ever known, which can fly above the congestion on the ground and beneath the stream of fixed-wing aircraft, and can penetrate beyond airports into the midst of cities and their environs.

In numerous CAB proceedings it has been established that the further development of the helicopter through rigid, intensive, and scheduled use, under fully controlled conditions—which only the helicopter carriers provide—is in the interest of the commerce of the United States, the postal service, and both national and civil defense.

The commerce of the United States which the helicopter carriers serve is not confined to the commerce of Chicago, New York, and Los Angeles, but includes air travellers from all over the Nation who visit of transit through these three largest markets in the country. A survey we made in Chicago shows that about two-thirds of the helicopter passengers carried in Chicago come from cities other than Chicago.

There is now more reason than ever to continue to assist the helicopter carriers in the development of this new vehicle because of the economic "breakthrough" about to be achieved with the new jet-powered twin-engine helicopters.

The continuation of such assistance is in keeping with the traditional policy of this Government to aid new forms of transportation.

In closing, I wish to request that you also include in the record of these hearings three additional appendixes attached to this testimony, which consist of the following:

Appendix D, entitled "The Improvements in Service, Efficiency, and Safety of Operation Which Will Be Achieved by the S-61 Jet-Powered Helicopter."

Appendix E, entitled "The Value of the Chicago Helicopter Service to the Postal Service."

Appendix F, entitled "The Value of the Chicago Helicopter Service to National Defense and Civil Defense."
(Apps. D, E, and F follow.)

APPENDIX D

THE IMPROVEMENTS IN SERVICE, EFFICIENCY, AND SAFETY OF OPERATION WHICH WILL BE ACHIEVED BY THE S-61 JET-POWERED HELICOPTER

The respects in which the new S-61 helicopters will improve the service, efficiency, and safety of the Chicago helicopter operation are shown by the following comparisons between the S-61 and the S-58 piston-engine helicopters now being operated in Chicago:

(1) The S-61 will cruise 27 miles per hour faster than the S-58 (136 miles per hour compared to 109);

(2) The S-61 will seat 25 to 28 passengers compared to only 12 in the S-58. The S-61 will have a conventional seating arrangement (comparable to what the air traveler has become accustomed) while the seating arrangement of the S-58 is unconventional;

(3) The S-61 will be air conditioned, while there is no air conditioning in the S-58;

(4) The turbine-powered engines in the S-61 will greatly reduce vibration and noise within the aircraft now experienced with piston-powered helicopters. The improvement will be much more noticeable in helicopters than in fixed-wing aircraft because powerplants are housed in the main structure of helicopters rather than in wings as on conventional aircraft. Moreover, the turbines will substantially reduce the noise level outside the aircraft which will improve flying characteristics within densely populated areas;

(5) The fact that the S-61 will have two engines (instead of only one, as in present helicopters) will improve not only service but also safety. The second engine will permit operations at lower weather minimums which will improve schedule performance and reliability of service;

(6) The greater seating capacity of the S-61 will meet the demand for service with a lesser number of flights, which will reduce congestion at airports;

(7) The foregoing improvements which the new jet-powered helicopters will provide will markedly improve passenger convenience and thereby stimulate traffic.

APPENDIX E

THE VALUE OF THE CHICAGO HELICOPTER SERVICE TO THE POSTAL SERVICE

The Chicago helicopter operation provides a valuable mail service to over 50 communities in the Chicago area, as shown by the map at page 3 of this appendix E.

During 1960, over 200,000 plane-miles were operated in mail service to these communities with Bell 47G helicopters, and these flights carried only mail and had no other source of revenue.

The helicopter mail service in Chicago expedites mail as much as a full day or more, and carried over 41,875,000 airmail letters during 1960.

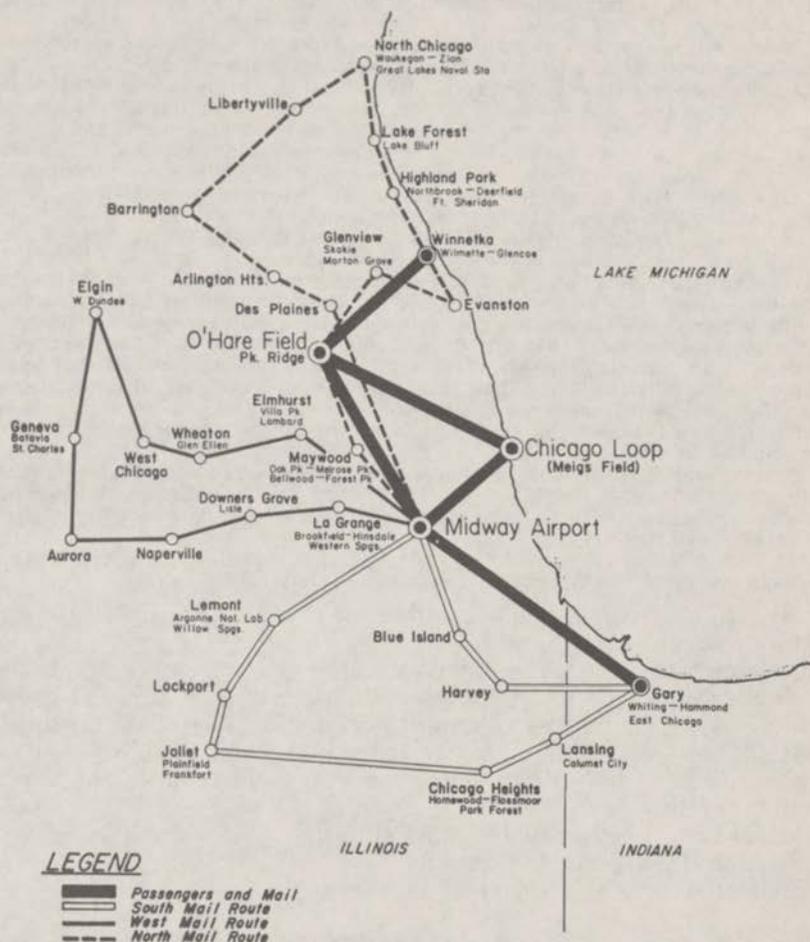
The expedition of this mail by helicopter cost the Government only 8 percent of the postal revenues derived from this mail. (The helicopter carrier receives only a little over ½ cent for each 7-cent airmail letter carried on its helicopters.)

At the request of the Post Office Department, additional helicopter mail service will be started between Midway Airport and O'Hare Field on June 26, 1961, utilizing available space on existing helicopter passenger flights. This new mail service will increase present helicopter mail volume by over three times the present poundage being carried, and will greatly reduce the unit cost per letter while at the same time providing an increased public service.

This helicopter mail service serves not only the citizens of Chicago but also the rest of the Nation which sends airmail into the Chicago area.

CHICAGO HELICOPTER AIRWAYS

Passenger and Airmail Routes



APPENDIX F

THE VALUE OF THE CHICAGO HELICOPTER SERVICE TO NATIONAL DEFENSE AND CIVIL DEFENSE

When the helicopter franchise in Chicago was renewed by the CAB in 1956 (for a 7-year period), the Department of Defense testified and the CAB found that:

"If helicopter service in Chicago is not continued it will have an adverse effect on the military helicopter program."

The good record of dependable helicopter operations achieved in Chicago helped induce the military to send Bell helicopters into the Korean campaign.

After helicopters reached Korea, and whole fleets became grounded during the midst of the campaign (due to expiration of the overhaul period and lack of spares to accomplish overhaul), they were then ungrounded and put back into use when experience gained in Chicago demonstrated that the overhaul period could be doubled from 300 to 600 hours. The Department of Defense

testified that this ungrounding could not have been achieved "without the use of the data which we got from Chicago."

The intense utilization achieved in scheduled commercial service provides the military with information and data not otherwise attainable, which results in large savings in the military helicopter program. Just one extension in overhaul time, which the military learned from the Chicago operation, has saved the Government over a quarter of a million dollars every year.

A helicopter manufacturer (of both military and civilian helicopters) has estimated that on just one model of helicopter (the S-58) the military saved almost \$20 million in a 3-year period, from extension of overhaul periods and consequent savings in spare parts procurement and labor and materials, all resulting from experience gained in scheduled commercial helicopter operations.

An example of a current development in the helicopter art which has been expedited by the Chicago helicopter operation is the new 'pressurized main rotor blade.' This new "pneumatic" blade will be available for all civilian and military helicopters in the near future. It will increase rotor blade life by 2½ times and will reduce the cost of blade maintenance. It will also increase the attainable speed of helicopters, which will reduce all per-mile costs of operation.

Another example of how the Chicago operation is advancing the helicopter art is the program under which S-58 helicopters in Chicago have been equipped with a flight recorder that has been installed to obtain actual flight histories under controlled conditions. The data thus obtained is being utilized by the manufacturer to determine retirement life of helicopter components which is important in advancing the state of the art in the helicopter industry, both civilian and military.

The Federal Civil Defense Administrator and also the coordinator of the Chicago Civil Defense Corps have testified before the CAB that continuance of this helicopter service in Chicago is essential to the civil defense of that city. The CAB found that:

"It is manifest that continuation and expansion of helicopter service in the Chicago metropolitan area will serve civil defense interest."

Mr. MOORE. I thank the committee for this opportunity to appear before you.

Senator MAGNUSON. Thank you, Mr. Moore.

Now we covered a lot of the general questions on this in our questioning of Mr. Bellin, and you heard my questions regarding the fiscal part of these operations as they relate to permanent certificates, as to credit, things of that kind. Your answers would be about the same, would they not?

Mr. MOORE. They would be identical, yes, sir.

Senator MAGNUSON. Any questions?

Senator ALLOTT. No, I have no questions.

CRITICISM OF SUBSIDY

I might say I think one thing, Mr. Moore, that might be realized, I take it from reading your statement, particularly with respect to the action of the House, you may not be aware of the great amount of criticism that there has been generally of this subsidy to helicopters, and I don't think it is necessarily any failure on the part of the Civil Aeronautics Board in this respect, but rather that they probably covered it in the same relationship they covered everything else in their statement, without realizing that this has been and I am sure that the chairman and the Senator from Oklahoma as well as myself know the extensive amount of criticism that has been leveled at this particular subsidy, and they probably didn't emphasize it in that respect. I don't think they neglected you in any respect, but they didn't meet what there was in the minds of the House as reflected from their constituents.

Senator MAGNUSON. Your appendix A, I think, is a very important one where you talk about advancements in this field when you show the figures of the reduction in operating airline unit cost.

Mike, do you have any questions?

Senator MONRONEY. I have nothing.

Senator MAGNUSON. Thank you very much, Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman.

(The following information was later received:)

LAW OFFICES,
FOGUE & NEAL,
Washington, D.C., June 27, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Independent Offices Subcommittee,
Senate Appropriations Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: At the hearing before your subcommittee last Friday, Chicago Helicopter Airways, Inc., was requested to submit for the record a statement of the service mail pay and subsidy it has received from the inception of its operations to date. This information is as follows:

[In thousands]

Fiscal year	Subsidy	Service mail pay	Total
1950.....		\$295	\$295
1951.....		449	449
1952.....		502	502
1953.....		512	512
1954.....	\$432	77	509
1955.....	424	74	498
1956.....	445	74	519
1957.....	909	76	985
1958.....	1,425	56	1,481
1959.....	1,664	38	1,682
1960.....	1,663	36	1,699
1961 (11 months).....	1,435	33	1,468

Prior to 1954 the mail pay received was not separated as between subsidy and service mail pay.

The figures shown above are in accord with the administrative allocation to the respective fiscal years which has been made by the Civil Aeronautics Board.

Yours very truly,

ROBERT W. OLIVER,
Attorney for Chicago Helicopter Airways, Inc.

NEW YORK AIRWAYS

STATEMENT OF ROBERT L. CUMMINGS, PRESIDENT

GENERAL STATEMENT

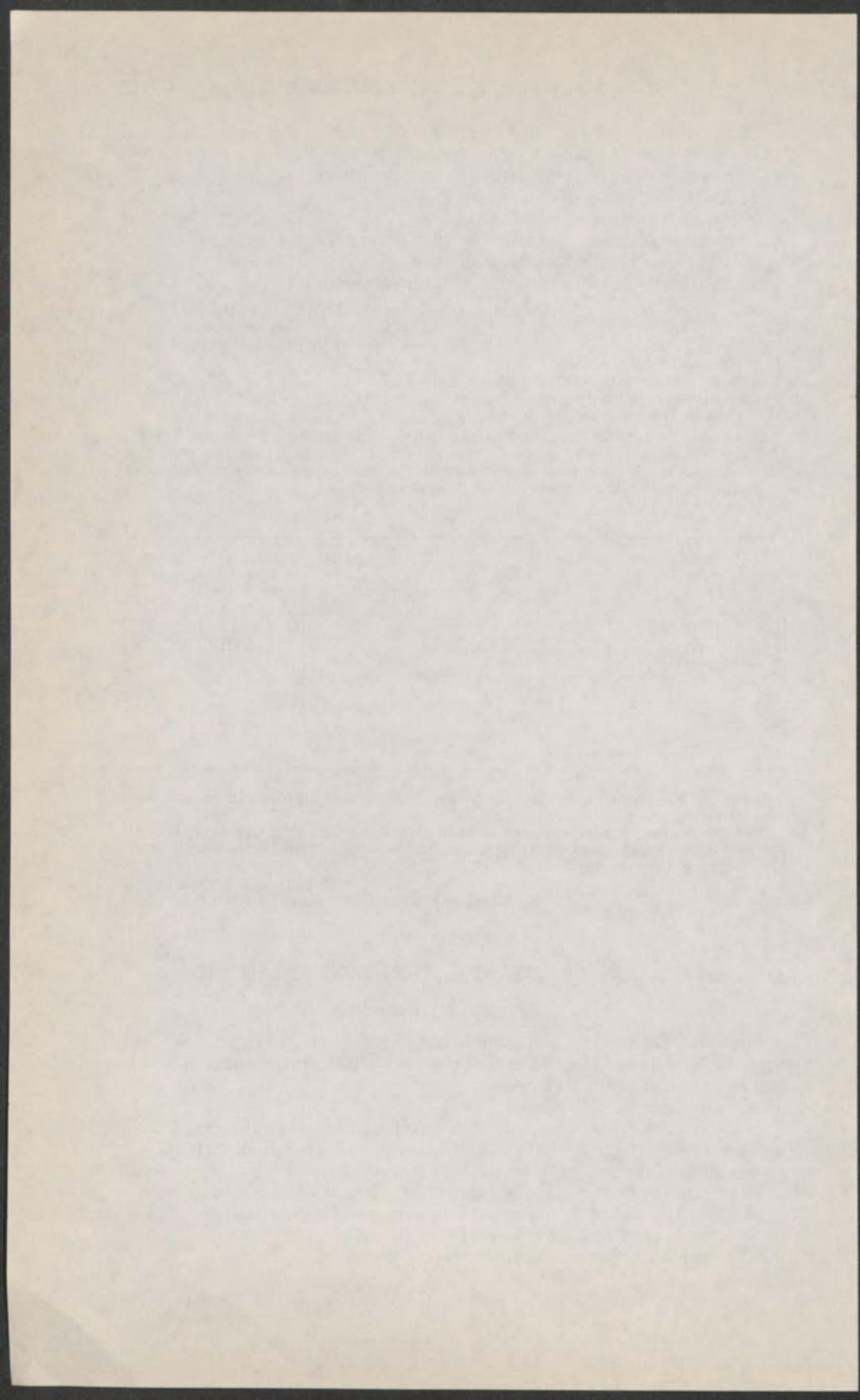
Senator MAGNUSON. Mr. Cummings, New York Airways. We are glad to hear from you. You have a very short statement. We will be glad to have you read it.

Mr. CUMMINGS. All right.

Mr. Chairman, and members of the committee, before I start, I have a copy of our annual report which I can distribute which I think answers most of your questions in the form of chronological steps from 1955 to the present in all the categories you asked about, and if you will permit me, I would like to add this to the record.

Senator MAGNUSON. We will be glad to have it.

(The report referred to follows:)



NEW YORK AIRWAYS, INC.

THE FIRST HELICOPTER AIRLINE

9th

**ANNUAL
REPORT
1960**

NEW YORK AIRWAYS, INC.

Incorporated under the Laws of the State of Delaware

Directors

Hoyt Ammidon	Robert W. Dowling
Robert E. Blum	Robert G. Goelet
Horace Brock	Grover Loening
Robert L. Cummings, Jr.	Samuel C. Park, Jr.
	William Shields, Jr.

Officers

Robert L. Cummings, Jr., *President*
William W. Hogan, *Vice President and Treasurer*
John E. Gallagher, *Vice President*
Glen B. Eastburn, *Vice President*
Richard Wheatland, *Vice President, Sales and Services*
John H. Slate, *Secretary*
Leslie G. Carter, *Ass't. Vice President*
Ray de Haan, *Ass't. Vice President*

Transfer Agent

The Chase Manhattan Bank

Registrar

Federation Bank and Trust Co.

Auditors

Lybrand, Ross Bros. & Montgomery

Counsel

Skadden, Arps, Slate, Meagher & Flom

To the stockholders and employees of:

NEW YORK AIRWAYS, INC.

1960 Summary

The salient developments covered by this Report are as follows:

- Civil Aeronautics Board approval has now been secured for the conversion of your Company's services to a new fleet of twin-turbine Boeing Vertol 107 helicopters—representing the most important operating and economic advance ever attained in this field.
- Major ground facility improvements have also been accomplished—including a second Manhattan heliport and provisions for new bases at New York International and La Guardia Airports.
- The Company's re-equipment program will make it possible, for the first time, to improve and extend operations both in the New York/New Jersey/Connecticut Metropolitan Area and to other urban centers where our services can be of public utility. During 1960, New York Airways filed applications with the Civil Aeronautics Board for operating authority in the Washington/Baltimore area as well as between New York and Philadelphia.
- The financial results recorded at the date of this Report indicate a provisional loss for 1960. However, these do not yet reflect the definitive subsidy revenues receivable. Restatement of the accounts to include these revenues when finally determined is expected to show a profit for the year.

The New Fleet

The acquisition of multi-turbine equipment will mark the most significant advance in your Company's history. It will, in fact, transform both the operating and the economic bases of this type of service.

Since 1958 the Company's scheduled operations have been maintained with five single piston-engine V44B helicopters. The Civil Aeronautics Board has now approved the Company's proposals (outlined in our 1959 Annual Report) for replacement of these aircraft with Model V107 helicopters manufactured by the Vertol Division of Boeing Airplane Company.

The Boeing Vertol 107's will be powered by twin General Electric T-58 turbines and will cruise at 155 MPH—an improvement of 70% over the V44B's.

The initial fleet of five V107's is to be delivered to New York Airways during the Summer and Fall of this year, and will be the first such aircraft available for civil use. The agreements we have secured from the manufacturers also include long-term protective provisions on costs and performance as well as options to purchase such additional aircraft as may be needed to meet our increasing service requirements.

The new aircraft will accommodate 25 passengers (as against the present maximum of 15) at the highest standards of airline comfort. Due to their increased speed, capacity and other improved operating characteristics, the first five units will quadruple the passenger seat-mile productivity of the existing fleet, while at the same time providing for additional mail, express and freight loads.

Since the twin-turbine installation will enable this equipment to maintain altitude with one engine inoperative, our services can be advanced, within the near future, from the present visual contact flight restrictions (under which schedule regularity has been seriously impaired by adverse weather) to all-weather instrument procedures.

In addition, for the first time in the history of the helicopter (or any other civil aircraft type) the V107's will permit the routine conduct of true vertical operations. The lack of this capability has limited the utility of previous helicopters, which have been restricted to circuitous horizontal approaches and departures in congested areas. Now, however, it will be possible to provide the *direct* service to the heart of urban centers which represents the unique contribution of VTOL air transport.

Equally fundamental economic changes are in prospect. The flight equipment heretofore available for the Company's operations has generally been incapable of realizing commercial revenues equalling direct operating costs. As a result, the rapidly growing public demand for our services could not be met without subsidy increases which the Civil Aeronautics Board has been unwilling to grant.

This deadlock has now been broken. For the improved productivity of the new aircraft will reverse the formerly adverse relation between subsidy and operating volume, so that additional service can be provided as needed without increased dependence on federal support.

The public utility of these services has long been established. The forthcoming economic transformation will complete the foundation for their mature development.

Financing

The capital financing required has been obtained on favorable terms.

The purchase price of the initial V 107 fleet (including spares) will aggregate some \$4.3 million and an additional \$1.2 million is currently estimated to be required for related facilities, equipment, development costs, and increased working capital. A credit up to \$3.8 million (to be guaranteed by the Civil Aeronautics Board) has been secured from the Hanover Bank, Federation Bank and Trust Company and United States Trust Company of New York. Funds borrowed under this credit are repayable over a period of six years, with interest at 5.3375%.

The additional capital requirements will be provided from the proceeds of a trade-in arrangement with the airframe manufacturer under which New York Airways will realize the net book value of the present fleet.



Opening of Downtown Manhattan Heliport

Heliports

Provision has also been made for the expansion and improvement of ground facilities.

Of first importance is the new Downtown Manhattan Heliport (established by The Port of New York Authority in co-operation with the City of New York) at which scheduled service was inaugurated by New York Airways in December, 1960. Located near the foot of Wall Street, this facility has already demonstrated its usefulness in that densely populated area.

The decentralization of the new fixed-wing terminals at New York International Airport has required a corresponding reorganization of the Company's operations—which had formerly been based at an increasingly inadequate site oriented to the old temporary passenger terminal.

Since the new American Airlines Terminal was located most conveniently for the largest single group of our passengers, by arrangement with that carrier and The Port of New York Authority, a New York Airways operating and traffic base has been established in the American terminal. It is also planned to provide service at other suitable locations on the Airport. In the meantime, other airline terminals continue to be connected directly to the operation by a special bus service.

The reconstruction of La Guardia Airport has required similar measures. Our schedules are now handled at the temporary American Airlines facility. When the permanent construction is completed next year, the New York Airways service base will be transferred to a central location.

Significant progress has also been made at other cities. Downtown heliports have been provided by Stamford, Bridgeport and Paterson, and a similar facility will be established this Fall at New Haven. It is anticipated that other key communities will follow suit.

Operating Authority

As set forth in greater detail in our 1959 Annual Report, early last year the Civil Aeronautics Board renewed the Company's basic operating authorizations. The scope of the Board's grant is shown by the map on the inside back cover of this Report.

The Board also extended our operating area to Danbury and New Haven, and removed a former restriction which would have limited our operations to "rotary winged aircraft."

Thus, as New York Airways progresses, the Company will be in a position to select the aircraft best suited to the service requirements from time to time, whether these are conventional helicopters or one of the more advanced VTOL designs now under development.

New Services

As already indicated, the Boeing Vertol 107 equipment will, for the first time, enable New York Airways to provide service commensurate with the demand.

As a result of doubling the frequency with the new, larger helicopters on the central Airport/Manhattan routes the seat mile availability will be increased by some 400%. Added capacity and frequency will also be provided to the outlying communities. Service will be inaugurated this Fall to Paterson, Danbury, New Haven and suburban Long Island, reaching a new passenger market numbering in the millions.

Two other developments indicate that New York Airways may be able to provide additional service in the public interest.

The construction of Dulles International Airport (to be completed in mid 1962) has suggested the need for helicopter service between downtown Washington, Baltimore, Dulles International, Friendship International and Washington National Airports.

In addition, the City of Philadelphia has recently inaugurated a downtown heliport. A proving flight conducted on this occasion with the V107 prototype demonstrated the feasibility and usefulness of high frequency helicopter service between downtown Philadelphia and downtown Manhattan. The scheduled flight time would be approximately 30 minutes.

New York Airways has filed applications with the Civil Aeronautics Board for authority to provide service both in the Washington/Baltimore area and between Philadelphia and New York. Proceedings on our Washington application (along with a number of other competitive applications) have been commenced by the Board, and public hearings are scheduled for September.

Traffic

Although necessarily restricted by the limitations of the present equipment, the Company's traffic has continued to show encouraging growth.

1960 passenger volume increased 17.4% over 1959. The passenger revenue load factor was 53.4%, up from 48.9% for 1959, 44.8% for 1958 and 37.5% for 1957. Aggregate mail, express and freight loads were maintained close to 1959 levels.

These traffic gains were, of course, reflected by a corresponding commercial revenue increase. In 1960 these revenues aggregated \$1,240,019—14.1% above 1959.

Subsidy and Net Income

At the date of this Report, New York Airways had received 1960 subsidy mail pay aggregating \$2,240,657.

As detailed in the financial statements submitted herewith, beginning April 1, 1960, these payments have been made on an interim basis, subject to retroactive adjustment.

It is anticipated that on final determination of the amounts due for 1960 operations, the provisional net loss indicated by these statements will be extinguished, and that the result-



Interior view of Boeing Vertol 107

ing restatement of the accounts will show a profit for the year. However, the amount of this profit cannot yet be determined.

Civil Aeronautics Board proceedings are now in progress to determine definitive subsidy rates both for the V44B operations from April 1, 1960 and for the operations to be commenced this Fall with the new V107 equipment.

Outlook

Jet speeds and the growing congestion of urban areas have sharply focussed public attention on the deficiencies of city to airport and airport to airport ground transport.

The fact that terminal time not uncommonly approaches that required for a transcontinental or over-ocean flight has become a notorious anomaly of air transportation. VTOL operations offer a practical solution of this vexing problem.

In the near future direct city-center to city-center VTOL service is also expected to become a principal means of short-haul air travel.

New York Airways is uniquely qualified to meet these requirements. The necessary flight equipment is now at hand, and ground facility construction is keeping pace.

The significance of these matters is dramatically underscored by the recently announced plan for a World Trade Center to be located in lower Manhattan.

As shown by the drawing set out in this Report, a central feature of this plan consists of an enlargement of the Wall Street heliport at which New York Airways recently inaugurated service.

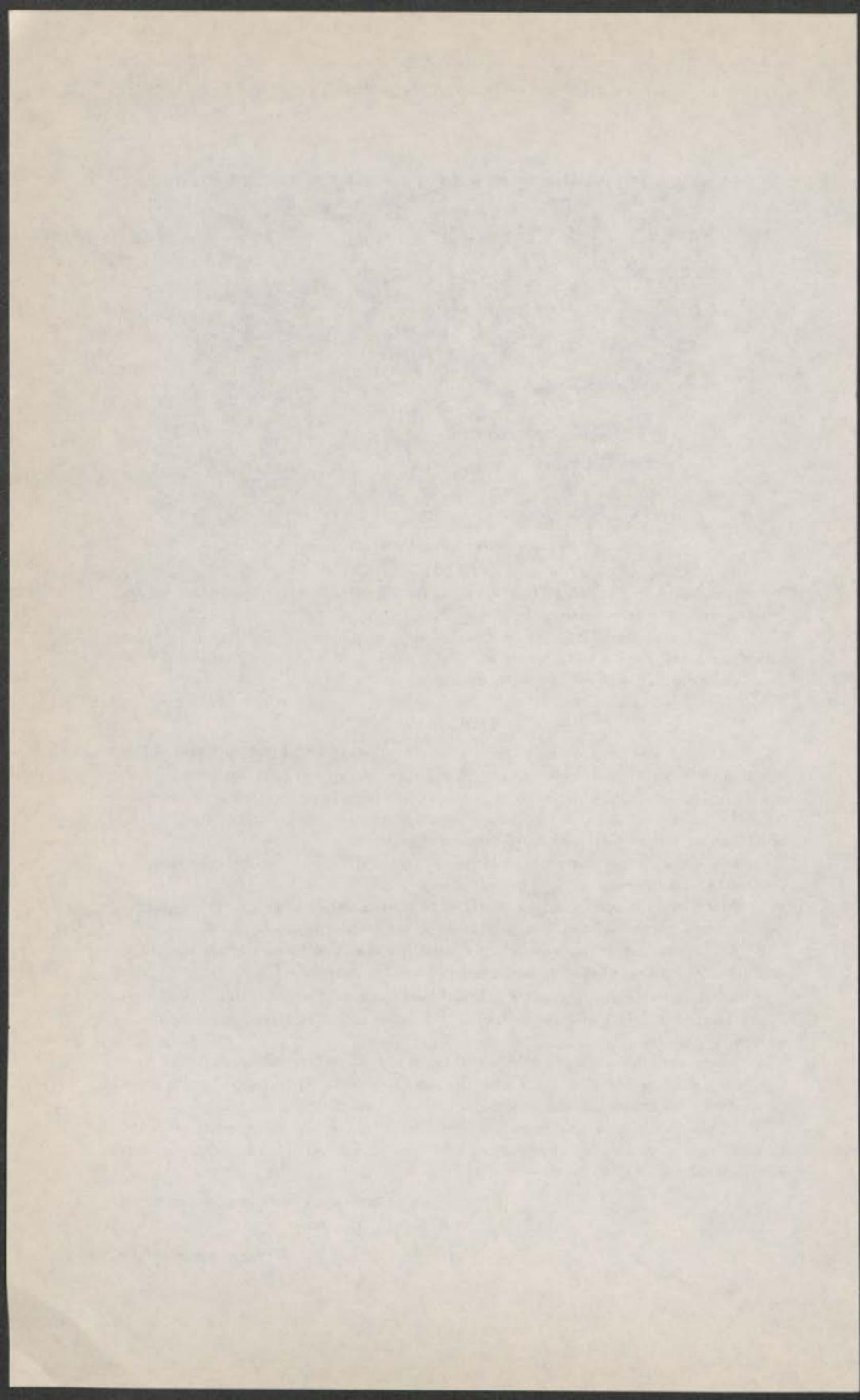
Prospects of this sort leave no room for doubt as to the successful completion of your Company's development from the modest beginnings of the "experimental" years to an established transportation system of the first rank.

As always, the accomplishments of New York Airways and its expectations of the future depend upon the public acceptance of its services, the confidence of its stockholders and the loyalty of its staff.

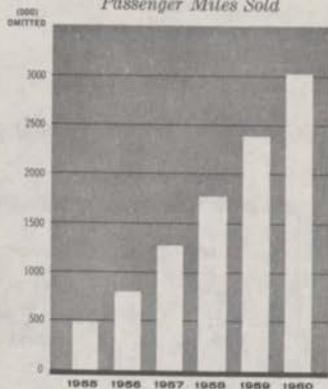
BY ORDER OF THE BOARD OF DIRECTORS

Robert H. Cummings, Jr.

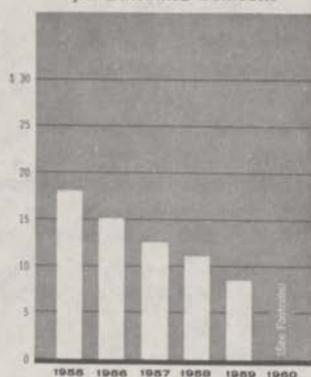
President



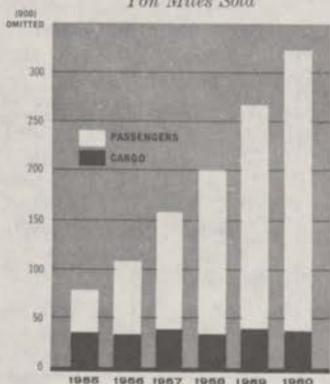
Passenger Miles Sold



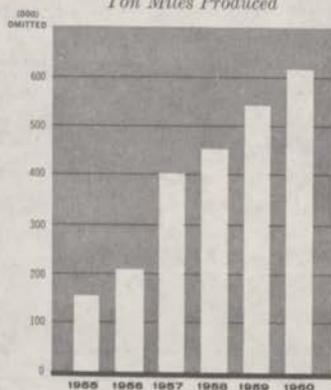
Subsidy Received per Scheduled Ton Mile



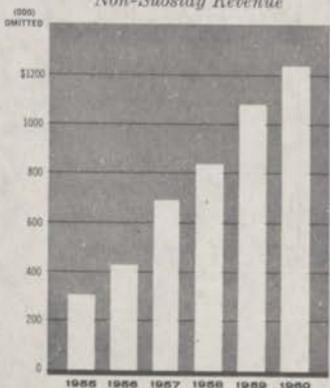
Ton Miles Sold



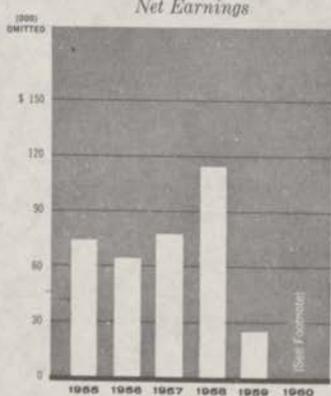
Ton Miles Produced



Non-Subsidy Revenue



Net Earnings



Footnote: Final subsidy to be received in 1960 not yet determined. See note 2 to "Notes Relating to Financial Statements".

NEW YORK AIRWAYS, INC.

COMPARATIVE OPERATING

Six year period 1955-1960

OPERATING REVENUES:

	1960	1959
Commercial	\$1,210,019	\$1,086,981
Federal subsidy (See Footnote)	<u>2,240,657</u>	<u>2,242,355</u>
Total	3,480,676	3,329,336

OPERATING EXPENSES:

Depreciation and amortization	568,095	531,822
All other	<u>2,985,433</u>	<u>2,730,461</u>
Total	3,553,528	3,262,283
Net operating income (or loss) (See Footnote)	(72,852)	67,053
Non-operating income or (expense) and (special items 1960)—net	(47,220)	(26,109)
Federal income tax (or refund) (See Footnote)	(48,946)	15,791
Net income (or loss) for the year (See Footnote)	(71,126)	25,153
Earnings (or deficit) per share (See Footnote)	(.29)	.10

FINANCIAL POSITION (at December 31):

Working capital (See Footnote)	1,119,590	982,279
Long-term debt	298,245	508,771
Stockholders' equity—total (See Footnote)	2,636,747	2,707,873
Stockholders' equity—per share (See Footnote)	10.83	11.13
Outstanding shares	243,400	243,400

Footnote: Final subsidy to be received in 1960 not yet determined. See note 2 to "Notes Relating to Financial Statements".

OPERATING AND TRAFFIC STATISTICS:

Revenue passengers	146,775	124,999
Express (lbs.)	1,214,058	1,306,507
Freight (lbs.)	712,869	751,356
Mail (lbs.)	2,220,715	2,209,959
Scheduled revenue ton miles carried	316,738	262,265
Revenue load factor (%)	52.80	49.20
Scheduled miles flown	453,844	392,858
Schedule completion factor (%)	82.50	76.53
Charter and other non-scheduled revenue hours flown	472	569

AND FINANCIAL RECORD

Calendar years ended December 31

1958	1957	1956	1955
\$ 843,892	\$ 698,254	-\$ 435,770	\$ 313,193
<u>2,214,690</u>	<u>1,977,126</u>	<u>1,642,672</u>	<u>1,436,600</u>
3,058,582	2,675,380	2,078,442	1,749,793
417,168	404,155	356,570	300,774
<u>2,378,009</u>	<u>2,128,101</u>	<u>1,605,687</u>	<u>1,316,308</u>
2,795,177	2,532,256	1,962,257	1,617,082
263,405	143,121	116,185	132,711
(27,921)	18,052	16,440	22,072
121,787	83,166	68,433	80,643
113,697	78,010	64,192	74,140
.47	.32	.27	.31
963,577	1,122,907	1,170,050	1,615,618
719,298	—	—	—
2,682,720	2,566,373	2,488,363	2,421,921
11.02	10.66	10.34	10.15
243,400	240,750	240,750	238,500
91,114	68,694	43,205	24,569
1,376,880	1,499,811	1,907,373	1,758,534
612,099	698,258	607,023	473,785
2,242,311	2,550,907	1,159,704	1,412,181
199,342	158,068	108,306	79,313
44.62	39.81	52.21	51.13
386,050	464,333	429,224	387,773
78.58	79.82	77.23	82.07
238	213	209	149

NEW YORK AIRWAYS, INC.

BALANCE SHEETS

ASSETS	1960	1959
CURRENT ASSETS:		
Cash on hand and on deposit in banks	\$ 459,915	\$ 384,033
Special deposits	9,726	8,904
United States Government securities, at cost plus accrued interest on U.S. Treasury Bills (\$449,104 at December 31, 1960 market quotations)	449,033	348,953
Other temporary investments, at cost	—	396,799
Accounts receivable:		
United States Government	223,481	202,994
General traffic	130,983	108,927
Estimated refund of Federal income tax based on carry-back of loss under the Internal Revenue Code	57,268	—
Other current receivables	202,196	161,523
Flight equipment expendable parts and supplies	100,616	79,486
Prepaid insurance	41,879	104,008
Total current assets	<u>1,675,007</u>	<u>1,795,627</u>
INVESTMENTS AND SPECIAL FUNDS:		
Investments in and advances to subsidiary and related service companies	1,074	1,049
Deposits against equipment purchase contracts	30,000	30,000
	<u>31,074</u>	<u>31,049</u>
OPERATING PROPERTY AND EQUIPMENT (stated at cost):		
Flight equipment	2,289,644	2,241,477
Less—Reserves for depreciation and maintenance (Note 1) ..	968,853	545,302
	<u>1,320,791</u>	<u>1,696,175</u>
Ground property and equipment	439,587	419,814
Less—Reserves for depreciation (Note 1)	276,299	237,464
	<u>163,288</u>	<u>182,350</u>
Operating property and equipment, less reserves for depreciation and maintenance	<u>1,484,079</u>	<u>1,878,525</u>
NON-OPERATING PROPERTY AND EQUIPMENT (stated at cost):		
Flight equipment	2,000	71,486
Less—Reserves for depreciation	342	16,566
Non-operating property and equipment, less reserves for depreciation	<u>1,658</u>	<u>54,920</u>
DEFERRED CHARGES:		
Developmental and pre-operating costs (Note 3)	392,539	345,266
Unamortized expense on debt	22,710	25,097
Other deferred charges	24,974	13,468
	<u>440,223</u>	<u>383,831</u>
Total assets	<u>\$3,632,131</u>	<u>\$4,143,952</u>

December 31, 1960 and 1959

LIABILITIES	1960	1959
CURRENT LIABILITIES:		
Long-term debt due within one year	\$ 210,527	\$ 210,527
Accounts payable-general	174,496	256,682
Collections as agent:		
Traffic	8,335	9,854
Other	36,186	29,049
Accrued personnel compensation	46,408	34,106
Accrued vacation liability	65,631	53,733
Accrued Federal income taxes	—	206,975
Other accrued taxes	4,717	10,121
Other current liabilities	9,207	2,301
Total current liabilities	<u>555,507</u>	<u>813,348</u>
LONG-TERM DEBT , less portion included in current liabilities:		
Notes payable to banks, 5¼%, due in installments to May 21, 1963 (Note 5)	<u>298,245</u>	<u>508,771</u>
DEFERRED CREDITS:		
Deferred Federal income taxes	<u>141,632</u>	<u>113,960</u>
 STOCKHOLDERS' EQUITY		
	1960	1959
CAPITAL STOCK , par value \$1.00 per share:		
Shares authorized	300,000	300,000
Shares reserved pursuant to Employees' Stock Option Plan (Note 4)	10,500	16,800
Shares issued and outstanding	<u>243,400</u>	<u>243,400</u>
CAPITAL PAID-IN , in excess of par value of capital stock	1,968,925	1,968,925
RETAINED EARNINGS —per statements herewith (Note 5)	<u>424,422</u>	<u>495,548</u>
Total stockholders' equity	<u>2,636,747</u>	<u>2,707,873</u>
Total liabilities and stockholders' equity	<u>\$3,632,131</u>	<u>\$4,143,952</u>

The accompanying notes are an integral part of these statements.

NEW YORK AIRWAYS, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

For the years ended December 31, 1960 and 1959

	1960	1959
OPERATING REVENUES:		
Transport revenues:		
Passenger	\$1,039,732	\$ 856,982
United States mail	56,713	48,883
Express	38,540	26,176
Freight	40,828	39,314
Non-scheduled services	56,784	62,106
Other transport revenues	5,190	5,363
Non-transport revenues:		
Federal subsidy (Note 2)	2,240,657	2,242,355
Incidental revenues-net	2,232	48,157
Total operating revenues	<u>3,480,676</u>	<u>3,329,336</u>
OPERATING EXPENSES:		
Flying operations	806,830	825,066
Maintenance	970,208	813,352
General services and administration	1,208,395	1,092,043
Amortization—developmental and pre-operating costs	50,423	40,610
Depreciation—flight equipment	463,407	429,466
Depreciation—ground property and equipment	54,265	61,746
Total operating expenses	<u>3,553,528</u>	<u>3,262,283</u>
Net operating income (loss)	<u>(72,852)</u>	<u>67,053</u>
NON-OPERATING INCOME AND (EXPENSE)—NET:		
Interest income	16,228	17,865
Interest expense	(39,760)	(50,806)
Other non-operating income and (expense)—net	<u>(12,578)</u>	<u>6,832</u>
Total non-operating income and (expense)—net ..	<u>(36,110)</u>	<u>(26,109)</u>
Net income (loss) before Federal income tax ...	<u>(108,962)</u>	<u>40,944</u>
FEDERAL INCOME TAX—(Carry-back credit in 1960)	<u>(48,946)</u>	<u>15,791</u>
NET INCOME (LOSS) FOR YEAR	<u>(60,016)</u>	<u>25,153</u>
SPECIAL ITEMS—Additional assessment of New York City gross receipts tax (net of Federal income tax, \$12,036.)		
	<u>(11,110)</u>	<u>—</u>
NET INCOME (LOSS) FOR YEAR and special items	<u>(71,126)</u>	<u>25,153</u>
RETAINED EARNINGS—at beginning of year		
	<u>495,548</u>	<u>470,395</u>
Retained earnings at end of year — per Balance Sheets herewith	<u>\$ 424,422</u>	<u>\$ 495,548</u>

The accompanying notes are an integral part of these statements.

NOTES RELATING TO FINANCIAL STATEMENTS

1. The Uniform System of Accounts for Air Carriers, prescribed by the Civil Aeronautics Board, has been followed generally in the Company's accounts and in the financial statements herewith and reserves for depreciation have been provided at rates which are used for mail rate purposes by the Board.

The amounts set forth on the usual historical accounting basis which has been followed are not intended to represent present or future values.

2. Revenue classified as Federal subsidy is reflected herein, for the period from January 1, 1959 to March 31, 1960, on the basis of final rates which were in effect during that period. Such revenue for the period from April 1, 1960 to December 31, 1960 is based on temporary rates set forth in Civil Aeronautics Board orders. These temporary rates serve only as an interim basis of payment, until such time as final rates are fixed, and amounts so received are subject to retroactive adjustment upon the fixing of final rates. Additional comment regarding revenue from Federal subsidy is given on page 6 of the President's letter. Revenue for the transportation of United States mail, as stated, is not expected to be affected by future orders of the Board.

3. The deferred charges, at December 31, 1960, described in the balance sheet herewith as "Developmental and pre-operating costs" represent (a) developmental, training and other costs incurred in connection with the introduction into service, in 1958, of 5 Vertol V-44B helicopters less amortization provided on the basis of writing off these costs over a period of 5 years from July 1, 1958; (b) developmental, training and other costs incurred in connection with the planned introduction into service, in 1961, of Boeing Vertol 107 helicopters; (c) expenses incurred in connection with future aircraft and route development; (d) expenses incurred with respect to the Company's application for renewal of its Certificate of Public Convenience and Necessity less amortization provided on the basis of writing off these costs over a period of 7 years from May 16, 1960, to coincide with the term of the renewed certificate; and (e) un-amortized costs and expenses incurred during the Company's pre-operating period for a route not yet activated.

4. Under an Employees' Stock Option Plan, adopted by the Board of Directors of the Company and approved by the stockholders in 1959, options have been granted to 7 persons to purchase an aggregate of 13,800 shares of Capital Stock at a price of \$11.87½ per share. The options granted under this plan are exercisable during the 5 year period beginning April 4, 1960. During 1960 an option for 3,300 shares lapsed due to the resignation of one person. At December 31, 1960 no options have been exercised under this plan.

5. Notes payable to the Hanover Bank, Federation Bank & Trust Company and United States Trust Company of New York are secured by a chattel mortgage on the Company's five Vertol helicopters and accessory equipment and are guaranteed by the Civil Aeronautics Board to the extent of 90% of the unpaid principal amount. The credit agreement covering the notes payable provides, among other things, (1) for maintenance by the Company of working capital of not less than the greater of \$700,000 or 25% of 12 months' cash operating expenses (as defined); (2) for the maintenance by the Company of an excess of tangible assets over total liabilities of at least \$2,000,000; and (3) for certain restrictions upon cash dividends and acquisitions or retirements of the Company's Capital Stock. As a result of the foregoing provision approximately \$320,000 of retained earnings at December 31, 1960 was so restricted.

6. On January 18, 1961 the Company entered into an agreement (superseding the agreement of January 12, 1960) with Boeing Airplane Company, Vertol Division to purchase five dual-engine, tandem rotor Boeing Vertol 107 helicopters, spare engines, spare parts and ground support equipment. The price for these aircraft and related equipment is approximately \$4,350,000 subject to certain adjustments. It is anticipated that the helicopters will be delivered during the period July-September, 1961. The agreement also includes options to acquire additional helicopters. Payment for the new equipment is to be made in part by sale or trade-in to the Vertol Division of Boeing Airplane Company of the 5 Vertol V-44B helicopters and spare parts which the Company now owns and the remainder is to be paid in cash. To obtain the required cash the Company now plans to enter into a credit agreement with the Hanover Bank, Federation Bank & Trust Company and United States Trust Company of New York, under which amounts not in excess of \$3,800,000 may be borrowed on notes secured by a chattel mortgage on the new flight equipment to be acquired by the Company. These notes would be payable in 72 consecutive monthly installments, with interest at 5.3375% per annum from which the lending banks will be required to remit .3375% to the Civil Aeronautics Board as a guarantee fee. The effectiveness of the purchase agreement and the credit agreement is subject to action by the Civil Aeronautics Board guaranteeing 90% of the loan, although an order granting such guarantee has not been issued the Board has announced approval in principle of the Company's application in its press release dated January 31, 1961.

At December 31, 1960 management is of the opinion that other known contingent liabilities not covered by insurance will not be such as to change materially the Company's financial position.

LYBRAND, ROSS BROS. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS

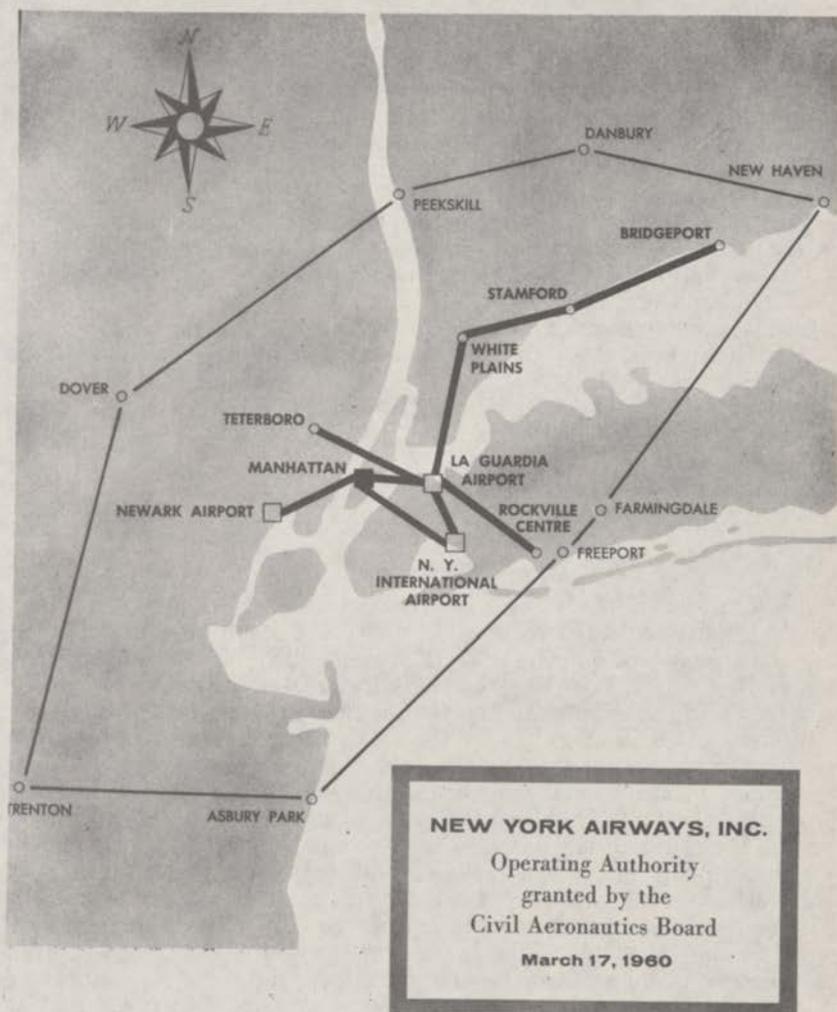
TO THE BOARD OF DIRECTORS,
NEW YORK AIRWAYS, INC.

We have examined the Balance Sheets of New York Airways, Inc., as at December 31, 1960 and December 31, 1959 and the related Statements of Income and Retained Earnings for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances; although it was not practicable to obtain confirmation of the balances receivable from the United States government, we reviewed and tested available records to satisfy ourselves that such balances were fairly stated.

Subject to the determination of the amount of Federal subsidy for the period April 1, 1960 to December 31, 1960, with regard to which information is presented in Note 2 of Notes Relating to Financial Statements, in our opinion, the accompanying Balance Sheets and Statements of Income and Retained Earnings present fairly the financial position of New York Airways, Inc., as at December 31, 1960 and December 31, 1959 and the results of its operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis for the two years.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, March 31, 1961.



TANDEM ROTOR

Mr. CUMMINGS. Maybe you would like to have one or two to look at right this minute.

Senator MAGNUSON. All right. You can leave copies here with the committee.

Mr. CUMMINGS. Also, in view of Senator Allott's question as to how the tandem rotor works, I have in my hand a thing you might be interested in which shows how the tandem rudder is tied and where the two engines are going. This [indicating] is the Boeing airplane which you see—

Senator ALLOTT. Both engines are on one end.

Mr. CUMMINGS. Yes, sir; and they are tied into the forward rotor system by a drive shaft going across the top of the cabin here. This is the 25-passenger machine, cruising at 155 miles an hour, which we have committed to Boeing to purchase subject to the approval of the Civil Aeronautics Board.

Senator MONRONEY. Is that turbine?

Mr. CUMMINGS. Yes, sir. It is the same powerplant that is used in the Sikorsky S-61.

Senator MAGNUSON. All right. You can proceed with your statement.

Mr. CUMMINGS. All right.

My name is Robert L. Cummings, Jr. I am president of the New York Airways, the certificated helicopter operator in the New York area.

HOUSE ACTION

This memorandum is addressed to the principal questions New York Airways believes are raised by the recent House action proposing that fiscal 1962 subsidies for the three helicopter carriers (operating at New York, Los Angeles, and Chicago) be limited to \$5 million and that no further subsidies be appropriated thereafter.

We submit that adoption by the Congress of such a course would necessarily result in terminating the entire Helicopter-VTOL air transport program. Among other things, this action would make it impossible for the helicopter carriers to carry out their commitments for the long-anticipated conversion to the new multiturbine flight equipment scheduled for initial delivery this summer.

In other words, the salient question is not the amount of the appropriation for any particular carrier or any particular year, but whether the Helicopter-VTOL program should be continued at all—or whether it should now be abandoned despite the time, effort and money already invested by the Federal and local governments in bringing this type of service to the very threshold of maturity.

NEW YORK AIRWAYS CONTRACT

New York Airways has contracted with the Boeing Co. to purchase an initial fleet of five Boeing V-107 twin-turbine, 25-passenger helicopters to replace its present fleet of five Vertol 44B single-piston-engine, 15-passenger helicopters. This new equipment represents the most important advance which has ever been made in this field. It will enable us to effect a major revolution in both the operational and the economic aspects of this type of air transportation.

SPEED INCREASE

In more specific terms, the block-to-block speed of the new aircraft will be increased 84 percent over the old; available cabin load will be increased by 92 percent; the new aircraft will be capable of continued flight in the event of an engine failure—which, of course, the old aircraft are not—and, as a result of the increased power and the instrument flight capability, the reliability of our schedules will be significantly increased.

With these improvements now available we believe that continuance of operations with the present single-engine aircraft (a type of operation which has not been conducted in any other branch of scheduled air transportation for many years) is plainly and simply out of the question.

To be sure, the conversion to turbine power will require an initial subsidy increase. This is due to introductory costs, the additional capital investment being made in this equipment by New York Airways, and the transition period required for the growth of the traffic to match pace with the substantial increase in passenger capacity (approximately 400 percent) provided by the new aircraft.

SUBSIDY REDUCTIONS

However, after the introductory period, this program will enable sharp subsidy reductions which could not be achieved in any other way. For example, the piston-powered V-44B helicopters now being operated by New York Airways require subsidy of approximately 43 cents per available seat-mile even at a revenue passenger load factor of 53 percent.

Senator ALLOTT. Is that what you are operating at now?

Mr. CUMMINGS. Yes, sir. That actually is the figure for the year 1960, calendar year.

On the other hand, at the same load factor, the new multiturbine Boeing V-107's will require subsidy of slightly less than 9 cents per available seat-mile.

PRESENT REVENUE INCREASE LIMITED

Since the limited capacity of the existing equipment has already been saturated by the public demand, the present fleet is incapable of realizing any significant increase in nonsubsidy revenues. As a result, even if revenue passenger load factors of 100 percent could be realized day in and day out, New York Airways' present fleet would still require annual subsidy approaching \$2 million.

As against this, the increased capacity of the new equipment will enable New York Airways to provide increased service responding to the growth of the public demand. In this way, we will be able to earn progressively increasing passenger revenues which will serve to reduce our subsidy requirements.

FORECASTS ON SUBSIDY

Our forecasts indicate that after a 2-year introductory period the subsidy requirements of the initial fleet of new aircraft will be less than the requirement for our present equipment. Thereafter, as the traffic develops, the subsidy curve will continue downward with the

result that when load factors of the order of 60 percent are being realized, the subsidy requirement of the new fleet will be about half of the present level.

Still more dramatic subsidy reduction will be made possible as aircraft are added to the initial fleet. As previously indicated, the economic characteristics of the present equipment are such that even though increased service is required by the public demand, it cannot be provided without continuing subsidy increases.

However, the new equipment will reverse this previously unfavorable relation between subsidy requirements and service volume with the result that, as additions are made to the basic fleet, each new aircraft will be capable of earning commercial revenues substantially in excess of the added costs involved and will thus result in further subsidy reductions.

Thus, a fleet of 7 of the new aircraft, operating at a 60-percent load factor, will be able to break even without subsidy—which would then be required only to cover return on the carrier's investment and Federal income taxes—and a fleet of 10, operating at the same load factor, would not require any subsidy at all.

TIME ELEMENT

To be sure, the exact timing of these developments cannot be predicted now, but will necessarily depend upon the growth of the traffic. However, the significant consideration is that the new equipment has this very real potential for subsidy reduction whereas the existing equipment does not.

We therefore respectfully submit that since these operations have now for the first time reached the point where subsidy can be reduced, while at the same time expanding and improving the public service, the imposition of restrictions, making it impossible to realize on this potential, would be most inopportune—and indeed wasteful of the substantial Government as well as private investment already made in these services.

Needless to say there is and can be no disagreement with the basic principle of subsidy limitation. However, we respectfully submit that it is not feasible to accomplish this objective through the type of fixed limitations proposed by the House. For this would make it impossible for New York Airways and the other helicopter carriers to carry out their multiturbine transition programs. Since one of the principal effects of these programs will be to enable orderly subsidy reduction, the application of fixed ceilings would in fact frustrate the very purpose they are intended to serve.

Senator MAGNUSON. Any questions?

FARE FROM IDLEWILD TO NEW YORK

Senator ALLOTT. I have one. What is your fare from Idlewild downtown to New York, and where in New York?

Mr. CUMMINGS. We have a heliport at the foot of Wall Street. The fare is \$7, including Government tax.

Senator ALLOTT. This may sound very funny because I suspect that I have traveled the airlines in the last 20 years as much as anybody.

How would I go about getting your service in New York? And I will say the same thing to the Chicago people.

Mr. CUMMINGS. We have not spent any appreciable money at all on advertising. The public demand generated by the mere existence of helicopters in the area has generated enough business so that we have had full capacities on most of the schedules the people are really interested in. At Idlewild or New York International Airport we have a bus service which we have to run because, as you know, that airport is a—each of the principal airlines has a major terminal on a circle or a thing almost like a circle about 2 miles round in circumference. We have an arrangement there with American Airlines for a gate position at their terminal and office facilities for just a traffic clerk and a mechanic, and we have the bus service going around to pick up people who have indicated that they want to fly with us.

Our best salesmen are actually the clerks and traffic clerks of the other airlines. We have made a great effort to brief them and keep them fully briefed as to our plans and progress and schedule changes at all times.

For example, on Pan-American, on American, most of the foreign-flag carriers, Braniff, and so forth, when you find you are landing at New York, in addition to announcing bus service and available taxis, and so forth, they usually announce us, too. So that is the way we have done this.

JOINT FARE ARRANGEMENTS

We have joint fare arrangements with 21 carriers in the New York area which provides a reduction to the passenger over and above what he could get if he bought the ticket directly from us. For example, if you are in Denver and you are buying a ticket on United—

Senator MAGNUSON. Let me ask this: Supposing I leave here and buy my ticket via helicopter to the foot of Wall Street. I pay you less than if I got off the plane in Idlewild and went up and just bought a straight ticket.

Mr. CUMMINGS. No, sir. The range—this has to be beyond an 800- or 900-mile range. It depends upon the airline. They can't afford to absorb the difference in our fare which would be involved.

Senator MAGNUSON. Let's say I go from Seattle and I want to be down there.

Mr. CUMMINGS. Yes, sir. You can do it.

Senator MAGNUSON. I pay less for that helicopter service than if I went to New York and got off the airplane and bought a separate ticket?

Mr. CUMMINGS. That is right.

Senator MAGNUSON. And you say the airline absorbs that cost?

Mr. CUMMINGS. That is right.

Senator MAGNUSON. To get me where I want to go.

Mr. CUMMINGS. New York Airways gets within about 5 or 6 cents of our standard fare.

Senator MAGNUSON. They pay you.

Mr. CUMMINGS. Yes, sir.

Senator MAGNUSON. They pay you extra.

Mr. CUMMINGS. Yes, sir. We get our—

Senator MAGNUSON. So your gross revenue is the same no matter whether I buy a ticket in Seattle for your line or whether I buy the ticket at Idlewild?

Mr. CUMMINGS. That is right. Within 4 or 5 cents, Senator.

DETERMINING RATE OF FARE

Senator ALLOTT. Now, the amount they pay you, is that determined by the length of the flight into the area?

Mr. CUMMINGS. To a degree.

Senator ALLOTT. Or is it a fixed one? For example, would it be the same from Seattle as it would be from Denver?

Mr. CUMMINGS. Not necessarily. It is related to the length of the flight and it is a straight rate prorated, is what it amounts to.

Senator ALLOTT. You perhaps think this is a facetious question I asked.

Mr. CUMMINGS. No, sir.

Senator ALLOTT. It isn't because on two occasions, one in Chicago, one in New York, within the last 2 years I wanted to use a helicopter service very badly and after banging on counters and asking everybody I could find who was around, I finally said, "Well, I will go by cab and let it go at that."

Mr. CUMMINGS. No. I don't think it is a facetious question.

Senator ALLOTT. So it is not a facetious question in any sense, and I am interested in connection with our 53-percent load factor, maybe a selling job could be done on some of these airlines where they are selling tickets to these three cities to say, "Do you want helicopter service at the other end?" In the case of Anaheim, it will cost you \$2 extra. You couldn't do it for \$2 in a car.

LOAD FACTOR

Mr. CUMMINGS. Well, the 53-percent load factor I referred to is on the basis of 24 hours a day and includes cargo capacity, and so forth. The actual passenger load factor at the times we carry passengers, and we don't carry them all night because of the cost of an extra shift, is over 60 percent and on most of the flights that people really want to take, say from 8 o'clock in the morning until 10 and from about 2 or 3 in the afternoon to 8 in the evening, these flights are sold out way in advance. Sold out. For instance, right now I think if you tried to get your space on one of our machines say at 4 o'clock in the afternoon any day next week, you would have trouble getting a reservation, but you would still get a seat because of the "no-show" problem which we suffer from a great deal.

RESERVATIONS

We have the relations, for instance, with Northwest Airlines coming into Seattle. They make connecting space reservations on our little airline and sometimes they are late, sometimes they are early, in which case it ruins our reservation system, but we don't have any control over that at the moment.

One of the things we will accomplish with the new equipment, because it is twice as fast, we will be able to increase our frequencies. Instead of running once every 50 minutes, we will run every 25 min-

utes. So that that "no-show" problem will tend to collapse and we may be able to get away without any reservation at all except on a premium basis. This is one thing we intend to attempt.

STATIONS

Senator ALLOTT. Do you have any stations in New York other than Wall Street?

Mr. CUMMINGS. We have a station which is active only at night for mail purposes.

Senator ALLOTT. I mean passengers.

Mr. CUMMINGS. We have none at the moment, but we have one well advanced and actually under construction at the top of the new building at the Grand Central area known as the Pan-American Building. All indications are that we should do a great business there.

We also have coming along the so-called New York World's Fair, with all due respect to Seattle. New York is having trouble getting themselves designated as a world's fair. Seattle has preempted that.

Senator MAGNUSON. They lost out.

Mr. CUMMINGS. They lost out, but that should generate a great deal of business for us.

The Wall Street heliport we have not lifted a finger to advertise. Because of the weather conditions, the single-engine problem we were going to have, the Port of New York Authority spent a good deal of money developing this thing and we had to go in, even though we are taking about 1,000 passengers a month out of there.

Senator MAGNUSON. Do you have it between airports, LaGuardia and Idlewild, too?

Mr. CUMMINGS. Yes, sir.

Senator MAGNUSON. That is very important.

Mr. CUMMINGS. Yes, sir, that is.

Senator ALLOTT. Also over to Newark.

Mr. CUMMINGS. Newark, that is right. And we also have heliports in Bridgeport, Stamford, Westchester. We had one that has been inactive for a while in Trenton, one that has never been active in Paterson, which was built with matching funds of the development program—I haven't got the right name, but Senator Monroney knows what I am talking about. We will be able to use at least the one in Paterson only when we have the extra engine and when an engine fails, we will be able to continue on in flight.

Senator ALLOTT. Where is yours downtown in Chicago?

Mr. MOORE. Our downtown terminal is located at Mission Field, which is a small airstrip.

Senator ALLOTT. Out on the shore?

Mr. MOORE. Yes. Right out near Soldiers Field.

Senator MAGNUSON. All right. Thank you very much.

WHITE PLAINS-BRIDGEPORT RUN

Senator MONRONEY. May I ask one question? Does the White Plains-Stamford-Bridgeport run yield as much revenue per mile as the other more concentrated runs?

Mr. CUMMINGS. No, sir.

Senator MONRONEY. How often would you fly that schedule?

Mr. CUMMINGS. This is part of the problem. We have done our level best to keep the amount of subsidy down. We have focused on the high-yield areas. We charge, for example, a fare between La Guardia and Newark about 56 cents a seat mile. This is a 17-mile run. That is quite expensive. We charge going up to Stamford \$10.

Senator MONRONEY. Roughly what would that be?

Mr. CUMMINGS. A \$9 fare.

Senator MONRONEY. It wouldn't be as much as a cab out there, would it?

Mr. CUMMINGS. No.

Senator MONRONEY. \$4 out to—from downtown New York uptown.

LA GUARDIA AND NEWARK

Mr. CUMMINGS. On that particular run between La Guardia and Newark, we are advised that the cabs no longer do very much business except when someone comes in like Senator Allott and is unable to find us. Our life has been complicated by a bus system at Idlewild. It has been terribly complicated—if any one of you has been at La Guardia Field—by the need to run a bus system there. If you come in on Northeast and you want to go out on American, it is a 20-minute walk at least through all sorts of construction, but this ought to be cured in a year or so, and we have an arrangement there also with American whereby we will have an inside gate position in their terminal, and that is right in the center of the new construction. So at this particular time, but for the problems we are here confronting which are vital, we face a very optimistic future.

EFFECT OF HOUSE ACTION

We really do. But in closing, I should just like to say that under the restrictions of the House bill, both financial and wordingwise, we would have no choice in our best judgment but to wind up our affairs, and from a patriotic point of view as well as an extremely selfish point of view, I think that would be very unfortunate at this time.

Here we are just on the verge of moving forward on something we have counted on for years, and for which the Government, the Civil Aeronautics Board, the House and the Senate, really have been subsidizing us. Here we are on the verge of realizing it, and then to be cut off, that is the issue.

MAIL PAYMENTS

Senator MONRONEY. In your financial statement you show that you receive small amounts for actually carrying mail. The rest of it is charged up to flat subsidy, isn't it?

Mr. CUMMINGS. Yes, sir.

Senator MONRONEY. Your figures and the figures of the Chicago company, showed that only a small fraction of the airmail postage went to pay the cost of your service in the highly congested area.

Mr. CUMMINGS. Well, we get paid a rate agreed upon, I guess upon the initiative of the Post Office, and subject to the approval of the Civil Aeronautics Board at \$2.58 a ton-mile for carrying mail.

Senator MONRONEY. \$2.58 a ton-mile.

Mr. CUMMINGS. Yes, sir. Now, at night we do the same thing that Los Angeles and Chicago do. We all do the same thing from the point

of view of carrying mail. Frequently it is a one-way trip. You carry it 75 percent full one way and empty back, and the reverse may be in the morning, coming in with mail downtown. It is not an efficient operation as it now is operated, but it is asserted by the Post Office to be extremely helpful. I can't speak for the Post Office, but they have told me that time and time again.

Senator MONRONEY. Certainly that is not anywhere near a subsidized rate. For the short haul I imagine La Guardia is about 10 miles from the landing field downtown. That would only be \$25.80 for a ton.

Mr. CUMMINGS. That is right.

Senator MONRONEY. Going in. And you have probably not over 100 pounds of mail.

Mr. CUMMINGS. That is right.

Senator MONRONEY. So on a trip like that you would be getting maybe less than \$5 or \$10 a trip out of your mail.

Mr. CUMMINGS. That is right.

Senator MONRONEY. I think this is where the subsidy thing is rather misleading. This is highly important for speeding up deliveries. It permits a later mailing in New York to still get the mail on a plane that will get out much earlier.

Senator MAGNUSON. Is that comparable in Los Angeles and Chicago?

Mr. BELINN. It is in Los Angeles, sir, plus the fact that the environs, as far as San Bernardino and the suburban areas, they enjoy the same closing time as the city of Los Angeles does, and I am sure this pertains in other places.

PRICE PER TON-MILE

Senator MAGNUSON. No. I meant the amount. How much do you get a ton-mile?

Mr. BELINN. The formula is identical, \$2.58.

Senator MONRONEY. What would be your average flight?

Senator MAGNUSON. Chicago, too? Is that the same?

Mr. MOORE. Yes.

Senator MONRONEY. The average flight? And what would be the weight and mail on your flights?

Mr. BELINN. As far as we are concerned, we are very substantial mail carriers.

Senator MONRONEY. You run a special section. You don't tend to intermix it too much with your—

Mr. BELINN. Yes, we do. We mix mail, passengers, and express. All our equipment is convertible. We have had the fortune of being able to carry mail in one direction and passengers in the other by use of the bench type of interior which we have pulled up or down so that inasmuch as passengers go in reverse direction from mail—

CAPACITY LIFT

Senator MONRONEY. What would your lift be, not much more than a ton if you used the whole capacity?

Mr. BELINN. Less than a ton in our case.

Senator MONRONEY. Less than a ton in total. If you carry any passengers at all, you would be carrying less than 500 pounds of mail, less than—

Mr. BELINN. For example, in our rooftop, speaking for Los Angeles, it is entirely mail, running up as high as 1,500 pounds, but so many suburban communities where you don't have those heavy mail loads, we just mix the mail, passengers, and express and we will continue to do that with the new equipment but in much greater quantities.

Senator MAGNUSON. Thank you, Mr. Cummings.

Mr. CUMMINGS. If I might just call attention to one other thing, if you don't mind, Senator Magnuson, on this chart that I gave you, on this configuration, we have a compartment back here which slides out and slides in for carrying the mail and cargo and baggage which should greatly accelerate our ability to handle mail, and we ought to do better, but as Senator Monroney says, it is still a losing proposition.

NOISE FACTOR

Senator MAGNUSON. Let me ask something about the new one. Is the noise factor worse or better than the old ones?

Mr. CUMMINGS. It is immeasurably better. For example, the turbine engine itself is much quieter but the decibel rating, we have done a lot of studying on that, is about half what it is in the present equipment with the piston engine. The noise you hear is the blade-type noise and something is being done about configurations on the tip of it, and little baffles on it to fill in the gap which is the noise. I don't understand these things, but I have just been told that as recently as yesterday.

Senator MAGNUSON. But you would say generally the noise is less in the new machines.

Mr. CUMMINGS. It depends on what kind of a standard, all these decibels, and so forth, that you have to think about it to hear it. I have had it in my backyard at home and you don't know it is coming in, whereas the other one, even the little bells, you know, the bubbles that fly around, you can hear them and you can't hear anything else. This is immeasurably better.

Senator MAGNUSON. Thank you very much.

TERRY ROTODYNE

Senator MONRONEY. What is the latest on the Terry rotodyne?

Mr. CUMMINGS. Well, if you will excuse me, it is the Terry rotodyne. There you have a very great noise problem, but aside from the noise, that aircraft would give promise of flying, for example, from the center of New York to the center of Washington in the space of about 58 minutes, including two stops. It has been in the state of stagnation for the last 2 or 3 years because of the reorganization of the British frame industry.

Senator MONRONEY. They lost one, too, didn't they?

Mr. CUMMINGS. No. They haven't lost one but they had such terrible times with the noise problem that they just didn't go ahead with it, and it is now being produced under order, I have been told, to the British European Airways for across-the-channel operations.

We have an option which we negotiated sort of hedging against the future on five of them which would make an immense difference in any plans that we might have.

Senator ALLOTT. Let me just get myself oriented here. Is this the one with the turbines and the blades?

Senator MONRONEY. No. This is a sort of fixed wing plus a helicopter.

Mr. CUMMINGS. Yes. I haven't got a picture, but what it is, as Senator Monroney said, it is a fixed wing plus a large rotor. For takeoff and landing purposes it uses the rotor. Then it makes a transition to normal propellers on the stub fixed wing for forward flight but the noise problem is generated by tip jets on the ends of the blades and you cannot hear yourself think within 300 or 400 yards of it when it is taking off or landing, which is the only time it is making that noise. The rest of the time it is like a normal airplane.

Senator MONRONEY. Ten-mile cost would be greatly reduced for 25- or 50- or 75- or 100-mile service to commuting airways, wouldn't it?

Mr. CUMMINGS. Oh, yes.

Senator MONRONEY. This is a possibility of keeping these people in business because once you can get a breakthrough on a plane of longer range and a lesser operating and maintenance cost, it is an unfilled market. Terrific.

Mr. CUMMINGS. One of the problems with it is that it carries—the configuration will carry 65 to 70 passengers, and, of course, if you don't fill the seats, the operating costs, you don't take advantage of them. But we have got our ear very much to the ground on that one and are keeping in very close touch with it, and it does offer considerable hope in any routes we can use that capacity on.

Senator MONRONEY. This can parallel the New Haven from Westport or Bridgeport down and set down in the center of each town and put them down in Wall Street or Central Park or some place.

Mr. CUMMINGS. That is right.

Senator MAGNUSON. All right. Thank you again. Now, off the record.

(Discussion off the record.)

Senator MAGNUSON. Mr. Plaisted? We will be glad to hear from you briefly.

NATIONAL BOARD OF FUR FARM ORGANIZATIONS, INC.

STATEMENT OF KENNETH M. PLAISTED, EXECUTIVE SECRETARY

SUPPORT FOR FEDERAL TRADE COMMISSION FUNDS

Mr. PLAISTED. I will make it very brief.

Senator MAGNUSON. We will put your full statement in the record. Your statement is very brief. All right. Go ahead.

Mr. PLAISTED. Mr. Chairman, my name is Kenneth M. Plaisted. I am appearing here today in the capacity of executive secretary of the National Board of Fur Farm Organization, Inc., with offices located at 152 West Wisconsin Avenue, Milwaukee, Wis. The association which I represent is comprised of approximately 98 percent of the domestic producers of ranch-raised mink.

The purpose of the association in submitting this statement and appearing before the committee this afternoon is to acquaint you with the views of the fur farmers as they relate to the budget request of the Federal Trade Commission.

We urge that this committee restore the cut made by the House of Representatives in the budget request for the Commission's administration of the textile and fur consumer labeling laws. Specifically, the laws to which I refer are the Fur Products Labeling Act, the Wool Act, the Textile Fibre Products Identification Act and the Flammable Fabrics Act. These four consumer pieces of legislation are administered and enforced under the newly proposed Bureau of Textile and Furs which I understand will be headed by Mr. Harvey H. — Hannah.

BUDGET ESTIMATE FOR FIELD

The commission had originally requested \$897,000 for the complete administration of what will be this new Bureau and this will be an increase of about \$235,000 over fiscal year 1961. Among other things the increase would be used for the employing of 27 additional field investigators and 5 more attorneys to work solely on textile and fur matters. You gentlemen will recall that Congress has passed the Textile Fibre Products Identification Act a matter of 2 years ago which was added to the list of consumer laws which the Commission is called upon to enforce.

Senator MAGNUSON. We have five. The Wool Act, the Textile Labeling Act, the Fur Act, the Flammable Fabrics Act.

Mr. PLAISTED. Those are the four.

Senator MAGNUSON. Those are the four main ones.

Mr. PLAISTED. Those are the four that are under this particular Bureau which was formerly a division.

Now, the House has cut the overall recommended increase of the proposed Bureau by 25 percent which amounts to a reduction of nearly \$60,000 and it is this sum which we respectfully urge be restored by the Senate.

PROTECTION FROM FRAUDULENT FUR SALE

As mink farmers, we are, of course, fundamentally interested in securing protection for the consumer from the fraudulent and deceptive practices all too often employed in the merchandising of a fur product. Unfortunately this is an area where the consumer has little knowledge and is not aware that she has been hoodwinked until 2 or 3 years after the purchase of a fur garment which she believed to be a natural color but which later turned out to have been dyed and then commences to fade out. The consumer has nowhere to turn with the result being that not only has she been cheated of a considerable investment in her purchase, but in addition, her confidence in furs, as such, is destroyed. It is for these reasons that we, the producers of the raw fur product, are very much concerned that the Commission have available the minimum necessary funds which it has requested to adequately police these consumer protection laws.

In direct response to your request, Mr. Chairman, I am pleased to report that the Commission did in fact place more emphasis on the enforcement of the Fur Act during the last fiscal year than at any

time in the past several years. The number of fur establishments inspected last year more than doubled the number of firms inspected a year ago. This increased effort has paid dividends many times over in affording consumers greater protection against misrepresentation and by creating an atmosphere of fair competition among fur manufacturers and retailers.

COMMENDATIONS FOR ASSISTING TRADE

The Commission is to be commended in that even while operating under a restricted budget and without the number of staff personnel necessary for adequate enforcement, it was able to assist the fur trade to a considerable degree by direct counseling, holding of hearings and promulgation of a revised set of rules. They did a tremendous amount of work in rewriting all the rules under the Fur Act which made it much more effective we think, and also in a stepped-up inspection program.

We believe that this increased activity in the enforcement of the Fur Product Labeling Act should be continued. We are indeed heartened by the reorganization program proposed by the Commission's new chairman, Mr. Paul Rand Dixon, whereby these consumer protection laws—

NEW BUREAU

Senator MAGNUSON. There is going to be a separate shop.

Mr. PLAISTED. Yes, sir. A newly organized Bureau under Mr. Hannah's direction, who has had 17 years' experience now in the enforcement of these consumer protection bills, and we are very pleased with the arrangements, which I understand are just about to become public, to be made public.

Senator MAGNUSON. Yes. He told us to that effect when he was here last week.

RESTORATION REQUESTED

Mr. PLAISTED. In conclusion, Mr. Chairman, we think if Congress will restore these minimum funds that the Bureau has asked for, that Mr. Dixon has asked for, for this new Bureau, it will do what Congress intended the law to do when you passed these various consumer laws, and in particular, of course, the Fur Act.

Senator ALLOTT. Here again you have the same situation. The people you represent are small people, essentially, aren't they?

Mr. PLAISTED. Yes. Many as you know are located in your State and in the chairman's State.

Senator ALLOTT. Just like the small grocers, that unless they are protected when they need to be protected, I don't know how they are ever going to be protected and stay in business.

Mr. PLAISTED. If the consumer isn't protected by all this consumer legislation, we, the producers, are the ones that are going to be affected first when she loses confidence, when she purchases a fur garment and can't believe what she sees on the level. You gentlemen are well aware of the mass of evidence presented back in the early 1950's when you were considering this initial legislation. The mass deceptive practices that were being foisted on the consumer. She doesn't know fur. She needs protection and only Congress can provide it.

Senator MAGNUSON. We are glad to hear that last year they stepped it up, and I think that the Commission still intends to keep riding herd on this, to use the term, and the cut, of course, was an overall cut of the whole agency which, of course, would be reflected percentagewise in this particular new organization which I think should have reasonable funds to get started off.

Mr. PLAISTED. They are just going to get off the ground.

Again, Mr. Chairman, thank you very much, and I wish to thank you and the committee for jarring the Commission a little last year because the result has been very favorable.

Senator MAGNUSON. Thank you.

Senator ROBERTSON. Mr. Chairman, Judge Hooker, the chairman of the State Corporation Commission of Virginia, has been designated to appear before this committee on behalf of the National Association of Railroad and Utilities Commissioners. He has a statement which won't take over 5 or 6 minutes. He has been waiting for nearly 2 hours.

Senator MAGNUSON. All right. We will hear from you.

Senator ROBERTSON. I take pleasure in presenting the chairman of our State corporation commission which regulates the rates of railroads and utilities in Virginia. He comes from a family long associated with history in the State of Virginia.

Senator MAGNUSON. Judge Hooker is going to devote his testimony to the General Services Administration, the appropriation which involves the public utilities down there in their general counsel's office, on which the committee has had a lot of testimony and a lot of discussion.

GENERAL SERVICES ADMINISTRATION

NATIONAL ASSOCIATION OF RAILROAD AND UTILITIES COMMISSIONERS

STATEMENT OF H. LESTER HOOKER, CHAIRMAN, STATE CORPORATION COMMISSION OF VIRGINIA, RICHMOND, VA.

APPEARANCES BEFORE STATE REGULATORY BODIES

Mr. HOOKER. My name is H. Lester Hooker, of Richmond, Va. I am a member of the State Corporation Commission of Virginia and at this time its chairman. I am also chairman of the legislative committee of the National Association of Railroad and Utilities Commissioners, and as the chairman of that committee, as well as the chairman of the Virginia commission, I am appearing in this matter in support of the resolution passed at the annual meeting of the National Association of Railroad and Utility Commissioners at Las Vegas in November 1960, which resolution is included with the testimony of Mr. Austin L. Roberts, Jr., the general solicitor of that association.

Mr. Roberts was unavoidably detained and could not be here today. He asked me to read this resolution.

I will leave some of it out. I will just merely read the resolution.

Senator ROBERTSON. Judge, I suggest you ask permission to have the testimony printed in the record.

Senator MAGNUSON. We will print the resolution in the record in full, Judge, and then you can start on page 3.

Mr. HOOKER. I will leave that out of his testimony.

Senator ROBERTSON. I assume the essence of the resolution is that the commissioners want the General Services Administration representatives to stay out of their courts.

Mr. HOOKER. Yes.

Senator MAGNUSON. I might say that was a convention very widely attended by most every State in the Union that has been faced with this particular problem, even my own State, the State of California, the State of Colorado, and those States where this conflict has occurred.

Mr. HOOKER. That is correct. The California commission supported this resolution wholeheartedly.

Senator ROBERTSON. Judge, you are appearing before a friendly forum, you see that.

Mr. HOOKER. I am mighty glad to know that.

POSITION OF STATE REGULATING COMMISSIONS

While the testimony of Mr. Roberts and the resolution presented therewith adequately set forth the positions of the State regulatory commissions, I wish to add a very brief statement.

(The resolution referred to follows:)

STATEMENT OF THE NATIONAL ASSOCIATION OF RAILROAD AND UTILITIES COMMISSIONERS

The National Association of Railroad and Utilities Commissioners is a voluntary organization embracing within its membership the members of the regulatory commissions and boards of the several States of the United States. These are the State agencies charged by statute with the duty of regulating the transportation agencies and public utilities operating in their respective States.

The NARUC became concerned with the policies and activities of the Transportation and Public Utilities Service (TPUS) branch of General Services Administration (GSA) as far back as 1958. At a meeting of the executive committee of the NARUC in February, 1958, Mr. George Ferrine, a member of the executive committee and president of the association in 1959-60, called to the attention of the membership the manner in which the activities of GSA were transgressing upon the rights and duties of the regulatory agencies. A great number of commissions and individual commissioners, thereafter, contacted their delegations in Congress and the Senate and House Subcommittees on Independent Offices Appropriations protesting the growing policy of unrestricted GSA intervention in regulatory proceedings.

At the annual convention of the association in 1960, a resolution regarding this subject matter was adopted. There was a diversity of opinion regarding the resolution, but after a full discussion the following resolution was adopted by the convention:

"RESOLUTION CONCERNING THE UNRESTRICTED INTERVENTIONS OF THE GENERAL SERVICES ADMINISTRATION IN THE JURISDICTION OF STATE AND FEDERAL REGULATORY COMMISSIONS

"Whereas sufficient facts have become available to show the growth and nature of the regulatory activities of the General Services Administration of the U.S. Government, the policies and practices underlying these activities and the many serious issues which now confront not only State and Federal regulatory agencies but also the public, legislative bodies, and affected carriers and utilities as a result of the emergence of this new Federal agency; and

"Whereas these facts show that during the past decade GSA's Transportation and Utilities Service has sharply increased its personnel and expenditures from 21 employees and \$133,000 in 1950 to an estimated 247 and \$2,375,000 for 1961 and has expanded its interventions from 3 cases to over 60 in 1960; and

"Whereas GSA, purporting by its interventions to represent the Federal Government as a consumer, actually seeks to have overall prices for carriers and utilities set solely on the basis of the effect of increases on the Federal budget, thereby ignoring controlling national and State policy to permit rates and charges fair to the public and regulated businesses alike, and the necessity for the Federal Government to pay, along with all other users, its fair share of the rates authorized to be charged by utilities and carriers; and

"Whereas during such interventions GSA has participated as an adversary, adducing evidence on rate of return, rate base, cost of capital, valuation of property and other technical factors in the ratemaking process, much of which duplicates similar presentations by members of regulatory staffs and other intervenors, including other Federal agencies, and unnecessarily multiplies the parties to be heard and prolongs proceeding; and

"Whereas the U.S. Senate Committee on Appropriations, 86th Congress, 2d session, after noting with "concern the constant increase in budget requests" of the GSA and the claims that GSA's work "duplicates that of the regulatory agencies," has stated that it plans "to explore the matter more fully" before the next budget period: Therefore be it

Resolved, That the National Association of Railroad and Utilities Commissioners in annual convention assembled does hereby express its conviction that GSA should limit its participation in rate proceedings so as to bring to the attention of the regulatory commissions any peculiar needs of the Federal agency represented by GSA and that GSA should make only such studies and adduce such evidence as is necessary to assure that a Federal agency is not discriminated against in terms of quality, kind, or charges for service;

Resolved further, That the officers, committee on legislation and the legal representatives of this association are hereby authorized to appear on behalf of the association before the Appropriations or other Committees of Congress to present the view of the association as expressed herein."

It is realized that the subcommittee is burdened with the press of many duties and with the need to expedite appropriations bills at this hour of the session, and accordingly this statement will be as short as possible.

The fundamental purpose of the laws creating the regulatory commissions is to assure the public adequate and nondiscriminatory utility services at reasonable rates. In the area of general rate determination, the commissions must first find the overall revenue requirements of the utility and then develop schedules of rates for the various types and classes of service that will produce that revenue requirement. The first prerequisite, determination of revenue requirements, is one involving the basic overall regulatory policies of the commissions.

It is in this area involving overall earnings, revenues and valuations that GSA has entered its presentations and arguments and these are the activities at which the NARUC resolution is directed. In intervening in general rate proceedings, GSA participates, as stated in the NARUC resolution, " * * * as an adversary, adducing evidence on rate of return, rate base, cost of capital, valuation of property and other technical factors in the ratemaking process. * * *"

In our considered judgment these activities are highly objectionable and serve no useful purpose. Such activities by GSA transgress upon the responsibilities and duties of the regulatory agencies. The fact that such activities have been engaged in is a reflection upon the integrity and the competence of regulatory agency personnel for it must proceed upon the unjustifiable and unwarranted assumption that GSA must act in the area of overall regulatory policy to insure that the Government's interest is protected. The State commissions wish to give this committee the unqualified assurance that the regulatory agencies have continued and will continue to protect the public interest, including that of the U.S. Government.

In addition to transgressing upon the functions assigned to the regulatory agencies, GSA's activities constitute a wasteful duplication leading to increased costs both at the State and Federal levels—all of which must be borne by the general public. State costs are increased because the regulatory staffs must spend time and effort in providing the data requested by GSA representatives. It should also be noted that the utility's costs, which are eventually borne by the public, are likewise increased for it must also provide the data requested by GSA. Just as significant is the fact that GSA's arguments and presentations expand the record and require the costly time of counsel and staff thus inevitably increasing the cost to all concerned.

As noted by the Landis Report of December 20, 1960, to then President-elect Kennedy (p. 9-10), these costs are very substantial. Mr. Landis points out that mere acquisition of the hearing record will amount to about \$1 per page and that, "Additional costs in the preparation of numerous exhibits, the hiring of experts, such as engineers and accountants, fees paid to lawyers, and the expenses of housing and feeding this group of men during the weeks of hearings, bring the total to a very substantial sum" (p. 9). It is indeed unfortunate that such wasteful duplication has occurred through the activities of an agency which we understand was created for the purpose of achieving greater efficiency and economy in Government.

Another adverse effect of GSA's unrestricted intervention policy has been that of unnecessarily prolonging the proceeding. As this committee knows, a great deal has been said of late with respect to inordinate delays in the administrative process. While there are undoubtedly many other reasons for delay, one obvious factor is that of the wasteful, time-consuming duplication of effort both before and during the hearing stage. This is not just a matter of having another witness or so testify over a given period of time. Earlier reference was made to GSA's activities which make for preoccupation of the regulatory staff and utility company personnel. Attorneys representing GSA, as is natural, add to the arguments and objections of counsel, the drawn out and frequently repetitious cross-examination of witnesses, rebuttal testimony, and all of the other activities which become more involved and time consuming as the number of parties and counsel increase. It seems quite obvious that if every large consumer of a utility's services were to engage in these activities, the regulatory process would come to a halt.

Finally, it seems highly doubtful that GSA can prove any substantial benefits to the Federal Government by these activities. In many of these cases, there probably would be little or no difference in the allowed earnings levels had GSA adopted the policy of not making such presentations and arguments.

Thus far this statement has been concerned solely with GSA's activities in connection with the regulatory process of determining the overall allowable rate of earnings. While we are convinced that such activities are objectionable and serve no useful purpose, we would, perhaps, leave an unfortunate impression with the committee were we not to state our conviction that GSA, in another regulatory area, can provide a real public service and be of substantial aid to the regulatory agencies.

We refer to the determination of the individual services to be rendered by the utility or carrier and the rates to be charged for a specific service. Undoubtedly operations of the Federal Government are such that new services or adaptations of regular services will be of substantial benefit in obtaining increased efficiencies and economies. Moreover, the Government has a real interest in insuring that the rates paid by it for a particular utility or carrier service are entirely reasonable in relationship to similar services provided by others. While commissions are anxious to protect individual consumer interests, it is in this field that the individual consumer, such as the Government, can be of aid for he is peculiarly aware of his requirements. Were GSA to devote the manpower and money now engaged in overall regulatory activities to study and analyze its transportation and utility service requirements, the regulatory commissions are convinced that efficiencies and economies could be achieved.

GENERAL STATEMENT

Mr. HOOKER. The General Services Administration has grown up like "Topsy" from an insignificant agency of government to an agency of major status from the viewpoint of expansion of personnel and demands for money desired with which to operate. The monetary proposal now before your committee far exceeds its needs, if its functions are limited to what this agency was originally supposed to do. It has stretched its operations into matters never intended by the Congress, and the Congress should see to it that this agency be restricted to the purposes for which it was originally created.

VIRGINIA COMMISSION'S ATTITUDE TOWARD GSA

Representatives of this agency appeared before the Virginia commission in a rate case and were told that it had no standing for the reason it did not have any interest in the matter. They were told that if they desired to make a statement the Virginia commission would permit it, but that any statement made by them would not be considered. There was not the slightest reason for them to be present. The Federal Government did not, and could not, have had any interest in that proceeding. The Virginia law specifically exempts the Federal Government and its agencies from our jurisdiction. It was, therefore, a complete waste of time and money for the General Services Administration to appear.

I do not see how the appearance of the General Services Administration before State regulatory commissions can be of any material benefit to the Federal Government, and such appearance is likely to bring about a conflict of attitudes which will not be beneficial to the public. It would appear that the amount of money requested by the General Services Administration is excessive for the duties it is required to perform, if it is restricted to its proper sphere. Whatever sum of money is requested for the purpose of appearing before regulatory commissions is plainly not needed for reasons previously stated. Our world problems are such that our resources should be carefully husbanded for the preservation of our country, regardless of how small the amount may be. Only projects of real importance and clothed with unmistakable merit should be promoted.

Gentlemen, I thank you.

Senator ROBERTSON. You recommend we cut off the pipeline?

Mr. HOOKER. I certainly do.

Senator ROBERTSON. Thank you.

LIMITING GSA APPEARANCES

Senator ALLOTT. Judge, could I ask you just one question? In your resolution, which I don't have here—you say that, in effect, the part—now I have it and I will read this:

GSA should limit its participation in rate proceedings so as to bring to the attention of the regulatory commissions any peculiar needs of the Federal agency represented by GSA and that GSA should make only such studies and adduce such evidence as is necessary to assure that a Federal agency is not discriminated against in terms of quality, kind, or charges for service.

And that is where you think the line should be drawn.

Mr. HOOKER. That is right.

Senator ALLOTT. Thank you very much.

Senator MAGNUSON. All right, Judge. I want to tell you that we haven't taken this matter up yet for the record, although we have covered the bulk of the General Services Administration's appropriation. We are waiting until the return of the new Administrator of GSA who was unavoidably detained, and we expect to have him and the General Counsel in here the first part of next week to discuss this very situation with them.

Mr. HOOKER. Do you know yet what date? I might want to listen.

Senator MAGNUSON. Well, I can't tell you what date.

Off the record.

(Discussion off the record.)

Senator MAGNUSON. All right. Mr. Maurer, we are glad to hear from you.

DELTA AIRLINES, INC.

STATEMENT OF R. F. MAURER, VICE PRESIDENT AND LEGAL SECRETARY

GENERAL STATEMENT

Senator MAGNUSON. You are going to address yourself to the same thing that Judge Hooker did?

Mr. MAURER. That is correct, Mr. Chairman. And in view of his statement and the hour, perhaps I might just summarize the statement for you and—

Senator MAGNUSON. We will put the statement in the record in full, and Mr. Flint, we will put yours in the record in full, and you two can highlight them.

I think the committee understands the situation, and we are quite well aware of some of the incidents, the differences that have been called to our attention, and it is a matter that has been before us for quite some years.

VIEWS OF TRANSPORTATION ASSOCIATION OF AMERICA

Mr. MAURER. Mr. Chairman, my name is Maurer. I am vice president and legal secretary of the Delta Airlines, Inc., and a director of that company located in Atlanta, Ga., but I appear before this committee today to express the views and state the position of the Transportation Association of America. The TAA is a nonprofit educational institution made up not just of carriers engaged in the various forms of transportation but also users and investors. As this problem has begun to come to a head, particularly the extent to which the executive branch of the Federal Government should participate as a party litigant in these rate proceedings before the Federal and State agencies which have the primary responsibility over the transportation industry, and the problem that TAA has tried to point out is that Federal regulation sometimes makes it virtually impossible to secure a unified approach to the problems of transportation companies in general, and the thing that we fear very greatly here is the fact that agencies get to working at cross purposes with a great deal of duplication of time, effort, and money.

As a result, this problem was submitted to all of the different panels which make up the Transportation Association, and this brief resolution was adopted and approved by the TAA board of directors approximately 1 month ago, and I quote:

RESOLUTION OF TAA

The governmental responsibility for protecting the interests of the general public in the regulation of rates, charges, and rate practices of transportation and utility companies is exclusively of appropriate Federal and State transportation and utility regulatory bodies, and not that of any executive department, commission, board, bureau, office, agency, or administration in the executive branch of the Government, hereinafter referred to as "executive agencies."

Unless specifically directed by law to represent the interests of a nongovernmental group, no Federal executive agencies should intervene before any State or Federal regulatory body in such matters except where specifically requested to testify by the regulatory body and except, further, to present evidence of claimed discrimination against the Federal Government as a user of such services. Any further or additional participation or encroachment by executive agencies on such rate functions specifically delegated to the independent regulatory bodies by Congress constitutes dilution of responsibility, unwarranted waste, and duplication of effort.

That is the conclusion of that quotation.

INTEREST IN GSA PARTICIPATION

Now TAA's interest in this problem is limited to the GSA's participation in general rate increase cases. We want to emphasize that we fully recognize the standing of this agency to participate as a party litigant on behalf of the Federal Government representing the interests of the Federal Government as a user or consumer in these rate proceedings.

We think there is an area in which a valuable and constructive service can be provided. But we have had an experience which is outlined in some detail in this paper before the Civil Aeronautics Board and before other Federal and State agencies where we are getting into extreme duplication, and perhaps I might highlight the thing by just a brief example in the case of the Civil Aeronautics Board.

GENERAL FARE INVESTIGATION

We recently had a general passenger fare investigation before that agency which lasted for some 4½ years. The CAB, as is true of many others of these agencies, has a bureau which represents the public interest in these cases. This CAB bureau participated extensively in this case, presenting both expert witnesses from its own staff and expert witnesses hired and brought in from the outside, from various things such as rate of return and the other elements that go into the setting of transportation rates. But the General Services Administration in addition came into this case and participated throughout the entire proceeding.

I think they had some five attorneys who appeared at one time or another in the course of the case, and they presented three witnesses themselves, so-called outside experts, two of whom were on the payroll of GSA, one of whom was in the Department of Commerce.

DUPLICATION OF REGULATORY EFFORT

I think this is typical of a duplication of regulatory effort which is wasting the taxpayers' money. And what we would like to recommend, and I would say that the TAA which tries to come up with policies which are really helpful from the overall transportation picture, not just the carriers, but also the investors and users, what we would like to recommend to your subcommittee is that a rider be attached to the GSA appropriation measure for the fiscal year 1962 which will recognize what this committee has said in the past with respect to the duplicating activities which will recognize that they are continuing and to some extent increasing in intensity and will firmly preclude the use of any such appropriations for the preparation and presentation, in

Federal and State regulatory rate proceedings affecting transportation, of evidence or argument on the nondiscriminatory issues therein.

But recognizing when we are talking about the right of GSA to come into these proceedings and protest the situations where the Government as a user may be discriminated against, that is a perfectly legitimate function.

Thank you, Mr. Chairman.

Senator MAGNUSON. Any questions?

ATTITUDE TOWARD GSA

Senator MONRONEY. Yes. At one place you say that you recognize GSA's right to represent the Federal Government as a user of transportation, and apparently protest against the increase without maybe submitting all the cost accounting data. Then you should say it should be limited to claimed discrimination against the Government. Hasn't the Government—I don't think there is anybody comparable to the Government as a customer of airlines. I would guess we are by far the biggest user of airline travel. In representing these people I think, without duplicating the CAB's fact-finding role, we have a part to play. We could come in as the purchasing agent on much of this transportation and say, we just don't think we want to pay more money than we are now paying, the same as any other individual airline passenger.

Mr. MAURER. I take your point, but I apparently did not make my example clear. The Civil Aeronautics Board has a staff of experts, including experts who appear as witnesses in these proceedings, and a staff of attorneys to present them. They participated throughout this proceeding, presenting evidence and testimony on the public side, including all users, not just what the rate should be for the Government but what the rate should be for all users.

Now, what I say is that this testimony was then duplicated by having a second Government agency have an appropriation by this committee to come in and present a second set of experts to testify as to what the rate should be for the same user.

RIGHT OF RATE RECOMMENDATION

Senator MONRONEY. Yes. Well, I don't think we have any right to recommend a rate as an airline user. I think CAB has a public duty to do that. I think we have a right to have appearance by the military or by General Services, or anybody else, just to say it is going to cost us X millions of dollars more, if this rate is instituted. I don't think we should be denied the same rights which a private user of the airline has to come in and say I just don't want a higher rate from our air transportation.

Mr. MAURER. That is not what I am suggesting.

Senator ALLOTT. I think the point Mr. Maurer makes, and really you are talking to the same point and on the same side of the fence, he doesn't contend and I hope he is not contending that the Government has no right to appear there as a user and as a large user. They have that right. You agree to that?

Mr. MAURER. Yes, sir.

Senator ALLOTT. What you are saying is that when you come before a regulatory agency which represents the interests of the public, and it is this—

Senator MAGNUSON. Or at least should.

Senator ALLOTT. Or should or attempt to, anyway, that it is not up to the GSA to come in then and tell this regulatory agency what a fair rate of return for them is. This is the function of the public body. Their function and their rights are in the same category as yours or mine appearing as a user.

DUTY OF CAB

Mr. MAURER. Senator, you stated it very well. The Congress has given to the CAB both the duty and the appropriation to perform this function, and what I am saying is let's not duplicate the appropriation and the responsibility by giving it to two people. If the CAB has it, let us not also tell the GSA that they should do it and give them the appropriation.

On the other hand, if there is a situation where the GSA as a large purchaser of transportation feels that the rates which are being charged are discriminatory from the standpoint of the Government, let us say that because of the Government's tremendous volume of use, it should be entitled to lower rates in particular fields or with respect to particular commodities, and then by all means let the GSA make that presentation to the Civil Aeronautics Board, but don't duplicate the broad rate level things which have been given specifically to the CAB.

Senator MONRONEY. The thing that caught my eye, on page 5, in the middle of the page:

We think that GSA can perform a valuable and constructive service in such proceedings "to present evidence of claimed discrimination against the Federal Government," i.e., to show that the rates, charges, and rate practices applicable to the Government as a user are not fair and reasonable when compared with those applicable to other users.

DISCRIMINATION AGAINST FEDERAL GOVERNMENT

Now, I want to go further than that because I don't think that any rate that is charged to an individual necessarily would be discriminatory against the Federal Government, but if that rate is raised by 25 percent on the individual, or ten percent, then without being discriminatory to the Government, I think somebody would say the Government has a right and should come in and say, we don't like this rate increase, not to go in and duplicate and parallel the fact that it is being made on the books of the company by the CAB.

Mr. MAURER. I think if you just look one paragraph further, Senator, you will see the type of evidence I am arguing, and which the TAA says should not be duplicated, and that is this very voluminous evidence on the general rate proceedings, on cost of capital, earnings on common stock, capital structures, effects of inflation on financing, how to properly evaluate property. On virtually every one of these we find a contest both by the staff of the CAB and another contest by the GSA, and the point we tried is simply that we have a duplicating effort here which is costing the Government and the taxpayer a lot of money and which is one of the contributors to this delay of administrative process which we are all trying to cure.

Senator MAGNUSON. Well, of course, it is a little more than that. Mr. MAURER. Certainly. I stated it simply.

Senator MAGNUSON. A little more than that. You fellows don't like to have to fight two adversaries in there. That is the answer. And if your case is right, you are going to come out all right, but there is no use having duplication.

This is off the record.

(Discussion off the record.)

(Mr. Maurer's prepared statement follows:)

STATEMENT OF R. S. MAURER, VICE PRESIDENT AND LEGAL SECRETARY, DELTA AIR LINES, INC., ON BEHALF OF THE TRANSPORTATION ASSOCIATION OF AMERICA

My name is R. S. Maurer. I am vice president, legal secretary, and a director of Delta Air Lines, Inc., with general offices located in Atlanta, Ga.

My background in aviation includes service in the General Counsel's Office of the Civil Aeronautics Board, 18 years in the scheduled air carrier industry, and active membership on the Aviation, Public Utilities, Administrative Law, and International Transportation Committees of the American and Federal Bar Associations.

Today I am appearing before your subcommittee to express the views and state the position of the Transportation Association of America on the budgetary needs of the Transportation and Public Utilities Service of the General Services Administration (GSA) for appearances before Federal and State regulatory agencies.

I

For the information of the subcommittee, TAA is a nonprofit research and educational institution made up of users, investors, and carriers of all modes of transportation. TAA is exclusively engaged in the development and implementation of sound national policies aimed at the creation and maintenance of a balanced and economically sound transportation system under private ownership and operation.

All policy positions developed by the association are studied carefully by eight permanent committees, or panels, composed of representatives from users, investors, and air transport, freight forwarder, highway, oil pipelines, railroad, and water carriers. These panels, as in the case of the position stated on behalf of TAA today, make individual recommendations to the 100-man TAA board of directors which then takes final action.

I would like to add that Mr. C. E. Woolman, president and general manager of my company, is currently serving as chairman of the air transport panel of TAA.

II

Within the last year, TAA has taken a deep interest in the problem posed by the GSA appropriations here under review; namely, the extent to which the executive branch of the Federal Government should participate as a party litigant in proceedings pending before Federal and State regulatory bodies charged by law with responsibilities over the common carrier transportation industry.

TAA has long pointed to the vital need for a balanced transport policy which would afford to all users of transportation the facilities of an economically sound transport system, with each mode—whether air, rail, highway, pipeline, or water—offering particular advantages to meet varying needs.

TAA has frequently pointed out that the Federal regulatory structure now in effect makes it virtually impossible to achieve a unified Government approach to transportation, tending to encourage various transport agencies to work at cross-purposes. In our judgment, the trend of GSA's participation in such matters is serving to aggravate rather than alleviate this condition.

Such conflicts of interest were recently highlighted in an address by George P. Baker, professor of transportation, Harvard Graduate School of Business Administration and president of TAA, before the National Defense Transportation Association, in which he summarized as follows:

"The fact that there is less coordination within the Government than there could be is a very dangerous condition where the various Government actions

can have such an important effect on the health of the industry as a whole. The Army Engineers favor no tolls on the waterways, the Secretary of Commerce favors them; the Civil Aeronautics Board and the Interstate Commerce Commission appear to favor, in general, the consolidation of properties to give greater strength to the transport system for which they feel some responsibility. The Department of Justice appears to look upon any kind of merger with a most suspicious eye. The Interstate Commerce Commission appears to be properly concerned with the overall health of the transportation system, while the Postmaster General, the General Services Administration, and the Military Air Transport Service appear to consider their main purpose the purchase of transportation at the lowest possible cost. *It is not uncommon to find one of the Government departments considering itself more capable of figuring out the broad public interest than the body to whom that specific responsibility has been given by the Congress.*" [Emphasis added.]

It is in the light of this background that the panels of TAA in 1960 addressed their attention to the increasing criticisms and objections to GSA presentations in transportation proceedings at both the Federal and State levels. The subject was fully explored and culminated in the support by six TAA panels with the other two panels, the railroad and freight forwarder panels, not opposing, for the following policy position approved by the TAA board of directors approximately 1 month ago:

"The governmental responsibility for protecting the interests of the general public in the regulation of rates, charges, and rate practices of transportation and utility companies is exclusively that of appropriate Federal and State transportation and utility regulatory bodies, and not that of any executive department, commission, board, bureau, office, agency, or administration in the executive branch of the Government, hereinafter referred to as 'executive agencies.' Unless specifically directed by law to represent the interests of a nongovernmental group, no Federal executive agencies should intervene before any State or Federal regulatory body in such matters except where specifically requested to testify by the regulatory body and except, further, to present evidence of claimed discrimination against the Federal Government as a user of such services. Any further or additional participation or encroachment by executive agencies on such rate functions specifically delegated to the independent regulatory bodies by Congress constitutes dilution of responsibility, unwarranted waste and duplication of effort."

It will be noted that our concern pertains to the regulation of rates, charges, and rate practices under regulation and the activities of many divisions of the executive branch of the Federal Government, including GSA, in such matters. Accordingly, this is why TAA wishes to place before this subcommittee its views on this subject as they pertain to the fiscal 1962 appropriations for GSA.

III

In the interest of conserving the time of this subcommittee, I will comment only briefly on some of the more important reasons warranting a reduction of appropriations for GSA at this time. The issue of GSA's participation in regulatory proceedings has been before the Congress for many years, with the pros and cons documented on both sides in great detail. Broadly speaking, GSA has intervened in four types of cases, including (1) general rate increase cases, (2) cases involving specific rates for the Federal Government, (3) applications for certificates of convenience and necessity, and (4) miscellaneous cases concerned with rules and regulations.

TAA's primary concern centers on GSA's participation in the general rate increase cases. While GSA has sought intervention ostensibly on behalf of the Federal Government as a consumer or user, its participation, once formally authorized, has broadened to encompass the level of rates applicable to all shippers or users. In short, GSA's presentations are concerned with protecting the general public interest, a mandate assigned to the regulatory agencies by Congress and State legislatures.

First, let me emphasize that we fully recognize the standing of GSA to participate as a party litigant on behalf of the Federal Government as a consumer in rate proceedings. We do not wish to challenge the participation of GSA in this representative capacity. We think that GSA can perform a valuable and constructive service in such proceedings "to present evidence of claimed discrimination against the Federal Government," i.e., to show that the rates, charges, and

rate practices applicable to the Government as a user are not fair and reasonable when compared with those applicable to other users.

There seems to be little, if any, doubt, however, that the presentations of GSA in rate proceedings have gone far beyond this scope and regularly have presented evidence and argument with respect to such basic regulatory policies as the cost of borrowed capital, proper earnings on common stock, proper capital structures, overall earnings, including a fair rate of return, effects of inflation on financing, the type of valuation of property to be employed and the items of property to be included in such valuations, appropriate depreciation practices, tax treatment of carrier transactions, and the handling for ratemaking purposes of general expenses of normal corporate activity.

It is true, of course, that such considerations affect the public interest outcome of such proceedings. It is equally clear, however, that the basic duty and responsibility in such areas are granted to and imposed on the regulatory agencies by Congress and the State legislatures. Thus, we see no justification for the appropriation of public funds which will permit, and indeed encourage, one agency of Government, GSA, to impose itself as an advocate into areas of overall regulatory policy chargeable to another arm of Government, when such participation is far removed from a legitimate interest as a consumer.

Moreover, history amply demonstrates that this subcommittee has, on several occasions over the years, expressed its concurrence with such separation of functions, culminating in the following clear-cut directive to GSA stated in the report of the Senate Appropriations Committee on the agency's fiscal 1959 appropriations:

"In short, a proper interpretation of the standards of the Federal Property and Administrative Services Act calls for a course of conduct in connection with appearances before such bodies which seeks to assure that no disproportionate rate burden is placed on the Federal Government and that the particular interest and requirements of the Government as a consumer are made known. Question of overall earnings, rate of return, and adequacy of service should be left to the Federal and State regulatory agencies, as clearly intended by the Congress and State legislatures when the statutes establishing these agencies were passed."

The report of such committee accompanying its recommendations on GSA's 1961 appropriations once again voiced concern about the continued duplication by GSA of regulatory agency activities and requested a reappraisal of the propriety of such function. Suffice it to say that, all protestations to the contrary notwithstanding, the hearings recently concluded before the House Independent Offices Subcommittee and other public records disclose that GSA has continued to address itself to broad policy areas reserved to the agencies in question. If this is true as the record clearly indicates, your subcommittee, Mr. Chairman, should take immediate steps to foreclose the GSA, once and for all, from usurping and duplicating such spheres of responsibility.

IV

In addition to the existence of jurisdictional conflicts, GSA's entry into such broad policy areas is a wasteful expenditure of money and manpower and tends to prolong already time-consuming and costly proceedings. On the Federal level, this subcommittee is fully aware of the existence and expertise of the highly competent staff members associated with the regulatory agencies. For example, such overlap is particularly evident at the Civil Aeronautics Board, before which I have personally practiced for many years by reason of the participation in rate proceedings as a party litigant of CAB counsel, analysts, and consultants.

Such CAB representatives of the public interest, for example, participated "tooth and toenail" in the recent general passenger fare investigation, as characterized by Chairman Alan Boyd in the House Appropriations Subcommittee hearings 3 months ago. Nevertheless, 5 attorneys and 3 witnesses appeared for GSA in this case, presenting an 80-page brief to the hearing examiner on broad and fundamental policy questions.

We also think it highly significant that in that proceeding, which consumed more than 4½ years from the date of origin to the date of final agency decision, GSA was the only party to the proceeding which opposed any fare increase. Such singleness of purpose is at complete odds with the statutory responsibility resting on the CAB to promote the sound and economical development of an air transportation system.

GSA's presentations in broad policy areas have not been limited to the air transportation field. For example, GSA urged the Interstate Commerce Com-

mission to abandon its consistent use of operating ratios as a test of reasonable earnings in the motor carrier field. Similarly, GSA has appeared before the Federal Maritime Board on basic policy questions despite the use by the latter of special counsel on its staff to appear in the public interest. Such invasion of policy areas has also been practiced by GSA before State regulatory bodies.

In short, we believe that some effective means must be employed to restrict GSA's representation to its legitimate interest as a user of transportation. If GSA contends that such activities are needed to remedy the deficiencies staffwise of the regulatory agencies themselves, we submit that the proper course of action would be to strengthen such agencies rather than to acquiesce in or encourage executive branch takeover.

V

The record also seems clear that GSA's participation in such proceedings before Federal and State regulatory agencies reflects an upward trend which needs to be arrested. For example, the House Appropriations Subcommittee was advised in April 1961 that GSA participated in 34 such cases in fiscal 1960, which is almost a 20-percent increase over the 29 cases in fiscal 1959. During the same 2 years GSA experienced a 20-percent increase in the number of new transport proceedings entered. The agency further asserted that "It is anticipated that our participation in such proceedings will continue at a comparable rate in fiscal year 1962."

In view of the foregoing, we feel that the growing intervention by GSA in such cases makes it all the more mandatory that the scope of such intervention should be limited to a showing of claimed discrimination against the Federal Government as a user of transportation services.

VI

Finally, we are impressed by the growing number of divergent interests in industry and Government which are becoming highly critical of GSA's activities. Carriers and utilities alike, as well as the U.S. Chamber of Commerce, are practically unanimous in their objections to the overstepping of GSA into the broad realm of regulatory policy.

In addition, we regard as highly significant the November 1960 resolution adopted by the National Association of Railroad and Utilities Commissioners, an association of the representatives of both Federal and State regulatory bodies. The considered action of NARUC parallels in essence the position of TAA in urging, by resolution, that "GSA should make only such studies and adduce such evidence as is necessary to assure that a Federal agency is not discriminated against in terms of quality, kind, or charges for service." Your subcommittee should give substantial weight to this unity of position expressed by carriers, users of transportation, and regulators alike.

Accordingly, TAA respectfully urges your subcommittee to support a rider to the GSA appropriation measure for fiscal year 1962 which will preclude the use of any such appropriations for the preparation and presentation, in Federal and State regulatory rate proceedings affecting transportation, of evidence or argument on the nondiscriminatory issues therein.

This completes my statement, Mr. Chairman, of the TAA position on this difficult policy now facing your subcommittee. We are hopeful that the Congress will take positive action to identify the proper and improper nature of GSA's future participation in proceedings affecting this Nation's transportation system which is so vital to our domestic commerce and national security.

Senator MAGNUSON. Now, Mr. Flint, do you want to put your statement in the record?

Mr. FLINT. Yes, sir, Mr. Chairman.

CHAMBER OF COMMERCE OF THE UNITED STATES,

STATEMENT OF SAM H. FLINT, REPRESENTATIVE

PREPARED STATEMENT

Mr. FLINT. Mr. Chairman, I would like to submit my statement.

Senator MAGNUSON. We will put it in the record in full, because it contains some actual experiences.

(The statement referred to follows:)

My name is Sam H. Flint. I appear today on behalf of the Chamber of Commerce of the United States. I am a member of the chamber's transportation and communication committee and also of its special subcommittee appointed to study the activities of the General Service Administration in regulatory rate matters.

My business occupation is general traffic manager for the Quaker Oats Co. in Chicago. In this capacity, my associates and I frequently participate in proceedings before regulatory agencies dealing with transportation ratemaking. My past experience includes 7 years with a State regulatory commission. I have also served as president of the Association of Interstate Commerce Commission Practitioners and at present I am chairman of the Special Advisory Committee on Improvement of Interstate Commerce Commission Practices and Procedures, a group created by the ICC to assist in the Commission's program of self-improvement. From this background, I feel I have acquired some knowledge of regulatory agencies, both Federal and State, which should permit me to make a contribution to this discussion of the General Services Administration's activities before regulatory agencies.

I will limit my comments to that section of the General Services Administration's proposed budget dealing with the transportation and public utilities service section. We in the national chamber, after careful study of this activity, are asking that this function be sharply limited and that the appropriation for it be significantly reduced for the 1961-62 period.

We are hopeful also that this committee will see fit to issue directions to GSA which will define the limits beyond which its representatives should not go in performing this function.

It is my personal view, and the view of the chamber committee which studied this matter, that there exists a proper role for GSA in representing Government agencies before the State and Federal regulatory bodies. However, as in many things of this character, it is a function which requires continual surveillance in order to forestall undue expansion of authority and wasteful duplication of effort without any corresponding benefit to the public.

It is our basic position, therefore, that the responsibility for protecting the interest of the public, including the Federal Government, in the regulation of rates and practices of transportation and utility companies is exclusively that of appropriate Federal and State regulatory bodies. No other Federal agency should intervene before these regulatory bodies except to present evidence relating to the peculiar interest of the Federal Government as a user of these services or of claimed discrimination against the Government. An expansion of GSA's function beyond these limits constitutes dilution of responsibility, unwarranted waste, and duplication of effort.

I would like to discuss various aspects of this policy, particularly the important role which we feel GSA can play without usurping regulatory prerogatives.

In the last several years, GSA's transportation and public utilities service has expanded its staff and increased its budget substantially. Its presentations have assumed the prerogatives of the regulatory agencies and have dealt with broad regulatory policy questions. It has taken strong adversary positions in transportation cases while admitting it has no obligation to the national transportation policy which the regulatory agency is required to observe. These presentations thus are far removed from the role we feel Congress intended; i.e., representing the peculiar needs of the Federal Government and submitting evidence to assure that the Government is not discriminated against in terms of rates or services.

The term "discrimination" is used in its usual and broad sense, to indicate that the rates charged the Government should bear a fair and reasonable relationship to rates charged others for like or comparable services or facilities.

The improper role of GSA in these cases is best proven by the fact that numerous individual State public utility commissions have publicly condemned its practices. The national organization to which these commissioners belong, the National Association of Railroad and Utilities Commissioners, in session last November adopted a resolution critical of the GSA practice of participating as an adversary and adducing evidence on such issues as items to be included in rate base computation—views on appropriate rates of return—cost of capital—valuation of utility properties—and other highly technical matters

which duplicate the information usually developed by the regulatory commission and other intervenors.

It might be observed here that the Department of Agriculture, although represented by GSA to the extent the Department itself is a user of transportation and utilities services, also participates in transportation rate negotiations and litigation on behalf of the farm interests. It now, however, generally confines its presentations to the peculiar interests of the arm economy.

It is interesting to note that GSA represents all the various agencies of Government in rate matters except the Department of Defense, and to the extent mentioned, the Department of Agriculture. The DOD performs this service for itself and I understand that the policy it follows in these matters is in line with the recommendation of the utility commissioners and not that of GSA.

In justifying its past actions, GSA has argued that without its participation, the regulatory agency would not have developed adequate information upon which to base a sound decision. From my personal experience as a former member of a regulatory commission and as a transportation manager for a company that spends many millions of dollars per year for the movement of property and persons, I cannot agree.

Staff members of regulatory commissions have essentially two broad spheres of activity: (1) day-to-day continuing study, auditing and inspection of the operations of carriers and utilities, and (2) special duties analyzing presentations by carriers and utilities and participating in hearings.

Numerous reports are submitted at stated intervals by carriers and utilities pursuant to the rules of the Commission. These reports, required by both State and Federal agencies, show such information as the operating results of the companies, capital expenditures, volume of business, and financial results. Study and evaluation of such reports are accompanied by audits of the companies' books and field inspections of plant and equipment. Some commissions have a full-time auditor assigned to the books and records of each company under their jurisdiction to see that all revenues, expenses, and capital investments are correctly entered on the books and records kept pursuant to a prescribed accounting system.

When formal proceedings occur, staff personnel analyze testimony and exhibits submitted by companies and develop reports on such material. These reports serve as the basis for cross-examination of company witnesses and presentations by witnesses in behalf of the regulatory staffs. Of course, in every case, Commission staffs will not necessarily cross-examine and present evidence. They will, however, make sure that a full and complete record is developed on essential matters of regulatory policy. Many statutes, including the Interstate Commerce Act, provide for such participation and from my experience it occurs if the record is deficient.

It is thus apparent that if GSA is to participate in such proceedings without duplicating the work of the regulatory agency, it must restrict its studies to the fairness and reasonableness of rates charged for Government shipments and utility services as compared with those of other shippers and users. If GSA branches out into the study and evaluation of overall earnings, property used by the companies, and their operating expenses, it is duplicating the work of Commission staffs.

There can be no doubt that in the past it has done just this because of its presentations before regulatory commissions. The chamber made a lengthy study of these presentations in a report issued in November 1960, and in a subsequent review dated February 1961, which was occasioned by GSA's criticisms of the November report. I would like to submit all three of these documents with my statement—the two chamber publications and GSA's criticisms. I think these studies will show that records are available to prove that GSA has urged regulatory commissions to depart from the established regulatory policies of the Commission; that it has even urged a commission to depart from its statutory instructions as to the valuation of a utility's rate base. Also, notwithstanding GSA's statement that it changed its policy in 1957 relative to the introduction of fair rate of return testimony, the records show that its witnesses testified that cost of capital is the minimum fair rate of return, if not the fair rate, and its lawyers argue that this is the maximum which should be permitted. I think these studies also show clearly that GSA is duplicating the work assigned by Congress and State legislatures to the respective regulatory bodies.

From my own experience, I know that it is extremely rare for a shipper or

user to appear before regulatory agencies with respect to such basic matters of regulatory policy as rate bases or rate of return. Industry instead realizes most of its transportation savings from planning the most efficient use of transportation, astute selection of manufacturing and distribution points, and from negotiations with transportation agencies, subject of course to regulatory control. Generally speaking when industry becomes involved in litigation before a regulatory agency, its presentation will be directed toward the fair treatment of one location, one area, or one commodity as opposed to another location, area, or commodity.

I know this has been the experience of my own company. We leave it to the regulatory agencies to determine the overall earnings that carriers and utilities must have if the United States is to continue to have a privately operated, efficient transportation system. We have, however, sought to assist regulatory agencies by pointing out, for instance, that a reduced rate for a given commodity will stimulate traffic in that commodity and thereby increase revenues whereas an increased rate may retard traffic and depress revenues.

This is the role that the chamber contemplates for GSA. From GSA's presentations before this committee, it is apparent that its real savings to the Government have come from negotiations and litigation designed to obtain special rates for Government shipments. It cannot point to any actual savings from its lengthy presentations on overall regulatory policy. Its representatives conceded this fact during hearings on its 1960 appropriation.

Incidentally, GSA's success in obtaining special rates for Government shipments renders even more anomalous its activities with respect to the overall earnings of transportation agencies. Section 22 of the Interstate Commerce Act permits the transportation agencies to afford the Government special reduced rates on any and all traffic without regard to the regulatory controls which apply to commercial shipments. In 1958 the Supreme Court held in *California Public Service Commission v. United States* (355 U.S. 543), that a law of California was unconstitutional insofar as it required California commission approval of less than tariff rates negotiated by the Federal Government with motor carriers.

GSA takes full advantage of this exemption and on a substantial portion of Government traffic it pays less than the commercial rates. There are many users of transportation and students of transportation who feel that the depressed rates on Government shipments are a factor contributing to the unsatisfactory earnings of the transportation agencies generally.

In any event, when evaluating the GSA's presentations with respect to overall earnings, it should be recognized that the Government does not pay, on a major part of its traffic, the rates which GSA is trying to hold down.

To me this entire proposition can be reduced to these simple alternatives: (1) Success by GSA in its opposition to rates required by State and National policy could be contrary to the obligations of regulatory commissions to assure safe and adequate service at reasonable rates, or (2) failure by GSA to convince commissions to adopt GSA's concepts would show that the presentations were wasteful of manpower and money.

Criticism of the General Services Administration, because of its procedures before regulatory agencies, has been widespread. Many national organizations have publicly condemned the practice. They range all the way from the regulatory agencies themselves, as mentioned, to include the users of the utilities services and the utilities themselves. The national chamber is aware of the basic inconsistencies involved in the GSA position. We know, too, from our study that the national transportation system is in serious financial trouble today. Many experts are forecasting calamitous results in the years ahead if changed conditions are not realized. Last year, the First National City Bank of New York presented a study covering 220 transport common carriers of all types and found the average rate of return was only 2.9 percent. A similar study of over 2,000 manufacturers of all types showed a contrasting rate of return of 10.5 percent. In view of the transport industry's situation, GSA's rate practices are especially out of tune with reality and injurious to the Nation's essential common carrier system.

We also know that a characteristic of regulatory proceedings is delay. When important decisions are delayed 6 months or a year, losses can be experienced which are rarely recovered by the companies involved. This deficiency in our

regulatory scheme must be minimized if we expect to encourage innovation and modern technology. GSA's practices have contributed significantly to this delay problem. It invariably opposes rate increases even if all other factors indicate strong justification. Its presentations are usually voluminous and its argument extensive. Much of both duplicates material developed by the Commission and other intervenors.

For these reasons, and in the firm belief that one responsible governmental agency is perfectly capable of adequately protecting the public's interest, we urge that the GSA's Transportation and Public Utilities Service budget be reduced sharply and that it be admonished to limit its participation in these cases in the same fashion recommended by this committee in its appropriations report issued in 1958 for the budget period 1958-59. The committee's language urged: "In the opinion of the committee, GSA should act in such proceedings to protect the interests of the Government's executive agencies as users of such utilities, without interfering with the functions of the regulatory bodies before whom they make appearance."

SPECIAL STUDIES

Mr. FLINT. Along with it I would like to submit two studies which were made by the Transportation and Communications Committee of the Chamber of Commerce of the United States, plus an evaluation by GSA of the studies. If you would like, I could summarize briefly.

Senator MAGNUSON. Just summarize briefly because we are getting late here. I wouldn't suggest this if we didn't have so much information and such a big background on this one particular matter.

(The information referred to follows:)

GENERAL SERVICES ADMINISTRATION
IN REGULATORY RATE PROCEEDINGS

A Report by the Transportation
and Communication Department of the
Chamber of Commerce of the United States

NOVEMBER 1960

THE NATURE AND SCOPE OF THE TRANSPORTATION AND
UTILITY ACTIVITIES OF THE GENERAL SERVICES ADMINISTRATION

The General Services Administration was set up, and its functions defined by, the Federal Property and Administrative Services Act of 1949 commonly known as Public Law 152. Section 201(a) of that Act, with certain exceptions, gives the Administrator general power over, and responsibility for, government procurement, warehousing, and such related functions of property management as inspection, transportation and traffic management, and management of public utility service. It reads, in part:

"201 (a). The administrator shall, in respect of executive agencies, and to the extent that he determines that so doing is advantageous to the Government in terms of economy, efficiency, or service, and with due regard to the program activities of the agencies concerned.

* * * *

"(4). with respect to transportation and other public utility services for the use of executive agencies, represent such agencies in negotiations with carriers and other public utilities and before Federal and State regulatory bodies."

After GSA's first ten years of operations, sufficient facts have become available to show the nature and scope of GSA's activities under this provision of law, its policies underlying these activities and the reaction of Congressional committees and regulatory agencies to those policies and activities.

This memorandum is divided into seven sections, each of which is now summarized.

SUMMARY

1. While the legislative history of Section 201(a)(4) is not extensive, Congressional hearings definitely show that GSA's activities before regulatory agencies were to be for the purpose of securing reasonable rates and services for a particular commodity or service and were not intended to encompass the litigation of over-all earnings levels or rate structures of carriers or utilities.

2. Data on GSA's appropriations, for its transportation and utility service, number of employees and case load reveal a constant pyramiding of activities. From 21 employees and an appropriation of \$133,000 in 1950, GSA has expanded currently to about 247 employees and expenditures of \$2,375,000. Its case load has increased from 3 cases in 1950 to 46 "major" cases and 17 protests to carrier committees, as shown by the Appendix.

3. The extreme nature of GSA's opposition to general rate increases during the inflationary aftermath of World War II can be found in both transportation

and utility cases. This antagonistic position has been in derogation of State and Federal legislative policy to allow revenues necessary to cover added costs of operation and to preserve the financial integrity of these industries so that they may serve the public.

4. There is no obligation or duty on the part of GSA to oppose general rate increases for the mere sake of opposition or solely to resist possible increases in the cost of certain government agencies. On the contrary, the law does not establish GSA as a public defender, bound to represent the general public.

5. Regulatory agencies have condemned the unlimited participation of GSA in regulatory matters as a misconception of the GSA's proper function, resulting in wasteful duplication as well as being otherwise contrary to the public interest. To these strongly expressed opinions can also be added the authoritative voice of the National Association of Railroad and Utilities Commissioners, an association composed of both state and federal regulatory commissioners.

6. GSA has variously depicted to Congress the role it plays before regulatory commissions. On the one hand it represents that regulatory agencies are cast in the role of judges, without staffs, who approve any request of carriers and utilities for rate increases if it, GSA, does not intervene in opposition. From this premise, GSA then portrays itself as the only opponent to increases in fares and rates and that its mere appearance before regulatory agencies results in substantial savings to the Government.

7. There are proper functions for GSA which can be performed without a wasteful duplication of the regulation of transportation and utility companies by regulatory Commissions specially entrusted with the administration of national and state legislative policies.

1.

LEGISLATIVE HISTORY DOES NOT SHOW THAT CONGRESS INTENDED
GSA TO BECOME A REGULATORY OVERSEER

The General Services Administration was set up, and its functions defined by, the Federal Property and Administrative Services Act of 1949. Section 201(a) of that Act gives the Administrator general power over, and responsibility for, government procurement, warehousing, and such related functions of property management as inspection, transportation and traffic management, and management of public utility service.

The legislative history of this Section 201(a), though not extensive, is subject to the conclusion that Congress meant to legislate in accordance with the recommendations of the "Commission on Organization of the Executive Branch of the Government" (Hoover Commission) and that the Hoover Commission did not intend that representation before regulatory bodies should extend to litigation of overall earnings levels of carriers and utilities. The legislative history also shows that the men who would administer the program expressed the same opinion as the Hoover Commission.

The history of GSA begins with the Bureau of Federal Supply created by Executive Order 6166, promulgated pursuant to the Reorganization Act of 1933. This order lodged the responsibilities subsequently to be performed by GSA in the Procurement Division (later renamed the Bureau of Federal Supply) of the Treasury.

For perhaps a variety of reasons, Executive Order 6166 did not result in the hoped for efficiency and economy of centralized property management, and on March 5, 1948, the President requested Congress to coordinate all property procurement, disposal and management functions at one central point, preferably the Federal Works Agency. Hearings were held during 1948 on such legislation by the Senate, but it progressed no further than a favorable report by the Committee.

Similar bills were introduced in 1949. Early in Senate hearings, Senator McClellan, Chairman of the Senate Committee on Expenditures in the Executive Department, asked Mr. Clifton E. Mack, then Director of the Bureau of Federal Supply, whether there were any fundamental differences between the 1948 and the 1949 bill. Mr. Mack pointed only to Section 102(a)(4), forerunner or present law, reading as follows:

"(4) Advise all executive agencies on traffic management and as to reasonableness of carriers' rates and charges, and represent all such agencies in negotiating rates and charges with carriers and in proceedings involving carriers' rates and charges before Federal and State regulatory bodies."

The addition of this subsection was undoubtedly due to the appearance in early 1949, of the Hoover Commission reports, which recommended that an "Office of General Services" be created to handle generally four duties regarding traffic management. The accompanying Task Force report, on which these recommendations were based, stressed that the problem was that Government shipments often went at rates higher than necessary due to their special nature and that the solution was to create an agency with the duties recommended. The Task Force stated:

"Annual charges paid by the Government for the transportation of property exceed 1 billion dollars which is nearly one-tenth of the revenue of common

carriers for the transportation of property. Government property and its channels of movement differ materially from the commercial traffic for which carrier tariffs have been constructed.

"Most of the traffic personnel in the Federal Government are auditing transportation bills. Only a very few employees are engaged in activities aimed at improving traffic management and reducing costs. Agencies having well-developed traffic organizations have demonstrated that substantial savings can be achieved if attention is devoted to this problem. The Reconstruction Finance Corporation, for example, effected savings of 17 million dollars on its wartime traffic with an average annual salary expenditure of \$200,000."

There was no suggestion in the Hoover Report (and it was a detailed report) that one function of the central agency should be to litigate a carrier's overall earnings level before regulatory commissions. Rather, the primary job of the central agency would be to obtain and correlate shipping information required for the negotiation of lower rates for Government shipments.

During the Senate hearings, Mr. Mack in explaining the meaning and significance of Section 102(2)(4) brought out three primary points:

First, Mr. Mack indicated that the Bureau would, under the statute as part of the Federal Works Agency, standardize and be responsible for the overall traffic policy of the Government. He also said, in response to a question from Chairman McClellan, that the contemplated program would be mandatory "except for a few specific exemptions"; in other words, the various agencies would not be free to elect or decline the services of the Bureau as they saw fit.

The second point was in regard to the contemplated representation of agencies. Both Mr. Mack and Mr. Hayghe, then Chief, Central Traffic Division, Bureau of Federal Supply, indicated that this task would consist of attempting to obtain rates that were reasonable in terms of the specific shipment involved. Neither man mentioned that challenges would be made of the carriers' overall earnings levels by litigating such factors as rate of return and cost of capital.

The third and final point made was that the Bureau of Federal Supply was at that time engaged in handling traffic management for other agencies on a relatively limited scale. (Hearings S. 990 and S. 959, Committee on Expenditures in Executive Department, U. S. Senate, April 14, 1949, pp. 48-55)

Thus, Senate hearings clearly indicate that Congress' intent was to legislate in accord with recommendation of the Hoover Commission which made no mention of general rate case activity.

Prior to commencement of the hearings in the House, counsel for the House Subcommittee and for the Federal Works Agency agreed to amend Sec. 201(a)(4) so as to make the section also applicable to "other public utility services."

The only relevant testimony about this change during the House hearings was this exchange between Representative Holifield and Mr. Maxwell Elliott, Acting General Counsel of the Federal Works Agency:

"MR. ELLIOTT. I might mention one (change) in this section (Sec. 102) that has been suggested. It is not really a substantive change but might appear to be.

"That is in clause four with reference to transportation and traffic management. The suggested change would have it relate to transportation and other public utilities services.

"MR. HOLIFIELD. What page is that, please?

"MR. ELLIOTT. That, sir, is on page 9, and it is a substitute clause, beginning on line 15. The new wording is not actually a substantive change, because the Bureau of Federal Supply now under executive order 6166 does perform such functions respecting public utility services for the government generally, but it was thought better by the Bureau of Federal Supply people and counsel for this committee and ourselves to spell it out again in this act, so that it would all be in one package. But even if it were not spelled out, it would continue to be in effect as an existing function of the Bureau of Federal Supply."

On the floor of the House the only reference to Section 201(a)(4) was made by Congressman Holifield, just before the vote. He pledged that his subcommittee would, after the GSA had had some operational experience, review its functions.

On the floor of the Senate there was virtually no discussion of the bill. However, three amendments were proposed and accepted. One of these, by Senators Reed of Kansas and Myers of Pennsylvania, struck out the references to traffic management in Section 201(a)(1) and the references to carriers and transportation in Section (a)(4). This was accepted without debate or explanation.

The bills then went to Conference Committee, which accepted the version of the House, including Section 201(2)(4). The Conference report stated:

"The Senate conferees receded from the Senate amendment which deleted references to transportation and traffic management in section 201(a) and which in section 502(b) provided for the continuance of transportation and traffic management functions under Executive Order 6166. The provision of section 201(a) of the House bill with respect to transportation and traffic management are in accordance with the Recommendations of the Commission on Organization of the Executive Branch of the Government (Hoover Commission) and provide clear authority on this subject."

Thus, legislative history of section 201(a)(4) is not extensive. Nor is it as explicit as might be desired. However, regarding the representation of other agencies in negotiations and before regulatory bodies, the Senate hearings leave the impression that the intended function was to secure for the Government the most desirable rates in terms of the type and amount of commodity involved

without attacking the existing overall rate structure or earnings level. Further, the same conclusion can be drawn from the various Hoover Commission reports, and there is evidence that the bill as enacted was meant to embody the Commission recommendations in this area.

This legislative history takes on added significance when viewed against the refusal of Congress, on two separate occasions to allow predecessors of GSA to interfere with the regulatory processes of state and federal agencies. In World War II the Economic Stabilization Act of October 2, 1942, and its amendments, established the Office of Price Administration. Although that agency had no regulatory authority over public utility rates, public utility companies and common carriers were required to give the Federal Government advance notice of proposed general rate increases and were required to consent to OPA intervention before federal, state and municipal regulatory authorities. Pursuant to this authorization, the OPA intervened in many rate cases during the war years.

When price controls were again invoked in the Defense Production Act of 1950, the successor to OPA, the Office of Price Stabilization, was again given authority to intervene, but only in those instances in which rates were being established for utility services which would be resold to the public. In other words the authority was limited in general to the establishment of wholesale rates such as those that a local utility might have to pay a supplier.

During the floor debate on the Defense Production Act in 1950, Senators Hill and Humphrey attempted to broaden the Act to give the OPS blanket authority to intervene in all rate cases, but their amendment was defeated.

In 1951 and succeeding years when amendments were made to the Defense Production Act, Mr. Eric Johnston of the Economic Stabilization Agency and Mr. Michael DiSalle, Director of the OPS requested removal of the limitation on the power of that agency to intervene in public utility rate proceedings. When the General Counsel of the Office of Defense Mobilization made a similar request before the Senate Committee on Banking and Currency in 1951, Senator Bricker commented that such a procedure ". . . proved in the war, I think, to be a very cumbersome and very annoying situation to a lot of the regulatory authorities." (Hearings of the Senate Committee on Banking & Currency on S. 1397, 82nd Cong., 1st Sess., pp. 45,46). Despite the suggestions of this distinguished group of federal regulators, Congress refused to return to the wartime situation in which the OPA had unlimited authority to intervene.

In spite of specific rejection by the Congress of blanket authority to intervene in rate proceedings, Mr. DiSalle in a letter to Senator Maybank on

December 21, 1951, stated that the OPS had the right to intervene in rate cases whether or not it was authorized to do so by Section 402(e)(v) of the Defense Production Act. Thereafter the Senate Committee on Banking and Currency in its report to accompany further amendments to the Defense Production Act proposed that it be unlawful for any funds to be used to intervene before regulatory bodies. To make assurances doubly sure on that point, the Congress wrote into the 1952 amendments a proviso specifically prohibiting such interventions. (50 U.S.C. 2102(e)(v)(2))

This expression of congressional intent was the result of a number of years' experience with federal agency intervention in regulatory proceedings. It is particularly significant that Congress refused to give blanket authority to intervene during the time of a war emergency (Korea) and yet today, just a few years later, the General Services Administration is doing precisely what Congress specifically refused to allow a federal price control agency to do in 1952. Moreover, these Congressional refusals came at a time almost contemporaneous with the passage of the Federal Property and Administrative Services Act of 1949. This should show that Congress meant for GSA to protect only the government's special interests and not to litigate all issues in rate proceedings as a public defender would do.

2.

GSA HAS PYRAMIDED ITS CARRIER AND UTILITY ACTIVITIES

The President's Budget for 1961 estimated that \$2,400,000 would be required for the operation of GSA's "Transportation and Public Utilities Service" during fiscal 1961. This would amount to a nineteenfold increase over GSA's first expenditure of \$133,000 just ten years before.

When GSA began its existence, all traffic and utilities management was centered in a "Division" with an expenditure of only \$133,000 and 21 employees. By 1955, these activities required \$1,037,300 and the "Division" was given the status of a "Service", which in government parlance means increased prestige and salaries. (Hearings House Subcommittee Appropriations, Independent Offices 1957, Part 1, p. 919)

From 1955 to 1957, GSA continued to expand its staff and to receive enlarged appropriations. For fiscal 1957, it received \$1,251,000, \$60,866 of which was earmarked for the first time for public utilities activities as opposed to general traffic management. (Hearings, House Committee Appropriations, Independent Offices, 1959, Part 2, p. 275.) Other increases for public utility

activities quadrupled its budget for 1959-60 and again the status of these activities was elevated. On May 27, 1959, GSA announced a revised organization for traffic and utilities management with a Commissioner in charge of two separate "offices" each now composed of three divisions, as compared with the single original division.

For 1961, GSA sought an appropriation of \$2,400,000 and announced that it expected to have 247 employees on the payroll at the end of 1961. (House Hearings 1961, Part 2, p. 185) The Congress authorized \$2,375,000. The particulars of GSA's nearly doubled appropriation between 1957 and 1961 are as follows:

<u>Activities</u>	<u>1957</u> Actual*	<u>1961</u> Proposed	<u>Increase</u>
Transportation services	\$909,026	\$1,656,600	\$747,574
Public utilities	60,886	228,200	167,314
Service direction	66,561	135,200	68,639
Administrative operations	<u>203,586</u>	<u>380,000</u>	<u>176,414</u>
	\$1,240,059	\$2,399,200	\$1,159,941

The proposed expenditure of \$1,656,600 for transportation services was further detailed as follows:

	<u>1959</u>	<u>1960</u>	<u>1961</u>
Traffic management and program analysis	\$258,150	\$266,000	\$267,400
Negotiations, litigation, and procurement participation	351,670	345,300	347,600
Operational services	<u>998,737</u>	<u>1,028,400</u>	<u>1,041,600</u>
Total cost or estimate	1,608,557	1,639,700	1,656,600

GSA proposed to divide its requested \$228,200 for public utility activities as follows (House Hearings, Part 2, p. 201):

	<u>1959</u>	<u>1960</u>	<u>1961</u>
Public utilities management	\$ 37,763	\$ 40,100	\$ 40,300
Negotiations and litigation	140,396	134,200	134,900
Communications management	--	<u>52,700</u>	<u>53,000</u>
Total cost or estimate	\$178,159	\$227,000	\$228,200

In the public utility field GSA has distributed an amount of about \$125,000 to \$178,000 per year formerly received specifically for litigation before the F.C.C. among the three functions shown above. As to its public utility management, GSA indicates for the first time a differentiation between communication and other utility services. It states that "increased emphasis will be placed in 1961 on assisting other agencies with their special and varied problems requiring gas, electric, water and related public utility services", and that "principal concentration will be on new areawide electric and gas contracts."

*Plus \$11,041 not specifically earmarked (Hearings House 1959, Part 2, p. 275)

In justification of the new classification for "Negotiations and litigation", GSA states that the litigation program in 1961 will be increased. (House Hearings, Part 2, p. 202):

"The litigation program in 1961 will be conducted at an increased level of activity including the proceeding relating to SAGE. There are indications of an increased workload in the regulatory proceedings in the communications field. During 1959, GSA participated in 17 major utility or communication cases of which 6 cases related to the SAGE system. At the end of 1959, 14 rate cases were pending and 3 had been completed during the year. SAGE proceedings are still pending in 6 cases."

GSA has repeatedly stated the criteria for determining the transportation or utility cases in which it will intervene. During the 1961 House Appropriations hearings, Mr. F. W. Denniston, Assistant Commissioner put it in these words (Part 2, p. 210):

". . . As we learn of these cases we review them and if it appears that the Government's bill is going to be increased in any important respect within the limits of the staff availability and depending on the size of the case, we will participate."

Staff availability, of course, depends in part on GSA's appropriations. Congress over the last decade has increased GSA's direct appropriations and GSA, with its authority to transfer funds from other of its activities such as purchases of strategic and critical materials and foreign aid procurement, has further augmented its direct appropriations. For example, 1957 marked the first year GSA asked for a separate appropriation for its transportation and utility functions. Prior to that it had financed these operations by transfers from other budget items. In 1956, it transferred \$1,137,100 and therefore requested as a separate budget item for 1957 \$269,100 more than it spent in 1956 or a total for 1957 of \$1,407,000. (House Hearings 1957, Part 2, p. 921). Congress appropriated \$1,251,100. In successive years, these transfers and supplemental appropriations have been as follows:

	<u>Appropriated</u>	<u>Transfers Sup. App.</u>	<u>Total Spent</u>
1957	\$1,251,000	\$ 5,900	\$1,257,000
1958	1,515,000	151,700	1,666,700 *
1959	1,850,000	179,200	2,029,200
1960	2,000,000	357,200	2,357,200
1961	2,375,000		

*Does not include \$50,000 from President's emergency fund.

The limited facts available indicate that GSA's interventions continue to increase although it currently has a relatively small number of cases on its docket considering its request for the largest appropriation in its history. In 1957 there were 17 major transportation and 9 utility cases in which GSA was

participating. (House Hearings 1958, Part 2, p. 1122-23). During 1958 GSA participated in 50 transportation and 16 utility cases (House Hearings 1959, Part 2, p. 304; 1960 Part 2, p. 1326-28). During 1959, it participated in "29 major rate case proceedings before Federal and State regulatory bodies" involving carriers and 17 cases involving utility or communication companies. (House Hearings 1961, Part 2, pp. 191, 202, 210). A list of certain cases in which GSA is interested is attached as an Appendix.

With a total of about 50 people in negotiation and litigation work in both the transportation and utility fields, GSA will be in a position to carry out its plans for increased activities in 1961. (House Hearings, 1961, Part 2, pp. 190, 201, 203, 208, 209, 210).

3.

GSA HAS TAKEN AN EXTREME ADVERSARY POSITION WHEN
INTERVENING BEFORE REGULATORY AGENCIES

The extreme nature of GSA's opposition to general rate increases during the inflationary aftermath of World War II can be found in both transportation and utility cases. This antagonistic position has been in derogation of State and Federal legislative policy to allow revenues necessary to cover added costs of operation and to preserve the financial integrity of such industries so that they may serve the public.

An illustration of GSA's policies comes from one of its officials, given in the presence of GSA's Administrator, Mr. Franklin G. Floete. This official, Mr. Edward Mills, Deputy Administrator, was asked by Senator Ellender if GSA dictated to regulatory agencies what rate of return the agencies would allow. Mr. Mills, in answering in the negative, went on to explain,

" . . . We believe that the cost of capital is quite a different figure than rate of return and in these cases before regulatory bodies, be they Federal or State, we do not presume to tell or suggest to the regulatory commission what the fair and reasonable rate of return should be.

"That is exclusively within the jurisdiction of the regulatory body. We do introduce figures and statistics to show what the cost of capital figures may be after allowing for a factor that permits the economic well-being of the company.

"Senator Ellender. Why do you not leave that to the Commission? Why would you even suggest it?

"Mr. Mills. These are the only ways that rate of return cases can be tried, as we understand it, so we endeavor to put in what we regard as a minimum or floor figure to establish a range within which the rate of return can be determined by the regulatory body.

"Obviously, the high side of the range would be what the public utility company pleads for and the low figure in the range would be what the Government or the municipality or county or State may introduce in evidence." (Hearings Senate Subcommittee on Appropriations, Independent Offices, 1959, p. 391-392)

By these words, GSA reveals the nature of its activities. It should know that its "low figure" for rate of return will probably be rejected. Its evidence places one governmental agency on record as urging another governmental agency to depart from legislative policy to promote sound and efficient transportation and communication systems. It expands Federal money for such objectives when the same money could be utilized towards a better implementation of legislative policy in the regulatory field. Moreover, in several cases GSA, while introducing evidence of a "low figure" on rate of return, has represented to the commissions that such was the highest permissible maximum. ^{1/} And, when the proceedings result in something less than the utility or carrier sought, GSA claims that its efforts alone resulted in vast savings to the Federal Government.

The foregoing reflects GSA's actual activities before regulatory agencies. In the Washington Gas Light Company Case (No. 456, July 22, 1958, 24 PUR (s) (417), GSA introduced testimony before the Public Utilities Commission of the District of Columbia that a fair rate of return was 5.51% (p. 434). This testimony, to the extent that it directed itself to the question of a fair rate of return, duplicated that offered by the Commission's own expert who proposed a range of 6.10% to 6.25% as being fair. The Commission rejected both opinions and found a return of 6.45% as necessary to protect the financial integrity of one of Washington's vital utility services.

^{1/} Contrary to Mr. Mills' statement of GSA's position, its witness in F.C.C. Docket 11645, Vol. 104, p. 9944-45 July 15, 1959, involving Western Union and the Bell System testified that cost of capital and fair rate of return are the same and when confronted with Mr. Mills' testimony quoted on the previous page, stated:

"I disagree with that. I have to, on the basis of my long-time position as an expert on cost of capital and fair rate of return."

Before the Commission of the District of Columbia in No. 1812/56, Formal Case No. 430, May 5, 1954, p. 1312, GSA's witness gave similar testimony, saying:

"The second approach is to estimate each element entering into the computation liberally, resolving all reasonable doubts in favor of the utility company. The result of such a determination is not a bare cost of capital; it is the fair rate of return. I have used this second approach in this case."

Despite these actual occurrences, GSA claimed before the House Subcommittee on Appropriations that it was "successful" before the D. C. Commission in saving the Government \$30,000 per year in its gas bills. This \$30,000 is a part of GSA's claim of total savings in the utility field of \$800,000 per year during fiscal 1959. (Hearings House, Independent Offices Appropriations 1960, Part 2, p. 1338)

Before the Civil Aeronautics Board, GSA took a more extreme position than any other party in resisting any increases in fares for the Nation's airlines. (General Passenger Fare Investigation Docket 8008). Here GSA's position was that it "opposes any fare increase" (p. 5 of Initial Decision of Examiner, May 27, 1959). It argued that the airlines should operate more reduced or coach fare planes and thereby increase their revenues by a volume, second-class service. These arguments for a denial of any increase were contrary to testimony by all witnesses that increases were necessary and to the final decision of the CAB granting increases.

GSA has intervened in all recent cases involving general increases in railroad rates. Its position in all cases except one has been that increases were not necessary.

GSA intervened during January 1960 in its first proceeding before the Federal Power Commission in a case involving Southern Natural Gas Company, Docket No. G-20509. On April 13, GSA's attorney announced that GSA intended to present a direct case on the cost of capital because GSA was not satisfied with the presentation made by the FPC's staff. He further stated: "I personally am not satisfied that the Company's presentation on the question of rate of return has been successfully discredited or rebutted." When GSA's witness appeared on May 10, he stated that his capital cost figure of 5.78% would "satisfy the minimum requirements of a non-confiscatory rate of return. My calculations represent the floor of a range of fair rate of return."

GSA has intervened in many post-war telephone rate cases, assuming on most occasions the most extreme position of any party adverse to the requested increases. In all cases the rate of return urged by GSA was substantially below that generally found to be fair by regulatory commissions throughout the United States.

As a final indication of the position of GSA in this matter of adversary intervention in regulatory matters, there remains the presentation of \$10,000 in so-called incentive awards to GSA employees in connection with a case before the FCC involving certain private line rates of the Bell Telephone System and Western

Union. Here GSA claimed that its activities resulted in rate reductions far beyond its expectations.

The questionableness of these awards lies both in the facts upon which they were based and in the hazard which they pose for a continuance of orderly regulatory processes. A premium has seemingly been placed upon flat opposition to rate increases in the hopes of obtaining an award.

First, the facts. The FCC, and not the GSA, instituted a general investigation of the rates for private line telephone and telegraph service of the Bell Telephone System and of the rates for leased line telegraph service of Western Union, the only type of private line service it offers. Then the FCC, without the instigation of GSA, ordered both carriers to submit cost data. On December 9, 1957, the Bell System submitted the cost data to the FCC and gave GSA a duplicate copy. This data showed overall earnings from both services of 6.4% but with telephone earnings 11.7% and telegraph only 2.6%. On February 7, 1958, just two months later, GSA utilized this cost data as the basis for a petition to FCC seeking a 25% reduction in the telephone rates, "together with any other appropriate upward or downward adjustments" necessary to bring telephone and telegraph rates into balance.

Before GSA's petition was heard, the Bell System introduced a restatement of its 1955 study which took into account significant financial changes. The restated study showed over-all earnings of 5.4% with telephone earning 10.7% and teletypewriter 1.7%. Western Union's report showed earnings of 1.83% before taxes.

Subsequently on July 25, 1958, the FCC ordered an interim reduction of 15% in private line telephone rates. This amounted to \$5,700,000 based upon 1955 volumes or \$11,000,000 based upon 1958 volumes. Thereafter AT&T sought an interim increase of \$11,000,000 (1955 volumes) in teletypewriter rates and Western Union sought similar increases for its services. Increases allowed AT&T amounted to \$8,400,000 based upon 1955 volumes or \$13,000,000 based upon 1958 volumes. Moreover, Western Union was allowed an increase of \$4,200,000. Thus, based upon 1955 volumes, there were overall interim reductions of \$5,700,000 in telephone rates and increases of \$12,600,000 in teletypewriter and, based upon 1958 volumes, reductions of \$11,000,000 and increases of about \$17,000,000.

In the face of these facts on July 14, 1959 GSA made awards totalling \$10,000 to twelve employees with individual shares ranging from \$200 to \$3,000.

Its citation stated in part:

"For exceptional accomplishment resulting in estimated savings to the Government of more than \$100,000,000 over a ten year period, the twelve employees named above have been recognized by the largest group monetary award ever given in GSA. . . .

". . . The extraordinary efforts of all members extending over a two-year period resulted in rate reductions and consequent savings to the Government far beyond expectations."

In summary, these claims of savings and the granting of extraordinary awards to its employees were made by GSA notwithstanding the fact that the proceeding had been initiated by the FCC and the further fact that the interim rate changes brought about by GSA's petition actually resulted in overall increases of about \$6,000,000 (1958 volumes) to communications users as a whole.

Now as to the implications for all regulatory agencies and all regulated industries. If it is assumed that the giving of incentive awards for savings to the Government may be laudable recognition of effort on the part of Federal employees, why should not the staffs of regulatory agencies be similarly treated? There is no more reason to restrict regulatory employees than GSA employees for diligent efforts to reduce the rates of carriers or utilities.

There is another serious implication. GSA employees are paid to represent Government agencies before regulatory commissions. Are they any more entitled to incentive awards for claimed success than are district attorneys in criminal cases? Are Federal prosecutors to be paid bounties for the number of their convictions? GSA awards in this instance are no different. For filing one petition predicated upon information requested by the FCC -- activities extending over a few months -- GSA employees have received \$10,000 ranging from \$3,000 for some of the employees down to \$250 for secretaries who typed the necessary papers.

To reward GSA employees for their supposed ability to influence the actions of an independent regulatory commission is clearly wrong. Such a situation should not be permitted to exist if regulation in the public interest is to be the standard as opposed to open season on utility and carrier rates.

4.

THE POLICY OF GSA IN OPPOSING RATE OR FARE INCREASES
IS CONTRARY TO THE NATIONAL POLICY DEALING WITH
RAILROADS, AIR LINES AND UTILITIES

There is no obligation or duty on the part of GSA to oppose general rate increases for the mere sake of opposition or solely to resist possible increases in the cost of certain Government agencies. That such was the intent of Congress is made clear by statements in congressional reports relating to GSA. Such intent, and such intent only, is comparable with statutes establishing our national policy with respect to railroads, airlines and utilities.

It appears to be obvious, then, that the Administrator of GSA, in representing executive agencies before Federal and State regulatory agencies, would be expected to follow a course of conduct consistent with the requirement of national policy dealing with railroads, airlines, utility and communications companies. The sound objective of our national transportation policy, as set forth in the declaration contained in the Transportation Act of 1940, is the development, the coordination, and the preservation of a national transportation system by water, highway and rail, as well as other means, adequate to meet the needs of the United States, of the Postal Service, and of the national defense.^{1/} To achieve this ultimate, it was recognized in the declaration that it was necessary to "foster sound economic conditions in transportation and among the several carriers, and to encourage the establishment and maintenance of reasonable charges

^{1/} Title 49, United States Code Annotated, page 9 provides:

"National Transportation Policy": "It is hereby declared to be the national transportation policy of the Congress to provide for fair and impartial regulation of all modes of transportation subject to the provisions of this Act, so administered as to recognize and preserve the inherent advantages of each; to promote safe, adequate, economical, and efficient service and foster sound economic conditions in transportation and among the several carriers; to encourage the establishment and maintenance of reasonable charges for transportation services, without unjust discrimination, undue preferences or advantages, or unfair or destructive competitive practices; to cooperate with the several States and the duly authorized officials thereof; and to encourage fair wages and equitable working conditions;--all to the end of developing, coordinating, and preserving a national transportation system by water, highway, and rail, as well as other means, adequate to meet the needs of the commerce of the United States, of the Postal Service and of the national defense. All of the provisions of this Act shall be administered and enforced with a view to carrying out the above declaration of policy."

for transportation service, without unjust discriminations, undue preference or advantages, or unfair or destructive competitive practices."

In legislating in the field of communications, Congress has provided that the endeavors of the FCC should be directed towards regulating carriers in such a fashion as to provide "all of the people of the United States a rapid, efficient, nation-wide, and world-wide wire and radio communications service" which would serve the needs of national defense and general safety of the public. Congress also declared that a further purpose of the Communications Act was to centralize "authority heretofore granted by law to several agencies" in one responsible commission.^{1/}

The Civil Aeronautics Board, in regulating the rates and services of airlines is given an even more explicit mandate. Here Congress has directed that the public interest requires the encouragement and development of air transportation not alone for domestic commerce and postal service but also for national defense.^{2/}

^{1/} Section 1 of the Communications Act of 1934 provides:

"SEC. 1. For the purpose of regulating interstate and foreign commerce in communication by wire and radio so as to make available, so far as possible, to all the people of the United States a rapid, efficient, nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges, for the purpose of the national defense, for the purpose of promoting safety of life and property through the use of wire and radio communication, and for the purpose of securing a more effective execution of this policy by centralizing authority heretofore granted by law to several agencies and by granting additional authority with respect to interstate and foreign commerce in wire and radio communication, there is hereby created a commission to be known as the "Federal Communications Commission" which shall be constituted as hereinafter provided, and which shall execute and enforce the provisions of this Act."

^{2/} Section 102 of the Federal Aviation Act provides:

"SEC. 102. In the exercise and performance of its powers and duties under this Act, the Board shall consider the following, among other things, as being in the public interest, and in accordance with the public convenience and necessity:

(a) The encouragement and development of an air-transportation system properly adapted to the present and future needs of the foreign and domestic commerce of the United States, of the Postal Service, and of the national defense;

(b) The regulation of air transportation in such manner as to recognize and preserve the inherent advantages of, assure the highest degree of safety in, and foster sound economic conditions in, such transportation, and to improve the relations between, and coordinate transportation by, air carriers;

(c) The promotion of adequate, economical, and efficient service by air carriers at reasonable charges, without unjust discriminations, undue preferences or advantages, or unfair or destructive competitive practices;"

Thus, GSA has neither been charged with the duty nor granted the authority to regulate the rail and air transportation systems of the country or the communications and utility industries. This duty and authority rests with the specific federal and state agencies. Congress has established federal policy and has charged the particular agencies with the administration of all sections of the respective acts in keeping with and so as to give effect to such policy. State Legislatures have done likewise. These policies embrace both the public interest in sound, adequate and efficient transportation, utility and communication systems and in the interest of national defense.

GSA has all too often taken courses of action before regulatory agencies indicating that it has little or no interest in the stated declaration of legislative policy dealing with communications, utilities and transportation companies and, indeed, it has been subjected to criticism by the Senate for such courses of action.^{1/} The statute authorizing it to appear in matters before regulatory agencies has seemingly been construed by it as a mandate that it

^{1/} This is made clear by Senate Report No. 2034 (dated July 31, 1954) accompanying H.R. 9936, where, referring to the Administrator of General Services, the Senate said:

"For instance, the Administrator of General Services is required by the Federal Property and Administrative Services Act to represent executive agencies before Federal and State regulatory bodies in proceedings involving transportation and other public utility services to the extent that he determines that so doing is advantageous in terms of economy, efficiency, or service. The fact that one of the guiding standards is 'advantageous in terms of economy' would not require opposition to proposed general increases in rates of carriers or utilities simply because such increases would increase the cost of operations of certain Government departments. Opposition for such a reason would constitute a misconception of duty, a narrowness of outlook, and a misconstruction of the intent of Congress. Efficiency and proper service cannot long be maintained by carriers and utilities unless they are accorded a rate structure that will provide them with sound credit and yield them a fair return. If the increases sought would not yield more than enough for such purposes, then no Government agency or department should oppose such increases because ultimately the ability of the Government itself to render efficient service and to insure our national security is dependent upon the maintenance of sound and efficient systems of transportation and other utilities. The importance of these considerations far outweighs the importance of a showing of greater economy in a department's expenditures for transportation. In short, a proper interpretation of the standards of the Federal Property and Administrative Services Act calls for a course of conduct in connection with appearances before regulatory bodies consistent with the requirements of the national transportation policy."

No further action was taken by the Congress on this report.

shall oppose general rate increases when the officials of GSA "think the interest of the Government is sufficiently large."^{1/} Such an interpretation, of course, not only makes it more difficult for the regulatory agencies to perform their duties under the declaration of legislative transportation and utility policy, but is contrary to the intent of Congress as various congressional reports clearly state. The course of conduct of GSA in connection with appearances before regulatory bodies should be consistent with the requirements of the national policy.

The fact that the Federal Government has become the largest single user in the nation or in many states affords no legal, moral or logical ground upon which to predicate opposition to general increases in rates designed to do no more, if so much, than to provide revenues essential to the maintenance of sound, adequate and efficient services. Indeed, with the Government as the largest single user, where may such revenues be obtained if payment by the Government of its fair share is to be resisted upon the mere ground of increased costs to a given agency?

The position of GSA in appearing before regulatory agencies should be calculated to assist the commissions in the performance of their duties and this can hardly be achieved by opposition in every case regardless of merit and failure to recognize either the letter or the spirit of national policy and the essentiality to the national welfare of providing revenues adequate to maintain sound, adequate and efficient systems in times of emergency is a constant and ever present demand. Any short-term or peacetime economies effected at the sacrifice of the interest of national defense would constitute a shortsighted and disastrous policy. The Senate has gone on record on this point.^{2/}

^{1/} Statement of Administrator Franklin Floete before the Senate Subcommittee on Appropriations, Independent Offices 1959, page 391:

"MR. FLOETE. Just generalizing, of course, section 201 of the Federal Property Act requires and it is mandatory that we represent the Government or the executive agencies of the Government before regulatory bodies both State and Federal, where the interests of the Government are served.

"Acting under that act, we have and we still are appearing in those cases where we think the interest of the Government is sufficiently large.

"Now, there are a great many cases where we do not appear but we have appeared in the important cases. We think that as long as the law is as it now is that it is our duty to do so and we intend to do so."

^{2/} The following excerpt from the report of the Senate Committee on Appropriations (submitted by Senator Hayden, March 4, 1958) to accompany H.R. 10881, the Second Supplemental Appropriations Bill, 1958 (S. Rep. No. 1344, 85th Cong., 2d Session, pages 10 and 11) succinctly expresses this point of view:

Pyramiding costs, inadequate rates of return, and mounting capital requirements have made it necessary for the railroads, utilities, airlines and communications companies to seek several general rate increases during the post World War II period. Even with the rate increases so obtained, the revenues and earnings of these industries have fallen short of those necessary to meet unavoidable expenses, to permit establishment of sound credit and to provide a

2/ - cont.

"It is the responsibility and function of the regulatory agency to assure that increases sought by carriers and utilities result in a fair return and no more than a fair return. The regulatory agency bears the responsibility for regulating the overall level of earnings allowable to a carrier or a utility and that agency makes such investigations and adduces such evidence as will enable it to determine the proper level of earnings to maintain sound credit, yield a fair return, and provide adequate service. No Government agency or department should oppose increases requested by carriers or utilities merely because there may be some advantage 'in terms of economy,' because ultimately the ability of the Government itself to render efficient service and to insure and to insure our national security is dependent upon the maintenance of sound and efficient systems of transportation, communication, and other utilities.

In short, a proper interpretation of the standards of the Federal Property and Administrative Services Act calls for a course of conduct in connection with appearances before such bodies which seeks to assure that no disproportionate rate burden is placed on the Federal Government and that the particular interest and requirements of the Government as a consumer are made known. Question of overall earnings, rate of return, and adequacy of service should be left to the Federal and State regulatory agencies, as clearly intended by the Congress and the State legislatures when the statutes establishing these agencies were passed."

To implement this instruction a rider was offered to the appropriations bill prohibiting the expenditure of funds for opposition to general rate increases but it was stricken on a point of order in the Senate. However, in conferences on the bill, the conferees stated, "The conferees expect the General Services Administration to act with good judgment and not enter into any harassing activities -- to avoid trivialities and protect the interest of the Government."

On June 5, 1958, the Senate Appropriations Committee also stated in Report No. 1656 to accompany H.R. 11574, the general appropriations bill for fiscal 1959:

"Complaints have been received by the committee, however, regarding the participation of GSA in proceedings involving carriers or other public utilities before Federal and State regulatory bodies, that GSA representatives have exceeded a clear interpretation of the law in connection with such proceedings.

"In the opinion of the committee, GSA should act in such proceedings to protect the interests of the Government's executive agencies as users of such utilities, in the same fashion as any other user of such utilities, without interfering with the functions of the regulatory bodies before whom they make appearance."

No further action was taken on this recommendation.

fair return. Capital requirements, particularly with reference to freight cars, have not been adequately met. Measured by the above-mentioned standards and considerations, there should have been no opposition from GSA to such rate increases. Nevertheless, GSA did oppose such action.

5.

REGULATORY AGENCIES OPPOSE GSA INTERVENTION

Regulatory agencies have condemned the unlimited participation of GSA in regulatory matters as a misconception of the GSA's proper function, resulting in wasteful duplication as well as being otherwise contrary to the public interest. To these strongly expressed opinions can also be added the authoritative voice of the National Association of Railroad and Utilities Commissioners, an association composed of both state and federal regulatory commissioners.

Here then are expressions from a cross-section of regulatory commissions who have admirable qualifications for refuting the idea that a regulatory overseer role for GSA is necessary in the public interest.

The NARUC, at an Executive Committee meeting in Washington on February 13, 1958, directed its now president, George R. Ferrine, also chairman of the Illinois Commerce Commission to "call this serious matter" of the extent to which the activities of GSA "transgress upon the rights and duties of the regularly established agencies" to the attention of all of its member commissions. This Mr. Ferrine did in a bulletin of February 18, 1958, in which he pointed out the many ways in which GSA's activities have resulted in the past in "wasteful duplication which unnecessarily prolongs the proceedings and increases the cost thereof." The NARUC Bulletin read in essential part as follows:

"It is recognized that GSA has the statutory authority to represent executive agencies of the U.S. in rate proceedings. However, the responsibility for regulation and the duty to weigh and protect the respective interests of the public, the user of railroad or utility service, and the owner of the business is peculiarly that of the regulatory agency created by Congress or the state legislature and charged with regulatory responsibility. GSA is not charged with that responsibility.

"Recently GSA has followed the practice of intervening in rate proceedings on behalf of the U.S. Government and participating as an adversary, adducing evidence on rate of return, rate base, cost of capital, valuation of property and other technical factors in the ratemaking process. In most cases the position urged by GSA on behalf of the U.S. Government is more extreme than that of any other participant, private or governmental.

"GSA is now seeking from Congress greatly increased appropriations to finance even more participation in rate proceedings. . . With the increased

funds GSA proposes to expand its activities in regulatory matters and employ additional public utilities consultants to prepare cases and appear in rate proceedings urging particular ratemaking theories and otherwise duplicate the work of the experts of the regulatory commissions.

"It seems that GSA's statutory responsibilities to represent an executive agency in rate proceedings will be fulfilled if it brings to the attention of the ratemaking body the peculiar needs, if any, of the particular agency concerned and also ascertains that the executive agency is not discriminated against in terms of quality, kind of charges for service. However, it is GSA's present practice to intervene in rate proceedings and assume on behalf of the U.S. Government the posture of an adversary; to make extensive studies and adduce evidence on the various factors in the ratemaking process, including the valuation of utility property, the rate base, cost capital, and the amount of earnings which constitutes a fair rate of return to a utility. This is wasteful duplication which unnecessarily prolongs the proceedings and increases the cost thereof.

"We suggest that the members of this Association, representing all state and federal regulatory agencies, may desire to call to the attention of Congress, particularly those members serving on the appropriations committees of the Senate and House of Representatives, that GSA should limit its participation in rate proceedings so as to bring to the attention of the regulatory agency any peculiar needs of the particular agency represented by GSA, and that GSA should make only such studies and adduce such evidence as is necessary to assure that the executive agency is not discriminated against in terms of quality, kind, or charges for service."

Individual commissions before whom GSA has appeared also take exception to GSA's unlimited role. The bulletin which Mr. Perrine addressed to the members of the NARUC must reflect his first-hand experiences with GSA when appearing before his own Illinois Commerce Commission. In Maryland, where GSA has appealed in rate cases, the Maryland Commission has protested any participation by GSA other than seeing that federal agencies are not discriminated against as to type and cost of service. Chairman Stanford Hoff of the Public Service Commission of Maryland wrote Senator John Marshall Butler on April 24, 1958:

". . . In these cases GSA produces lengthy testimony concerning rate of return, rate base, cost of capital, valuation of property and other technical factors involved in ratemaking processes.

* * * * *

"This Commission wishes to protest against the existing GSA practices mentioned above and request that you may consider unfavorably that agency's request for additional appropriation for these purposes."

The Virginia Commission, likewise experienced with GSA's activities, termed them a "waste of public funds" and without "any benefit to the public." Chairman H. Lester Hooker of the State Corporation Commission of Virginia wrote Senator Warren G. Magnuson on April 24, 1958:

* * * * *

"These are times that cry aloud for economy and efficiency in Government, and yet we have here one Federal Agency demanding a substantially larger slice of the taxpayers' money so that it may duplicate the identical work for which another National agency, the Federal Communications Commission is charged with the performance of such obligation and it is assumed has been given adequate funds for such purpose. This certainly is a waste of public funds from which the public does not receive any benefit.

* * * * *

"The Virginia Commission has its own engineering and accounting staffs who are well equipped and fully competent to develop all the essential facts in rate matters coming before the Virginia Commission. This Federal agency cannot be of any benefit whatsoever to us in reaching our conclusions in rate cases. Now whatever effect, if any, it might have would be extra expense to the utilities which the rate payers would have to pay. In fact, the establishment of such agency is a reflection upon the integrity and competence of the Communications Commission and each State Commission. It is an inference that this agency is needed to see that the public's interest is fully protected. Such an inference is clearly unjustifiable and unwarranted. It cannot possibly be of any benefit to the public, and speaking frankly, I cannot see any justification whatsoever for its existence."

In New Jersey that commission was forced to tell GSA that it thought that the Federal Government was attempting to "impose" on the New Jersey Commission by asking for additional delay which might, under the terms of New Jersey law, allow rates to become effective without adequate consideration by the Commission and Commissioner Fusco said: "I do not think the Government ought to impose on another governmental agency and expect it to put itself out as serious as it might; it might have to let these rates go into effect without deciding this case merely because another governmental agency comes in and says they cannot be ready. I feel the timetable we have set up is reasonable. I think the people in Washington who have known about this case now for many months have got to make some sort of effort to be ready, Mr. Brennan." (N.J. Docket No. 10049, p. 149)

GSA's interventions are similar to those of the former OPA and indeed it has hired some former OPA employees as its "experts". The North Carolina Commission's opinion of such activities was given to Senator Sam J. Ervin on April 28, 1958:

". . . This Commission has some experience in like interventions on the part of the Federal Government in rate hearings wherein the OPA appeared and we found that such intervention by the Government was of little, if any, advantage to the rate payer, but resulted in prolonged hearings and increased the expense of the hearing by building up voluminous records in the cases by injecting a great amount of testimony that was of little or no aid to our Commission in arriving at a conclusion. . ."

Mr. Alan S. Boyd is now a member of the Civil Aeronautics Board, the responsible federal agency over airline fares and service. When he was Chairman of the Florida Railroad and Public Utilities Commission he wrote on March 17, 1958, to Senator George A. Smathers that:

" . . . I am conscious of the sincere desire of every member of Congress to eliminate from the budget non-essential items. Believing as I do that the proper regulatory agencies, State and Federal, are not only conscientious but well qualified to carry out their statutory duties, and believing further that there is no desire on the part of any of these agencies to discriminate against any of these agencies of the Federal Government, I have no fear in alleging that such expenditures as I have described above are completely non-essential. I will even go further and say that it is through the unnecessary efforts of parties, public and private, such as the General Services Administration who add to the regulatory lag we in the field of regulation are trying to overcome. . . ."

Chairman John Doerfer of the Federal Communications Commission described before the Senate Appropriations Subcommittee both the difficulty which one federal agency has in criticizing another and his obvious concern about the overlapping of efforts by the FCC staff and GSA. When questioned concerning duplication, Chairman Doerfer stated:

"We are in the rather embarrassing position of attempting to state beforehand who should or who should not be permitted to participate in a rate case.

"But I do wish to make this observation, that where you have the same entity as presented by the FCC and the GSA representing the United States Government, that obviously there should not be any duplication of either effort or expense.

* * * * *

" . . . you have to consider if you are going to give another governmental agency an appropriation and that agency draws upon our staff to supply them constantly with material, to what extent is there duplication and does it take away from the effectiveness of our staff.

"I might say the same thing with respect to the company. The Federal Communications Commission staff calls upon the company to supply a good deal of material and information. If the company is required to furnish the same material to not only GSA but to others you can see that prompt expedition of the rate case is liable to be hindered." (Senate Hearings on Independent Offices Appropriations, 1959, 85th Cong., 2d Sess., p. 528.)

Only a few of the opinions of regulatory commissions are detailed. Others of the 20 expressing alarm over GSA encroachment repeat the same observations. Some, however, add additional objections stating that it was never intended that GSA should become a super-regulatory agency; that GSA's intervention impugns the competency and integrity of commissions; and that GSA's appearances do not change the results which would otherwise have been obtained. Pertinent excerpts are shown on next page.

- GEORGIA: ". . . it usually tries to take over the functions of state staffs rather than try to assist the staff in an effort to arrive at a fair and reasonable conclusion. Generally, the representatives of the GSA in such matters are so-called 'experts' who have made a failure in general practice and seem to be concerned only in disruption of usual procedures with the hope of obtaining some advantages for the Governmental agency represented to the detriment of the general rate-payer."
- ARIZONA: "We feel that the responsibility for regulations and the duty to weigh and protect the respective interest of the public, the user of railroad or utility services, and the owner of the business, is properly that of the regulatory agencies created by the Congress and the states. We do not feel that it was ever intended that General Services Administration should assume that responsibility."
- CONNECTICUT: "It is very apparent that if you provide monies in addition to those appropriated to your regulatory agency, you are doing in effect two things, first, you are impugning the competency and integrity of your Government regulatory commissions and, secondly, if you are not doing that, you unnecessarily are duplicating the appropriating of the taxpayers' funds.
- ". . . The fact that the General Services Administration was granted this appropriation in the past has made the matters before the Federal Regulatory Commission, and before some State Commissions, more costly and time consuming than necessary in order to arrive at the same conclusion that would have been arrived at if the General Services Administration were not attempting to justify its existence."
- MINNESOTA: "GSA wastes taxpayer's funds through bureaucratic duplication and usurps the rightful function of the State and Federal regulatory agencies."
- TENNESSEE: ". . . increased participation of General Services Administration would, in our opinion, unduly prolong and complicate the hearings with no commensurate benefit to the United States or the general public."
- IDAHO: "We respectfully solicit your assistance in limiting the activities of the General Services Administration to the extent necessary to assure that the executive agency is not discriminated against in terms of quality, kind, or charges for service as compared with other users of similar services or facilities."
- ARKANSAS: "This Commission is opposed to GSA requests for additional appropriations to be used to hire utility consultants to prepare cases and to appear in rate proceedings as adversaries before Federal and State regulatory bodies. This interference by GSA impedes administration of law."

6.

GSA's PICTURE TO CONGRESS OF THE ROLE IT PLAYS BEFORE
REGULATORY COMMISSIONS

GSA has variously depicted to Congress the role it plays before regulatory commissions. On the one hand it represents that regulatory agencies are cast in the role of judges, without staffs, who approved any request of carriers and utilities for rate increases if it, GSA, does not intervene in opposition. From this premise, GSA then portrays itself as the only opponent to increases in fares and rates and that its mere appearance before regulatory agencies results in substantial savings to the Government.

During hearings before a Subcommittee of the Senate Committee on Appropriations, Mr. Mills testified as follows concerning the role of Commissions:

"SENATOR ELLENDER. Do you try to beat down the price?

MR. MILLS. No, Sir. As we see it, we get all the facts on the table for the consideration and decision of the regulatory body. The regulatory body is, in lay language, the judge who decides the case and weighs the evidence and we are one of the parties appearing on behalf of the consumers.

In effect, you might say we are the attorney for the Government.

SENATOR ELLENDER. You are the attorney for the Government and you are speaking for the Government itself.

MR. MILLS. Yes Sir, the Government as a user of the service.

SENATOR ELLENDER. And you are appearing before a commission created by the Government, so it is all Government.

MR. MILLS. No, the commission is the judge paid by the Government and we are the attorney or the advocate for the Government, so, in effect, you might call it an advocate versus judge relationship. We appear just as General Motors or General Electric or any other industrial concern would to present their cases." (Hearings, Subcommittee of Senate Committee on Appropriations, Independent Offices Appropriations 1959, p. 392)

Unlike GSA's representations, regulatory agencies do not sit as "judges" merely to decide conflicting claims. They are equipped with competent staffs, including lawyers who appear publicly and conduct an adversary presentation. GSA's intervention merely adds a second group of attorneys and auditors paid by the Government.

The extent of GSA's duplication of the efforts of regulatory staffs extends all the way from clerical checking for mathematical accuracy of reports by carriers and utilities to full-fledged adversary presentations by lawyers and witnesses in rate cases. It is almost impossible to estimate the time

which GSA employees spend in their duplicative efforts, not to mention the added expense resulting from travel and per diem costs incurred by GSA.^{1/}

A further misconception of the operations of regulatory agencies is necessary for GSA to make its paper showing of vast savings to the Government, i.e., that regulatory agencies approve any rate or fare increase unless opposition is registered. Mr. F. W. Denniston, Assistant Commissioner for Transportation and Public Utilities Service, testified as follows before a Subcommittee of the House Committee on Appropriations:

"MR. THOMAS. Judge, stop right there. Is it your opinion from that language of the act that if no one complains of the reasonableness or the justness of a rate, that the Commission is to assume that it is reasonable and just?"

MR. DENNISTON. That is the general practice with all regulatory commissions.

MR. THOMAS. So if some Federal employee doesn't come over and complain that the Federal Government is paying an unreasonable and unjust rate, the FCC in all probability won't do anything about that rate?

MR. DENNISTON. That is correct, sir." (Hearings, Subcommittee of House Committee on Appropriations, Independent Offices Appropriations 1959, Part 2, p. 305)

Based upon these two erroneous concepts that a regulatory commission is a "judge" who approves an unopposed request for a rate increase, GSA claims that its activities result in vast savings for the Federal Government. GSA regularly speaks of savings when opposing rate increase requests and the savings are always measured by the difference between the rates granted by the Commission and the original request. For example, if GSA argues or testifies that NO increase is warranted and the regulatory agency nevertheless allows some increase but less than the original request, GSA grades its efforts as successful. Or, if GSA is but one of several intervenors and the utility or carrier does not receive the increase requested, GSA claims sole credit and again marks its efforts successful. The assumption is implicit that the "savings" were due entirely to GSA activity rather than due in any part to the views of the

^{1/} Before the Senate Subcommittee Appropriations, Mr. Mills testified: "In a recent month we screened something like 9,000 transportation dockets and out of those 9,000 dockets there were some 60 to 80 cases that seemed to have some substantial impact on the Government. * * * * I think what we do is simply assist in analysis, for instance, of any cost study that is submitted by the public utility to see if its figures are correct and valid. If there are any invalidities we point them out so that the regulatory body has the benefit of our analysis. We try to get the true facts on the table for the regulatory body to weigh and decide. (Senate Hearings, Appropriations Committee, Independent Offices for 1959, p. 410-412)

responsible regulatory commission. Such an approach would make it appear that the commissions themselves are completely ineffective.

Up to the present there has been little occasion for Congressional committees to probe the tenuous nature of GSA's claims of success and savings. Congressman Jonas has touched on this subject:

"MR. JONAS. I understand, but if you had not appeared, the hearing would have proceeded anyway, and the Government would have gotten the benefit of any reduced rates granted as a result of the activity of the other consumer parties?

"MR. DENNISTON. That is correct, and it is impossible to estimate what the decision of the Commission might have been if we had not participated.

"MR. JONAS. Therefore, you cannot actually be sure you saved \$800,000 solely.

"MR. THOMAS. He can amend his statement that he and the others did."
(Hearings House Subcommittee on Appropriations - Independent Offices
Appropriations 1960, Part 2, p. 1339)

A more intensive examination might reveal that despite GSA's presentations, its efforts did not produce the results it sought and that it nevertheless claims victories resulting in vast savings.

There is another aspect of GSA's claims of savings which show the liberties GSA takes in establishing a yardstick for its "successes." Does GSA really effect a "saving" when the net effect of the rate activities for which it claims success costs the Federal Government money? This poses the fundamental economic question of the propriety of the Federal Government, as a consumer, using its weight and influence to have rates and fares set solely on the basis of their effect on the appropriations of federal agencies to the exclusion of any consideration of such rate activities on overall federal fiscal policies.

GSA makes no secret of its belief that rates and fares should be established solely on the basis of their impact on the appropriations of federal agencies. In the CAB General Passenger Fare Investigation, it advanced this argument as a reason for the denial of any increase in complete disregard of the fact that an increase in fares would actually result in a net savings to the Federal Government. For example, GSA purported to appear on behalf of the executive agencies of the Federal Government -- other than the Department of Defense -- and stated that its interest in the proceeding was "confined to the effect the proceeding would have upon the substantial bills paid by the Federal Government to the airlines for passenger transportation." It pointed out that the civilian agencies of the Federal Government expended more than \$13,000,000 per year for domestic air travel, based on 1955 data, and that "For every one

percent change in fares, expenses of the civilian agencies would be increased or reduced by more than \$130,000 per year." (Brief to Examiner, pp. 11-12.) But what GSA neglects to mention is that, based on 1955 data, each one percent increase in domestic air passenger fares could also have netted the Federal Government as much as (a) \$975,000 increased passenger transportation tax collection; (b) \$5,400,000 increased income tax collections from airlines; and (c) \$330,000 reduction in subsidy payments to local service airlines.

Moreover, GSA not only lost sight of the net financial gain to the Federal Government, it also ignored the significance of over-all governmental policies to foster a healthy airline industry for such purposes as national defense. To GSA, there was "no interest in the rate of return of the air carriers as such." Contrast the position of the Department of Defense -- which also intervened in the General Passenger Fare Case -- as recorded by the Examiner in the Initial Decision:

"The Department of Defense takes no position on the particular fares which should be fixed, but refers to its dependence in war and peace on the commercial air-transportation industry. Its substantial use of commercial transportation is demonstrated by its \$62,960,494 expenditure in 1957. It therefore considers the maintaining of a strong, modern, and economically sound air-carrier industry a matter of the greatest urgency." I.D., p. 5 (emphasis supplied).

All that GSA needs to do, to show great success under its measuring rod, is to enlarge its staff and intervene in more cases. Even if its participation in additional cases is perfunctory, it will claim savings any time a regulatory agency, performing its statutory duty, denies a part of a requested increase. Such illusory claims as these do not justify the continuance of GSA's duplicative activities.

7.

THERE ARE PROPER FUNCTIONS FOR GSA

It is clear that the General Services Administration intends not only to continue its present policy and activities with respect to utility and transportation regulation, but that it plans to expand them. This it should not do. There is, however, no question but that the GSA can accomplish some worthwhile purpose in centralizing necessary negotiations with utilities and transportation companies.

These proper functions can be performed without a wasteful duplication of the regulation of transportation and utility companies by federal and state

commissions specifically entrusted with the administration of national and state legislative policies. Many experienced organizations have outlined the proper role for GSA in the regulatory process.

Some of them are:^{1/}

The National Association of Railroad and Utilities Commissioners
Senate Appropriations Committee
Illinois Commerce Commission
U. S. Chamber of Commerce
Twenty State Regulatory Commissions

A clarification should be made of the duties of the Administrator of GSA under Section 201 of the Federal Property and Administrative Services Act of 1949 (Title 40, U.S.C., Sec. 481). A proper interpretation of the standards of that Act calls for a change of conduct by GSA in connection with appearances before the legislative regulatory bodies, both federal and state.

^{1/} NARUC: "GSA should limit its participation in rate proceedings so as to bring to the attention of the regulatory agency any peculiar needs of the particular agency represented by GSA; and that GSA should make only such studies and adduce such studies and adduce such evidence as is necessary to assure that the executive agency is not discriminated against in terms of quality kind or charges for service."

SENATE APPROPRIATIONS COMMITTEE: "In short, a proper interpretation of the standards of the Federal Property and Administrative Services Act calls for a course of conduct in connection with appearances before the regulatory bodies and interventions in rate proceedings before such bodies which seeks to assure that no disproportionate rate burden is placed on the Federal Government and that the particular interest and requirements of the Government as a consumer are made known. Question of overall earnings, rate of return, and adequacy of service should be left to the Federal and State regulatory agencies, as clearly intended by the Congress and the State legislatures when the statutes establishing these agencies were passed." (Report 1344, 85th Cong., 2d Sess., p. 11)

ILLINOIS COMMERCE COMMISSION: "We note that General Services Administration did not attempt, in presenting data in this case, to concentrate upon proposals directly affecting it or agencies of the federal government as customers of the company but concentrated instead upon the subject of rate of return, which is an area in which the commission itself has particular competence and concern." (Commonwealth Edison Company No. 44391, 44551-55 June 18, 1958, 24 PUR(3) 209)

CHAMBER OF COMMERCE: "The responsibility for protecting the interests of the public, including the Federal Government, in the regulation of rates, charges and practices of transportation and utility companies is exclusively that of appropriate Federal and State transportation and utility regulatory bodies. No Federal agency should intervene before any State or Federal regulatory body in such matters except to present evidence of claimed discrimination against the Federal Government as a user of such services. Any further or additional participation constitutes dilution of responsibility, unwarranted waste and duplication of effort."

The suggestions of informed bodies, set out in Footnote 1, could be carried out in one of three ways--first, by a reappraisal by GSA of its statutory duty to represent the Government as its procurement agency; second, by limiting GSA's appropriation to expand its operations in the field of rate and fare regulation, as it is presently doing, or third, by amending the basic Act to accomplish the same purpose.

If the GSA confined its activities to a proper representation of the Government's interests, it can perform a useful function in the transportation and utility fields for the several federal agencies and for the companies involved. It would seem appropriate for that agency to:

1. Assist in the determination of the transportation and utility needs of the various Government agencies. A great variety of carriers and utility services are available. The Administrator could perform a valuable function by working with the agencies involved and the carriers or utilities to achieve the ideal usage for each part of the Government.
2. Assist in the interpretation and application of tariffs. This work would help to determine the best transportation or utility service offerings for particular tasks, the charges therefor, and regulations applicable thereto, in order to decide what service to use. The same personnel could also see to it that the tariff provisions are fulfilled and that the charges as billed are correct.
3. See that transportation and service offerings are available which meet the requirements of the Government. This function goes beyond a consideration only of existing services. The General Services Administration could see that the offerings of carriers and utilities fully meet the Government's needs in terms of quantity, quality, and variety.
4. See that the Government is not discriminated against as compared with others. In this connection, it may be necessary for GSA to participate in rate proceedings, in which case it could develop pertinent facts relative to Government usage and transportation and the impact of existing and proposed rate schedules on the Government within the earnings levels determined by the regulatory body to be in the public interest.

LIST OF RATE CASES IN WHICHGENERAL SERVICES ADMINISTRATION PARTICIPATED1959-60

TRANSPORTATION RATE CASES IN WHICH GSA PARTICIPATED - FY 1959

29 CASES

<u>Case Title</u>	<u>Docket Number</u>	<u>Regulatory Agency</u>
Released Rate Rules	Ex Parte Nos. 197 and MC-C-49	Interstate Commerce Comm.
Movers' Conference of America	Dkt. No. MC-C-1927	Interstate Commerce Comm.
Equalization of Rates at North Atlantic Ports	Dkt. I&S No. 6615	Interstate Commerce Comm.
Railroad Passenger Train Deficit	Dkt. No. 31954	Interstate Commerce Comm.
Increased Express Rates and Charges, 1957	Ex Parte No. 210	Interstate Commerce Comm.
Increased LCL Rates in Official Territory	Dkt. No. 32290	Interstate Commerce Comm.
General Investigation of Western Cement Rates in Interstate and Intrastate	Dkt. No. 32369	Interstate Commerce Comm.
Increased Rates - Central States Territory, 1958	Dkt. No. 32385(Sub 1)	Interstate Commerce Comm.
Harrison and Grafton, Inc.	Dkt. Nos. 29932 and 29928	Interstate Commerce Comm.
USA by GSA v. The Atchison, Topeka and Santa Fe Railway Com- pany, et al	Dkt. No. 32462	Interstate Commerce Comm.
Rules on Light and Bulky Articles	Dkt. MC-C-2027	Interstate Commerce Comm.
Applications for Operating Rights out of Lincoln, Neb. Kenosha Auto Transport, Inc.; Macks Transport Service; and Arco Auto Carriers, Inc.	Dkt. Nos. MC-30837 (Sub 242); MC-2230 (Sub 9); and MC-52657 (Sub 541)	Interstate Commerce Comm.
National Freight, Inc.	Dkt. MC-55878 (Sub 6 TA)	Interstate Commerce Comm.
Increased Express Rates, LCL - USA	Dkt. I&S No. 7095	Interstate Commerce Comm.
Motor Carrier Increase - Intermountain & Pacific Coast	Dkt. No. 32887	Interstate Commerce Comm.
General Increases - LTL Pacific Northwest	Dkt. No. 32896	Interstate Commerce Comm.

<u>Case Title</u>	<u>Docket Number</u>	<u>Regulatory Agency</u>
Motor Carrier LTL & AQ, Increases between East and South, 2 percent	Dkt. No. 32903	Interstate Commerce Comm.
U. S. v. Great Northern RR	Dkt. No. 31755	Interstate Commerce Comm.
Increased Freight Rates, 1958	Ex Parte No. 212	Interstate Commerce Comm.
Increases, Transconti- nental Intermountain Coast	Dkt. I&S No. M-10330	Interstate Commerce Comm.
Verl Harvey, Inc., Contract Carrier Appli- cation	Dkt. No. 117099	Interstate Commerce Comm.
Kenosha Auto Transport Corp., and Arco Auto Carriers, Inc.	Dkt. No. MC-30837 (Sub 238) and MC- 52657 (Sub 542)	Interstate Commerce Comm.
Passenger Fare Level of Domestic Truckline Carriers	Dkt. No. 8008	Civil Aeronautics Board
Pacific Northwest Local Air Service	Dkt. No. 5463 et al	Civil Aeronautics Board
Common Carriers by Water- Status Express, Truck Lines, Non Vessel Carriers	FMB Dkt. No. 815	Federal Maritime Board
Investigation, Agreements of Terminal Operators at Atlantic and Gulf Ports	FMB Dkt. No. 816	Federal Maritime Board
Investigation of Ocean Freight Forwarders; In- vestigation of Payment of Brokerage to Freight Forwarders	FMB Dkt Nos. 765 and 831	Federal Maritime Board
Alaska Steamship and Coast-wise Line	FMB Dkt. No. 828	Federal Maritime Board
Investigation of Passen- ger Service of Southern Pacific Company	Case No. 5829	California Public Utilities Commission

NEW TRANSPORTATION RATE CASES IN WHICH GSA PARTICIPATED
FIRST HALF - FY 1960

(6 Cases)

<u>Case Title</u>	<u>Docket Number</u>	<u>Regulatory Agency</u>
National Freight, Inc.	Dkt. No. MC-55873 (Sub 8)	Interstate Commerce Comm.
Investigation of Conditional Reduced Rates on Coal to Benning and Washington D.C.	Dkt. No. 32871	Interstate Commerce Comm.
Armored Car, Inc.; Protec- tive Motor Service Co., Inc.; Wells Fargo Armored Service Corp.; Armored Motor Service Corp.; Armored Motor Service; Brinks Inc.; and Dunbar Armored Service, Inc. of Hartford, Conn.	Dkt. Nos. 113333 (Sub 9, 10); MC- 111103 (Sub 4); MC- 35807 (Sub 7); (Sub 32); MC-107882 (Sub 6); MC-115013 (Sub 2); MC-87857 (Sub 46); and MC-114772 (Sub 5)	Interstate Commerce Comm.
General Increases in Alaskan Rates and Charges	FMB Dkt. No. 881	Federal Maritime Board
Merchants Fast Motor Lines, Inc.	Texas RR Comm. Dkt. No. 2024	Texas RR Commission
Complaint by Dallas Chamber of Commerce and Texas Industrial Traffic League for Reduction of Texas Intrastate Motor Carriers' Rates	Texas RR Comm. Dkt. No. 11755-T	Texas RR Commission

CARRIER COMMITTEE PROPOSALS IN WHICH GSA PARTICIPATED
FY 1959

17 Proposals

<u>Carrier Committee</u>	<u>Docket Number</u>
New England Territory Railroads	Dkt. No. 3306
Eastern Central Motor Carriers Association, Inc.	Dkt. No. E-3288
Rocky Mountain Motor Tariff Bureau	Proposal No. C- 1794
Central and Southern Motor Freight Tariff Association	Dkt. No. 10266
Trans-Continental Freight Bureau	Proposal No. XB6610 (S)
Central States Motor Freight Bureau	Dkt. No. 33982
Trans-Continental Freight Bureau	Proposal No. XB-6610, Supplements 1(s) and 2(c) reopened
Middlewest Motor Freight Bureau	Proposal No. 63043
Middle Atlantic Conference	Dkt. Nos. B-8814, 10 and 15
Western Trunk Line Territory Committee	Dkt. No. D-11-599
Southern Motor Carriers Rate Conference	Dkt. No. 000-789(c)
Central and Southern Motor Freight Traffic Association	Dkt. Nos. 11136 and 11137
Middle Atlantic Conference	Special Dkt. No. 682-A
Illinois Intrastate Motor Carrier Rate and Tariff Bureau, Inc.	Dkt. Nos. 1936 and 1871
Montana Lines Committee	Proposal No. A-2620
Central and Southern Motor Freight Bureau	Dkt. No. 10292
Middle Atlantic Conference	Special Dkt. No. 651-A

NEW CARRIER COMMITTEE PROPOSALS IN WHICH GSA PARTICIPATED
FIRST HALF - FY 1960

26 Proposals

<u>Carrier Committee</u>	<u>Docket Number</u>
Western Trunk Line Committee	Dkt. No. X-E-216-248
Southwestern Freight Bureau	Dkt. No. A-8367 (X)
Texas-Louisiana Freight Bureau	Proposals X-18074-TX and X-9067-LA
Traffic Executive Association, Eastern Railroads	Dkt. Bulletin TE 90
Southern Ports Foreign Freight	Bulletin 3978, Proposal 7074
Southern Freight Association	Submittal A-28221, Dkt. No. 2049
Illinois Freight Association	Bulletin No. 400, Proposal IRC-1204-50, ORMV-1204-41
Official, Southern & Western Classification Committee	Jt Dkt. No. 195, Subject 98
Trans-Continental Freight Bureau	Proposal No. C-5469 (C)
Southwestern Freight Bureau	Proposal No. B-10051
Western Trunk Line Committee	Proposal No. C-50-2763
Central and Southern Motor Freight Tariff Association	Dkt. No. 11379
Central State Motor Freight Bureau, Inc.	Proposal No. 36221
Southwestern Motor Freight Bureau, Inc.	Dkt. No. 38 NM-210
New England Motor Freight Bureau	Special Dkt. No. 19
Middle Atlantic Conference	Dkt. Bulletin No. 706, Proposal No. C-2608-8
Middlewest Freight Bureau	Proposals 76686, 76687 and 76688
Central States Motor Freight Bureau	Proposal No. 36783
Rocky Mountain Motor Tariff Bureau, Inc.	Bulletin No. S-40, Proposal No. 9-74-A
Southern Motor Carriers Rate Conference	Proposal No. 001-1446 (E-S)
Central and Southern Motor Freight Tariff Association	Proposal No. 12105 (GRC)
Illinois Intrastate Motor Rate and Tariff Bureau, Inc.	Proposal No. 1871
Pacific Inland Tariff Bureau	Dkts. Nos. 1787 and 1846
Middle Atlantic Conference	Proposal No. C-3262-10
Central States Motor Freight Bureau, Inc.	Proposal No. 37260
New England Motor Rate Bureau	Classification Dkt. No. 188, Items 13 and 14

SAGE CASES IN WHICH GSA PARTICIPATED - FISCAL YEAR 1959

6 CASES

(These cases have since been consolidated into 4 cases as shown below)

<u>Case Title</u>	<u>Docket Number</u>	<u>Regulatory Agency</u>
1. Consolidated Private Leased Lines Cases (3 cases consolidated into 1 as of December 31, 1959):		Federal Communications Commission
a. Investigation of AT&T Private Line Rates	FCC 11645	
b. Investigation of Western Union Private Line Rates	FCC 11646	
c. Western Union Switching Plan 55 Rates	FCC 11646	
d. AT&T Construction Tariffs No. 145	FCC 11645	
e. AT&T 82-B System Rates	FCC 11645	
2. Complaint for Reparations, Western Union Plan 55	FCC 12937	Federal Communications Commission
3. Investigation of Rates for Data Transmission - AT&T	FCC 12194	Federal Communications Commission
4. Petition for Investigation of Trans-oceanic Communication Rates-AT&T	FCC 11645	Federal Communications Commission

NOTE: No new SAGE cases were entered during the First Half of Fiscal Year 1960

PUBLIC UTILITIES CASES IN WHICH GSA PARTICIPATED
FISCAL YEAR 1959

11 Cases (Excluding SAGE cases which
are shown separately)

<u>Case Title</u>	<u>Docket Number</u>	<u>Regulatory Agency</u>
Mobile Radio Service	FCC 11992	Federal Communications Commission
Consolidated Edison Company of New York	18011/13	New York State Public Service Commission
New Jersey Bell Telephone Co.	10049	New Jersey Public Utilities Commission
Pacific Telephone & Telegraph Co.	39309	California Public Utilities Commission
Baltimore Gas and Electric Co.	5554	Maryland Public Utilities Commission
Public Service Electric and Gas Co.	10646	New Jersey Public Utilities Commission
Investigation - Accelerated Amortization and Depreciation	6148	California Public Utilities Commission
Potomac Electric Power Co.	DC PUC 3614, Md. PSC 5612, Va. SCC 14273	D. C. Public Utilities Commission; Maryland Public Service Commission; and Virginia State Corporation Comm.
*Washington Gas Light	DC PUC 3954, Case No. 456	D. C. Public Utilities Commission
*Washington Gas Light Company	Md. PSC Case No. 5546	Maryland Public Service Commission
*Washington Gas Light Company	Va. SCC Case No. 13722	Virginia State Corporation Commission

*Completed in Fiscal Year 1959

NEW PUBLIC UTILITIES CASES IN WHICH GSA PARTICIPATED
FIRST HALF - FISCAL YEAR 19602 CASES

<u>Case Title</u>	<u>Docket Number</u>	<u>Regulatory Agency</u>
Consolidated Edison Company of New York	Nos. 19757, 19798 and 19797	New York State Public Service Commission
Chesapeake & Potomac Telephone Company of Maryland	5625	Maryland Public Service Commission

ACTIVE CASES AS OF JUNE 30, 1960TRANSPORTATION CASES

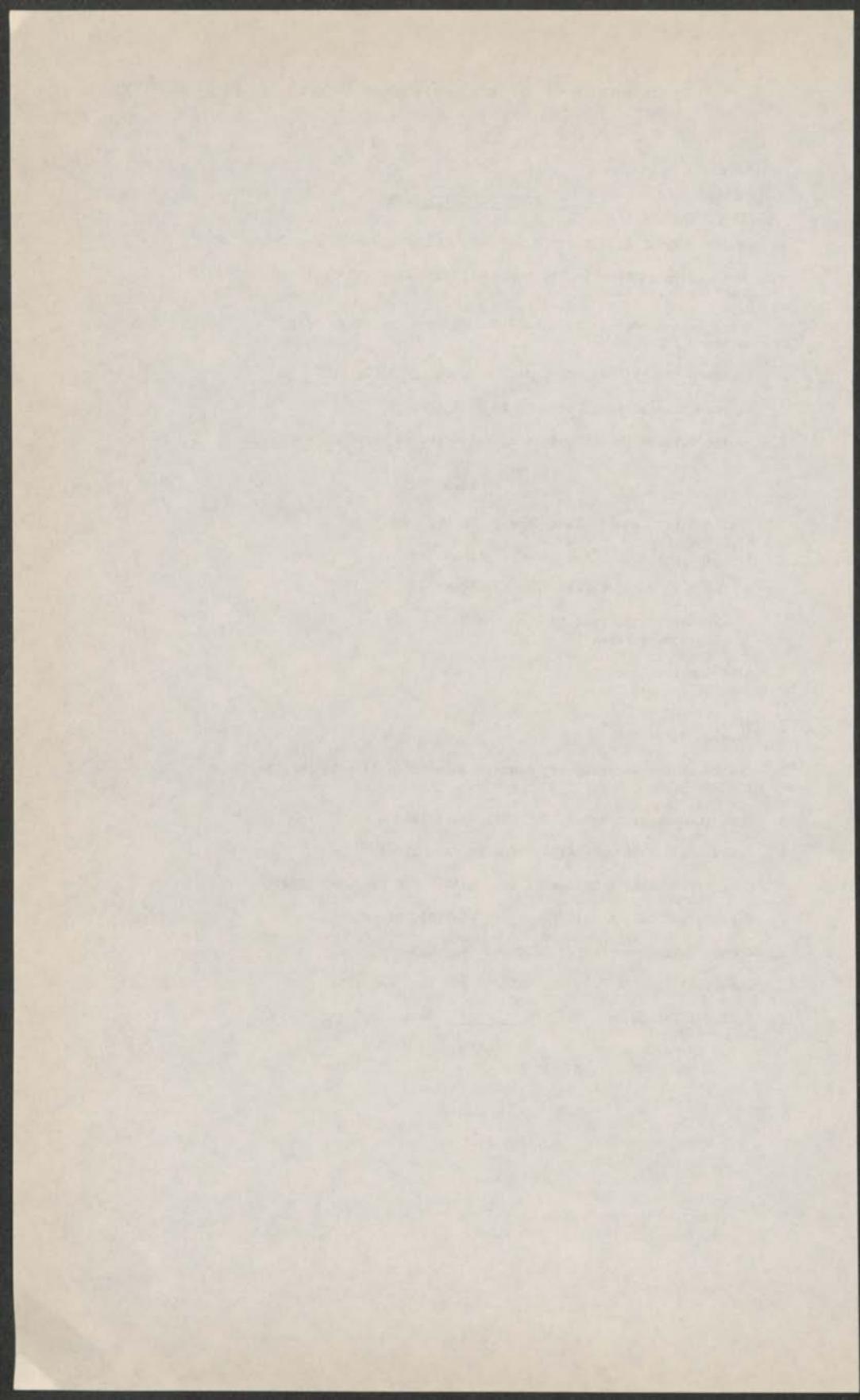
1. Released Rates Rules, ICC Ex Parte 197 - MC-C-49
2. Movers Conference of America, ICC MC-C-1927
3. Equalization of Rates at North Atlantic Ports, ICC I&S Dkt. 6615
4. Surcharge on Government Bill of Lading Shipments, ICC I&S M-13652
5. Western Cement Case, ICC Dkt. 32857
6. Increased Rates-Central Territory, 1958, ICC Dkt. 32385
7. Harrison-Grafton Cases, ICC Dkt. No. 29932, 29928
8. U. S. v. A.T.&S.F. Ry. Co. et al., ICC Dkt. No. 32462
9. Motor Carrier Increase-Intermountain & Pacific Coast, ICC Dkt. 32887
10. General Increases-LTL Pacific NW, ICC Dkt. 32886, and ICC Dkt. 33410
11. National Freight, Inc., ICC Dkt. No. MC-55878 (Sub 8)
12. Armored Car Applications, ICC Dkt. No. 113333, Sub 9 and 10, et al.
13. Increased Class Rates-To or From Pts. in Florida, ICC I&S Dkt. M-13525
14. Texas Intrastate (Dallas Chamber of Commerce), No. 11755-T (Texas Railroad Commission)
15. Texas Intrastate Increases, Texas Railroad Commission Dkt. No. 11943-T
16. Status of Non-Vessel Carriers, FMB Dkt. No. 815
17. Investigation of Terminal Operators, FMB Dkt. No. 816 and 836
18. Ocean Freight Forwarders Investigation, FMB Dkts. 765 and 831
19. General Increases in Alaskan Rates, FMB Dkt. No. 881
20. Filing of Tariffs by Terminal Operators, FMB Dkt. No. 875
21. Increase in Rates, Pacific-Atlantic/Guam Trade, FMB Dkt. No. 901
22. Passenger Fare Investigation, CAB Dkt. No. 8008
23. Passenger Fare Increase, CAB Dkt. No. 11428

PUBLIC UTILITY CASES

1. Public Service Electric and Gas Co., Dkt. No. 10646, New Jersey PUC
2. Consolidated Edison Co. of New York, Dkt. Nos. 19757, 19798, 19797, New York State PSC
3. Chesapeake & Potomac Telephone Co. of Maryland, Dkt. 5625, Maryland PSC
4. Southern Natural Gas, Dkt. Nos. G-20509, G-18512, FPC
5. El Paso Natural Gas, Dkt. No. RP 60-3, FPC
6. Public Service Co. of Colorado, Colo. PUC No. 17406

SAGE

1. Consolidated Leased Lines Cases, FCC Dkt. Nos.
 - a. AT&T Rates 11645
 - b. Western Union Rates 11646
 - c. Western Union Plan 55 Switching Rates 11646
 - d. AT&T Construction Tariff No. 145 11645
 - e. AT&T 82-B Switching System Rates 11645
2. Complaint for Reparations, Western Union Plan 55, FCC Dkt. No. 12937
3. Data Transmission Rates, FCC Dkt. No. 12194
4. Trans-Oceanic Rates - AT&T, FCC Dkt. No. 11645
5. California Water & Telephone Co. (AT&T), FCC Dkt. No. 13381
6. New England Tel. & Tel., Dkt. No. FC-1622, Maine PUC
7. Common User Group (AT&T), FCC Dkt. No. 13514
8. Lincoln-Tillamook Tel. Co. (AT&T), FCC Dkt. No. 13535
9. Bell Tel. of Nevada, Dkt. No. _____, Nevada PUC



COMMENTS OF GENERAL SERVICES ADMINISTRATION
ON NOVEMBER 1960 REPORT BY THE TRANSPORTATION
AND COMMUNICATION DEPARTMENT OF THE CHAMBER
OF COMMERCE OF THE UNITED STATES

Transportation and Public Utilities Service

November 1960

GENERAL SERVICES ADMINISTRATION

Washington 25, D. C.



DEC 23 1960

Mr. G. W. Collins
Manager
Transportation and Communication Department
Chamber of Commerce of the United States
1615 H Street, N. W.
Washington 6, D. C.

Dear Mr. Collins:

Your letter of November 23 submits for comment a copy of a committee report of the Transportation and Communication Department concerning GSA participation in regulatory rate matters.

An opportunity to comment on the report is helpful, as it is apparent from the report that GSA's role is not understood. My letters of August 18 and September 28 suggested you might wish to confer with our Transportation and Public Utilities Service because of our desire that the Chamber be fully and correctly informed.

The press release issued by the Chamber about November 7 and which has received recognition in trade papers of wide circulation states:

"A committee report estimates that currently the General Services Administration spends \$1 million a year for unauthorized appearances before federal and state government rate-setting bodies."

I am certain you wish to know that the amount stated is incorrect and in any event is not found in the report. Further, the report indicates clearly that at issue is the interpretation of GSA's statute and it does not characterize our activities as "unauthorized."

Enclosed is a detailed analysis of the committee report prepared by our Transportation and Public Utilities Service which is self-explanatory. The following personal comment is also added.

Continual criticism has been raised during my tenure as Administrator and, according to the staff, since the inception of GSA, against GSA participation in so-called "general increase" cases. This appears to be at

975

Mr. G. W. Collins

the heart of the complaint in the committee report of the Chamber. Neither in that report nor in prior representations to me has any convincing basis been shown for this objection. To the contrary, early in my tenure during hearings on GSA's 1957 appropriation, severe criticism was expressed because GSA had failed to participate in a general increase case before the Interstate Commerce Commission. We have since participated in such cases provided, of course, that the Government's interest as a consumer or shipper is substantial.

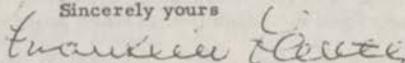
Criticism is also expressed of GSA's "extreme" position with respect to cost of capital or rate of return. In 1957, upon a major review of GSA policies in regulatory proceedings, it was recommended to me, and I approved, that GSA testimony on this issue be changed. Previously, our witnesses expressed an opinion or judgment as to what was a "fair rate of return." It was our belief that this determination was primarily that of the regulatory commissions and that we should restrict our presentations to the more factual basis of cost of capital, on the basis of which I am told essentially all commissions make their findings of rate of return.

The incentive award given to certain GSA employees, which is described as questionable, was made under an express statute; it was recommended to me by three top officials of GSA; and it had prior review and approval by the U. S. Civil Service Commission.

We in GSA do not take these regulatory matters lightly and we are constantly striving to improve and strengthen our participation. Our policies have been frequently reviewed and we are currently making a reappraisal in accordance with the request of the Appropriations Committee of the U. S. Senate.

Our representatives will be glad to meet with your committee or other Chamber representatives to discuss any aspect of our regulatory activities.

Sincerely yours



FRANKLIN F. DOLE
Administrator

Enclosure

COMMENT OF GSA ON REPORT OF TRANSPORTATION
AND COMMUNICATION DEPARTMENT OF THE
CHAMBER OF COMMERCE OF THE UNITED STATES

The Report of the Transportation and Communication Department of the Chamber of Commerce of the United States, referred to herein as the Chamber Report, presents an inaccurate picture of GSA's activities in the regulatory field.

The Transportation and Public Utilities Service of GSA has responsibilities in a number of areas not related to regulatory proceedings, primarily in connection with traffic management and services in connection with transportation. Of the \$2,375,000 total budgeted for TPUS for fiscal year 1961, it is estimated that \$350,000, or about 15%, is expended in connection with regulatory proceedings. Substantially less than half that amount, or less than 7-1/2% of the total, is spent in connection with proceedings before State regulatory commissions.

The broad responsibilities of TPUS are defined in a formal order of the Administrator (ADM 5450.3, Par. 141), and are set out in Appendix A to this report.

The Chamber Report (Part 7) concludes with four recommendations, as follows:

"1. Assist in the determination of the transportation and utility needs of the various Government agencies. A great variety of carriers and utility services are available. The Administrator could perform a valuable function by working with the agencies involved and the carriers or utilities to achieve the ideal usage for each part of the Government.

"2. Assist in the interpretation and application of tariffs. This work would help to determine the best transportation or utility service offerings for particular tasks, the charges therefor, and regulations applicable thereto, in order to decide what service to use. The same personnel could also see to it that the tariff provisions are fulfilled and that the charges as billed are correct.

"3. See that transportation and service offerings are available which meet the requirements of the Government. This function goes beyond a consideration only of existing services. The General Services Administration could see that the offerings of carriers and utilities fully meet the Government's needs in terms of quantity, quality, and variety.

"4. See that the Government is not discriminated against as compared with others. In this connection, it may be necessary for GSA to participate in rate proceedings, in which case it could develop pertinent facts relative to Government usage and transportation and the impact of existing and proposed rate schedules on the Government within the earnings levels determined by the regulatory body to be in the public interest."

The management and service functions mentioned in the first three recommendations are largely being rendered in addition to others not mentioned. Comment is required only as to the fourth, which in effect suggests that GSA's role in regulatory proceedings be limited to discrimination matters. While the exact scope of the limitation thus proposed is not clear, it apparently contemplates exclusion from proceedings involving "reasonableness" or the level of rates. The printed Policy Declaration for 1960-61 adopted by the Chamber is more specific, stating "No federal agency should intervene before any state or federal regulatory body . . . except to present evidence of claimed discrimination. . ." Regulatory statutes generally draw a clear distinction between reasonableness and discrimination, as, for example, Section 1 of the Interstate Commerce Act

requiring reasonableness of rates contrasted with Sections 2 and 3, prohibiting discrimination, preference or prejudice. The same distinction is made by the Communications Act in Section 201 contrasted with Section 202.

The reduction in private line telephone charges requested by GSA and ordered by the FCC in 1958 was based solely on reasonableness. It is therefore apparent that the Chamber favors exclusion of GSA from such matters even though in that instance the Government's telephone bill was reduced by many millions of dollars.

The remaining portions of the Chamber Report are commented on as follows:

1. Legislative History of GSA Act. The legislative history of the Federal Property and Administrative Services Act of 1949 stated in the Report is deficient. No basis can be found for the statement in the Report: "The Hoover Commission did not intend that representation before regulatory bodies should extend to litigation of overall earnings levels of carriers and utilities." Further, while it is true that the Hoover Commission did not suggest that one function of the central agency should be to litigate "carrier's overall earnings levels or rate structures" before regulatory commissions, it is more proper to state that the Commission did not suggest any of the issues which should be litigated.

The legislative history is clear that the obtaining of reasonable rates was the primary objective of both the negotiation and litigation functions,

specifically covered by Section 201(a)(4) of GSA's Act. The Hoover Commission Task Force Report recommended not only that the agency be authorized to represent all agencies of the Government in proceedings before transportation regulatory agencies but also recommended that the agency be staffed with counsel who "should be experienced in transportation law and in practice before transportation regulatory bodies." Further, as stated in the Chamber Report, the testimony in connection with the bill which was enacted, in including public utility services in the section dealing with negotiation and representation, pointed out that the function was already being performed under Executive Order 6166. An important omission from the Chamber Report, however, is that during the period prior to the adoption of the GSA Act the Bureau of Federal Supply had, under Executive Order 6166, participated in at least 13 regulatory cases^{1/} involving

1/1947

C&P Telephone Co. of Md.	70 PUR(NS) 97
New Jersey Telephone Co.	72 PUR(NS) 37
Illinois Bell Telephone Co.	Unreported
Western Union Telegraph Co.	70 PUR(NS) 168

1948

Pacific Telephone & Telegraph Co.	75 PUR(NS) 379
Potomac Electric Power Co.	72 PUR(NS) 11
Pacific Gas & Electric Co.	84 PUR(NS) 455

1949

New Jersey Telephone Co.	78 PUR(NS) 97
Consolidated Edison Co.	(78 PUR(NS) 21 82 PUR(NS) 151)
Pacific Telephone & Tel. Co.	80 PUR(NS) 355
C&P Telephone Co.	86 PUR(NS) 379
New York Telephone Co.	84 PUR(NS) 267
Washington Gas Light Co.	83 PUR(NS) 4

public utilities during the period 1947 through 1949. All save one of these proceedings dealt with general increases in rates, and testimony was supplied on the broad issues of rate of return, rate base, cash working capital requirements, as well as rates. Therefore, the quoted statement of the Acting General Counsel of FWA indicates that Congress was apprised of this activity and the then proposed act was intended expressly to authorize continuation of past practices, particularly in view of Section 102(a) which transferred those functions to the GSA Administrator. The subsequent enactment indicated a clear legislative intent that GSA continue to intervene in utility general revenue increase cases.

Mention is made in the Chamber Report of the amendment of the then proposed bill to strike carriers and transportation from what is now section 201(a)(4). It should be added that the Conference Committee restored this provision and that in the debates Mr. Johnson of Colorado, who was Chairman of the Committee on Interstate and Foreign Commerce, indicated that his objection to the inclusion of this provision in the GSA Act was because the bill did not "go far enough" and that he desired further hearings on another bill to establish a Federal Traffic Bureau. There was then inserted in the record the text of S. 1095, which included among the various duties proposed for that Bureau, representation in "all proceedings." Further criticism of the GSA bill was that it eliminated the transportation of the military. (Cong. Rec., p. 8747)

There is extended discussion in the Chamber Report concerning the role of the Office of Price Administration during World War II and the Office of Price Stabilization under the Defense Production Act of 1950. The

roles of OPA and OPS of course were directed to the national interest in holding-the-line against inflation. GSA's role in regulatory proceedings, on the other hand, is limited solely to representing the Government as a consumer or shipper. It is accordingly inaccurate to characterize GSA as a "public defender," and it has never appeared in a proceeding in that capacity. Attached as an Appendix is GSA Order TPS 5020.1, November 19, 1959, which formally states GSA's role.

No consideration has been given by the Chamber Report to the legislative history of P. L. 968 - 84th Congress (70 Stat. 991) in which the SAGE Project of Air Force was made specifically subject to GSA's Act.

2. Costs of Carrier and Utility Activities. The figures concerning the budget of GSA's Transportation and Public Utilities Service are correct. It will be seen that of the 1961 figures shown \$482,500 or only about 20% related to litigation, plus other enumerated duties. A special study recently made indicates that expenditures for litigation alone during fiscal year 1961 will amount to \$208,600 for all actual or potential technical witness and supporting personnel and expenses. The cost of the legal services in regulatory proceedings supplied by the Transportation and Public Utilities Division of the Office of General Counsel is estimated at \$142,000 and represents a portion of administrative operations funds. The total for all technical and legal expense therefore is estimated to be \$350,600, substantially less than half of which is expended in State regulatory proceedings.

The statement in the Chamber press release that GSA is currently spending \$1 million on these activities is accordingly a substantial overstatement. It is noted that the Chamber Report does not provide support for the amount stated in the press release.

The comment concerning a nineteenfold increase since 1950 requires explanation.

GSA was created by a consolidation of a number of existing agencies July 1, 1949, which was the beginning of the fiscal year 1950. The original Hoover Commission had been critical of the failure of performance in this area. Further, the second Hoover Commission study made in 1955 by a Task Force whose chairman was Perry M. Shoemaker, stated: "The plan of the prior Hoover Commission for a strong centralized traffic management for Government agencies has not been implemented." (Task Force Report p. 96). The same subcommittee also recommended that traffic management be made coequal with supply and recommended the creation of a Traffic Management Service (Task Force Report p. 131).

The amount appropriated for 1961, \$2,375,000, is used primarily for various management activities, and purposes other than participation in regulatory proceedings. In addition to a substantial growth in management areas, which is consistent with specific recommendations in the Chamber report (Part 7), there has been a large growth in GSA's own operational responsibilities. For example, direct obligations for transportation costs on GSA's own shipments have increased from \$634,000 in 1952 to \$10,607,000 in 1960, a nearly seventeenfold increase.

The lists of 46 cases attached to the Report relating to 1959 and 1960 cases give no measure of the actual workload. The lists appended to the Report were supplied to the Chamber by letters of August 18 and September 28, 1960, which pointed out that the degree of participation in cases varied and the cases spread over substantial periods. The lists were of those cases pending during the year. Of the 29 transportation cases, only one was before a State commission. One of the cases began in 1955, three in 1956, three in 1957, twelve in 1958, and ten in 1959. As of June 30, 1960, there were 23 cases pending. As to the 11 public utility cases during 1959, three began in 1957, six in 1958, and two in 1959. Six cases were pending as of June 30, 1960. Further, in some cases GSA has been in observer or limited status only but in others has participated extensively.

3. Position of GSA in Regulatory Proceedings. The Chamber Report characterizes GSA's position in regulatory proceedings as "extreme" and its position "in derogation of Federal and State legislative policy to allow revenues necessary to cover added costs of operation and to preserve the financial integrity of these industries [transportation and public utility] so that they may serve the public." This statement indicates a complete misunderstanding of GSA's position. At no time has GSA ever taken the position stated; it seems rather to be an incorrect inference from GSA's position on cost of capital and rate of return.

For a number of years GSA's technical witnesses had testified in regulatory proceedings and, in addition to developing the cost of capital, had

given opinion testimony on "the fair rate of return" which they recommended be allowed. In 1957, a restudy of GSA's policy was made and it was determined that it would be more in keeping with GSA's position as a shipper or consumer to eliminate the opinion on fair rate of return from GSA's presentations and to thereafter limit such presentations to a development of the actual cost of capital, recognizing that this represented a minimum or floor under the generally accepted rate of return. Accordingly, since that time GSA's presentations have been so limited. That cost of capital is an essential element in the determination of a general increase case is well illustrated by the following excerpts from a recent reported case in which GSA did not participate:

"No comprehensive cost of money determination was presented by the company in this proceeding. Rather, Mr. Crawford presented certain summarizations as to the current debt and preferred stock coverage of certain utilities having similar security ratings by Moody's and compared the earnings on common equity of Atlanta Gas Light Company with these same utilities. From these comparisons he attempted to draw the conclusion that the earnings level requested by the company was reasonable . . .

"In the opinion of the commission such an approach is not deemed reasonable or adequate for the determination of future rates. A utility is entitled only to that return on its investment as will keep whole the investment and will induce investors to place capital at the disposal of the utility. Such return should cover the fixed charges on debt, the dividends on preferred stock, and a reasonable return on common equity. While the opinion of management as to the total dollar requirement of the utility deserves consideration, such opinion, standing alone, lacks substantial weight . . .

"Dr. E. W. Clemens [appearing on behalf of a manufacturers association and a gas users group] presented the detailed exhibits

and testimony on the cost of capital and fair rate of return required by Atlanta Gas Light Company . . .

"After due consideration of the record in this matter, the testimony of Dr. Clemens, and the further evidence relating to the known construction program of the company for which the commission has already approved the issuance of securities to provide the necessary capital to meet such construction requirements, together with due consideration for the current high cost of money as reflected in the current market, it is the opinion of the commission that the current cost of money of Atlanta Gas Light Company is not less than 6.25 per cent under normal operating conditions. In addition to this amount, we shall provide one-half of one per cent in order to specifically provide for the possible adverse effects of unusual or abnormal weather conditions." (Re Atlanta Gas Light Company, 34 PUR 3d, 432).

It should be stated categorically that GSA has never urged another Government agency or regulatory commission to depart from the legislative policy of that commission nor has it ever claimed that the outcome of regulatory proceedings is due to "its efforts alone."

The reference to the Washington Gas Light Company case incorrectly states GSA's position. The decision cited points out that the "fair rate of return should be derived primarily from the consideration of proper cost rates applicable to the various segments of the Company's capital structure." The GSA witness testified that the cost of capital was 5.5%; a consultant employed by the Commission testified that a fair rate of return would fall between 6.10 and 6.25%. On the other hand, the Company witness recommended a 7% rate of return.

In a footnote it is incorrectly implied that GSA witnesses take a different position from that explained by its Deputy Administrator to the appropriation committees. The GSA witness mentioned in footnote 1 as testifying

at the FCC proceeding was an outside consultant testifying on limited subjects to the Commission. In response to questions by AT&T Counsel Preston the witness stated he was not testifying as to GSA policy and that he did not know precisely what its policy was. The quoted statement was thereafter made by the witness in response to AT&T questions and not as a policy witness for GSA. Further, the testimony before the District of Columbia Commission referred to was given in 1954 prior to the policy change mentioned above.

Criticism is made concerning so-called savings mentioned in the hearings on GSA's 1960 appropriation. The information discussed was requested by Committee members and the amounts shown in the table were indicated as "reduction in charges over original proposal." GSA has seldom attempted to evaluate its representation program in terms of dollar savings.

The so-called extreme position of GSA in the CAB case No. 8008 fails to note that GSA's position actually was that revenue increases were justified but that the Board should give consideration to its statutory requirement that it consider the effect of rates on the movement of traffic, i. e., whether increased fares would discourage traffic. GSA offered evidence to show and argued that the revenue problem stemmed from poor load factors rather than from rates. Contrary to the Chamber report, there had been no final decision in that case, although one was subsequently released.

It is also stated in the report that the rate of return urged by GSA is substantially below that found to be fair by regulatory commissions. This

statement is correct only for the period prior to 1957, as since that time GSA's presentation has been limited to cost of capital. Further, to be objective, the report should also state that the returns recommended or requested by the companies or their witnesses were generally higher than that allowed by the regulatory commissions.

Finally, criticism is made of the incentive award to certain GSA employees in connection with the private line investigation before the FCC. The report fails to mention that the award was made under a specific statute (68 Stat. 1105; 5 USC 2121) and that the Act in its present form is based on recommendations of industrial representatives (House Report No. 1344, 83d Congress, 2d Session). This statute provides that the awards will be made in connection with performance of "their official employment," although prior to 1954 it had been specifically limited to actions "other than part of the normal requirements" of the employees' duties. The statement that the rate changes brought about by GSA's petition actually resulted in increases of \$6 million to communication users as a whole is incorrect, as are certain other statements concerning the FCC action.

The AT&T cost study in the FCC case had been in preparation since 1955 and the results were distributed July 26, 1957. While the study showed extremely high earnings on the telephone grade services, the procedural discussions indicated the company only intended to increase the teletypewriter private line services for which the low earnings were indicated. This was subsequently confirmed when company proposals were filed to increase

teletypewriter services by 27% but making only nominal adjustments in telephone grade services. GSA accordingly filed its petition February 7, 1958, and AT&T opposed this on February 24, alleging among other things that FCC could not lawfully make such a reduction. GSA replied to that petition March 3, 1958.

No action having been taken on the reduction request, GSA filed a petition for expeditious handling on April 30, 1958, to which AT&T filed its opposition on May 13 and GSA replied on May 20, 1958. Oral argument was held on GSA's first petition before the Commission on June 12, 1958, and on June 25 it ordered the 15% reduction.

In the meantime, AT&T proposed its increases in teletypewriter grade services in response to a directive of the examiner. Those proposed rates (Ex. 92), which were prepared before the company learned of the Commission's requirement that it reduce telephone grade rates, proposed teletypewriter grade increases of 27%, which would have increased the Government's bill by \$2.9 million. After several filings, each with a reduced request, rates were permitted to go into effect subject to a special accounting order on December 2 which increased the Government's bill by only one-third of the original proposal, or 9% in lieu of the 27%. Thus the increase to the Government was \$1.9 million rather than the \$2.9 million requested which AT&T sought to justify. This further reduction in cost to the Government, however, was not reflected in the SAGE award. The two matters, i. e., telephone grade reductions and teletypewriter grade increase matters, were

handled separately by the Commission, and the company's petition of July 7, 1958, that the matters be handled together was specifically denied by the Commission.

4. GSA Policy in Relation to National Transportation Policy. The statement in the report that "GSA has neither been charged with the duty nor granted the authority to regulate the rail and air transportation systems of the country or the communications and utilities industry" is correct. Unfortunately, the manner in which it is stated implies that GSA has contended otherwise. It should therefore be stated categorically that GSA has never claimed or asserted such authority and has never appeared in a regulatory proceeding under this statute except in the role as a shipper or consumer and under the statutes and procedural requirements of the particular regulatory commission. Further, at no time has GSA urged that mere impact of increases on Government agencies be substituted for rate making standards. The Second Hoover Commission considered the relationship of national regulatory policies with respect to GSA intervention in regulatory proceedings and recommended that the policy be studied and revised to make it more definite and detailed (Report on Transportation, Recommendation No. 21, p. 96). As pointed out in the Task Force Report (p. 24), the Comptroller General of the United States has twice ruled that shipping agencies of the Government are not in a position to administer such regulatory policies. In fact, if it were to do so it would clearly be attempting to exercise a responsibility placed on the commissions.

5. Regulatory Agency Opposition to GSA. GSA has never asserted a role of "regulatory overseer" as implied in the report.

In this section, as elsewhere, it is suggested that GSA's intervention role be limited to matters of discrimination, which would not accord with the Hoover Commission objective of the Government obtaining "reasonable" rates, in view of the sharp distinction between "reasonableness" and "discrimination" in regulatory practice. With regard to the specific State commissions mentioned, the following is pertinent.

In Illinois, GSA participation was challenged in one case but the commission upheld GSA's intervention (No. 43592, Peoria Housing Authority v. Central Illinois Light Co.). In another case, Commonwealth Edison, 44391, neither the staff nor any other party presented evidence on rate of return or cost of capital except GSA. Its witness testified the cost of capital was 5-1/4% and GSA argued that no increase was justified in the return of 5.8% previously allowed by the Commission for this company. On the other hand, one company witness testified the cost of capital was 6% and that a return of 6.25% should be allowed; another testified the cost of money was between 6.23 and 6.43 and a return of 6-1/4 to 6-1/2% should be allowed. The Illinois Commission approved a return of 5.85%, thus substantially upholding the position of GSA. As to the other State commissions mentioned, while GSA had appeared in Virginia and New Jersey, it had not in Maryland, North Carolina, Florida, Georgia, Arizona, Connecticut, Minnesota, Tennessee, Idaho, or Arkansas at the time the letters were written.

The quotation from the testimony of a former member of the FCC is incomplete in that it does not include further statements made by Commissioner Hyde in the House hearings, who stated in part as follows:

"Mr. Hyde. Even when an applicant applies in his own name and undertakes to represent himself, we endeavor to see that his interests are fully protected as best we can from our side of the bench. But it does not follow from that that a litigant or an applicant might not be better served so far as his interests are concerned if he could have someone specializing in that represent his interest before the commission.

"Mr. Vursell. That would go for the Government as well as for the individual?

"Mr. Hyde. I think the same principle would apply."

6. Explanation of GSA's Role to Congress. The Report criticises fragmentary references which have been made by GSA representatives in testimony to Congress, but these partial references do not fully state GSA's role. Particular exception appears to be taken to references which characterize the regulatory commissions as "judges." The role of the commissions has been so described, however, on many occasions. The Supreme Court in the famous Hope Natural Gas case (Power Commission v. Hope Gas Co., 320 U. S. 591), explains the rate making process as "balancing the investor and the consumer interests." The California Commission has stated the role of commissions as indicated in the following quotation:

"During the course of the hearings several parties changed their positions from protestant to interested parties or to neutral parties. By communication and by comment of counsel it was alleged that applicant sent its officials out to certain individuals and groups for the purpose of discouraging appearances before the commission, even to the point of endeavoring to dissuade them from bringing their protests and problems to the commission. Applicant stated its conduct

in this regard was necessary in order for these parties to understand all of the facts regarding its business before taking a position. While applicant claimed a constitutional right to so do, to interfere with a party or a witness in a proceeding before this commission is no different than such action would be before a court.

"The basic public policy underlying the function of this commission is to provide a place where all public utility customers may come with their problems and protests, either formal or informal, for consideration and investigation. Action which is intended to dissuade subscribers from appearing at public hearings or filing written statements is inconsistent with the policy of this commission, and, in our opinion, is not in the public interest." (Underscoring supplied). (Re Pacific Telephone and Telegraph Co., 3 PUR 3d 396 (1954).

In another case, the same Commission commented on both company and intervenor witnesses presenting views limited to their interests. The Commission stated:

"A broader view is needed. The interests of the telephone subscriber cannot be ignored. A balancing of the investor and subscriber interests must be obtained." (23 PUR 3d 209 (1958)).

As late as 1958, the Montana Commission stated that one of its chief problems had been

". . . that while the utilities always presented strong cases, the interests of the rate-paying public were dependent upon the limited resources of the Commission's small staff and the unorganized efforts of individual protestants."

It expressed gratification that there had been presented "both sides of all the issues involved." It further stated that the case had an "historic aspect," as it represented the first time that evidence had been presented on behalf of any rate payers. (Re Montana States Telephone and Telegraph Co., 23 PUR 3d 233).

A Commissioner of the FCC has also described that Commission as comparable to a "court." (Hearings, Independent Offices Appropriations for 1959, p. 691)

The statement in the Chamber report that the regulatory agencies "are equipped with competent staffs, including lawyers who appear publicly and conduct an adversary presentation" may be partially correct. The practice varies widely between regulatory commissions. The staffs of some commissions, such as the Interstate Commerce Commission, take no direct part in the rate making proceeding. Others, such as the Federal Maritime Board and the Civil Aeronautics Board, supply counsel and sometimes witnesses in proceedings. In recent FCC proceedings, FCC staff participation has been limited to cross-examination of company witnesses and the making of requests for presentation of data. In the State commissions, staffs vary widely in size, as does their practice with regard to the participation or nonparticipation of staffs in the hearings.

In any event, the regulated utilities are not always favorably disposed to staff participation. For example, in a 1958 case where the staff proposed certain adjustments, the utility contended that the staff's position was "at war with practical realities"; that the staff witness was "unqualified" and that the result of its method "demonstrates its unreality and practical impossibility." A number of the staff proposals were characterized as "unfair, illogical, and pretense." (Brief of Pacific Telephone and Telegraph Co., No. 39309 Calif. PUC.) In a recent CAB case, staff participation was characterized as "predetermined conclusion"; "unreasonable

adherence to a preconceived disposition to disapprove at any cost a fare increase"; and "an irresponsible and shocking approach." (Oral Argument, July 31, 1957, CAB Docket No. 8613).

The Report again states that GSA requests rates be fixed solely on the basis of their impact on agency appropriations, but this is incorrect and GSA has never made such a contention. The GSA testimony to the CAB referred to was for the purpose of defining GSA's interest in the proceeding and in no way suggested a departure from the normal rate-making standards. Rather, GSA's position in the case was based solely on the specific rate-making standards of the CAB Act. In this connection, it is also noted that Recommendation No. 4 in Part 7 of the Chamber Report specifically recommends that in rate proceedings GSA develop pertinent facts relative to Government usage and "the impact of existing and proposed rate schedules on the Government." A final decision was released in that case on November 25, 1960, which specified rate making principles to be followed in the future. The CAB did not, however, fix any fares or authorize any specified increases.

The comment speaks of GSA ignoring tax benefits to the Government. In this connection, GSA has always taken the position that the purpose of its Act is to reduce Government expenditures and accordingly the tax collections resulting from increased revenues of the regulated industries have not been considered. This policy has been approved by the Treasury Department by letter dated March 29, 1957.

Attachments

Excerpt from GSA Policy Manual - ADM 5450.3 CHGE 4, July 31, 1959.

CHAPTER 1. AUTHORITIES AND RESPONSIBILITIES

* * * * *

PART 10. TRANSPORTATION AND PUBLIC UTILITIES SERVICE

SECTION 1. COMMISSIONER

141. RESPONSIBILITIES.

a. The Transportation and Public Utilities Service is responsible for the development of Governmentwide policies and regulations governing the procurement and utilization of transportation, public utilities, and communications services in the executive agencies; for assisting in the improvement of transportation and traffic practices of executive agencies and assurance of conformity with applicable statutes and GSA policies, and for arranging and conducting traffic management seminars and other educational programs for the training of executive agency transportation personnel.

b. This service is responsible for the provision of advice and expert testimony on behalf of executive agencies in proceedings before Federal and State regulatory bodies involving transportation, public utilities, communications, and the semiautomatic ground environment (SAGE) system; for the representation of executive agencies in negotiations of rates and contracts for transportation, public utilities, and communications services, and the administration of these arrangements, and for the design of rates and rate schedules for public utility service; for the provision of technical advice and assistance to GSA and other executive agency contracting officers in the development and use of transportation terms and conditions for inclusion in invitations to bid and contracts for supplies and equipment, and in the furnishing of transportation cost data for use in the evaluation of bids; and for the negotiation with carriers and carrier committees for fair and reasonable transportation rates, storage-in-transit agreements, and rules and regulations pertaining to volume movements of executive agencies.

c. It is also responsible for loss and damage claims evaluation, and the development of programs for the prevention of loss and damage; for making fair and equitable distribution of traffic among the various modes and carriers within the modes; and for assistance to the Bureau of the Budget in the development of regulations governing the transportation of Government employees, their personal effects, and household goods.

Excerpts from GSA Order TPS 5020.1, Nov. 19, 1959

SUBJECT: Proceedings of State Regulatory Commissions

1. PURPOSE. This order prescribes policies and procedures governing regional office reviews and reports on intrastate regulatory commission dockets involving rates and services to executive agencies of the Federal Government by all forms of transportation and public utility companies. It is intended to provide a systematic basis on which GSA interest can be determined to aid it in performance of its mission.
 2. STATUTORY REQUIREMENTS. In accordance with Section 201(a)(4) of the Federal Property and Administrative Services Act of 1949 (Public Law 152, 81st Congress; 63 Stat. 383; 40 USC 481), the General Services Administration represents civilian and military executive agencies as consumers or users of public utility services in proceedings before Federal and State regulatory bodies, and represents civilian agencies in proceedings involving transportation. The Secretary of Defense has exempted the Department of Defense on transportation matters under this statutory provision.
 3. BASIS OF REPRESENTATION. GSA represents the Government in regulatory proceedings as a consumer or shipper and not in any sovereign or regulatory capacity. GSA's interest is confined to the possible effect of proceedings, whether existing or to be initiated, on transportation or public utility services or charges to the Government, and to obtaining the lowest reasonable and lawful rates consistent with the furnishing of such services. Based on staff availability, GSA participates in selected cases of major interest to the executive agencies of the United States.
- * * *
8. ACTION ON INTERVENTIONS. On the basis of regional office reports, with recommendations, and Central Office technical analyses, evaluation, and legal advice, the Commissioner, TPUS, with the concurrence of the General Counsel, shall recommend intervention to the Administrator, whenever appropriate.

The Administrator's personal review and approval are required with respect to "all determinations to represent executive agencies in

proceedings involving carriers or other public utilities before Federal and State regulatory bodies." Accordingly, regional personnel should never intervene, appear, or testify in transportation or public utility proceedings before any regulatory bodies unless appropriate instructions have been issued from the Central Office indicating the Administrator's approval.

Because of time limits and hearing dates and the necessity of obtaining the Administrator's approval, recommendations should be submitted promptly; and, if necessary advance notices of recommendations should be sent by wire or telephone.

Particular care should be taken to keep those responsible for review informed of deadlines for action, particularly any due dates for filing of protests or petitions for leave to intervene, and dates of imminent hearings.

Upon approval by the Administrator, the Office of General Counsel takes the necessary action, based on delegated authority, with respect to intervention procedure. The subsequent presentation of the Government's evidence in cases is directed and coordinated by the Office of General Counsel. In the handling of the case, legal or technical assistance by GSA Central Office or Regional Office personnel or by personnel of other executive agencies may be furnished as determined by the Office of General Counsel, in collaboration with the Commissioner, TPUS.

9. ACTION ON NONINTERVENTION. Where it is determined that a particular proceeding substantially or significantly affects the Government as a consumer, but the region recommends nonintervention, such a report shall be submitted to the Commissioner, TPUS, in the same manner as for intervention and a final determination will be made by the Central Office.

Chamber of Commerce of the United States

1615 H STREET, N.W. • WASHINGTON 6, D. C.
National 8-2380TRANSPORTATION AND
COMMUNICATION DEPARTMENT
GERALD W. COLLINS, MANAGER

February 15, 1961

The Honorable John Louis Moore, Administrator
General Services Administration
Washington 25, D. C.

Dear Mr. Moore:

We are submitting for your consideration an exhaustive memorandum containing quotations from the official records of the regulatory agencies in order to demonstrate the policies and practices of the Transportation and Public Utilities Services (TPUS) of the General Services Administration when appearing before such agencies. We sincerely believe, and hope that you will agree, that this memorandum refutes the claim by TPUS that the Chamber's November 1960 report showed a "complete misunderstanding of the GSA's position" in these proceedings.

Our memorandum is submitted without any intention of questioning the good faith of the TPUS representatives who prepared the 19 pages of comment criticizing the accuracy of certain statements in the Chamber's report. Since the public records demonstrate that TPUS's comments are inaccurate in many important respects, we urge you to compare these facts with the allegations made by TPUS in its comments.

As you may know, the Chamber's November report was occasioned by the fact that certain of GSA's activities in the regulatory field have long been a matter of substantial public controversy involving not only the regulated industries but also the regulatory agencies, thereby raising substantial questions of Government policy. The fact that TPUS has gone into matters of regulatory policy, thereby overstepping its jurisdiction and duplicating the efforts of regulatory bodies is clearly demonstrated by the December 1960 Resolution of the National Association of Railroad and Utilities Commissioners, seeking congressional aid in limiting the scope of TPUS's activities. A portion of the Resolution states:

"During such interventions GSA has participated as an adversary, adducing evidence on rate of return, rate base, cost of capital, valuations of property and other

BUILDING AMERICA'S STRENGTH THROUGH VOLUNTARY ACTION

technical factors in the rate-making process, much of which duplicates similar presentations by members of regulatory staffs and other intervenors, including other federal agencies, and unnecessarily multiplies the parties to be heard and prolongs proceedings;"

The Senate Appropriations Committee at the last session of Congress asked GSA to carefully reappraise its functions in this field and stated that it planned to explore the matter more fully before the next budget period.

By letter dated December 23, 1960, but actually received by my office on December 30, Mr. Franklin Floete replied to the Chamber's report attaching 19 pages of comment prepared by TPUS. Due to my absence, the press of other duties and our desire to document thoroughly our reply so as to avoid future misunderstanding, a reply to Mr. Floete during his tenure in office was unfortunately impossible. We advised Mr. Floete of this fact and assured him that our comments would be directed to you for your consideration.

We hope that you will find the attached memorandum of aid to you in your appraisal of these activities. May we assure you that the Chamber has no intention of either disparaging TPUS, your predecessor in office, Mr. Floete, or improperly criticizing activities of TPUS. We welcome full disclosure of all pertinent facts to the Senate and House Appropriations Committees or other Committees of Congress.

It is in this spirit that we wish to correct a possible misimpression that expenditures for this litigation activity may have risen more sharply than they have. We are pleased that TPUS now is making available its own estimate of expenditures for this function in 1961. This information should be most helpful to a fuller understanding. In passing, however, we note that this estimate, according to page 6 of the comments, consists of allocations of only three budget items. No mention is made of any allocation of the items for "Service Direction", the appropriation for the salary and expenses of the Commissioner of Transportation and Public Utilities Services and his assistants and staff, or for the salary and expenses of the staffs and lawyers of the regional offices.

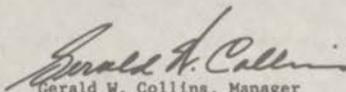
We trust that you will agree with us that the ultimate issue involved is not the gross amount of the TPUS appropriation at any one time for its interventions. Rather, we believe the two prime issues are (1) whether non-regulatory agencies such as TPUS should properly involve themselves in matters of regulatory policy which are the statutory responsibilities of the regulatory agencies, and (2) whether the wasteful

and ineffective duplication of functions already performed by regulatory agency personnel should be continued by TPUS.

The Chamber desires that there be no misunderstanding of its position. Presentations by TPUS before regulatory agencies should be restricted to proposals directly affecting it or agencies of the Federal Government. It should seek to assure that rates for the Government are reasonable in terms of quantity and composition as compared with other users and that no disproportionate rate burden is placed on the Government. TPUS can do this without making presentations, such as the attached memorandum shows that it has, on matters of general regulatory policy, thereby duplicating the work of regulatory bodies which were created by Congress and the state legislatures for the specific purpose of setting rates and insuring adequate service for the present and for the future.

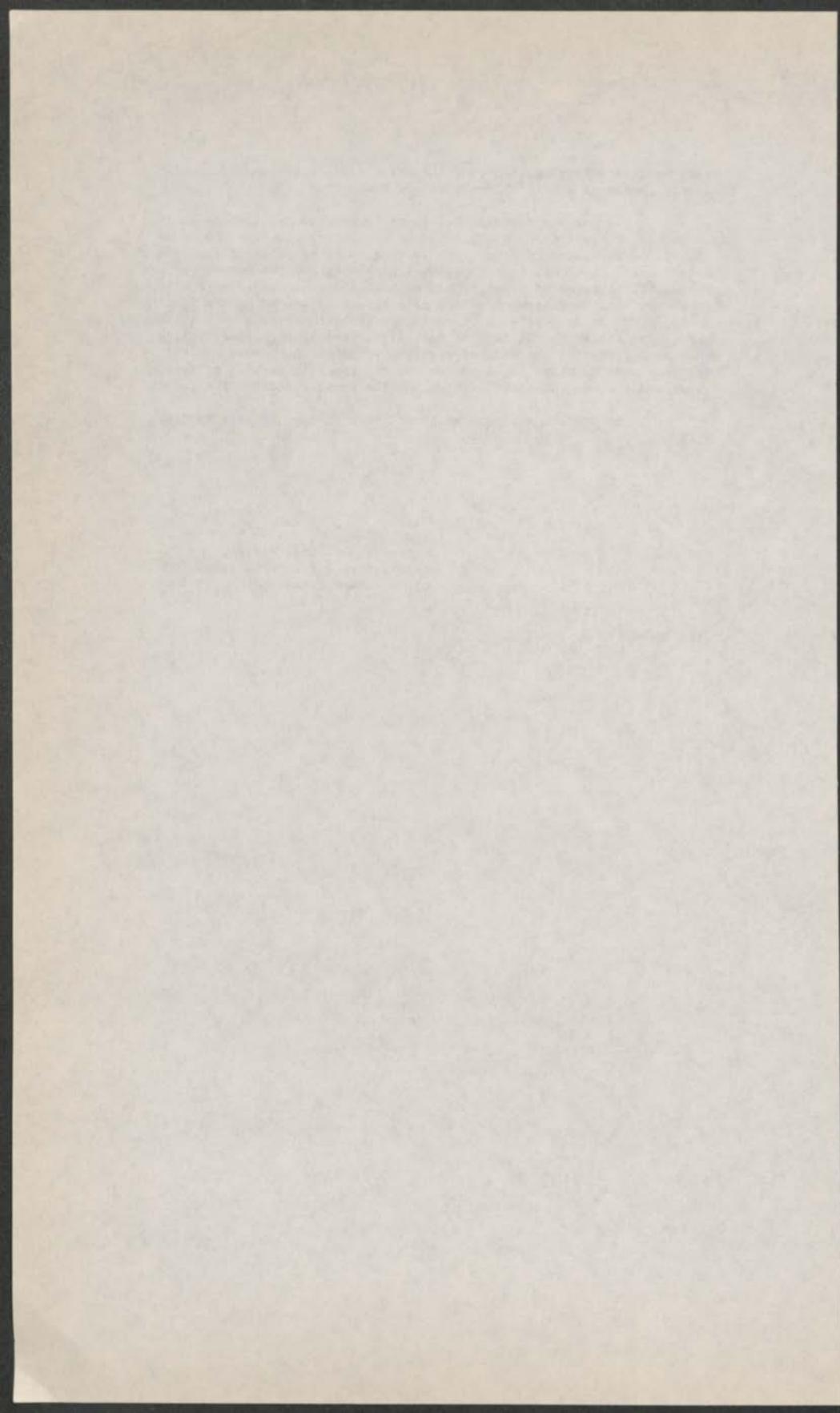
The Chamber welcomes an opportunity to discuss this subject with you.

Sincerely,



Gerald W. Collins, Manager
Transportation and Communication
Department

Attachment



A REVIEW
.....
OF THE GENERAL SERVICES
ADMINISTRATIONS' PRACTICES
BEFORE THE
REGULATORY AGENCIES

February, 1961

Transportation and Communication Department
Chamber of Commerce of the United States



1003

A REVIEW OF THE GENERAL SERVICES
ADMINISTRATIONS' PRACTICES BEFORE THE REGULATORY AGENCIES

The immediate past Administrator of the General Services Administration, Mr. Franklin Floete, said in a December 23, 1960 letter that, "Continual criticism has been raised during my tenure as Administrator and, according to the staff, since the inception of GSA, against GSA participation in so-called 'general increase' cases." Mr. Floete correctly states that GSA's activities in general increase cases are ". . . at the heart of the complaint in the committee report of the Chamber."¹ In characterizing the Chamber committee report as unconvincing and as evidencing a "complete misunderstanding of GSA's position," Mr. Floete's letter and the attached comments of the Transportation and Public Utilities Service (TPUS) offer the following grounds:

1. The Chamber's statement that ". . . the rate of return urged by GSA is substantially below that found to be fair by regulatory commissions" is "correct only for the period prior to 1957, as since that time GSA's presentation has been limited to cost of capital."
2. A major review of GSA policies was made during 1957 and it was determined that ". . . it would be more in keeping with GSA's position as a shipper or consumer to eliminate the opinion on fair rate of return from GSA's presentations" and, in the future, to limit testimony to the "more factual basis" of the "actual cost of capital, recognizing that this represented a minimum or floor under the generally accepted rate of return."
3. "It should be stated categorically that GSA has never urged another Government agency or regulatory commission to depart from the legislative policy of that commission nor has it ever claimed that the outcome of regulatory proceedings is due to 'its efforts alone.'"

¹ A report by the Transportation and Communication Department of the Chamber of Commerce of the United States issued November 1960.

In view of these statements, it seems most appropriate to broaden the Chamber committee's report to include a study of GSA's activities in a representative number of proceedings in which GSA took an active part after its major policy decision of 1957. As will be demonstrated by facts of public record, this additional analysis completely supports and further documents the conclusion that GSA has consistently urged regulatory agencies to depart from their legislative policies in important matters such as rate base and rate of return. In completely documenting this conclusion, it will be necessary in the following pages to quote at length from numerous transcripts, briefs and other public records.

Apparently, GSA's first participation in a general rate increase case following its decision to no longer present fair rate-of-return testimony was in Re New Jersey Bell Telephone Company, 22 P.U.R.3d 166 (1957), before the New Jersey Board of Public Utility Commissioners. While the change in policy might well have been explained by GSA representatives, the fact is that the GSA witness, then Director of the Public Utilities Division of GSA's Transportation and Public Utilities Service, gave the following testimony when asked why he had reformed his testimony from fair rate of return to cost of capital (Tr. at p. 1969):

- "A. Well, cost of capital testimony is the basis for fair rate of return testimony and, as I mentioned before, cost of capital at least is the minimum fair rate of return if not the fair rate of return.
- "Q. Then, if that is so, why did you put in fair rate of return testimony in the New York Telephone Company case? What caused you to change your mind between 7-31-57 and 11-26-57, four months difference?
- "A. Well, there is no change in policies, as I mentioned before. There is a change in emphasis in keeping with our statutory requirement of providing--
- "Q. . . . Why did you change? Did you get up one morning and say, 'I don't like fair rate of return any more, it is now cost of capital'?
- "A. No, I did not.
- "Q. What led you to change your approach or your result and offer?
- "A. Well, in my opinion I wasn't following the statutory responsibility of G.S.A. to provide service at the lowest reasonable cost."
(Underscoring added.)

Moreover, GSA's brief before the New Jersey Commission, dated December 16, 1957, contained the following:

" . . . In the opinion of Mr. MacIntosh the cost of capital is at least the lowest range of a fair and reasonable rate of return, and, under the particular circumstances of the instant proceeding, approximates the fair rate of return. . . . [Brief at p. 9]

.
"GSA POSITION

"(c) The Company's cost of capital is 5.6 per cent on a net original cost base. After giving effect to

the proper ratemaking adjustments, the Company's present revenues meet its cost of capital. Accordingly, the Company failed to justify a rate increase at this time." (Brief at pp. 20-21; underscoring added.)

Clearly, GSA representatives in the New Jersey Telephone case took the position that (1) cost of capital* is at least a minimum fair rate of return, "if not the fair rate of return," (2) a switch to cost of capital testimony did not mean that GSA policies had been changed, (3) cost-of-capital testimony was in accord with GSA's "statutory responsibility" to "provide service at the lowest reasonable cost," and (4) after "proper" adjustments the utility's revenues met its cost of capital and no rate increase was justified. Nevertheless, during hearings held before the Senate Appropriations Committee on May 12, 1958, GSA representatives stated (Senate Appropriations Subcommittee, Independent Offices 1959 at pp. 391-92):

"Mr. Mills. I think there is a misunderstanding stated in this letter [received by Senator Ellender from a constituent] that we should clarify. Let me just quote from the letter:

* The GSA witness testified that cost of capital was 5.6%, the Commission staff witness 5.9% to 6.0%, and the company witness 7%. The Commission allowed a return of 6.0% to 6.37% (22 P.U.R.3d at p. 170). Four attorneys appeared for GSA, one for the utility, three for the state by appointment of the State Attorney General, one for the Board of Public Utility Commissioners, and fifteen for other parties (22 P.U.R.3d at p. 167).

"I understand in rate proceedings in New Jersey and California involving the telephone company, GSA witnesses have taken the position that the cost of capital was approximately 5.61 percent and that the rate of a return and cost of capital are synonymous."

"That is not the position that GSA takes. We believe that the cost of capital is quite a different figure than rate of return and in these cases before regulatory bodies, be they Federal or State, we do not presume to tell or suggest to the regulatory commission what the fair and reasonable rate of return should be."

Comments of TPUS allege that the Chamber committee's report "incorrectly states GSA's position" in Re Washington Gas Light Company, 24 P.U.R.3d 417 (D.C. P.U.C., 1958), a case in which GSA intervened subsequent to the review of its regulatory policies in 1957. According to TPUS (p. 10):

"... The decision points out that the 'fair rate of return should be derived primarily from the consideration of proper cost rates applicable to the various segments of the Company's capital structure.' The GSA witness testified that the cost of capital was 5.5%; a consultant employed by the Commission testified that a fair rate of return would fall between 6.10 and 6.25%. On the other hand, the Company witness recommended a 7% rate of return."

At the risk of repetition, it seems desirable to state the facts of this case as they appear in the Commission's opinion and order so as to fully reveal the true nature of GSA's contentions.

The Washington Gas Light Company filed application on December 2, 1957 for a gas rate increase averaging 8.8% of gross revenues. The Commission found that higher operating and investment costs had never permitted this utility to

earn at the rate of 6.25% on an average net investment rate base found reasonable by the Commission in 1953. The utility's current earnings, after adjustment, had declined to 5.28%* and record showed that the costs of new capital "during the past year have been higher than at any time in the past twenty years."

Despite TPUS' statement, quoted above, that ". . . GSA has never urged another Government agency or regulatory commission to depart from the legislative policy of that commission," the facts in this case show the contrary. Besides urging the Commission to 5.51%, GSA unsuccessfully insisted upon a smaller valuation of the rate base (24 P.U.R. 3d at pp. 424-27). The lower valuation was sought in face of the following facts: (1) the commission staff's expert agreed that an "end-of-period" rate basis was an "appropriate method . . . of offsetting the adverse effect of earnings of attrition resulting from constantly increasing operating expenses . . . and from the necessity of replacing low-cost property with property at the present high level of construction costs without a compensating increase in revenue"; (2) the utility had consistently experienced such increased costs since 1953; and, (3) the District of Columbia Commission as well as a large number of other state commissions had adopted

* This figure does not appear as such in the Commission opinion but represents the current level of earnings obtained by dividing net income, as adjusted by the Commission, to the rate base similarly determined by the Commission.

the policy of using an end-of-period net investment base as a counterbalance to the attrition of earnings levels.

Four witnesses gave testimony in the Washington Gaslight case bearing on rate of return. The two company witnesses supported a return of 7%, one of whom used a cost-of-capital approach. The commission staff's expert witness, Mr. Kosh, a former GSA employee, testified that cost of capital to the company was 6.10% and stated that, in his opinion, the fair rate of return fell within a range of 6.10% to 6.25% (24 P.U.R.3d at p. 437). On the other hand, "James K. MacIntosh testified . . . as to the cost of capital, but stated that he was not making a recommendation of what might constitute a fair rate of return, although he did state that his determination of cost of capital would satisfy the minimum requirements of a nonconfiscatory rate of return or the 'floor' of a fair rate of return" (24 P.U.R. 3d at pp. 433-34).

Since Mr. MacIntosh testified that cost of capital to the Washington Gaslight Company was 5.51%, a level substantially below that found by the commission staff's own expert and even further afield from the Commission's own finding of an actual cost of 6.27% and a fair rate of return ranging between 6.30% to 6.45%, the question naturally arises as to how GSA's lower rate was calculated, particularly in

view of TPUS' statements that GSA decided in 1957 to "limit such presentations to the actual cost of capital." (Under-scoring added.) According to the District of Columbia Commission, Mr. MacIntosh's substantially lower cost was in "large measure" due to the use of capital ratios, i.e., the percentages of debt, preferred and common stock to total capital, existing during the period 1950-1956 and not those actually in existence at the time of the proceeding. As to this failure to present "actual" costs of capital,* the Commission stated (24 P.U.R.3d at p. 435):

" . . . The record shows that there has been a steady improvement in the capitalization of the company during this period [1950-1957], whereby the combined ratio for debt and preferred stock has gradually decreased, with a corresponding increase in the ratio for common equity capital, to a point where the ratios as of June 30, 1957, are fairly representative of the capitalization ratios for the distributing gas industry as a whole. In view of this fact, and the further fact that we know of no intention on the part of the company to reduce materially the common equity ratio under any plan for permanent future financing, we reject the capitalization ratios used by Mr. MacIntosh for purposes of this proceeding." (Under-scoring added.)

In Re Baltimore Gas & Electric Company, 24 P.U.R. 3d 247 (Md. P.S.C., 1958), the utility was faced with dangerously low earnings levels and with the necessity of

* The utility company's brief disposed of Mr. MacIntosh's testimony in one sentence stating (p. 10), ". . . the record shows that his testimony was too narrow in scope, and his conclusions too unrealistic, to merit discussion."

raising \$270 million of new capital over the next five years in order to meet the public's demand for its services. Its situation was described as follows by the Maryland Court of Appeals* (29 P.U.R.3d at pp. 333-34):

"The testimony before the commission permitted, almost compelled, findings that the cost of the company's services has remained virtually unchanged since 1930 despite the halving of the purchasing power of the dollar, the trebling of the company's wage rates, and the doubling of its taxes per dollar of revenue, that the rates set by the commission have failed during the twelve postwar years to produce the anticipated rate of return, and in nine of these years, if a year-end rate base is used, and in six of these years, if an average rate base is used, the minimum return authorized has not been earned. Using year-end rate bases, the unrecoverable revenue deficiencies below the allowed maximums amounted to \$19,700,000 and below the allowed minimums, \$6,200,000, even though during the same period the company had increased its efficiencies in utilization of labor, consumption of fuel, utilization of system intercommunication, and otherwise. As a result there has been a definite, nation-wide deterioration in investors' regard for the company's common stock, which has failed to progress as compared to the stock of representative utilities throughout the country and as compared to those of the seven surrounding public utilities in Maryland, Delaware, Pennsylvania, the District of Columbia, and Virginia. Informed and experienced investors often had sold or not added to their holdings of the company's common stock because they could do better in other utilities. Despite this history of inadequate earnings and lessened regard by the investors, the company must spend some \$270 million in the next five years to provide service for those who will call for it. This could not be done reasonably and practicably unless adequate earnings were authorized, and the company proved it could translate authorization into realization and materially improve its earnings per share."

* Affirming the Commission's order.

Here GSA's witness, Mr. MacIntosh, not only presented his usual cost-of-capital testimony but also predicted future capital costs at the conclusion of \$270 million of new financing over a five-year period. According to the Commission's opinion, this witness testified that, in his opinion, the over-all cost of capital to the company was only 5.11%. Further, "The witness also anticipated the 1963 cost of capital, after the \$270 million proposed expansion program to be 5.2 per cent." Despite the utility's sale of a \$30 million bond issue during March 1958 at a cost to the company of 3.98%, Mr. MacIntosh flatly predicted that the company ". . . will be able to obtain its debt portion of the required \$270 million at cost of 3.294 per cent" (24 P.U.R.3d at p. 259). To this the Maryland Commission made the following comment (24 P.U.R. 3d at p. 259):

". . . We hope that the company may be that fortunate but, in light of the economic conditions of the past five years, it would be wishful thinking for this commission to anticipate that the low cost of debt will arrive at that low level during the next five years. It appears that sound judgment requires us to accept as cost of debt a figure approximating the cost of the recent company issue, or 4 per cent."

These predictions of future costs were based upon

the witness' expressed opinion* that (Tr. 887), "There are evidences, however, that there will be a downward change in the level of money rates which has prevailed since September 1956 and especially in the level of money rates in 1958." Actually, at the time this testimony was given in June 1958, long-term interest rates had begun one of the sharpest increases during the post-World War II period. On June 9, 1960 the Baltimore Gas & Electric Company sold a \$25 million 4 7/8% bond issue at a cost to it of 4.81%.

Moreover, the GSA witness testified that the historical cost to the utility of its preferred stock issues was 4.41% (Tr. at p. 891) but that, after issuance of \$29,700,000 of new preferred stock over five years in the future, the net over-all cost would decrease to 4.329% (Tr. at pp. 926-27). The Maryland Commission, however, allowed 4.75% (24 P.U.R.3d at p. 260). While the Baltimore Gas & Electric Company has not as yet issued additional preferred stock, it may be noted that on January 23, 1961 Consolidated Edison Company of New York sold \$75 million of preferred shares

* On cross-examination, the witness conceded that he had never (1) actively participated in the sale of an issuance of public utility bonds or stocks, (2) negotiated with dealers in connection with public offerings, (3) managed any financial operations of a business nor participated in the acquisition of capital for any company, and (4) consulted with institutional purchasers of securities, trustees, mutual funds, or other large holders or management groups (Tr. at pp. 940-41).

with a dividend rate of 5 1/4% and not callable for seven years (N.Y. Herald Tribune, Jan. 23, 1961, p. 23).

As previously noted in the Chamber committee's November 1960 report, GSA intervened during January 1960 for the first time in a proceeding before the Federal Power Commission. This involved a general rate increase proposed by the Southern Natural Gas Company, F.P.C. Docket No. G-20509. On April 13, 1960, GSA counsel announced that GSA intended to present a direct case on cost of capital because GSA was not satisfied with the presentation made by the FPC staff. He further stated: "I personally am not satisfied that the Company's presentation on the question of rate of return has been successfully discredited or rebutted." Subsequently on May 10, 1960, Mr. MacIntosh's written testimony was placed in the record. He testified that the company's cost of debt was 3.946% and that its cost of equity capital was 8.63% or an over-all cost of 5.78%. Mr. MacIntosh said that he would not attempt to recommend a fair rate of return but that his capital cost figure would "satisfy the minimum requirements of a non-confiscatory rate of return" and that, "My calculation represents the floor of a range of fair rate of return." Cross-examination revealed

striking deficiencies in Mr. MacIntosh's calculations and serious questions as to whether he was presenting the actual* cost of capital. First, as stated by the FPC staff brief dated June 13, 1960 (p. 21):

"Witness MacIntosh did not include existing convertible debentures amounting to \$1.3 million dollars (Tr. 2026), bank notes amounting to \$47 million dollars (Tr. 2021), or The Offshore Company notes of Southern amounting to \$2.7 million dollars in Southern's total debt (Tr. 2086). He also omitted from consideration \$500,000 of interest free debt (Tr. 2085)."

Second, Mr. MacIntosh had erroneously calculated his 3.946% cost-of-debt capital. As stated by the FPC staff's brief (p. 22):

"His method of weighting debt capital costs in this case understates the cost of debt capital which Southern will experience in the immediate future because his method fails to reflect the fact that earlier, low-cost debt has been retired in large part. Moreover, Mr. MacIntosh did not provide an explanation of the relationship between his method of computing Southern's cost of debt and its actual outstanding debt. (Tr. 2032)"

* The following quotation is from page 2027 of the transcript concerning omission of the convertible debentures:

"Q. Was that just an oversight, Mr. MacIntosh, that you didn't include it?"

"A. No. I don't think it was an oversight.

"Q. Well, it was deliberate that you didn't include it?"

"A. No. It was not deliberate.

"Q. Well, I am a little non-plussed, if it wasn't an oversight and it wasn't deliberate, how did it happen that you did not include an outstanding issue of Southern's debt securities?"

"A. That is something I can't answer at this time, sir."

While the brief of the FPC staff made no comment as to Mr. MacIntosh's calculation of the cost of equity capital, the company's cross-examination and brief made two points: (1) that his allowance for the cost of equity capital would result in a dividend of only \$1.09 compared to the current rate of \$2.00; and (2) that if the witness had started with the current \$2.00 dividend and used a 67% dividend pay-out ratio of earnings per common share, which he had recommended, he would have come up with earnings of \$2.98 per share, an amount in excess of that sought by the company.

Subsequently on July 8, 1960 the FPC issued an order determining the reasonable rate of return to be 6 1/2%. In so doing the Commission found that the cost-of-debt capital was 4.25% and that this cost would increase to 4.45% after necessary financing in the immediate future. Its opinion stated with respect to whether the actual cost of debt had been determined (24 F.P.C. at p. 28):

"... [GSA] understates the cost of debt securities outstanding at the time of hearing, and understates the cost of debt which Southern will experience because of the failure of this method to reflect the fact that earlier, low cost debt has in large part been retired."

Moreover the FPC rejected Mr. MacIntosh's use of dividend price ratios in determining the cost of equity capital as being contrary to its regulatory policy, stating:

". . . Nor are we persuaded that the dividend-price ratios employed by GSA's witness are a better measure of investor requirements than earnings-price ratios heretofore utilized by the Commission. We can find no good reason for departing from the Commission's practice of using earnings-price ratios, with judgment, as an indication of a proper return on common equity."

A very recent example of GSA activity in a general rate increase case is that of Re Public Service Electric & Gas Company, New Jersey Board of Public Utility Commissioners, Docket No. 584-10646, August 12, 1960. Here, the individual appearances of counsel, other than the four appearing for the utility and six appearing for GSA, consisted of two Deputy Attorneys General representing the Board of Public Utility Commissioners, three attorneys appointed by the New Jersey Attorney General and appearing in the public interest as Rate Counsel, eight for various manufacturers and an industrial association, twenty-two for various municipalities and five for a railroad, vocation school, water commission and individuals. Hearings were held on ninety-six days and the record contained 7664 pages in addition to prepared written testimony.

Three witnesses representing the Rate Counsel, company and GSA testified with respect to rate of return matters. The company witness testified that cost of capital was 6.1% to 6.2%, Rate Counsel's witness found 5.81%, and the GSA

witness testified to 5.64%. As noted by the New Jersey Board (Mimeo. at p. 10):

"In addition to his cost of capital of 6.1% to 6.2% as stated by Witness Reis [company], he added .3%-.4% for other factors to determine that a fair rate of return for Petitioner was 6.5%. The other witnesses contend that their cost of capital is equivalent or comparable to fair rate of return."* (Underscoring added.)

The Board found that a return in the range of 6.10% to 6.37% was fair and reasonable and used 6.25% to test the reasonableness of the utility's rates.

GSA's participation in the Public Service case was not limited to rate of return matters but also encompassed numerous matters involving regulatory policy such as rate base and revenue items. According to the New Jersey Board's opinion, GSA's brief contained calculations for both a net investment end-of-period base and an average net investment base. The opinion indicates that GSA's calculations of an average net investment base were \$21 million less than any average net investment base proposed by Rate Counsel and, similarly, that GSA's claims with respect to an end-of-period base were \$81,455,000 less

* The opinion of the New Jersey Board quotes each witness' characterization of his cost of capital opinion. It quotes the witness for GSA as stating (Mimeo. at p. 12):

"In my opinion, the capital costs to the Public Service Electric and Gas Company at this time are 5.64%, and My cost of capital computation will satisfy the minimum requirements of a non-confiscatory rate of return. My calculation represents the floor of a range of fair rate of return"

than that found fair and reasonable by the Board. How was this accomplished? According to the Board* (Mimeo. at p. 15):

" . . . they [GSA] would make no allowance for unamortized conversion costs, gas plant acquisition adjustment and the unamortized abandonment loss of the Camden Coke plant. They would deduct property held for future use and in addition, property (including transformers, meters and services) which they contend are not presently in use, as well as the restricted surplus arising from both taxes deferred by amortization of emergency facilities and accelerated depreciation."

Revenue adjustments contended for by GSA are summarized as follows (Mimeo. at p. 18):

"GSA used the Petitioner's actual 1959 income statement and makes an adjustment for abandonment of Camden Coke Plant. GSA eliminates the normalization of the tax reductions available for liberalized depreciation and accelerated amortization, amortizes rate case expenses over 5 years, eliminates charitable and educational contributions, and considers merchandising and jobbing net cost to be a non-operating expense. GSA's calculation of operating income in its brief shows the net effect of eliminating the electric fuel adjustment recoveries and the net effect of eliminating the \$3,500,000 negotiated gas increase."

In the interest of brevity and in view of the fact that the proceedings discussed above are representative, it

* While the dollar amount of each item which GSA representatives would have excluded from the rate base is not available, the Board's opinion does disclose the following amounts (Mimeo. at p. 17):

Utility Plant Held for Future Use	\$ 583,851
Unamortized Natural Gas Conversion Costs.	11,796,772
Gas Plant Acquisition Adjustments	14,744,603
Unamortized Abandonment Loss - Camden Coke Plant	2,781,582

seems inadvisable to continue extended discussion of GSA's activities in regulatory proceedings. Illustrative of cases which might be discussed are: Re Potomac Edison Power Co., 28 P.U.R.3d 206, 213 (D.C. P.U.C., 1959) in which a GSA witness testified that in his opinion ". . . the company is not entitled to any rate relief at this time" even though earnings had declined to 5.22% and were so low as to prohibit the sale of common stock during 1957 and 1958, thereby forcing the sale of debt securities and reducing the utility's equity ratio to only 30%; the anomalous situation in Re the Investigation on the Commission's Own Motion Concerning the Proper Treatment, for Ratemaking Purposes, to be Accorded Accelerated Amortization and Accelerated Depreciation, Cal. P.U.C., Docket No. 6148, wherein GSA speaking for the "consumer interests" of the United States urged a state commission, in the adoption of its regulatory policies, to adopt a highly questionable interpretation of Congress' intent when it enacted provisions of the Internal Revenue Code dealing with accelerated depreciation; opposition to increased express rates in Ex Parte 210 before the ICC even though the petitioner was operating

at a deficit of \$49.6 million;* and, opposition to freight rate increases in Ex Parte 206 (on the ground, among others, that the increases would be "excessively inflationary") as well as the more recent opposition to freight rate increases in Ex Parte 212. While GSA opposed increases in express and freight rates, it should be noted that government shipments do not have to move at tariff rates but may move at special Section 22 rates.

The record is abundantly clear that in determining whether to intervene in a rate proceeding, GSA gives consideration to (1) whether the proposed rates will involve

* 304 I.C.C. at p. 748. Despite TPUS' claim (p. 14 of comments on November 1960 Chamber report) that ". . . at no time has GSA urged that mere impact of increases on government agencies be substituted for ratemaking standards" the following testimony was given by its employee witness (Tr. 2605-06):

"Q. Is there any traffic that GSA ships by express which you think might be entitled to an increase?

"A. We have made no survey concerning that matter, and I wouldn't be in a position to answer it.

"Q. In other words, this is just to hold down the expenses of the agencies that GSA is here speaking for?

"A. Principally, yes.

"Q. Did you give any consideration to the cost of doing rail express business, the cost of performing the service, in making your recommendation?

"A. No. Not in our particular phase, we made no cost studies.

"Q. In making the recommendation of a general opposition to this increase, did you consider it immaterial how much it cost to provide the service that the government is using?

"Mr. Miller - Mr. Examiner, I think the witness has said he made no survey." (Underscoring added.)

an increase in the government's bill and (2) the availability of GSA personnel to participate in the proceeding. Thus its Assistant Commissioner, Public Utilities and Representation, stated on February 10, 1960 to the House Appropriations Subcommittee (Independent Offices Appropriations, 1961, Part 2, p. 210):

" . . . As we learn of these cases we review them and if it appears that the Government's bill is going to be increased in any important respect within the limits of the staff availability and depending on the size of the case, we will participate."

Since the government is a user of utility and transportation services in just about every area of the country, GSA's policy of intervention is, in final analysis, determined by the availability of manpower and money.

Moreover, the record just as clearly shows that participation of the type disclosed above is initiated by GSA on its own motion and not on request of the executive agencies. Thus a GSA official recently stated to the House Appropriations Subcommittee (Independent Offices Appropriations, 1961, Part 2 at p. 216):

"On these general cases, Mr. Ostertag, we generally institute those ourselves. The cases which I was referring to [study of consolidation of communication facilities to obtain the advantage of reduced multi-channel tariff rates], the agencies bring them to us, or where they have the problem pertaining to a specific rate or a specific type of service they are interested in, but in these general cases they invariably result from our own research and the watching service which we have instituted through our regions." (Underscoring added.)

As demonstrated by the cases discussed above as well as those discussed in the Chamber committee's November 1960 report, GSA has consistently taken an extreme position in opposing general rate proceedings involving transportation, power, gas and communication companies. As noted by the National Association of Railroad and Utilities Commissioners, an organization which has existed since 1888 and is composed of commissioners and top staff personnel of the federal and each of the state utility and railroad commissions, "In most cases the position urged by GSA on behalf of the U.S. Government is more extreme than that of any other participant, private or governmental." Even GSA representatives themselves have characterized their activities as partisan. For an example, a GSA official recently made the following statement to House Appropriations Committee (Independent Offices Appropriations, 1961, Part 2, p. 218):

"Mr. Jonas. You are in there to try to persuade the Commission to agree with you that the rate should come down.

"Mr. Denniston. Yes, sir.

"Mr. Yates. He is saying that in another way. He is trying to persuade the Commission to make the right decision.

"Mr. Denniston. We are stressing the consumer viewpoint. We want them to see the advantages----

"Mr. Jonas. You do not contend you are in there on an impartial basis. You are in there as a partisan and advocate of the position you take.

"Mr. Denniston. Yes, sir.

"Mr. Thomas. You are not trying to protect the public interest generally, are you? You are just taking care of the Government.

"Mr. Denniston. Yes, sir. We always do that. At times we have had informal requests made upon us by some of the State commission staffs, for example, suggesting that we should speak for the broad public interest. We always resist that request and say it is beyond our responsibility."

As will be seen from the foregoing, GSA's regulatory practices and policies have placed it in a dilemma of substantial proportions. Admittedly it cannot adduce fair rate of return evidence without interfering with the prerogatives of the regulatory agencies. Since 1957 the solution has been to present so-called cost-of-capital testimony and, while admitting the obvious fact that fair rate of return is a matter for the agency to decide, its briefs and witnesses tell the agency that GSA's "factual" evidence of the "actual" cost of capital "meets the minimum constitutional requirements of a nonconfiscatory rate of return, or the floor of a fair rate of return." What this really suggests to the agency is that allowance of the earnings level thus urged by GSA will pass muster with the constitutional requirements of the due process clause of

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the Fourteenth Amendment. Assuming the accuracy of GSA's assurance to the regulatory agencies that constitutional requirements have been met, it can scarcely be argued that a rate barely over the line of confiscation will fulfill the agencies' obligation to meet declared legislative policy in essential fields such as transportation, power, gas and communications. This is demonstrated by the very fact that the regulatory agencies have not accepted GSA's cost-of-capital rates.*

* In referring to Re Commonwealth Edison Co., 24 P.U.R. 3d 209 (Ill. Commerce Comm'n 1958) TPUS' comments state, "The Illinois Commission approved a return of 5.85%, thus substantially upholding the position of GSA." During hearings on appropriations for 1961, an official of GSA made statements to the contrary (Independent Offices Appropriations for 1961, House Appropriations Subcommittee, Part 2 at p. 217):

"Mr. Jonas. Have you lost any cases?

"Mr. Denniston. Yes, sir.

"Mr. Jonas. What would be some examples where your representation was not successful?

"Mr. Denniston. As an example there would be the case I mentioned to Mr. Yates, the Commonwealth Edison case, where we did take part. Actually, we do not consider that a loss as such. We reviewed the evidence. Our purpose is to help the Commission develop a record for making a right decision in the matter."

Two witnesses testified with respect to cost of capital in the Commonwealth Edison case above. Dr. James C. Bonbright, Professor of Finance in the Graduate School

(cont'd)

Despite the facts of record quoted above, TPUS' comments on the Chamber committee's November 1960 report "categorically" deny that GSA has ever "urged" another Government agency or regulatory commission to depart from the legislative policy of that commission" Moreover as shown above and contrary to GSA's "categorical" statement, its urging of regulatory agencies to depart from the legislative policies controlling their decisions has not been limited to rate of return.

* (cont'd)

of Business, Columbia University, who, as noted by the Commission, had "on numerous . . . appeared as an expert witness for the regulatory commissions and other public agencies, both state and federal," testified to a cost of capital of 6.0% and a fair rate of return of not less than 6 1/4%. GSA's witness, Mr. MacIntosh, submitted an opinion that "a fair and reasonable rate of return would be 5 1/4 per cent." To this the Illinois Commission commented (24 P.U.R.3d at p. 228):

". . . MacIntosh's position appears to savor of the mechanical 'dividends plus interest' formula which has been struck down by the Supreme Court in Illinois Bell Teleph. Co. v. Illinois Commerce Commission (1953) 414 Ill. 275, 98 PUR NS 379, 111 N.E.2d 329. Reflecting the infirmities of their own witness is the General Service Administration's brief conceding that a rate of return as high as 5.8 per cent would be reasonable. We note that General Service Administration did not attempt, in presenting data in this case, to concentrate upon proposals directly affecting it or agencies of the federal government as
(cont'd)

Very recently in Re Chesapeake & Potomac Teleph. Co., Maryland Public Service Commission, Case No. 5625, a brief submitted by GSA's counsel argued that "Original cost less depreciation is the proper rate base in this case" in the face** of a Maryland statutory provision (Md. Ann. Code Gen. Laws, art. 78, § 69 (1957)) defining just and reasonable rates as those which will yield "a reasonable return upon the fair value of the company's property used and useful in rendering service to the public" (underscoring added).

* (cont'd)

customers of the company but concentrated instead upon the subject of rate of return, which is an area in which the commission itself has particular competence and concern."

Apparently the rates proposed by the utility equated to a return of 5.85% on the fair value of the company's property as found by the Commission.

** In addition, GSA's employee witness in the Chesapeake & Potomac Teleph. Co. proceeding, above, testified on cross-examination, as follows (Tr. 1645):

"Q. . . . So, there would be no question in your mind that the State of Maryland and its regulatory practices as falling in the book cost [category]?"

"A. That is correct. There is no question in my mind about that." (Underscoring added.)

The fact that GSA needlessly duplicates the functions performed by staff personnel of the regulatory agencies and has been roundly criticized for this reason by many agencies as well as the National Association of Railroad and Utilities Commissioners was a principal point of the November 1960 report of the Chamber committee. Nevertheless, the comments of TPUS do not squarely meet this issue.

First,* it is said that GSA participation has been challenged in only one proceeding and that the Illinois Commerce Commission authorized intervention; moreover, that in a subsequent Illinois proceeding GSA's position was "substantially" upheld. The mere fact that a regulatory commission has upheld the intervention of the United States in a proceeding before it obviously has no bearing on whether the intervenor duplicates functions of the commission's staff and, as demonstrated supra at p. 23, the Illinois Commission not only failed to uphold evidence presented by GSA but was also highly critical of GSA for not concentrating ". . . upon proposals directly affecting it or agencies of the federal government as customers of

* TPUS' repeated assertion that the Chamber report would limit GSA to matters of statutory "discrimination" and thus make it impossible for GSA to assure "reasonable" rates to the Government is discussed at p. 43 infra.

the company" rather than ". . . upon the subject of rate of return, which is in an area in which the Commission itself has particular competence and concern" (24 P.U.R.3d 228).

Second, the TPUS' comments state that GSA had not appeared before certain of the utility commissions whose members had written letters to Congress complaining of its activities. The same rejoinder was made at the time some of these letters were placed in the record. Senator Magnuson replied (Hearings on H.R. 11574, Independent Offices Appropriations, 1959, Senate Appropriations Subcommittee, p. 405):

"These are just what I have over here. I have a stack in my office that high. There is no necessity to have statements from all 48 states because they say practically the same thing and make almost the same type of criticism."

Third,* TPUS' comments state, without further explanation, that "fragmentary references" in the Chamber report with respect to GSA testimony before Congressional Appropriations Committees as to GSA's role in regulatory proceedings are "partial" and do not "fully state GSA's role." Aside from the fact that no basis is shown for these allegations, re-examination of the testimony quoted in the Chamber report shows that it is directly in point, not presented out of context and fully supports the Chamber committee's earlier conclusion (p. 25):

* TPUS' fourth comment that "regulated utilities are not always favorably disposed to [commission] staff participation," if true, is so clearly irrelevant as to not warrant comment.

"Unlike GSA's representations, regulatory agencies do not sit as 'judges' merely to decide existing claims. They are equipped with competent staffs, including lawyers who appear publicly and conduct an adversary presentation. GSA's intervention merely adds a second group of attorneys and auditors paid by the Government."

After considerable citation of authority* to prove what is believed to be an obvious fact - that regulatory agencies must act as judges in determining the ultimate issues presented in proceedings before them - the comments of TPUS concede that it "may be partially correct" to state that regulatory agencies "are equipped with competent staffs, including lawyers who appear publicly and conduct an adversary presentation." It may be that in a few cases a particular regulatory agency is understaffed; this fact, however, does not justify the duplication of manpower and money by an agency such as GSA but rather calls for action by the legislative body having jurisdiction over agency appropriations. Significantly, GSA's interventions in proceedings involving general rate increases have been before the largest and best-staffed state and federal agencies such as the CAB (total personnel 689), ICC (2,268), FPC (876), FCC (1,281), FMB (65), District of Columbia PUC (36), Virginia State

* In citing *Re Mountain States Tel. & Tel. Co.*, 23 P.U.R. 3d 233 (not "*Montana States Telephone & Telegraph Company*"), TPUS' comments inadvertently leave the erroneous impression that the Montana Commission was lauding GSA's participation when, in fact, GSA did not participate in this case.

Corporation Commission (278), California PUC (650), Illinois Commerce Commission (250), Maryland PSC (45), New Jersey Board of Public Utility Commissioners (114), and the New York PSC (654).

In answering congressional inquiries as to whether GSA's regulatory activities duplicate the work performed by regular commission staff personnel, erroneous impressions have been created. For example (Hearings, Senate Appropriations Subcommittee, Independent Offices, 1959, at p. 404):

"Senator Dirksen. . . . Do you accept the data that the State engineers and accountants develop under the State commissions or do you not? Do you go behind their work and then first seek to set up a base and then determine what an equitable return is on that base? Do you go behind it?

"Mr. Denniston. Mr. Senator, may I speak to that point?

"As an illustration of the problems we run into in that field, it is true that some of the commissions do investigate and supply evidence into the record of particular proceedings of all of the major issues in the case, but as an example of this recent case in California of the Pacific Telephone & Telegraph Co., in that case the staff and the California commission, I believe, just from personal observation, has the largest and best equipped staff of any State commission with which I have had contact--they did a tremendous investigative job on various issues of the case but did not submit any evidence whatever on the rate of return issue which is the most crucial or determining issue in the whole case, and it left the record in that case solely based on the contentions of the company."
(Underscoring added.)

Although there is no intention to challenge the integrity of the GSA representative making this statement, it is definitely misleading for it leaves the erroneous impression that the California Commission's staff left a record containing only the utility company's contentions as to rate of return. Aside from the fact that utility company witnesses were diligently cross-examined, the California Commission's decision in Re Pacific Tel. & Tel. Co., 23 P.U.R.3d 209, 222 (1958) notes:

"The record contains extensive evidence respecting the levels of rate of return which applicant should be accorded. No fewer than eleven witnesses testified directly on this subject. The testimony of others also may be applied to it. The commission in addition, has had the benefit of both oral and written argument on the subject." (Underscoring added.)

Here the California Commission found that the utility's proposed rates would provide a return of 7.36% and noted that those opposing it "urged rates of return ranging from 5.61% to 6.35%." As might be expected, the 5.61% representing "cost of capital" was urged* by the GSA witness whereas in an earlier 1953-1954 proceeding a

* One of GSA's three counsel making appearances in the proceeding (three counsel appeared for the state and an additional twenty for other parties) made the following argument to the California Commission (Tr. 4795):

". . . It is the position of General Services Administration that based on the cost of capital advanced by this study any return fixed by this Commission at or in excess of 5.61 per cent would satisfy minimum constitutional requirements of a non-confiscatory rate of return."

"fair" rate of return of 6-6.2% had been proposed by GSA. In finding a return of 6.75% to be fair and reasonable, the California Commission made the following comment with respect to GSA testimony (23 P.U.R.3d at p. 222):

"It is interesting, in passing, to note that three of the witnesses testified on the same subject during applicants' 1953-1954 rate proceeding. While two of them have interpreted financial conditions as warranting them to increase their recommended rates of return at this time, the third [GSA] has apparently interpreted the same financial conditions as warranting a decrease in rate of return."

Any possible doubts as to either the nature or the reasonableness of GSA's regulatory activities should be forever resolved in view of the following resolution passed by the National Association of Railroad and Utilities Commissioners at its seventy-second annual meeting held during late November 1960:

"Resolution Concerning the Unrestricted Interventions of the General Services Administration in the Jurisdiction of State and Federal Regulatory Commissions"

"Whereas, Sufficient facts have become available to show the growth and nature of the regulatory activities of the General Services Administration of the United States Government, the policies and practices underlying these activities and the many serious issues which now confront not only state and federal regulatory agencies but also the public, legislative bodies and affected carriers and utilities as a result of the emergence of this new Federal agency; and

"Whereas, These facts show that during the past decade GSA's Transportation and Utilities Service has sharply increased its personnel and expenditures from 21 employees and \$133,000 in 1950 to an estimated 247 and \$2,375,000 for 1961 and has expanded its interventions from 3 cases to over 60 in 1960; and

"Whereas, GSA, purporting by its interventions to represent the Federal Government as a consumer, actually seeks to have over-all prices for carriers and utilities set solely on the basis of the effect of increases on the Federal budget, thereby ignoring controlling national and state policy to permit rates and charges fair to the public and regulated businesses alike, and the necessity for the Federal Government to pay, along with all other users, its fair share of the rates authorized to be charged by utilities and carriers; and

"Whereas, During such interventions GSA has participated as an adversary, adducing evidence on rate of return, rate base, cost of capital, valuation of property and other technical factors in the rate-making process, much of which duplicates similar presentations by members of regulatory staffs and other intervenors, including other federal agencies, and unnecessarily multiplies the parties to be heard and prolongs proceedings; and

"Whereas, the United States Senate Committee on Appropriations, 86th Congress, Second Session, after noting with 'concern the constant increase in budget requests' of the GSA and the claims that GSA's work 'duplicates that of the regulatory agencies', has stated that it plans 'to explore the matter more fully' before the next budget period.

"Therefore, Be it Resolved, That the National Association of Railroad and Utilities Commissioners in Annual Convention assembled does hereby express its conviction that GSA should limit its participation in rate proceedings so as to bring to the attention of the regulatory commissions any peculiar needs of the Federal agency represented by GSA and that GSA should make only such studies and adduce such evidence as is necessary to assure that a Federal agency is not discriminated against in terms of quality, kind, or charges for service.

"Resolved Further, That the Officers, Committee on Legislation and the legal representatives of this Association are hereby authorized to appear on behalf of the Association before the Appropriations or other Committees of Congress to present the view of the Association as expressed herein."

The Chamber committee's November 1960 report noted that GSA, in awarding \$10,000 to certain of its employees for obtaining rate reductions "far beyond expectations" in connection with an FCC proceeding involving private line rates of Western Union and the Bell System, had ignored the fact that the investigation was initiated by the FCC, not GSA, and that the ultimate result of GSA's rate reduction petition was to increase over-all rates to communication users by about \$6,000,000 based on 1958 volumes. In replying to this statement, TPUS without explanation denies the revenue amounts and would also lead the reader to believe that there was no relationship between GSA's petition to reduce telephone private line rates and the subsequent increase in teletypewriter private line rates.

The facts are that the FCC had initiated an investigation of the private line rates and, long before GSA's intervention, had requested both companies to submit extensive cost studies. After completion of these studies, the companies submitted the results to the FCC staff and furnished copies to each intervenor, including GSA. The Bell System study showed an over-all return of 6.4% on the net investment

devoted to private line services, with telephone services earning 11.7% and teletypewriter services 2.6%.*

Thereafter on February 7, 1958, GSA petitioned the FCC for a 25% reduction in telephone private line rates, basing its request on the results of the cost studies. GSA's petition was not spurred by either "procedural discussions" indicating that the Bell System planned to increase the teletypewriter rates or by an actual filing of higher rates as TPUS' comments erroneously state (pp. 12-13):

"... The statement that the rate changes brought about by GSA's petition actually resulted in increases of \$6 million to communication users as a whole is incorrect, as are certain other statements concerning the FCC action.

"The AT&T cost study in the FCC case had been in preparation since 1955 and the results were distributed July 26, 1957. While the study showed extremely high earnings on the telephone grade services, the procedural discussions indicated the company only intended to increase the teletypewriter private line services for which the low earnings were indicated. This was subsequently confirmed when company proposals were filed to increase teletypewriter services by 27% but making only nominal adjustments in telephone grade services. GSA accordingly filed its petition February 7, 1958, and AT&T opposed this on February 24, alleging among other things that FCC could not lawfully make such a reduction. GSA replied to that petition March 3, 1958."

* Before GSA's petition was heard by the FCC, the Bell System pursuant to an earlier FCC request restated its 1955 study to take into account significant changes in investment, expenses and revenues known to have occurred between 1955 and 1957. The restated study showed overall private line earnings of 5.4% with telephone earning at 10.7% and teletypewriter at 1.7%.

In direct refutation of TPUS' allegations quoted above, GSA's own brief* before the FCC in support of the proposed reduction stated (p. 2):

"On February 7, 1958, GSA filed its 'Petition for Immediate Rate Reduction' in telephone grade service charges, 'together with any other appropriate upward or downward adjustment to bring the rate structure into balance.' At an informal conference of the parties herein, held later the same day, the Company announced its intention to increase and revise the rates for teletypewriter grades of private line services" (Underscoring added.)

Thus it clearly appears from GSA's own statements that its petition to reduce telephone rates acknowledged the necessity of adjusting other rates upward** and caused the company to seek teletypewriter rate increases.

Subsequently on June 25, 1958 the FCC ordered a reduction of 15% in private line telephone rates. This amounted to \$5,700,000 annually based upon 1955 volumes or \$11,000,000 based upon 1958 volumes. In responding to the utility company contention that a reduction should not be made in the higher earning telephone grade rates without a commensurate increase in the low earning teletypewriter grade rates, the FCC held:

* The GSA brief of March 3, 1958 replying to AT&T's opposition and referred to by TPUS in the comments quoted above. (F.C.C. Dockets Nos. 11645 and 11646)

** During the June 12, 1958 oral argument on GSA's petition, one of the commissioners asked GSA counsel, "But you have no objection to an increase in those [teletypewriter] rates, do I understand you correctly?" to which counsel replied, "That is correct, and assuming it is done in conjunction with a proper adjustment in the telephone grade rates" (Tr. at p. 2748).

". . . We recognize that on the basis of the respondents' cost evidence in this proceeding, the rates for private line telegraph grade services may be inadequate to provide the respondents with a fair return on their respective investments devoted to these services. Respondents have stated that on June 26, 1958 they plan to submit, for the record in these proceedings, proposed revisions in such rates with the expectation that such proposals will be the basis for interim revenue relief insofar as private line teletypewriter services are concerned. Such proposals will be considered on their own merits at such time as they are presented."

The Bell System was thereafter granted teletypewriter increases of \$8,400,000* based on 1955 volumes or \$13,000,000 based upon 1958 volumes. Moreover, Western Union was granted similar increases approximating \$4,200,000. Thus based upon 1955 volumes, there were over-all interim reductions of \$5,700,000* in telephone rates and increases of \$12,600,000 in teletypewriter and, based upon 1958 volumes, reductions of \$11,000,000 and increases of about \$17,000,000, an over-all increase of \$6,000,000.

Mr. Floete's letter and TPUS' comments state that the "incentive" awards given to GSA employees for their activities in connection with the FCC proceeding were made pursuant to law and in accordance with regularly established procedures, including Civil Service Commission approval. Of course this is so and there was no intention to question

* These amounts are cited by GSA's "Proposed Findings and Conclusions," January 15, 1960, F.C.C. Docket No. 11645, No. 11,646 and No. 12194 at pp. 19-20.

the legality of the presentation. The point clearly made by the Chamber committee's report went to the question of whether such awards should be given to employees who participate in rate litigation and for "rate reductions . . . far beyond expectations." This decision is a matter of agency discretion and, significantly, no comment was made as to the wisdom of a policy which places a premium on opposition for opposition's sake without regard to the merits of the case.*

* TPUS alleges at pp. 10-11 that the Chamber committee report erred when it stated that GSA's witness in F.C.C. Docket No. 11645, Dr. Laurence Knappen, testified that cost of capital and fair rate of return are the same and, when confronted with this, GSA Deputy Administrator Mills' statement to Congress quoted at p. 5 herein, disagreed with Mr. Mills on the basis of his "long term position as an expert." TPUS' comments infer that the subject matter of this testimony was explored only on cross-examination. The facts are that Dr. Knappen's direct testimony was prepared in written form and distributed to the parties two weeks prior to cross-examination. At pp. 9-10 of this testimony (Ex. 445) Dr. Knappen disagreed with an earnings level supported by another witness stating that there had been no attempt to equate the rate with "cost of capital nor to justify it by any other valid techniques" and that, in his opinion, it was "utterly excessive." In view of these statements, Dr. Knappen was questioned on cross-examination. He testified that fair rate of return and cost of capital "are the same" and, when confronted with Mr. Mills' statement to Congress, expressed complete disagreement.

Two other matters discussed by TPUS require comment.

First, TPUS is critical of the conclusion expressed in the Chamber committee's report that Section 201(a)(4) of the Federal Property and Administrative Services Act of 1949 was not intended by Congress to encompass the litigation of over-all earnings levels of carriers or utilities. None the less much of TPUS' discussion is concerned with matters which shed no light on this issue.

By way of example, the Task Force recommendation that GSA appear on behalf of all agencies went solely to the question of whom it should represent - particularly, whether it should act for the military establishment - and not to the question of how this representative function should be discharged. Similarly, the recommendation that GSA be staffed with counsel experienced in transportation law and in practice before the commissions* was concerned with the quality of personnel; the functions of these persons were dealt with in a separate section of the report. In these and other instances, then, the GSA analysis is extraneous to the issue focused on in the Chamber of Commerce report.

* The specific recommendation was for two such men, a general counsel and an assistant counsel, and not for an entire staff. Task Force Report, p. 80.

On the other hand, the discussion which is directed to this issue is, for the most part, undocumented and so succinct as to be misleading. Thus it is said simply "The legislative history is clear that the obtaining of reasonable rates was the primary objective of both the negotiation and litigation functions. . . ." This statement is correct as far as it goes, but what seems equally clear is that these negotiated or litigated rates were to be reasonable in terms of the quantity, composition and routing of particular government shipments, and were not to be obtained by attempting to undercut the utility's over-all rate structure. The legislative history relied upon both by TPUS and the Chamber committee consists almost entirely of the testimony of Mr. Mack and Mr. Hayghe before the Senate Committee.* In the course of this testimony, Chairman McClellan inquired as to whether the contemplated negotiation and litigation function would entail the hiring of legal personnel trained as traffic experts. Mr. Mack replied that such persons

" . . . would be experienced traffic people who would be in a position to determine what might be the basis of a savings through a negotiation with the carrier or a rate hearing. For example, let me give

* Hearings, S. 990 and S. 959, Committee on Expenditures in the Executive Department, April 14, 1949, pp. 48-55.

you an illustration. We buy strategic and critical materials for the Munitions Board. A purchase may involve the movement of substantial quantities, for example, of bauxite between points which are not normal routes for transportation. Consequently, our traffic group, knowing that this movement is to be a substantial one and knowing that there is a basis because of the tonnage involved for a special rate, would then undertake a negotiation with the railroad to get a rate that is warranted and, if necessary, file a petition with the regulatory commission.

"However, if the movement of goods, which would apply to most goods, of course, is in normal quantities over normal routes, then there would be no basis, of course, for asking for a special rate merely because it is government goods. That generally is the situation." (Underscoring added here and following.)

Shortly thereafter, Senator Schoepfel asked Mr. Hayghe how passage of the bill might be expected to result in a reduction of the government's over-all cost of transportation.

Mr. Hayghe replied:

"In the movement of government goods . . . our movements in large volume are not within the normal commercial channels frequently, and there has been no occasion for the carriers to establish rates for those movements other than the general class rate. General class rates applied to large volume movements between given points would be obviously unreasonable and unlawful. It would be the part of the government traffic management group to see that the rates were put into effect to cover these specific movements that were comparable to favorable commodity rates applying via commercial channels."

Throughout the hearing, these officials gave absolutely no indication that they had in mind the broad, adversary position that GSA has adopted in general increase

cases. If they contemplated such a role, their silence before the Senate Committee was certainly misleading. Indeed, if this was the case, the legislators were in fact misled. Nevertheless, TPUS would impute such intent to Congress:

Witness the statements, interpretive of the statute, appearing in the later Senate Appropriations Reports, cited in the Chamber committee's report (pp. 17-19). In one place the Senate group says:

"In short, a proper interpretation of the standards of the Federal Property and Administrative Services Act calls for a course of conduct in connection with appearances before such bodies which seeks to assure that no disproportionate rate burden is placed on the Federal Government and that the particular interest and requirements of the Government as a consumer are made known. Questions of overall earnings, rate of return, and adequacy of service should be left to the Federal and State regulatory agencies, as clearly intended by the Congress and the State legislatures when the statutes establishing these agencies were passed." (Underscoring added.)

It is difficult to imagine a clearer statement of legislative intent.

Furthermore, the same understanding is evinced in the Hoover reports. The Administration analysis states that these reports "did not suggest any of the issues which should be litigated" by GSA in regulatory hearings. True, they did not recite a list of specific issues. But the recommendations were epigrammatic, so that their meaning

can be fairly appraised only in relation to the Task Force discussions preceding them. The Chamber committee's report (pp. 3, 4) quotes the Task Force's summary of the government traffic management problem. This statement,* it will be noted, centered around the fact that government property and its channels of movement "differ materially from the commercial traffic for which carrier tariffs have been constructed." In the discussion which followed (p. 75 et seq.), the Task Force found "an urgent need for a continuing centralized program of research into the charges for transportation of Government property." It said:

"Approximately 20 percent of Government shipments, representing a substantially greater proportion of the volume, involve commodities not ordinarily shipped by private concerns or channels of movement differing from ordinary commercial channels. As a result, such shipments will move at unreasonable high commercial rates unless action is taken to secure special quotations under . . . the Interstate Commerce Act or changes in carriers' tariffs are secured. . . . There is no present method whereby such action can be taken for the composite traffic of the several agencies.

"Most agencies, lacking information of more than the individual movements disclosed through processing routing requests, do not seek a permanent level of reasonable rates through tariff adjustments. To the limited extent that the need for rate adjustments is discovered, relief is sought requesting special quotations rather than tariff changes."

* The substance of the statement was adopted by the Full Commission as its report on traffic management. Commission Report on Office of General Services and Supply Activities, February 1949, p. 30.

Centralized traffic management was also needed to obtain the information "required for negotiation of lower transportation costs." The Task Force reported:

"The information received in the individual traffic organizations does not enable them comprehensively to review their traffic to determine the need to negotiate for lower charges. Very little information is obtained from purchasing activities to support negotiation for changes in the classification or exceptions to the classification."

In view of this picture of negotiation and litigation based on the type, volume and routing of shipments, the fact there was no suggestion elsewhere in the reports that one function of the centralized agency should be to dispute over-all rate structures or earnings levels, would appear entitled to appreciably more weight than the TPUS comments have accorded it. Indeed, it seems reasonable to conclude that the Hoover group, like the Congress, did not consider the litigation of such issues to be properly within the province of GSA. That province, as is conceded by TPUS (p. 6), does not encompass unlimited intervention "directed to the national interest," but "is limited solely to representing the Government as a consumer or shipper."

Last, TPUS alleges that proposals contained in the Chamber committee's report would restrict GSA's regulatory activities to a point where the Government could not be assured of reasonable rates (pp. 1-3, 15). The committee's

proposals were not intended to, nor would they, in fact, so limit GSA. These proposals, as the report clearly documents (pp. 28-30), were nothing other than a summary of expression from experienced organizations such as the National Association of Railroad and Utilities Commissioners, the Illinois Commerce Commission, as well as twenty other state regulatory commissions, and the Senate Appropriations Committee. It was suggested that GSA -

"1. Assist in the determination of the transportation and utility needs of the various Government agencies. A great variety of carriers and utility services are available. The Administrator could perform a valuable function by working with the agencies involved and the carriers or utilities to achieve the ideal usage for each part of the Government.

"2. Assist in the interpretation and application of tariffs. This work would help to determine the best transportation or utility service offerings for particular tasks, the charges therefor, and regulations applicable thereto, in order to decide what service to use. The same personnel could also see to it that the tariff provisions are fulfilled and that the charges as billed are correct.

"3. See that transportation and service offerings are available which meet the requirements of the Government. This function goes beyond a consideration only of existing services. The General Services Administration could see that the offerings of carriers and utilities fully meet the Government's needs in terms of quantity, quality, and variety.

"4. See that the Government is not discriminated against as compared with others. In this connection, it may be necessary for GSA to participate in rate proceedings, in which case it could develop pertinent facts relative to Government usage and transportation and the impact of existing and proposed rate schedules on the Government within the earnings levels determined by the regulatory body to be in the public interest."

TPUS has interpreted the statement that the Government should "not be discriminated against as compared with others," appearing in the fourth recommendation above, to encompass the narrower concept of undue or unreasonable discrimination said to be used in some of the regulatory statutes. There was no intent to apply such a restricted meaning. Rather, "discrimination" was used in the usual and, broader, sense to indicate that the rates charged the Government should bear a fair and reasonable relationship to the rates charged other users for like or comparable services or facilities. It was thus intended that GSA be in a position to assure availability to the Government of adequate services of the type and quantity required and, also, to make certain that the rates therefor are reasonable and fair in relationship to the rates charged others for like or comparable services.

Based upon these recommendations, GSA's present regulatory activities would be limited in only one area. It would cease the wasteful and ineffectual duplication of functions already performed by regulatory agency personnel with respect to over-all utility or carrier operations and involving matters such as valuation, rate of return (whether it be called "fair" or "cost-of-capital") and other over-all revenue and expense adjustments. This limitation would not

only eliminate the wasteful duplication of functions, which, after all, Congress sought to remedy by enactment of the Federal Property and Administrative Services Act, but it would also result in better relationships between GSA and the regulatory agencies and assure that GSA personnel concentrate on truly representing the Government's "consumer interest."

GENERAL STATEMENT

Mr. FLINT. Well, I think in view of the lateness of the time I will confine my remarks simply to this.

First I want to explain that although I am general traffic manager of Quaker Oats, here, I appear here as a witness for the Chamber of Commerce of the United States. I have had very considerable experience with regulatory agencies, and at present I am Chairman of the Special Advisory Committee to the ICC. I have had experience on State commissions. But rather than go into any of the reasons why we are asking that this committee curtail GSA's activities, most or which have been explained fully by Mr. Maurer, I would simply say that we would hope that not only would this committee put some positive language which would restrict GSA's activities to representing only the peculiar interests of the Government as a user, and further that some material reduction be made in the appropriation, because I think it is only by cutting down the money that this activity is going to be curbed.

SUMMARY OF ARGUMENT

Senator MAGNUSON. I think you sum it up very well on page 4—your views on this—where you say:

It is thus apparent if GSA is to participate in such proceedings without duplicating the work of the regulatory agency, it must restrict its studies to the fairness and reasonableness of rates charged for Government shipments and utility services as compared with those of other shippers and users.

Mr. FLINT. Yes, sir, and I—

Senator MAGNUSON. This is their prime function.

Mr. FLINT. I fully agree that there is a great area in which GSA can operate. I worked with the Hoover Commission when we recommended that the GSA traffic management function be expanded. There is a great deal they can do in traffic management without getting into these general regulatory policy matters such as fair rate of return, cost of capital.

Senator MAGNUSON. That is what the CAB is supposed to do, a CAB matter. I don't know whether they do or not, but they are supposed to.

FUNCTIONS OF CAB AND ICC

Mr. FLINT. One other remark I would like to make because I was reading GSA's testimony before the House and they make the remark that these agencies such as the ICC and the CAB are judges and that they sit up and judge issues and they can judge only what is placed in the record before them.

That is not correct. They are legislative bodies. They are arms of this Congress, and they are legislating when they make rates. They have staffs which appear before them and present evidence, staffs which evaluate the evidence presented by others.

Thank you.

Senator MAGNUSON. Well, this is off the record.

(Discussion off the record.)

Senator MAGNUSON. We will put in the record other statements on this matter.

(The statements referred to follow:)

STATEMENT ON BEHALF OF UNITED STATES INDEPENDENT TELEPHONE ASSOCIATION,
BY BRADFORD ROSS, COUNSEL

My name is Bradford Ross, and I appear on behalf of the United States Independent Telephone Association, to which I will sometimes refer as USITA. USITA is a nonprofit trade association organized in 1897 and incorporated under the laws of the State of Illinois in 1915 for the purpose of promoting the general welfare of the individual firms and corporations engaged in providing independent—or non-Bell System—telephone service and those engaged in manufacturing and supplying equipment and material needed to meet these service requirements.

About 1 out of every 7 telephones in the United States, including its territories and possessions, is owned and operated by an independent telephone company. In other words, of the 74,417,000 telephones at the end of 1960, about 11,428,000 were operated by independently owned companies. More than one-half of the service area of the United States is served by independent companies.

The independent telephone industry consists of some 3,300 companies, operating 10,705 exchanges. The Nation's long-distance service is furnished primarily by the Bell System toll network. All long-distance facilities are interconnected with independent telephone company lines. Long-distance traffic between the two segments of the industry is freely interchanged. Agreements are in effect covering routings and divisions of revenues on the interchanged business. Many independent companies themselves own and operate a large mileage of toll lines, mostly regional in character, all interconnected with the Bell network and with the toll facilities of neighboring independent companies.

The independent industry has been responsible for a number of major technical advances in the telephone field. The initial commercial application of the first practical automatic telephone system was made a little more than 65 years ago in an independent exchange at La Porte, Ind. A few years later, the independents introduced the first dial telephones in a number of exchanges in various parts of the country. Today, approximately 90 percent of the telephones furnished by independent companies are dial operated. Telephone users are also indebted to the independent industry for handset telephones and for direct-operator dialing over long-distance lines.

Independent telephone companies are for the most part small business enterprises. Of the independent companies operating in continental United States as of December 31, 1959, 2,520 had less than 1,000 telephones and 1,856 had less than 450 telephones. Only 121 such independent companies had over 10,000 telephones. Of the 181 independent telephone companies in the State of Texas, for example, 127 had less than 1,000 telephones, 103 had less than 450 telephones, and only 4 had over 10,000 telephones. In the State of Missouri there were then 230 independent telephone companies, of which 194 owned less than 1,000 telephones, 167 had less than 450 telephones, and only 4 owned over 10,000 telephones.¹

Independent telephone companies range in size from companies like Healy Telephone Co., Inc., of Healy, Kans., operating 91 telephones to the telephone operating system of the General Telephone & Electronics Corp., which owns approximately 4,100,000 telephones. Some 55 independent telephone companies file reports with the Federal Communications Commission and 38 independent companies are fully subject to regulation under the Communications Act of 1934, as amended. The vast majority of independent companies are only partially subject to that act, being regulated for the most part by State or other local regulatory bodies.

The typical independent telephone company operates on a small amount of capital. Its subscribers are insufficient in number to support any drastic increases in cost of operation. These companies are required to maintain their facilities in condition to render adequate and prompt service to the public. Their operating expenses and reserves are restricted by regulation to permit only the necessary and normal costs of doing business. Their rates are limited by public authority to a reasonable return.

Increased costs through the imposition of unfair or unnecessary burdens on independent companies, large and small alike, not only impair their ability to serve the public, but inevitably result in higher charges to telephone users. Ad-

¹ Source: 1960 Annual Statistical Volume of the United States Independent Telephone Association for the year 1959, pp. 9 and 10.

verse economic effects imposed upon one telephone company may similarly affect all others in the nationwide telephone system. Under agreements presently in effect for the division of revenues derived from interchanged business, revenue losses to one company may result in a smaller amount being received by another company or companies participating in rendering the service from which such decreased revenues are derived.

The emerging scope of litigation activities which appear to be increasingly engaged in by the Transportation and Public Utilities Service Division of General Services Administration is imposing a duplicative and unnecessary regulatory expense and burden both on regulated industries and the agencies which were specially created to regulate them.

These GSA litigation activities have been extensively studied by the Chamber of Commerce of the United States. The results of that investigation are set forth in a report of the chamber of commerce's transportation and communication department dated November 1960 and entitled "General Services Administration in Regulatory Rate Proceedings." Gerald W. Collins, manager of that department of the chamber of commerce, in a letter transmitting the report to interested parties, summed up the national chamber's position as follows:

"After careful study, the national chamber membership approved a position on this matter which in general points out that the responsibility for protecting the interests of the public in the regulation of rates, charges, and practices of transportation and utility companies is exclusively that of the appropriate Federal and State regulatory body. It advocates that no Federal agency should intervene before these regulatory bodies in such matters except to present evidence of claimed discrimination against the Federal Government as a user of such services. It is felt that any further participation would constitute a dilution of responsibility between the regulatory agency and GSA and would be productive of waste and duplication of effort."²

The National Association of Railroad and Utilities Commissions, on December 1, 1960, passed a resolution reading in part as follows: Therefore be it

"Resolved, That the National Association of Railroad and Utilities Commissioners in annual convention assembled does hereby express its conviction that GSA should limit its participation in rate proceedings so as to bring to the attention of the regulatory commissions any peculiar needs of the Federal agency represented by GSA and that GSA should make only such studies and adduce such evidence as is necessary to assure that a Federal agency is not discriminated against in terms of quality, kind, or charges for service."

Two specific examples of cases which appear to illustrate claims of waste and duplication of effort attendant upon overzealous regulatory activity on the part of GSA were outlined in a letter dated November 25, 1960, from A. J. Zimmerman, executive vice president of the Independent Telephone Association of the State of Washington, to the Honorable Francis A. Pearson, chairman of the Washington Public Service Commission. In that letter, a copy of which is attached as exhibit A to this statement, Mr. Zimmerman outlines the experience of two independent companies with GSA petitions for investigation of tariffs covering services furnished to the Air Defense Command in connection with its semiautomatic ground environment (or SAGE) program.

In the first case cited by Mr. Zimmerman, GSA filed a petition with the Federal Communications Commission requesting an investigation of tariffs filed by Peninsula Telephone & Telegraph Co., whereupon an investigation was undertaken in FCC Docket No. 13781. The Administrator of General Services filed a notice of intent to participate in the proceeding and the matter was set for hearing. As the letter relates, Mr. Hull, president of Peninsula, preparatory to the hearing took all of the data, records, and information in connection with the tariffs to Washington, and spent 2 days conferring with the FCC staff. Before any hearing was held, Peninsula filed a "motion to dismiss proceeding" which was vigorously opposed by GSA. Nevertheless, the Federal Communications Commission upon consideration of the Peninsula motion, GSA's opposition thereto, and Peninsula's reply to GSA's opposition, released an order on February 10, 1961, granting Peninsula's motion to dismiss and terminating the proceeding. In that order the Commission declared, among other things:

² Following a letter response dated Dec. 23, 1960, from the GSA Administrator, Hon. Franklin Floete, the report of the chamber was broadened and further documented in "A Review: Of the General Services Administration's Practices Before the Regulatory Agencies" issued in February 1961.

"That the questions raised by GSA in its opposition to Peninsula's motion to dismiss concerning Peninsula's allowance for cash working capital, 'other' expenses and interest expense if resolved in favor of GSA would not result in any significant increase in rate of return or justify a rate reduction, and that the question as to whether Peninsula is actually performing common carrier service is not meritorious."

After outlining a similar experience related by Mr. Milton Larson, manager of Farmers Mutual Telephone Co. Mr. Zimmermann's letter concludes with the following statement:

"If the GSA can, by filing a petition for investigation before the FCC or a state regulatory agency, place the burden of proof upon a public utility and require that representatives of those companies spend the time and funds, so urgently needed to complete the semiautomatic ground environment (SAGE) project for national defense purposes, to travel across the Nation spending days to convince someone they were right in the first place, which has to date been the end result, certainly is not in the best interest of our national security. I feel sure that you will do everything you can to see this situation corrected."

There are at least five independent agencies of the Federal Government charged with the duty of regulating telephone, power, pipeline, railroad or other transportation companies. Forty-eight out of the fifty States have State and local regulatory bodies with jurisdiction over intrastate operations of such utility and transportation enterprises. Surely it could not have been intended by the Congress to create in GSA still another regulatory agency whose function it would be to determine whether the other agencies were doing the job for which they were expressly created. A far better interpretation of the grant of authority set forth in section 201(a)(4) of the Federal Property and Administrative Services Act of 1949 is that contained in the NARUC resolution as previously quoted.

Under a plan advocated by President Kennedy, presumably to be initiated through Executive order, there may be established in the near future a Presidential Office of Consumers Counsel. According to one newspaper account, the Counsel would be backed by a staff of lawyers and economists and would represent consumer interests in proceedings before regulatory agencies as well as in the formulation of broad economic policies.³ Should that Office be thus established, the continued wide scope of GSA activity in regulatory proceedings will not only duplicate the work of existing Federal, State, and local regulatory agencies, it will also duplicate functions of the proposed Presidential Office of Consumers Counsel.

USITA shares the view expressed by NARUC that certain restricted GSA litigation activities are legitimate and proper. USITA, however, believes the emerging regulatory activities of GSA go beyond purposes which are proper and which Congress intended in authorizing GSA to represent Government agencies in regulatory proceedings and that, by doing so, GSA is acting contrary to the public interest. USITA's position is set forth in a resolution adapted by its board of directors in October 1960. A copy of this resolution is submitted with this statement as exhibit B, from which I quote the following paragraph:

"Now, therefore, be it resolved by the U.S. Independent Telephone Association, That the executive officers of this association are directed to request an opportunity to appear before the Senate Appropriations Committee and such other committees of Congress as may be concerned for the purpose of stating this association's firm conviction that GSA's intervention in regulatory matters should be restricted solely to the presentation of evidence of claimed discrimination against the Federal Government as a user of service and that any further or additional participation constitutes dilution of responsibility, unwarranted waste, and duplication of effort."

It is hoped that this committee will take a hard look at GSA litigation activities in transportation, telephone, and other public regulatory proceedings. If you gentlemen find, as we believe you will, that these activities go beyond presentation of evidence of claimed discrimination against the Federal Government as a user of such service, then USITA respectfully urges this committee to so limit GSA's appropriation as to assure that it will keep its operations in these regulatory areas within proper bounds.

On behalf of the independent telephone industry, I thank you for this opportunity to present our views on this important subject.

³The Washington Post and Times Herald newspaper, issue of Mar. 24, 1961.

EXHIBIT A

NOVEMBER 25, 1960.

HON. FRANCIS A. PEARSON,
*Chairman, Washington Public Service Commission,
Olympia, Wash.*

DEAR MR. PEARSON: Pursuant to our recent conversation concerning the General Services Administration and its participation in various matters of regulated utilities before the Federal and certain State regulatory bodies, a review of the independent telephone companies participating in the semiautomatic ground environment (SAGE) program of the Air Defense Command produces the following information.

PENINSULA TELEPHONE & TELEGRAPH CO.

Mr. Maurice R. Hull, president, advised that after filing tariffs with the Federal Communications Commission through the American Telephone & Telegraph Co., covering the services furnished to the Air Defense Command through facilities located in his area, nothing was heard from the FCC until September 23, 1960, when, after a petition had been filed by the United States of America through its Administrator of General Services requesting an investigation of the rates set forth in the tariffs, an order was issued in docket No. 13781 through which the FCC undertook an investigation to determine the lawfulness and reasonableness of certain tariff schedules in connection with the semiautomatic ground environment (SAGE) system of the U.S. Air Force.

Accompanying the order in docket No. 13781 was a notice of intent to participate filed by Franklin Floete, Administrator of General Services, together with a certificate of service served to the Peninsula Telephone & Telegraph Co., the American Telephone & Telegraph Co., and the Federal Communications Commission.

Mr. Hull stated that later the matter was set for hearing on November 7, 1960, and that during the middle of October he took all of the data, records, and information in connection with the tariffs that had been filed for this service and spent 2 days in the FCC offices in Washington, D.C., and at the close of the conference, after they had reviewed all of the information, it was indicated that the tariffs and rates were reasonable and fair, and that there would be no need to further investigate the matter. Mr. Hull stated that he is convinced that had the General Services Administration's petition not been filed with the Federal Communications Commission, it would not have been necessary for him to spend the time and money to go to Washington, D.C., after which everything was found in order.

Mr. Hull stated that the General Services Administration has two representatives stationed at the Air Defense Command Headquarters, Colorado Springs, Colo., checking all tariffs that are received by Air Defense Command in connection with the communication services authorities issued by Air Defense Command.

FARMERS MUTUAL TELEPHONE CO.

Mr. Milton Larson, manager, advised that he likewise voluntarily filed with the Federal Communications Commission tariffs covering the charges on the services given under the semiautomatic ground environment (SAGE) program through the American Telephone & Telegraph Co., to become effective on or about August 8, 1960, and that about July 28, 1960, the Administrator for the General Services filed a petition for investigation which alleged that the charges made for the various equipment and services were unreasonable and unfair, and that subsequently thereto, he received a telephone call from a staff member of the FCC requesting additional cost information in connection with the installation and operation of the various equipment and services rendered, which was supplied to the FCC on September 27, 1960, and that since that time no further communications have been received from the FCC.

Mr. Larson stated that in his opinion the tariffs filed with the FCC were reasonable and fair, and that considerable costs have been incurred as the result of making the tariff filings. To date no hearing has been set by the Federal Communications Commission on the tariffs filed by the Farmers Mutual Telephone Co. It is therefore presumed that the information furnished was satisfactory.

I desire to point out that the physical facilities of both Peninsula Telephone & Telegraph Co. and Farmers Mutual Telephone Co. are solely intrastate in char-

acter and that they in turn connect with the Pacific Telephone & Telegraph Co. which carries the communications to the directional center or beyond. As I am advised, neither of the companies conforms to the FCC's definition of "common carrier."

There may be one or more other independent telephone companies that are participating in the SAGE program which may become involved with the FCC and the GSA.

I feel that we are agreed that the Federal Communications Commission and the Washington Public Service Commission have not only the right but the duty to ascertain the fairness and reasonableness of any rate or charge for interstate or intrastate telephone communications service within their respective jurisdictions. However, for another Government agency to assume the responsibility of determining the fairness or reasonableness of a given rate for telephone service by statistical comparison of filed tariffs of other companies without a working knowledge of the telephone business or specific information concerning construction costs and maintenance problems involved in the remote mountainous areas where installations of the SAGE program are taking place definitely appears to be out of order.

If the GSA can, by filing a petition for investigation before the FCC or a State regulatory agency, place the burden of proof upon a public utility and require that representatives of these companies spend the time and funds, so urgently needed to complete the semiautomatic ground environment (SAGE) project for national defense purposes, to travel across the Nation spending days to convince someone they were right in the first place, which has to date been the end result, certainly is not in the best interest of our national security. I feel sure that you will do everything you can to see this situation corrected.

I trust this is the information that you desire in this matter.

Sincerely,

A. J. ZIMMERMAN,
Executive Vice President.

EXHIBIT B

A RESOLUTION ADOPTED BY THE BOARD OF DIRECTORS OF THE UNITED STATES INDEPENDENT TELEPHONE ASSOCIATION IN CHICAGO, ON OCTOBER 12, 1960

Whereas there is a growing conflict over the appropriate roles for State and Federal regulatory agencies and the General Services Administration in the regulation of carriers and utilities; and

Whereas there are State and Federal regulatory agencies vested with broad powers to regulate essential transportation and utility services so as to assure the people of the United States safe and adequate service at reasonable cost; and

Whereas the activities of GSA, when regulatory in effect, are a wasteful duplication of the work of State and Federal regulatory agencies; and

Whereas the ever-increasing regulatory activities of the GSA raise issues of vital significance not only to affected carriers and utilities but also to the public, legislative bodies, and State and Federal regulatory agencies; and

Whereas the Senate Appropriations Committee stated in its report on the appropriation for GSA for fiscal 1961, as follows:

"The committee has noted with concern the constant increase in budget requests of the transportation and public utilities services of the General Services Administration. This increased budget, along with allegations that this work duplicates that of the regulatory agencies, concerns the committee. Accordingly, the committee looks to the General Services Administration to carefully reappraise this function and the committee will plan to explore the matter more fully between now and the next budget period."

Whereas unless regulated carriers and utilities acquaint the Senate Appropriations Committee with all the facts concerning GSA's activities, GSA may emerge as a further and additional level of regulation: Now, therefore, be it

Resolved by the United States Independent Telephone Association, That the executive officers of this association are directed to request an opportunity to appear before the Senate Appropriations Committee and such other committees of Congress as may be concerned for the purpose of stating this association's firm conviction that GSA's intervention in regulatory matters should be restricted solely to the presentation of evidence of claimed discrimination against the Fed-

eral Government as a user of service and that any further or additional participation constitutes dilution of responsibility, unwarranted waste and duplication of effort; be it further

Resolved, That copies of this resolution be sent to the members of the Senate and House Appropriations Committees and to members of the Executive Committee of the National Association of Railroad and Utilities Commissioners.

AIR TRANSPORT ASSOCIATION OF AMERICA,

Washington, D.C., June 23, 1961.

Hon. WARREN G. MAGNUSON,

Chairman, Subcommittee on Independent Offices, Committee on Appropriations,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In connection with the budget requests of the General Services Administration, your committee may be interested in the position of the board of directors of the Air Transport Association on this subject. At the June 29, 1960, meeting of the board, the directors instructed the association to support the program and policy of the U.S. Chamber of Commerce on this subject as contained in a letter from the chamber to you, dated May 20, 1960, the attached portion of which was before the board of directors at that time. The directors also recommended that the Transportation Association of America, of which our board constitutes the air transport panel, support this program.

In this connection, I would like to review briefly a recent example of GSA's regulatory activities. The CAB's general investigation of the level of passenger fares of the Nation's domestic trunkline air carriers illustrates not only the extreme positions which GSA takes in regulatory proceedings, but it also shows that the overall regulatory policies which GSA urges are contrary to national policies as declared by Congress. (*General Passenger Fare Investigation*, Docket 8008 et al.)

GSA, unlike any other party to the proceedings, opposed any fare increase. It stated that its interest was "confined to the effect the proceeding would have upon the substantial bills paid by the Federal Government to airlines for passenger transportation." In taking this position, GSA ignored the fact that although each 1-percent increase in air fares would cost civilian agencies of the Government \$130,000 per year, it would also have netted the Federal Government as much as \$975,000 increased excise taxes on fares, \$5,400,000 increased income taxes from the airlines, and a reduction of \$330,000 in subsidy payments to local service airlines.

Aside from the fact that GSA's opposition to the desperately needed increases would seem to conflict with national policy to foster sound economic conditions in the industry, the record did not support GSA on two of its other arguments. First, it was found that there was no support for GSA's claim that the carriers could obtain the necessary added revenues by a greater shift to coach service and second, it was held that to deny the carriers certain benefits available in connection with Federal-accelerated tax depreciation would be contrary to the clear intent of Congress.

We thought this might be of interest to you and the members of your committee, and I hope you find that a statement of our position may be made a part of the record of your hearings on this subject.

Sincerely,

LEO SEYBOLD, *Vice President, Federal Affairs.*

EXHIBIT B

CHAMBER OF COMMERCE OF THE UNITED STATES,

May 20, 1960.

Hon. WARREN G. MAGNUSON,

Chairman, Subcommittee on Independent Offices and General Government Matters, Senate Appropriations Committee, Washington, D.C.

DEAR SENATOR MAGNUSON:

* * * * *

Under the Interstate Commerce Act, the Federal Aviation Act, and the Federal Communications Act, Congress has established public agencies charged with the responsibility of regulating the public utilities involved in order to insure that the users of these services receive fair and equal treatment. Rate and service proposals are carefully scrutinized by the appropriate agency to accomplish this objective and procedures are available whereby an interested party can secure a public hearing in the event he feels his rights have been harmed.

Since 1957, the General Services Administration through its Transportation and Public Utilities Section has participated in such cases, on an increased scale, assertedly to protect the interests of the Federal Government as a user of these services. Its representatives have appeared in proceedings conducted by the Interstate Commerce Commission, the Federal Communications Commission, and the Civil Aeronautics Board, and many State regulatory commissions.

This General Services Administration activity stems from the law which created the agency, charging them with the following responsibility:

"With respect to transportation and other public utility services for the use of executive agencies, represent such agencies in negotiations with carriers and other public utilities and in proceedings involving carriers or other public utilities before Federal and State regulatory bodies." (Federal Property and Administrative Services Act, 1949, 201 (a), 40 U.S.C. 481 (a)).

A logical construction of this law would seem to be that GSA would function much as an industrial traffic manager in industry and participate in these proceedings to protect the interests of the Government as a user of these services. In actual practice, however, GSA has gone much beyond this. It has presumed to act as judge and jury over fundamental policy questions which historically and properly are in the province of the regulatory agency conducting the hearing. GSA representatives have gone deeply into such questions as proper rates of return—the cost of capital to the utility—the reasonableness of company retirement programs, and other issues far removed from the question of whether the Government is being discriminated against as a user of these services.

GSA implementation of this policy not only results in the individual public utility company being subjected to repeated requests for basic data, much of which is extremely comprehensive and detailed, but the exhibits that are prepared by GSA largely duplicate the work of the regulatory agency. The time consumed by their representations in the hearing contribute materially to the inordinate length of time required to decide these important matters.

The National Association of Railroad and Utilities Commissioners as well as various State commissions have sharply opposed GSA's intervention in regulatory proceedings unless participation is limited to specific needs of the Government or to assure that the Government is not discriminated against in terms of quality, kind, or charges for a service. GSA's current activities have been described by these State commissions as "wasteful duplication," "frequently prolonging proceedings," "increasing costs of proceedings," "usurping functions properly belonging to the States," "impugning the competency and integrity of the Government regulatory commissions," "duplicating the appropriation of taxpayers' funds," and exhibiting "no concern for the financial soundness of utilities."

It has apparently been a policy of GSA to present an attitude of general opposition to any rate increase regardless of its merits. The antagonistic position assumed has been in derogation of State and Federal legislative policy designed to allow the regulated industries rate increases necessary to cover added costs of operation and to preserve the financial integrity of such industries so that they may properly serve the public.

To remedy this situation fully may ultimately require modification of the basic law which authorized GSA participation in these proceedings. Meanwhile, however, the appropriation requested in the 1961 fiscal budget by the Transportation and Public Utilities Section of GSA if cut back \$1,000,000 will allow them to properly protect the interests of the Government as a shipper but will curtail its duplicating regulatory activity.

* * * * *
Cordially yours,

CLARENCE R. MILES,
Manager, Legislative Department.

SANTA FE, N. Mex., June 14, 1961.

Hon. CLINTON P. ANDERSON,
Washington, D.C.:

In connection with the Senate Appropriations Subcommittee on Independent Offices regarding their review of the GSA budget request, we urge that you take action to keep GSA out of matters of regulation in accordance with resolutions adopted by the NARUC at their annual convention in Las Vegas on December 1, 1960.

JOHN BLOCK, Jr.,
Chairman, New Mexico State Corporation Commission.

QUILCENE, WASH., June 13, 1961.

Senator WARREN G. MAGNUSON,
Senate Office Building, Washington, D.C.:

Appreciate deeply your efforts in our behalf for REA loan in Quilcene area. We understand your subcommittee is presently considering GSA appropriations. Would like to express our opposition to the GSA interfering with regulatory matters as you recall GSA instigated a case against our company in regard to SAGE rates this case was dismissed by FCC who found rates just and reasonable; another instance of waste both to Government and our company. Your timely action to cut GSA funds for the duplicate matters that are already handled by the FCC and State commissions would be appreciated.

MAURICE R. HULL,
President, Peninsula Telephone & Telegraph Co.

COMMITTEE RECESS

Senator MAGNUSON. We will recess until 10 o'clock Monday morning to hear the Veterans' Administration.

(Whereupon, at 5:55 p.m., Friday, June 23, 1961, the subcommittee recessed, to reconvene Monday, June 26, 1961, at 10 a.m.)

INDEPENDENT OFFICES APPROPRIATIONS FOR 1962

MONDAY, JUNE 26, 1961

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to recess, in room F-37, U.S. Capitol, Hon. Warren G. Magnuson (chairman) presiding.
Present: Senators Magnuson, Young, Allott, and Schoeppel.

VETERANS' ADMINISTRATION

STATEMENTS OF J. S. GLEASON, JR., ADMINISTRATOR; W. J. DRIVER, DEPUTY ADMINISTRATOR; A. H. MONK, ASSOCIATE DEPUTY ADMINISTRATOR; DR. W. S. MIDDLETON, CHIEF MEDICAL DIRECTOR; J. D. BAKER, CONTROLLER, DEPARTMENT OF MEDICINE AND SURGERY; AND P. N. BROWNSTEIN, CHIEF BENEFITS DIRECTOR, DEPARTMENT OF VETERANS' BENEFITS

BUDGET ESTIMATE

Senator MAGNUSON. The committee will come to order.

We have the Veterans' Administration.

For the purpose of the record, 1961 appropriations were \$5,424,198,000, the January budget was \$4,949,846,000, the amended budget was \$4,924,846,000, and the House allowed \$4,884,571,000, which is \$539,627,000 less than the 1961 appropriations, and \$40,275,000 less than the 1962 amended estimates.

And we will put your letter to us in the record in full, and the summary from your justifications.

(The letter and information referred to follow:)

VETERANS' ADMINISTRATION,
June 13, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of the Independent Offices Appropriation Bill for 1962, U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: Confirming verbal information furnished Mr. Cooper of your staff, I recommend the following changes in the independent offices appropriation bill for 1962:

(a) Page 34, line 10: Change the amount for "General Operating Expenses" from "\$161,500,000" to "\$162,046,000".

This would restore the \$546,000 reduction from our request contemplated by the bill. We face a serious funding problem in administering both the benefits and the insurance programs in fiscal year 1962, due to unanticipated increases in loan guarantee workloads and automatic data-processing conversion delays. The proposed decrease would further aggravate this problem by requiring a reduction of approximately 85 positions in our planned employment.

(b) Page 34, line 24: Change the amount for "Medical Administration and Miscellaneous Operating Expenses" from "\$40,700,000" to "\$42,053,000".

This would restore the proposed reduction of \$1,353,000 from our request for activities, other than medical research, financed from this appropriation. The amount included in the bill would deprive our extensive medical care program of needed executive direction, education and training assistance, and administrative support.

(c) Page 38, lines 5 and 6: Delete the phrase "but not to exceed \$120,624,000" from the language proposed for the "Loan Guaranty Revolving Fund".

Expenditures from this fund are principally for loan guarantee claims and property acquisitions, and are not subject to administrative control. The limitation proposed in the bill might result in a situation in which we could not honor our legal obligations to pay claims on defaulted guaranteed or insured housing loans to veterans. It is strongly recommended that it be deleted.

We are not appealing the reductions in "Compensation and pensions" and "Readjustment benefits" recommended by the House. Pending legislation, if enacted, will require supplemental appropriations in both of these areas. We will include any additional fund requirements in these supplemental requests.

I am looking forward to discussing these and other areas of VA interest with you and the members of your committee during our appropriation hearings scheduled for 10 a.m., Friday, June 23, 1961.

Sincerely,

J. S. GLEASON, Jr., *Administrator.*

Comparative summary of appropriations and appropriation estimates

Appropriation	Appropriated fiscal year 1960	Appropriated	Fiscal year 1961 estimate		Total estimate	Fiscal year 1962 estimate	Increase (+) decrease (-) 1962 over 1961
			supplementals				
			Pay raise	Other			
General operating expenses.....	\$165,373,000	\$153,500,000	\$9,763,000	\$1,300,000	\$164,563,000	\$162,046,000	-\$2,517,000S
Medical administration and miscellaneous operating expenses.....	29,349,000	34,500,000	665,000	-----	35,165,000	15,053,000	-20,112,000
Inpatient care.....	800,889,000	81,206,000	33,705,000	9,285,000	864,206,000	-----	-864,206,000
Outpatient care.....	83,895,000	86,481,000	3,533,000	-----	90,034,000	-----	-80,034,000
Medical care.....	-----	-----	-----	-----	-----	1,009,171,000	+1,009,171,000
Maintenance and operation of supply depots.....	2,265,500	2,500,000	93,000	50,000	2,643,000	-----	-2,643,000
Subtotal.....	1,081,743,500	1,098,187,000	47,779,000	10,645,000	1,156,611,000	1,186,270,000	+29,659,000
Compensation and pensions.....	3,400,000,000	3,800,000,000	-----	-----	3,800,000,000	3,543,000,000	-257,000,000
Readjustment benefits.....	585,000,000	344,000,000	-----	-----	344,000,000	80,376,000	-283,624,000
Veterans insurance and indefinite ¹	53,000,000	48,800,000	-----	-----	48,800,000	39,200,000	-9,600,000
Grants to Republic of the Philippines.....	2,000,000	1,500,000	-----	-----	1,500,000	1,000,000	-500,000
Construction of H & D F.....	31,659,000	75,000,000	-----	-----	75,000,000	-----	-----
Total appropriations ²	5,133,402,500	5,367,487,000	47,779,000	10,645,000	5,425,911,000	4,924,846,000	-501,065,000

¹ Excludes anticipated transfer of \$500,000 from "Grants to the Republic of the Philippines" appropriation—requires congressional transfer authority
² Excludes permanent indefinite. Fiscal year 1960, \$960,900; fiscal year 1961, \$650,000, and fiscal year 1962, \$655,000.
³ Excludes borrowing authority for direct loans. Fiscal year 1960, \$250,000,000; 1961, \$150,000,000; fiscal year 1962, \$150,000,000.

NOTE.—Inpatient care and outpatient care appropriations and the medical research portion of the medical administration and miscellaneous operating expenses appropriation combined into the "Medical care" appropriation in fiscal year 1962. Maintenance and operation of supply depots transferred to the supply revolving fund in fiscal year 1962.

PREPARED STATEMENT

Senator MAGNUSON. I believe you have a short statement you would like to make, Mr. Gleason.

Mr. GLEASON. I have a statement.

Would you like me to submit it for the record?

Senator MAGNUSON. You may submit it, if you will, and highlight it.

(The statement referred to follows:)

Honorable Chairman and gentlemen of the committee, I am pleased to be here today to discuss with you the fiscal year 1962 appropriation requirements of the Veterans Administration.

Our initial budget submission to the Congress requested appropriations totaling \$4,949,846,000. This estimate was amended by a reduction of \$25,000,000 to \$4,924,846,000 in March (H. Doc. No. 129). The House, in H.R. 7445, further reduced our amended request by a net total of \$40,275,000 to \$4,884,571,000. The changes made by the House are as follows:

Appropriation (or program)	Request	Recommended in H.R. 7445	Adjustment
General operating expenses.....	\$162,046,000	\$161,500,000	-\$546,000
Medical administration and miscellaneous operating expenses (excluding medical research).....	15,053,000	13,700,000	-1,353,000
Medical research.....	22,000,000	27,000,000	+5,000,000
Medical care (excluding medical research).....	987,171,000	987,171,000	-----
Compensation and pensions.....	3,543,000,000	3,500,000,000	-43,000,000
Readjustment benefits.....	80,376,000	80,000,000	-376,000
Veterans' insurance and indemnities.....	39,200,000	39,200,000	-----
Grants to the Republic of the Philippines.....	1,000,000	1,000,000	-----
Construction of H & DF.....	75,000,000	75,000,000	-----
Total, VA.....	4,924,846,000	4,884,571,000	-40,275,000

We request restoration of the reductions of \$546,000 in general operating expenses and \$1,353,000 in medical administration and miscellaneous operating expenses.

GENERAL OPERATING EXPENSES

The reduction of \$546,000 proposed by the House compounds a serious situation now facing us. A substantial upsurge in our loan-guaranty workloads and unavoidable delays in conversion to automatic data processing have created additional fund requirements of approximately \$2 million which were not contemplated at the time of preparation of our budget submission. To provide for these needs within our appropriation request will require drastically reduced allowances for equipment, employee travel, and other nonpersonal service costs. This will mean a continuation of the stringent controls exercised during the current year because of insufficient funds, and will involve the further deferral of many essential needs.

To meet the House reduction, planned employment would have to be reduced by approximately 85 positions. Since most programs funded from this appropriation are already projected on a rapidly declining trend, the major part of this reduction would be applied to our chief attorney activity in the field. Workloads in this program have been increasing constantly during the current fiscal year due to the effects of the Veterans' pension law, and it is expected that this trend will continue at an accelerated rate through fiscal year 1962. As a result it can reasonably be expected that legal services to needy beneficiaries will have to be curtailed, and that backlogs will accumulate in claims investigations, tort claim processing, legality determinations on investments, and legal services and opinions for loan guaranty and other programs.

In consideration of these conditions it is urgently requested that the \$546,000 reduction proposed by the House be restored.

MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES (EXCLUDING MEDICAL RESEARCH)

Our request of \$15,053,000 was reduced \$1,353,000 by the House. Full restoration is requested in order that we may provide proper administration and supervision of 172 hospitals, 91 outpatient clinics, 18 domiciliaries, and an education and training program essential to maintaining the quality of medical care to eligible veterans.

The scope of our medical care program is increasing each year. More patients are being treated, and the quality of treatment and care is constantly being improved. In support of this expanding program we must provide more and better administration and supervision.

The reduction proposed by the House would not only preclude the increased staff required for this purpose, but would result in a reduction in present on-duty personnel. It is requested that the reduction be restored in full.

Our request in this appropriation included an increase of \$250,000 for the medical education and training program. The House action eliminated this increase. Only through this program are we able to keep the staffs of our hospitals and clinics abreast of the rapidly increasing advances in the field of medical care. Together with the research program, it is the foundation upon which rests our efforts to improve and maintain the quality of care provided veteran patients.

It is urgently requested that the \$1,353,000 reduction by the House be restored.

MEDICAL RESEARCH

H.R. 7445 authorizes \$27 million for the medical research program. This is \$5 million more than the \$22 million recommended in the fiscal year 1962 budget. The budget request of \$22 million represented an increase of \$500,000 over the amount available for fiscal year 1961. This request, as contained in the President's budget, reflected the judgment of the President as to the needs of the Veterans' Administration in an overall balanced medical research program for the entire Government.

MEDICAL CARE

The House approved our request of \$987,171,000 for medical care (exclusive of medical research). This request is \$33,931,000 over the current year level: \$30,873,000 for inpatient care and \$3,058,000 for outpatient services.

These requested increases will permit us to—

- (1) Provide hospital care and treatment for 629 more patients each day of fiscal year 1962 than in the current fiscal year;
- (2) Continue to improve staffing ratios by augmenting our hospital staffs concerned with the direct care of patients; and
- (3) Accommodate the increasing medical workload in our outpatient clinics.

BENEFIT PAYMENTS

The appropriation requests for "Compensation and pensions" and "Readjustment benefits" were reduced \$43 million and \$376,000, respectively, by the House. Payments from these appropriations are for direct benefits authorized by law, and are not subject to administrative control. The Congress has always responded promptly to requests for funds to pay these benefits if appropriations are not sufficient to cover the needs. Therefore, the reductions proposed by the House are not protested.

Pending legislation in the compensation and pension areas, and increased demands on the "Readjustment benefits" appropriation due to increased activity in the payment of loan guaranty claims, will undoubtedly require supplemental requests for fiscal year 1962. Therefore we will present our needs to the Congress for these purposes in supplemental requests when the more accurate needs are definitely established.

LOAN GUARANTY REVOLVING FUND

The House bill includes language which limits the amount that may be applied to loan guaranty operations financed from the fund to \$120,624,000.

It now appears that this amount is not sufficient to meet the needs of the fund in fiscal year 1962. Claims on defaulted guaranteed housing loans to veterans have increased substantially in recent months, and further increases are

expected. If the limitation proposed by the House is sustained, we would be precluded from honoring our legal obligation to pay these claims to the extent that they exceed \$120,624,000.

Since these expenditures are not subject to administrative control, it is strongly recommended that the limitation language proposed by the House be deleted.

CONSTRUCTION

The fiscal year 1962 "Construction" appropriation request is in the continuing amount of \$75 million. This represents our second-year requirements under the 12-year, \$900 million modernization and replacement program.

Funds are included for constructing replacement hospitals to be located at Charleston, S.C., and Wood, Wis.; planning funds for other replacements to be located in Atlanta, Ga., and in the Los Angeles, Calif., area; 17 modernization projects; and planning and construction funds for 34 other projects.

Our construction requirements are directed primarily to the improvement of those hospitals of our system which were built before World War II. This updating of our facilities is vitally essential to provide the necessary care and treatment of veterans.

The House bill includes a general provision precluding use of appropriated funds for fallout protection in new construction. This is inconsistent with the policy of the President, calling for the Federal Government to take the lead in demonstrating the importance of an adequate protection policy for our civilian population in these times of international crisis. We recommend that this provision be deleted.

Each of our appropriation requests are further explained and justified in the material we have furnished you. We are here to supply any additional information which you may desire.

REDUCTIONS BY HOUSE

Mr. GLEASON. The important thing for us, Mr. Chairman, is in the general operating expenses appropriation—the reduction of \$546,000 proposed by the House. We believe this compounds a serious situation which is now facing us, due principally to the upsurge in our loan guaranty workloads and unavoidable delays in conversion to automatic data processing.

It has created additional fund requirements of approximately \$2 million which were not contemplated at the time of the preparation of our budget submission.

The medical administration and miscellaneous operating expenses appropriation request of \$15,053,000 was reduced \$1,353,000 by the House, excluding medical research.

Senator ALLOTT. So that I understand this, the reduction of \$546,000 was primarily for what, now, because of the slowing down of your data processing machines?

LOAN GUARANTY ACTIVITIES

Mr. GLEASON. We have experienced delays in our conversion to automatic data processing, sir, and in addition there is a continuing upsurge in our loan guaranty activity.

Senator ALLOTT. Can you give us the figures on that?

Mr. GLEASON. Yes, sir; we have the workload figures here.

Mr. BROWNSTEIN. Our appraisal request has increased about 50 percent, Senator, in our loan guaranty activity.

In addition, our property acquisitions have gone up about 20 percent over our estimate of last year.

Senator MAGNUSON. To be specific, on page 34, line 10 of the bill, your suggestion is that we change from general operating expenses of \$161,500,000 to \$162,046,000, or an increase of \$546,000?

Mr. BROWNSTEIN. That is correct.

Senator MAGNUSON. Which was cut out of the bill.

And part of that is due to the anticipated greater activity in the loan guaranty program. And then you say you have some automatic data processing conversion delays, and the decrease would be further aggravated unless you had these 85 positions?

Mr. BROWNSTEIN. That is correct, sir.

Senator MAGNUSON. That is in the field of loan guarantees, legal determination of the investments, and claims investigations—it all gets into the loan guarantees, and most of this is housing; is that correct?

Mr. BROWNSTEIN. That is correct, sir.

Senator ALLOTT. For the record, you just made the statement about the increase in acquisitions. Could you give us some figures on that?

PROPERTIES ACQUIRED

Mr. BROWNSTEIN. Yes, sir. We estimate we will acquire about 14,000 properties this year.

Senator ALLOTT. How does that compare with last year?

Mr. BROWNSTEIN. It is about a 20-percent increase.

Senator ALLOTT. Twenty percent over last year.

Now, how are your dispositions of these properties going?

Mr. BROWNSTEIN. Our sales have slowed down. We have on hand now about 10,500 properties.

LOSS RATIO

Senator ALLOTT. And how is your loss ratio going on these properties?

Mr. BROWNSTEIN. Well, our loss ratio is still very good. We take into account all of the repayments that have been made on the sale of acquired properties. We sell them on terms and then we collect payments. When we take those payments into account, the interest income, the deficiencies that we collect from the defaulting original mortgagor, all of these things considered, our loss ratio is about 0.03 of 1 percent of the original principal amount of our guaranteed and insured home loans.

Senator ALLOTT. It is still extremely low?

Mr. BROWNSTEIN. Yes, sir.

Senator MAGNUSON. You refinance some of them, too?

Mr. BROWNSTEIN. We take back mortgages when we sell the properties, Mr. Chairman.

Senator MAGNUSON. And that is quite difficult, because you have different rates at different times?

Mr. BROWNSTEIN. Well, on the sale of our acquired properties, of course, we have no maximum interest rate. And what we do there is sell at the prevailing interest rate in the area.

Senator MAGNUSON. You have a supplemental for this work; do you not?

Mr. BROWNSTEIN. No, sir; not on the increased activity in property management.

Senator MAGNUSON. You remember, we had some testimony on this up at the supplemental.

Mr. GLEASON. That is correct, sir.

Senator MAGNUSON. And all this is included in there?

Mr. GLEASON. Yes, sir; in general operating expenses.

Senator MAGNUSON. That is general operating expenses.

Now, this amount of money is covered, too, by what you take back in, is it not, in some cases?

Mr. GLEASON. Income from the sale or rental of acquired properties will go into a revolving fund. But, you see, there may be a situation where we would take in a property, and then sell it. We may not get any money out of it, because there may be no downpayment; there may be a 25-year mortgage, and we wouldn't get the money paid back for 25 years.

And I would like to point out another thing, too. At the beginning of fiscal 1961 we had about 13,000 or 14,000 appraisal requests per month.

We now have about 26,000.

Our properties on hand a year ago were about 6,500, and they are now 10,500. This is quite an increase.

Senator ALLOTT. 6,500 about a year ago?

Mr. GLEASON. Yes, sir.

MEDICAL ADMINISTRATION AND OPERATING EXPENSES

Senator MAGNUSON. Then on page 34, line 24, in the field of medical administration, miscellaneous operating expenses, excluding medical research, you are asking for a restoration there of \$1,353,000?

Mr. GLEASON. Correct, sir.

Senator MAGNUSON. Now, the amount included in the bill, you say, would deprive you of an extensive medical care program, of the needed executive direction, educational training system, and administrative expense.

Dr. Middleton probably can address himself to that.

EFFECT OF HOUSE CUTS

Dr. MIDDLETON. Yes, sir. This, Mr. Chairman, represents, first of all, the decrease of \$1,103,000 in direct medical administration, and \$250,000 in education and training.

Contrary to the assumption contained in the House of Representatives report, the H.R. 7445 allowance does not provide the same employment in 1962 for medical administration as in 1961. Increases in average salary and other expenses will require that 37 or more central and area office employees now on duty would be separated from the rolls.

We are now confronted with the required participation in the Federal stock catalog program being monitored by the General Services Administration. There is great need to move forward in the field of automatic data processing and to accord operational controls to our area medical offices.

ADMINISTRATIVE STAFF

Despite the already increasing workloads occurring in the Veterans' Administration program since the fiscal year 1955, the administrative staff of 958 now requested for fiscal year 1962 is 74 less than the number of staff similarly engaged in fiscal 1955 (1,032).

Resolving that, Mr. Chairman, to simple terms, we have increasing demands administratively with increasing patient load and pa-

tient care, and this has been a request that has attempted to build back to levels of 1955 on a cautious basis. If we are kept on the level of 1961 fiscal year, we will have to have reduction in force in central and area offices.

HOUSE REPORT

Senator MAGNUSON. Now the House says, and I quote from page 16 of their report:

The requested increase of 100 administrative positions in the central and area medical offices has been denied as overhead costs are getting out of line.

Now, what do you care to say about that?

Dr. MIDDLETON. Actually Mr. Baker can give you the figures relative to staffing. And it is very low for the Department of Medicine and Surgery.

Senator MAGNUSON. All right, address yourself to that.

Mr. BAKER. We have in the central office at the present time 582 employees, and in area offices 269 excluding consultants. And several years ago, about 1954, we had in the central office in the neighborhood of 1,200 or 1,300 employees.

INCREASE IN ADMINISTRATIVE EMPLOYEES

Senator MAGNUSON. What is your administrative employment total now?

Mr. GLEASON. About 850, Senator.

Senator MAGNUSON. About 850. That is the total for the whole program, both here and in the area offices?

Mr. BAKER. Yes, sir.

Senator MAGNUSON. And this hundred would make it 950?

Mr. BAKER. Our budget request is for a total of 958 in the central office and 7 area offices.

Senator MAGNUSON. You are adding a hundred, or you are asking for roughly a 12-percent increase?

Mr. BAKER. Approximately, sir.

Senator MAGNUSON. And you contend that these administrative costs are not out of line, the overhead costs?

Mr. BAKER. In relation to the size of the medical care program, the number of hospitals and the outpatient clinic, I think it is very moderate.

Mr. GLEASON. About 6 or 7 years ago, Senator, we had about 1,350 people more or less.

Senator MAGNUSON. And you have got 170 hospitals?

Mr. GLEASON. That is right.

Senator MAGNUSON. And you have got a medical care bill here this year of close to a billion dollars, inpatient and outpatient.

Dr. MIDDLETON. That is right, sir, \$987,171,000.

CONSOLIDATION OF MEDICAL ITEMS

Senator MAGNUSON. The House also says that the budget proposes that medical research be provided under the new medical care appropriations consolidates the former appropriations for inpatients and outpatients care into a single account.

Is that satisfactory with you people?

Dr. MIDDLETON. It is indeed, sir.

Mr. GLEASON. That is what we would like, sir.

Senator MAGNUSON. And then the research is separate, specifically set aside as a separate thing? And if the House figure stood, you would remain at what?

Mr. GLEASON. 850, sir.

Senator MAGNUSON. 850 instead of—it would cut out the hundred administrative?

Mr. GLEASON. That is correct, sir.

Senator MAGNUSON. Any questions on that?

FUNDS EARMARKED FOR MEDICAL FACILITIES

Senator ALLOTT. In that item, is there language requesting the earmarking of \$3 million for medical facilities?

Mr. GLEASON. No, that is in research, sir. We will get into that in just a moment, Senator.

Senator ALLOTT. In administration and miscellaneous operating expenses there is earmarked \$3 million for medical facilities, isn't there?

Mr. MONK. The medical research item is in the "Medical administration and miscellaneous operating expenses" appropriation, sir, as an individual program activity.

Dr. MIDDLETON. There is a further item of \$250,000 restoration requested for education and training activities.

This, of course, increases the number of personnel. The desire to disseminate knowledge and sustain our growth by appropriate recruitment and maintenance of staff, all in the interest of the patient care, must be a part of the total medical program.

LOAN GUARANTEE REVOLVING FUND

Senator MAGNUSON. And then the next item on page 38 lines 5 and 6 of the bill, you want to delete the phrase "But not to exceed \$120,624,000" from the language proposed for the loan guarantee revolving funds.

Mr. GLEASON. That is correct, sir.

Senator MAGNUSON. Somebody address themselves to that.

Mr. GLEASON. We just spoke about our loan guarantee takeover of properties due to the economic situation as it exists today. As I pointed out earlier, a year ago we had 6,500 properties on hand, and now we have 10,500. If we have to pay \$10,000 per property on that volume of cases in fiscal 1962 we would be over the \$120 million, and if we can't exceed this we just wouldn't be able to use the revolving funds at all to pay these amounts.

Senator MAGNUSON. This would make it pretty tight?

Mr. GLEASON. It would make it extremely tight, sir. It would make it impossible for us to do the will of Congress, as it is already provided.

Senator MAGNUSON. Let me ask this. What if the House says, "All right, this may be too tight for these people to work with, but let's put some figure in there," what figure—

Mr. GLEASON. Senator, it is difficult to put a figure in for this reason: Supposing 50,000 defaults were to take place, and we had to pay the guarantee which the Congress has already provided. We don't know what the defaults are going to be, and we have no way of knowing, but if there were to be 50,000, the \$120 million limitation would prevent us from paying what we owe.

Senator MAGNUSON. And a limitation is already superfluous here, because in any event you are boosted by the law itself.

Mr. GLEASON. That is correct, sir.

Mr. BROWNSTEIN. These are contractual obligations that we must pay.

Senator MAGNUSON. And you only pay those that are the obligations, the fixed obligations?

Mr. BROWNSTEIN. Yes, sir.

Senator MAGNUSON. So it could be less or it could be more, and there is nothing you could do about it. It fixes its own amount by the activities.

Mr. GLEASON. That is right.

Senator MAGNUSON. Any questions?

Senator ALLOTT. Not on that.

I have a few questions I would like to ask about it generally.

Senator MAGNUSON. Go right ahead.

Senator ALLOTT. These are odds and ends.

GRANTS TO REPUBLIC OF THE PHILIPPINES

I notice in the grants to the Republic of the Philippines, \$1 million, which is below last year's appropriation to the Philippines. Now, this is for what?

Mr. MONK. This appropriation request is to pay the Philippine Government for the care of eligible veterans in the Philippine Memorial Hospital, which was constructed by the U.S. Government and given to the Philippine Government. We pay on a per diem basis for eligible veterans who are admitted and carried on the rolls of that hospital.

Senator ALLOTT. This is an estimate of the amount which you think you would incur during the year by reason of this obligation?

Mr. MONK. That is correct, Senator. And this year, I believe we are not going to exceed a million dollars.

Mr. GLEASON. This year we did estimate an unobligated balance of \$500,000, Senator, and when we came in for a supplemental request we noted that, and asked permission to transfer that amount to the general operating expenses appropriation for other purposes.

Senator ALLOTT. I just wanted to make this a part of the record, because it leads up to another matter I am interested in.

EXPENDITURES IN REPUBLIC OF THE PHILIPPINES

Now, can you give me—and I ask this particularly in view of the recent criticism of the Philippines, that the United States seems to have been ignoring its friends over in the Philippines—can you give me the total amount paid through your administration, through the Veterans' Administration, to the Philippines?

PHILIPPINE SCOUTS

Don't you also pay pensions and other things to the Philippine Scouts—is that the right name for them?

Mr. GLEASON. That is right, sir. Senator, it would be close to \$65 to \$68 million.

Mr. DRIVER. That would include salaries.

Mr. GLEASON. That is everything, sir the total of all payments.

Mr. DRIVER. We are paying \$46,996,000, in pensions and compensation to service connected.

Senator ALLOTT. Compensation and pensions?

OTHER COSTS

Mr. DRIVER. We are paying \$2.6 million in readjustment funds. That is mainly the education program.

Senator ALLOTT. Now, what else?

Mr. DRIVER. The remainder of the money would be administrative costs of operating our regional office, which has approximately 400 employees, and paying the salaries of the personnel so employed, most of whom are Philippine citizens.

Senator ALLOTT. Mainly local?

Mr. DRIVER. Yes, we have about 25 or 30 American citizens, and the remainder would be Philippine citizens.

ADMINISTRATIVE COSTS

Senator ALLOTT. And what is the cost of that administration?

Mr. DRIVER. I would say that the \$65 million figure which Mr. Gleason referred to would encompass all of our expenses, including the benefit payments, and that the administrative cost would be the difference between the figures I have just given you.

Senator ALLOTT. That only brings it up to \$49 million. Surely your administrative costs aren't \$16 million.

Mr. DRIVER. The hospital and insurance costs are in there, too.

Senator MAGNUSON. Break it down and put it in the record.

Mr. GLEASON. We can do that for you easily.

Senator ALLOTT. I wish you would, because it seems to me that this is one of the places where we don't get credit for anything we are doing, and I have been aware that at times this has been approaching \$70 million, and I was told on one occasion \$80 million mark, that they are getting from us, and we don't seem to be getting any credit, and no one in the Philippines seems to be aware that they are getting this amount of money out of the United States every year.

Now, you are probably aware of the recent claims that have been made that we haven't properly taken care of them on war damage. From everything I saw over there while I was there, they were getting about \$5 for \$1 that they ought to have.

(The information requested follows:)

Veterans' Administration expenditures in the Republic of the Philippines, fiscal year 1960

Compensation and pensions:	
Living veterans.....	\$13, 878, 183
Deceased veterans.....	33, 118, 288
Subtotal.....	46, 996, 471
National service life insurance benefits.....	12, 273, 929
Servicemen's indemnity.....	79, 678
Military and naval insurance.....	130, 107
Vocational rehabilitation.....	12, 738
Readjustment benefits.....	2, 636, 218
Administrative and medical care.....	3, 480, 839
Total expenditures.....	65, 609, 980

ADMISSIONS TO VA HOSPITAL

Now, this brings up one other matter which keeps coming to my attention constantly, and Mr. Dimmitt of the Denver office, the adjudication officer out there, dropped into the office this morning, and I discussed it with him. I must clear him; he didn't bring it up, I did. But it comes to my attention constantly. We discussed it last year and this committee was told that we ought to look into it. I haven't seen anything on it. But this is with relation to the abuse of the veterans hospital facilities by non-service-connected treatments.

Now, what can we do about that?

Mr. GLEASON. We are already doing something about it, Senator.

The form that you fill out when you make application for entrance into a VA hospital is called a form 10-P-10. In the addendum you must list your assets and what insurance, if any, you might carry, such as Blue Shield or other private hospital insurance. What we are going to try to work out is a classification of non-service-connected veterans at those hospitals where there is a waiting list. In this way we hope to keep these men at the bottom.

We also hope that the Justice Department will give us additional help, so that when a man signs this form and takes an oath that he is unable to pay, and we find out differently, that we hope the Justice Department will give us some assistance in prosecuting the case. None of us want these people in there if they don't legally belong there.

ABUSES OF HOSPITAL PRIVILEGES

Senator ALLOTT. I don't, for sure. I have seen a few cases of abuse myself.

But I do have it called to my attention constantly by doctors, by citizens, and occasionally even by members of the Veterans' Administration, who say, "Here is this case which is an abuse of what the law intended it to be."

Mr. GLEASON. We are going to do our very best to eliminate this, but as all of us know it is impossible to eradicate fraud completely, human nature being what it is. But we are going to reduce it to the minimum, sir.

Senator ALLOTT. There has been in the past, as you know—as you know in the past it has been solely on the statement of the veteran himself.

Mr. GLEASON. We are doing a little more than that now.

Senator ALLOTT. You are going into this now.

Would you mind keeping me informed during the course of the year as to the progress you make with this particular thing?

Mr. GLEASON. I would be delighted.

Senator ALLOTT. I am thinking in terms, perhaps, of an application which would require disclosure so that you could set standards to it, and if the person has misrepresented the facts in the application or anything of that sort, then it would be in such form that the Justice Department could take action.

Mr. GLEASON. Very well, Senator.

Senator ALLOTT. Thank you very much.

I think, Mr. Chairman, that is all I have.

CONSTRUCTION PROGRAM

Senator MAGNUSON. Now, you have \$70 million for new construction, hospital construction.

Mr. GLEASON. \$75 million, sir. The House restored the \$5 million to us.

Senator MAGNUSON. The House said—I read from their report:

An appropriation of \$70 million is recommended for hospital construction, a reduction of 5 in the budget estimate.

Mr. GLEASON. That was before it was restored on the floor of the House.

Mr. Teague amended that to add \$5 million.

Senator MAGNUSON. So you add \$5 million?

Mr. GLEASON. Yes, sir.

REPLACEMENT OF HOSPITALS

Senator MAGNUSON. That includes funds to replace hospitals in Wood, Wis., and Charleston, S.C., and technical services for hospital replacements at Atlanta and Los Angeles.

Mr. GLEASON. And other modernizations, Senator.

Senator MAGNUSON. Have you in the House hearings a list of those items?

Mr. GLEASON. Yes, sir.

Senator MAGNUSON. We will refer to that page in the House hearings.

PLANNING PERIOD

Now, does this \$75 million fit into our planning period, our 12-year planning?

Mr. GLEASON. It does, Senator, with one exception: That it does not provide money for fallout shelters. I just want to point out that it in no way carries in the money for fallout.

Senator MAGNUSON. I am talking about our regular construction plan in which we have the priorities and we have been progressing fairly well with—we are making reasonably adequate progress every year. And this year the big amount would be the Wood, Wis., hospital, and the Charleston, S.C., and then you have got a fairly large amount for modernization projects.

Mr. GLEASON. That is correct, sir. And I might say that planning funds for 2 other replacements, to be located in Atlanta and Los Angeles, and 17 modernization projects and planning and construction funds for 34 other projects that are down the road, you see.

Senator ALLOTT. On what page of the hearings are you talking about?

Mr. MONK. 580 and 581.

Mr. GLEASON. The narrative support is on page 365.

Senator MAGNUSON. What was the reason—I should have read this, but I haven't—what was the reason for the extra five; what was his justification?

Mr. GLEASON. For reducing it?

Senator MAGNUSON. What is the reason for adding the five on the floor?

Mr. GLEASON. Because they brought it back to the \$75 million that has been planned over the last 3 or 4 years. A year ago was the first year that we were appropriated the \$75 million out of the \$900 million that we planned over a 12-year program.

Senator MAGNUSON. But it was just to add to the general amount of the fund, and not for any particular project; to keep up the amount of the plan, and move along?

Mr. GLEASON. That is correct, sir.

CALIFORNIA HOSPITAL SITE

Senator ALLOTT. Now, where are we with our Los Angeles deal?

Mr. GLEASON. Senator, we are pretty close. It is difficult for us to say at the moment.

But we are within weeks of locating a site, and we hope that we will be able to move on it shortly.

Senator ALLOTT. In other words, there are no burs in the gears; the thing is moving along now?

Mr. GLEASON. Yes, sir.

The two important places right now, Senator, are California and Florida. From the Bureau of the Census we find that the aging veteran is moving to Florida, the younger veteran is moving to California, in the overall population shifts such as occurred in the last 10 years. And this is something that we really need, and something that we are working on, to the point where we may well be within reach of having our architects work on it in the near future.

Senator ALLOTT. But you haven't gotten to the architectural design yet?

Mr. GLEASON. No, sir; because we want to work this in conjunction with the medical schools that are located there.

Senator ALLOTT. All right, thank you.

Senator MAGNUSON. And we will refer to the House record here on the different items.

CONSTRUCTION PROGRAM

Senator ALLOTT. Yes, the pages on these, Mr. Chairman, are in part I of the House hearings, pages 5—well, they commence at 575 and go on through several pages thereafter the various construction funds.

(The information referred to follows:)

VETERANS' ADMINISTRATION

ASSISTANT ADMINISTRATOR FOR CONSTRUCTION

Construction of hospital and domiciliary facilities, \$75 million

This appropriation provides for construction of hospitals and domiciliary facilities and becomes available for use after Presidential approval of individual projects or groups of projects. The facilities may include new and replacement hospitals and domiciliaries, acquisition of sites, modernization of and other improvements at existing facilities (including regional offices and supply depots), and fixed and initial portable equipment.

A construction program of \$77,912,600 is recommended for 1962 to be financed with new obligational authority of \$75 million plus savings of \$2,912,600 from existing obligational authority. This amount is the second increment of an orderly 12-year program for replacement and modernization of our existing

hospital facilities and is the estimated additional amount needed in 1962 for the following projects and programs:

Replacement hospitals:

Atlanta, Ga. (580 beds), technical services.....	\$1,228,000	
Charleston, S.C. (500 beds), construction, initial portable equipment, and technical services.....	11,200,000	
Los Angeles, Calif. (960 beds), technical services or site.....	750,000	
Wood, Wis. (1,250 beds), construction, initial portable equipment, and technical services.....	26,053,000	
		\$39,231,000

Modernization:

1960 program, (Oteen, N.C.), construction and initial portable equipment.....	2,567,000	
1961 program, construction and initial portable equipment (16 projects).....	31,844,000	
1962 program, technical services (4 projects).....	338,600	
		34,749,600

Other improvements:

1962 program, construction, initial portable equipment, and technical services (34 projects).....		3,932,000
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Total required.....		77,912,600
Less savings from prior year programs.....		2,912,600

Net appropriation request..... 75,000,000

Replacement hospitals.—The \$39,231,000 requested for this activity includes construction, initial portable equipment, and balance of technical services funds amounting to \$11,200,000 for 500 G.M. & S. beds at Charleston, S.C. and \$26,053,000 for 1,250 G.M. & S. beds at Wood, Wis.; \$1,228,000 for technical services for 580 G.M. & S. beds at Atlanta, Ga.; and \$750,000 for technical services or site for 960 G.M. & S. beds in the Los Angeles, Calif., area. The exact location for the Los Angeles beds is yet to be determined. If a new site is required, we propose to use the funds to buy the site. If it is unnecessary to buy a new site, the funds would be used for part of the technical services.

Modernization.—The \$34,749,600 requested for this activity includes \$34,411,000 for construction and initial portable equipment for projects on which technical service funds were previously appropriated and \$338,600 for technical service funds for four new projects estimated to cost \$4,248,700.

Other improvements.—The \$3,932,000 requested under this activity is for construction, initial portable equipment, and technical services for 34 new projects estimated to cost \$4,462,000—the \$530,000 difference for construction and initial portable equipment for one project will be requested in 1963 when the plans are complete.

Projects for which funds are requested in 1962

[Thousands of dollars]

Program, station, and description	Total estimated cost	Appropriations		
		Through fiscal year 1961	Fiscal year 1962 request	Future request
REPLACEMENT				
Charleston, S.C.: 500 beds.....	12,300.0	1,100.0	11,200.0	
Wood, Wis.: 1,250 beds.....	28,162.0	2,109.0	26,053.0	
Atlanta, Ga.: 580 beds.....	14,530.0	100.0	1,228.0	13,202.0
Los Angeles, Calif.: 960 beds.....	25,000.0		750.0	24,250.0
Subtotal.....	79,992.0	3,309.0	39,231.0	37,452.0

See footnote at end of table.

Projects for which funds are requested in 1962—Continued

[Thousands of dollars]

Program, station, and description	Total estimated cost	Appropriations		
		Through fiscal year 1961	Fiscal year 1962 request	Future request
MODERNIZATION				
1960 modernization program, Oteen, N.C.: New clinic additions and alterations to existing buildings.....	2,800.0	233.0	2,567.0	-----
1961 modernization program:				
Battle Creek, Mich.: Alteration of recreation building and heat corridors.....	331.6	29.9	301.7	-----
Coatesville, Pa.: New laundry and miscellaneous alterations.....	568.0	53.4	514.6	-----
Danville, Ill.: Alteration of buildings 20, 21, and 58.....	4,134.0	361.2	3,772.8	-----
Des Moines, Iowa: Alteration of buildings 1, 2, 3, 4, and electric distribution.....	2,942.5	290.7	2,651.8	-----
Indianapolis, Ind.: RO and hospital clinic consolidation.....	870.0	74.0	796.0	-----
Knoxville, Iowa: Chapel.....	331.4	28.9	302.5	-----
Lincoln, Nebr.: Alteration of buildings 1, 2, 3, 4, 5, and 13.....	3,539.5	270.5	3,269.0	-----
Los Angeles, Calif.: Special activity building; chapel; alteration of building 165.....	4,649.3	409.9	4,239.4	-----
Montrose, N.Y.: Fire sprinklers, area of 18 buildings.....	312.5	312.5	-----	-----
New Orleans, La.: RO and hospital clinic consolidation and bed addition.....	2,545.0	172.3	2,372.7	-----
Palo Alto, Calif.: Alteration of buildings 101, 102, 103, 104, 105, 110, 137, and 205.....	4,792.9	413.8	4,379.1	-----
Philadelphia, Pa.: A/C clinical laboratory, general laboratory and CSS.....	459.0	41.8	417.2	-----
San Francisco, Calif.: New clinical building and RO consolidation.....	6,815.0	570.1	6,244.9	-----
Seattle, Wash.: Animal research laboratory.....	341.3	22.9	318.4	-----
Sepulveda, Calif.: Alterations of research laboratory building 3 and new animal house.....	325.0	21.5	303.5	-----
Tuskegee, Ala.: Alterations of buildings 68 and 69.....	2,141.0	180.6	1,960.4	-----
Subtotal (16 projects).....	35,098.0	3,254.0	31,884.0	-----
1962 modernization program:				
Fort Harrison, Mont.: Alterations of building 141.....	870.0	-----	50.0	820.0
Lake City, Fla.: Alterations of building 62; roads, walks, and parking.....	598.7	-----	50.0	548.7
Togus, Maine: Replace existing boiler plant.....	585.0	-----	53.0	532.0
White River Junction, Vt.: Alteration and addition to buildings.....	2,195.0	-----	185.6	2,009.4
Subtotal (4 projects).....	4,248.7	-----	338.6	3,910.1
1962, other improvements program:				
Albany, N.Y.: Animal laboratory.....	246.0	-----	246.0	-----
Ann Arbor, Mich.: Alteration to X-ray suite, etc.....	284.7	-----	284.7	-----
Baltimore, Md.: Automatic elevator controls.....	53.0	-----	53.0	-----
Birmingham, Ala.: Enclose roof, exercise area.....	58.6	-----	58.6	-----
Brecksville, Ohio: Convert ward to special service activities.....	294.7	-----	294.7	-----
Buffalo, N.Y.: Storm sash.....	124.3	-----	124.3	-----
Butler, Pa.: Remodel laboratory building 1.....	180.5	-----	180.5	-----
Canandaigua, N.Y.: A/C operation suite.....	71.0	-----	71.0	-----
Chicago, Ill. (West Side): Cardio pulmonary functional laboratory.....	14.8	-----	14.8	-----
Chicago, Ill. (West Side): Enclose roof of exercise area.....	53.5	-----	53.5	-----
Cincinnati, Ohio: A/C laboratory-CSS and X-ray.....	147.0	-----	147.0	-----
Dallas, Tex.: X-ray facility, building 2; audio clinic, building 1.....	575.0	-----	45.0	530.0
Denver, Colo.: Electric outlets, X-ray operation rooms.....	42.0	-----	42.0	-----
Erie, Pa.: Automatic elevator controls.....	46.6	-----	46.6	-----
Hot Springs, S. Dak.: A/C for operating suite.....	77.0	-----	77.0	-----
Indianapolis, Ind. (TB): Remodel nurses stations, building 3.....	26.8	-----	26.8	-----
Iron Mt., Mich.: Automatic elevator controls.....	55.3	-----	55.3	-----
Louisville, Ky.: Addition to building 19 (radio-isotope).....	218.8	-----	218.8	-----

See footnote at end of table.

Projects for which funds are requested in 1962—Continued

[Thousands of dollars]

Program, station, and description	Total estimated cost	Appropriations		
		Through fiscal year 1961	Fiscal year 1962 request	Future request
MODERNIZATION—continued				
1962, other improvements program—Continued				
Omaha, Nebr.: Enclose roof of exercise area	58.7		58.7	
Pittsburgh, Pa. (GM): Animal research laboratory	196.0		196.0	
Providence, R.I.: Addition for recovery suite	149.2		149.2	
Saginaw, Mich.: Enclose roof of exercise area	12.9		12.9	
Salt Lake City, Utah: Enclose walkway	84.0		84.0	
Seattle, Wash.: Automatic elevator controls	117.6		117.6	
Syracuse, N.Y.: RO and hospital clinic consolidation	694.0		694.0	
Wilmington, Del.: Automatic elevator controls	111.0		111.0	
Various stations: Fire and safety projects (7 projects)	169.0		169.0	
Various stations: Admin Diser Fund	300.0		300.0	
Subtotal (34 projects)	4,462.0		3,932.0	530.0
Total	126,600.7	6,796.0	77,912.6	41,892.1
Less savings from prior year programs			2,912.6	
Net appropriation request			\$ 75,000.0	

¹ These projects as recommended provide for fallout shelter facilities. This is in accordance with the policy to furnish fallout shelter facilities in appropriate new and existing Federal buildings. Funds requested for the replacement hospitals provide \$24,000 for planning the Atlanta, Ga., fallout shelter facilities and for the full cost of fallout shelter facilities—\$300,000 at Charleston, S.C., and \$337,000 at Wood, Wis. The request for modernization and other improvements include \$4,000 for planning and \$11,000 for full cost, respectively, for fallout facilities at the White River Junction, Vt., and Syracuse, N.Y. projects.

² Although this program is based on the projects listed above, some substitutions may be necessary to meet changing conditions.

PRIORITIES IN PLAN

Senator MAGNUSON. Have the priorities in the plan been changed any this year since you were here last time?

Mr. GLEASON. Not yet, Senator. They may be, though. I don't want to mislead you.

Senator MAGNUSON. There might be some conditions so that you would have to change them?

Mr. GLEASON. Yes, there may be.

Senator MAGNUSON. But, generally, the priorities have been about the same according to the plan?

Mr. GLEASON. Correct, sir.

READJUSTMENT BENEFITS

Senator MAGNUSON. Now on your readjustment benefits, the bill includes \$80 million for education, training, and other allowances under various benefit programs, the amount provided is \$264 million under 1961, and \$376,000 less than the estimate.

Now, why shouldn't that be declining more than it is.

DECLINE IN PROGRAM

Mr. BROWNSTEIN. It is declining rather sharply.

Senator MAGNUSON. The benefits are expiring all the time, aren't they?

Mr. BROWNSTEIN. It is declining quite sharply. The education and training and the vocational rehabilitation programs are both declining. Of course, there is some increase in the training of war orphans.

Senator MAGNUSON. But your educational benefits are declining?

Mr. BROWNSTEIN. Yes, sir. And our estimates are based on those declines. For example, in 1961 we expect an average of 170,000 in training. Our 1962 estimate is based on an average of 85,000 in training.

COMPENSATION AND PENSIONS

Senator MAGNUSON. Now I want to ask you about this. We have got \$3,500 million, for our compensation and pensions. And that is \$300 million less than 1961, and \$43 million less than the budget estimate. The House said, you will have an unobligated balance of \$215 million, which you can use in fiscal 1962.

Are those figures substantially correct?

Mr. GLEASON. That is about correct; yes, sir.

Senator MAGNUSON. So that in compensation and pension we are having a decline, too?

CHANGE IN PENSION LAW

Mr. GLEASON. We don't know that, Senator. Just a year ago we had a change in the pension law, and many people who could change over have not changed yet. If they were to change during fiscal year 1962 we might need the whole \$215 million.

We are now wondering whether they are going to change. It may be that only 50 percent of them will.

We are trying to bring them up to date on the increases that they could obtain if they did transfer to the new pension law.

VETERANS' INSURANCE AND INDEMNITIES

Senator MAGNUSON. And in your veterans' insurance and indemnities you have got \$39,200,000 for payments of claims. Do you think that is about the right figure for you?

Mr. GLEASON. We think so; yes, sir.

Senator MAGNUSON. They are less than 1960?

Mr. GLEASON. That is right, sir.

Senator MAGNUSON. They are going down. Why?

Mr. GLEASON. We are completing payments on indemnity claims as we get further away from the Korean conflict.

Senator MAGNUSON. Now a lot of the World War II 20-year policies will be coming due here pretty soon now. We are going to have a period of time in about 5 years where most of them are going to come due.

Would the decline also be that some of those are not asking for cash payments, they are turning them into life?

KOREAN WAR INSURANCE

Mr. MONK. Senator, the main reason for the decline here is this. What is paid out of this appropriation basically is the free insurance that was written during the Korean war, the indemnity insurance.

This does not include World War USGLI policies, and a separate fund for the World War II national service life. These indemnities are paid out of the appropriation, and the reason it declines is that the further you get away from the Korean war the less we are paying out.

NATIONAL LIFE POLICIES

Senator MAGNUSON. And I would think that the national life would be coming due, those 20-year policies.

Mr. MONK. But that is paid out of the fund.

Senator MAGNUSON. That is your own trust fund which is adequately taking care of itself?

Mr. MONK. That is correct, sir.

Senator MAGNUSON. Because in some cases, we took the dividends and paid our premiums.

Mr. MONK. That is right, sir.

Senator MAGNUSON. I think I did.

MEDICAL RESEARCH FACILITIES

On page 35, line 1 of the bill, you request after the word "Research", to insert—

"\$3 million, to remain available until expended, for construction, alteration, and improvement of research facilities.

Now, I think there is a very strong feeling, Dr. Middleton, in this committee, and in the House group, that this be used for these research facilities annually and only for that.

Do you share that feeling?

Dr. MIDDLETON. I do.

Senator MAGNUSON. That is, laboratory—

Mr. GLEASON. Construction actually.

Dr. MIDDLETON. Research construction.

Senator MAGNUSON. To keep that just for this purpose, because I think there is a very strong feeling for it.

(Discussion off the record.)

INTEREST IN PROGRAM

Dr. MIDDLETON. I should like to indicate that we are deeply interested in this program, and that it should be a sustained and growing program. But we are not interested in "crash" approaches. We feel that we can do a much better job if we approach it by regular steps, and come to you periodically and answer to an accounting.

Senator MAGNUSON. We have done pretty well with this program.

Dr. MIDDLETON. You have done wonderfully, sir. We are most grateful.

Senator MAGNUSON. It has been worthwhile, and we haven't been too far apart.

LETTER FROM NATIONAL TUBERCULOSIS ASSOCIATION

We will place in the record a letter from the National Tuberculosis Association, and one from the Department of Veterans' Affairs in Portland, Oregon, regarding the prosthetic appliances.

I will give this letter to Dr. Middleton, and you can answer it for the record, from Senator Morse.

(The letter referred to follows:)

VETERANS' ADMINISTRATION,
June 27, 1961.

HON. WARREN G. MAGNUSON,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: This has reference to the attached communication from Senator Wayne Morse to Senator Carl Hayden which you handed me at the hearings of the Veterans' Administration before the subcommittee of the Senate Committee on Appropriations on June 26, 1961. At that time, you asked that I reply to you for the record of the subcommittee hearings.

Copies of the letter from Mr. Moynihan concerning a shortage of funds at our Portland regional office at the beginning of this calendar year were forwarded to my office by Senator Neuberger on March 2 and to the Administrator by Senator Morse on March 7, 1961. We immediately contacted our area medical office in San Francisco, and arrangements were made to provide additional funds to the Portland regional office. Senators Neuberger and Morse were advised of this action by the Administrator on March 28, 1961.

Our budget for fiscal year 1962 includes additional funds for prosthetic appliances in the total amount of \$725,000 to cover increased costs of new types of appliances. Assuming that our budget is approved as submitted, and unless our prosthetics workload rises substantially above our expectations, we should have sufficient funds to provide fully adequate prosthetics services in fiscal year 1962.

We greatly appreciate your interest in our prosthetics program, and we shall do our utmost to see that necessary funds are made available for proper services to this special group of disabled veterans.

The communication you handed me is returned for your disposition.

Sincerely,

WILLIAM S. MIDDLETON, M.D.,
Chief Medical Director.

MARCH 7, 1961.

Mr. J. T. MOYNIHAN,
Claims Representative,
Oregon Department of Veterans' Affairs,
Portland, Oreg.

DEAR MR. MOYNIHAN: Thank you very much for your thoughtfulness in writing to me under date of February 28. I appreciated your bringing to my attention the situation relative to the furnishing of prosthetic appliances by the Veterans' Administration.

The situation you outline is important and the problem is one which calls for all possible assistance on the part of the Federal Government.

I am advising the chairman of the Senate Appropriations Committee and the Administrator of the Veterans' Administration of my interest in obtaining appropriations that will more nearly meet the requirements in the field of prosthetic appliances. As soon as I have further word on this matter I shall get in touch with you promptly.

It is my hope that the appropriations for fiscal 1962 will more nearly approximate the needs in this field.

With kindest regards.

Sincerely,

WAYNE MORSE.

STATE OF OREGON,
DEPARTMENT OF VETERANS' AFFAIRS,
Portland, February 28, 1961.

HON. WAYNE MORSE,
U.S. Senator, Senate Office Building,
Washington, D.C.

MY DEAR SENATOR: Being a claims representative of the State of Oregon Department of Veterans' Affairs, a situation has been brought to my attention which adversely concerns Oregon veterans and which I believe warrants congressional attention.

As you know, the Veterans' Administration furnishes prosthetic appliances for veterans with service-connected disabilities. Due to the lack of available

funds, this program has been vastly curtailed not only in this regional office but, I understand, also in Seattle and Los Angeles; and for all we know, may be somewhat of a nationwide situation.

From contacts with various local veterans, I find that the Portland regional office is no longer able to supply spare appliances; many veterans being authorized two, so that one may be worn while the other is being repaired. Instead of replacement when or where needed, the policy now is one of patching up the existing unless such is completely out of the question; in which event there is a considerable waiting period.

This regional office is authorized so much money per quarter; but due to the increased demands, this fiscal year's funds were exhausted by January. No one is really to blame from the Portland regional office up through the central office in Washington, D.C. Two of the factors which have been a prime import in the creation of this problem in the local area are—

1. The present economic situation in Oregon, which due to the high rate of unemployment has made it necessary for many veterans to seek Veterans' Administration assistance, who formerly purchased their own prosthetics with their own funds.

2. The large increase in this area of disabled veterans; a figure which has almost doubled in the last 5 years. As an example, the average expenditure per quarter formerly ran around \$9,000. The demand is now running at about a 40-percent increase.

As formerly stated, the Portland regional office is completely free of blame in this matter. The staff and management are doing an exemplary job in all fields. Central office also has no control over the divergent factors which have led to the present dilemma.

I do not believe it is necessary to use trite statements nor become maudlin regarding our country's obligation to these people. I do, however, believe that sufficient funds should be made available to provide these veterans with their artificial limbs, braces, wheel chairs, etc.

Thanking you in advance for your efforts in this matter, I remain,

Sincerely yours,

J. T. MOYNIHAN, *Claims Representative.*

NATIONAL TUBERCULOSIS ASSOCIATION,
NEW YORK, N.Y., *February 16, 1961.*

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Interstate and Foreign Commerce,
Senate Office Building, Washington, D.C.*

DEAR SENATOR MAGNUSON: It has come to the attention of the National Tuberculosis Association that the medical research program of the Veterans' Administration may lose its identity in the language of the 1962 appropriation request for that agency. If this change is made, it seems probable that the future of the research program will suffer.

In the event of need for more funds for patient care within the fiscal year, the research program would find it difficult to compete with the patient care program, since the latter is the stated mission of the Veterans' Administration. At the same time, any deterioration in research efforts would inevitably result in the loss of outstanding physicians who would be deprived of the opportunity to combine research activity with the practice of medicine and would lower the quality of medical care to hospitalized veterans. The loss of able investigators, who have made the VA research program one of the best in the world, would be an immediate and disastrous result of any threat to the program.

In view of the fact that the program of the VA is uniquely qualified to operate a clinically oriented research program, whose contributions to knowledge about medical treatment extend to the entire population, the board of directors of the National Tuberculosis Association passed the following recommendation on January 21, 1961:

The National Tuberculosis Association urges the Congress to maintain its present practice of separately identifying funds appropriated to the VA for medical research.

We will be most appreciative of your thoughtful consideration of this subject which we consider of greatest importance to medical and scientific groups.

Sincerely yours,

JAMES E. PERKINS, M.D.,
Managing Director.

EXPENDITURES IN THE REPUBLIC OF THE PHILIPPINES

Senator MAGNUSON. Any further questions?

I think we have covered this pretty well.

Senator ALLOTT. I would like to go back just for a moment.

We have these people, there are 25 Americans in the Philippines.

Mr. GLEASON. That is an approximate figure, yes.

Senator ALLOTT. There is a quotation in the Bible which says, "Let your light so shine before me that they may see your good works and glorify your Father which is in Heaven."

Now, I wonder if perhaps these 25 couldn't help our light so shine there that perhaps the Filipinos would become aware that we have pumped in \$65 million in there this year, and have pumped in I don't know how much since World War II. I think these people have not only to represent the Veterans' Administration there, but there is no reason why we should spend this money there, and the people shouldn't know what we are doing and know what it is costing us.

Could you bring it to their attention?

Mr. GLEASON. It is pretty difficult for us to bring it to their attention ourselves, Senator, unless the Government itself undertakes the program.

COOPERATION WITH STATE DEPARTMENT

Mr. DRIVER. We operate directly with the State Department. It is part of the administration's program and it is being continued now, and all of the data about what we are doing, and the question of informing the country is without the VA, it is in the hands of the State Department, and I believe that a concerted effort has been and is being made to do so.

I have been to the Philippines, Senator, and it has been my observation that this is well known to the people. The checks go to the fifty-some thousand people that are scattered throughout the Philippine Islands. It is a very familiar thing to the community.

I believe the arguments that are put forth by the Government representatives of the Philippines are not made because of a lack of information, they are made because of an extreme desire to get more.

Senator ALLOTT. You counterbalance that to some extent with letting the people know, I figure that every man in a foreign country should be an ambassador, and he talks with 30 or 40 people a day, and this information should be distributed.

I was astounded when I first learned some 5 years ago of the amount of money that we were spending in the Philippines for policies that—some that I might have disagreed with or not, but that isn't the point, they are our Government's policies, and our law, and I think we ought to get credit where credit is due.

Mr. DRIVER. Our people who are over there are carefully selected for these positions; we make a determined effort to pick the very finest people. And they do have daily contact with these hundreds of Philippine citizens that work in the office.

I really believe that the individuals do know about it, though not the size of the dollars for the total program.

Senator ALLOTT. I hope I get over there this year to try to test the reaction. I know that these checks go out to hundreds of little

barrios all over the place, and thousands of people. But if you get one little check, and they don't realize—this is fine for me, I get the check, but we don't get the impact on the people of what these checks add up to, that is my concern.

Mr. DRIVER. We had about 75,000 checks for compensation and pensions, and another 2,500 for educational benefits. That is every month.

Senator MAGNUSON. And that will be dropping down, too; won't it?

Mr. DRIVER. The educational one will drop down, and also the benefit payments, because most of these checks go for compensation, not for pensions.

Only the scouts were eligible for pensions.

So that the compensation checks will go down, but not for some time because when an eligible veteran dies of a service-connected disability, there then comes into the picture the dependents, and there may be two or three of them replacing one veteran when he dies, so that this figure will go up for a while.

FOREIGN RELATIONS

Senator YOUNG. There must be something wrong with the way we deal with foreign countries. The Philippines is a good example. They have a higher standard of living than any of the Asian countries except Japan, but there is an increasing feeling of ill will toward the United States. We must be doing something wrong.

Mr. DRIVER. We find a very kindly relationship with the people we deal with. The veterans organizations in the Philippines seem to be aware of what we are doing. And there seems to be a fine rapport existing between our counterparts in Manila and the U.S. agencies.

Mr. GLEASON. I think those that actually had service in World War II, even in Korea, with us, Senator, are very kindly, and very friendly. Others who may not have had this close association that would bind people together—

Senator YOUNG. That may be true. But the people as a whole are becoming increasingly unfriendly.

Senator MAGNUSON. It is like the politicians in this country, you always pick on the big guy on the Hill.

I think when you get down to the Filipino you will find them friendly.

Mr. GLEASON. Of course, Magsaysay was a great leader. Too bad he was killed.

Senator ALLOTT. It was a sad day for the United States when his plane crashed.

Senator MAGNUSON. All right, then.

CONSTRUCTION FUNDS FOR FALLOUT SHELTERS

The only other item we have left is section 303 in which the House said that—

no part of any appropriation contained in this act shall be used for the construction of fallout shelters in Government-owned or leased buildings except where specifically provided.

In the particular case of the Veterans' Administration, you are asking for in the construction program the percentage increase that would specifically provide for it.

Mr. GLEASON. Well, sir, we just feel that this is inconsistent with the President's program.

Senator MAGNUSON. We know all about that.

We have gone through that.

And, of course, all these agencies are not concerned but General Services, the Veterans' Administration, and OCDM. But it is a matter of policy which we, this committee, want to specifically provide, say, in this particular case, for our new construction, and then the House, which is opposed to this—we will see what we do in conference, and it is an important decision, because it goes beyond this. When we start we don't know where we will end. And this is the reason for the House being, generally speaking, opposed to these items.

Just how far we should go on fallouts and shelters—I suppose that a hospital, if we are going to do anything at all on it, then a hospital would be as well justified as any place you would think of. But there is a great feeling, Why should you provide fallout shelters for Government employees and not for the private citizens?

And it is difficult.

Mr. GLEASON. Of course, these are the private citizens; these are the citizens—

Senator MAGNUSON. But they are a special class that are being taken care of by the Government.

Dr. MIDDLETON. In case of disaster, however, this protection becomes a community resource.

Senator MAGNUSON. But this provides a question of policy that we are going to have to take a look at.

STATEMENT OF CHIEF MEDICAL DIRECTOR

And, Dr. Middleton, we will put your statement in the record in full.

(The statement referred to follows:)

Mr. Chairman and gentlemen, we who are concerned with the medical treatment and care of America's veterans are most grateful for the fiscal year 1962 "Medical care" appropriation increase granted by H.R. 7445. The \$987,171,000 appropriation total recommended will provide for an estimated average daily beneficiary load of 141,504, including patients who will be treated in the new 1,000-bed neuropsychiatric hospitals at Brecksville, Ohio, and Palo Alto, Calif. More important, the quality of treatment and care in all VA hospitals will be improved. Patient turnover also is expected to increase with better utilization of our bed capacity.

We must request full restoration of the \$1,353,000 reduction to our medical administration (\$1,103,000) and education and training (\$250,000) program requests. Contrary to the assumption contained in the House of Representatives report, the H.R. 7445 allowance does not provide the same employment in 1962 for medical administration as in 1961. Increases in average salaries and other expenses will require that 37 or more central and area medical office employees now on duty be separated from the rolls. We now are confronted with required participation in the Federal stock catalog program being monitored by the General Services Administration. There is great need to move forward in the field of automatic data processing and to accord operational controls to our area medical offices. Despite the steady increase in workloads occurring in Veterans' Administration medical programs since fiscal year 1955, the administrative staff (958) now requested for fiscal year 1962 is 74 less than the number of staff similarly engaged in fiscal year 1955 (1,032).

The \$250,000 restoration for education and training activities is required for training the increased number of employees in hospitals and clinics and keeping pace with the agency's research program. Dissemination of the knowledge gained through medical research is a function of the VA's education and train-

ing program. Research advances well may be negated if the results are not made known to interested treatment staff in our hospitals and clinics. Through the education and training program, a two-way access is maintained between the Veterans' Administration and the medical world at large.

Thank you very much.

COMMITTEE RECESS

Senator MAGNUSON. If there are no further questions, thank you very much.

We will recess until 2 o'clock, when we have the Interstate Commerce Commission.

(Whereupon, at 11 a.m., the committee recessed, to reconvene at 2 p.m. the same day.)

AFTERNOON SESSION—MONDAY, JUNE 26, 1961

INTERSTATE COMMERCE COMMISSION

STATEMENTS OF EVERETT HUTCHINSON, CHAIRMAN; HOWARD G. FREAS, COMMISSIONER; KENNETH H. TUGGLE, COMMISSIONER; BERNARD F. SCHMID, MANAGING DIRECTOR; AND VERNON V. BAKER, DIRECTOR, BUREAU OF FINANCE

REQUEST FOR RESTORATION OF FUNDS

Senator MAGNUSON. The hearing will come to order.

We have the Interstate Commerce Commission.

For the record, you had \$21,451,500 last year; your budget estimate, original as well as amended, is \$22,200,000; the House allowed \$21,950,000, which is \$498,500 over the 1961 amount, but is \$250,000 under the budget estimate, and you are requesting restoration of that amount.

We will put your letter in the record, with a summary of your justifications, and you may proceed with your statement.

(The letter referred to follows:)

INTERSTATE COMMERCE COMMISSION,
Washington, D.C., June 8, 1961.

Hon. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of the Independent Offices Appropriation
Bill for 1962, U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: In reply to your letter of June 2, 1961, the Commission appreciates the opportunity to provide your subcommittee with information regarding the effects of the action taken by the House Appropriations Committee on the appropriation for the Commission as provided in H.R. 7445, the independent offices appropriation bill, 1962.

As reported to the House, the bill would reduce by \$250,000 the amount included in the President's budget for the Commission for fiscal year 1962.

The President's budget recommended an appropriation of \$22,200,000 and 2,494 positions for the Commission, but the House Appropriations Committee bill provides for only \$21,950,000 and 2,472 positions, a reduction of \$250,000 and 22 positions. This action would seriously jeopardize the Commission's ability to (1) conduct intensive studies to determine the advisability of extending automatic data processing techniques to all its activities and operations, (2) provide minimum but essential increases needed to handle more expeditiously the formal casework pending before the Commission and reduce the so-called regulatory lag, (3) bolster our enforcement program, and (4) accelerate our research and analysis activities in the field of transport economics.

Not only have the budgetary needs of the Commission continued to rise, due to increased workloads resulting from changes in legislation and by increased

receipts, but additional matters are being placed before us in our efforts to meet continuing changes in the transportation industry, such as the growth of movement of highway trailers on rail flatcars and on ships, relocation of industries, and technological developments with respect to the use of new types of containers and different methods of containerization.

In order for the Commission to perform its responsibilities properly, the following changes in H.R. 7445 independent offices appropriation bill, 1962, as reported to the House are deemed necessary:

On page 29, line 15, strike out "\$21,950,000" and insert in lieu thereof "\$22,200,000".

We appreciate the opportunity to appear before your committee in support of the changes requested, and to answer any questions that you or the committee members may have on the activities of the Commission.

Sincerely,

EVERETT HUTCHINSON, *Chairman.*

INTERSTATE COMMERCE COMMISSION

JUSTIFICATION FOR APPROPRIATION FOR THE FISCAL YEAR ENDING JUNE, 30, 1962

The estimate for appropriation for the Interstate Commerce Commission for the fiscal year 1962 is \$22,200,000. The budget estimate for \$22,200,000 provides for a total of 2,494 positions, an increase of \$748,500 and 66 positions over the appropriation for the current fiscal year, including the proposed supplemental estimate of \$1,313,000 for the cost of pay increases authorized under Public Law 86-568, approved July 1960.

The following statement shows the total appropriation plus the additional supplemental needed for the current fiscal year, the budget estimate for 1962, and the increases requested for 1962, detailed to show special activity limitations included in the 1961 Appropriation Act.

	1961 appropriation ¹		1962 budget estimate		Increases requested for 1962	
	Positions	Amount	Positions	Amount	Positions	Amount
General activities.....	2,175	\$18,628,500	2,245	\$19,374,300	+70	+\$745,800
Railroad safety.....	144	1,662,572	144	1,696,700	-----	+34,128
Locomotive inspection.....	109	1,160,428	105	1,129,000	-4	-31,428
Total.....	2,428	21,451,500	2,494	22,200,000	+66	+748,500

¹ Includes an estimated supplemental appropriation of \$1,313,000 for pay increases separated by special activity limitations as follows: general activities, \$1,151,500; railroad safety, \$95,572; and locomotive inspection, \$65,928.

GENERAL STATEMENT

Mr. HUTCHINSON. Mr. Chairman and members of the subcommittee, I appreciate the opportunity of appearing here today to discuss the Commission's budget needs for the fiscal year 1962. The Independent Offices appropriation bill as passed by the House includes \$21,950,000 for the Commission, which amount represents a reduction of \$250,000 under the budget request of \$22,200,000.

The budget request for 1962 provides for an increase of \$748,500 and for a total of 2,494 positions or 66 more than the 2,428 authorized for the current year. The House bill would allow 44 additional positions and an increase of \$498,500 over the amount available for the current fiscal year.

On June 8, 1961, in response to your letter of June 2, 1961, we requested restoration of \$250,000 and the 22 positions disallowed by

the House. We also pointed out in our letter that the effects of this reduction would seriously jeopardize the Commission's ability to—

- (1) conduct studies to determine the advisability of extending automatic data processing techniques to all its activities and operations;
- (2) provide minimum but essential increases needed to handle more expeditiously the formal casework pending before the Commission and reduce the so-called regulatory lag;
- (3) bolster our enforcement program; and
- (4) accelerate our research and analysis activities in the field of transport economics.

Today, I would like to comment further on the impact which this reduction would have on our programs, and to describe briefly some of the areas in which we particularly believe that increased appropriations are necessary if the Commission is to efficiently carry out its assigned obligations and responsibilities.

PENDING WORKLOAD

The Commission's total pending workload of proceeding cases as of May 31, 1961, was 5,093 as compared with 5,481 cases pending at the end of May 1960. This is a reduction of 388 cases or 7.1 percent during the 1-year period ended May 1961. This reduction was possible primarily because of the closing of 136 section 212(c) conversion cases and 375 "grandfather" cases filed under the Transportation Act of 1958. Both of these categories represent a one-time workload. There is still much ground to be regained if the docket of continuing-type cases is to be reduced to more manageable proportions.

As of May 31, 1961, there were 4,994 pending cases other than the so-called conversion and "grandfather" cases. This represents an increase of 123 over the 4,871 pending at the end of May 1960 and a substantial increase over the approximately 4,000 cases pending early in 1958. There are currently pending 187 "grandfather" applications, which were filed in December of 1960, covering operations of motor and water carriers and freight forwarders in Alaska and Hawaii.

APPLICATIONS FOR MOTOR CARRIER OPERATIONS

For the past 5 years the number of applications for permanent motor carrier operating authority has increased, on the average, about 9 percent each year. For example, 2,684 such applications were received in 1955 as compared with 4,253 in 1960. On the basis of experience during the first 11 months of the current fiscal year, it appears that the number of applications for 1961 will be about the same as in 1959, or about 4,073. However, applications received during the last 3 months clearly indicate that receipts during 1962 will probably exceed the 1960 level and again reflect the increases experienced during fiscal years 1957-60.

CURRENT COST DATA

The continued effort by carriers to adjust rates and the installation of new service features has increased the demand for more current, detailed cost data. Therefore, an urgent need exists to increase and improve our effort in these areas.

Our cost finding studies in the motor carrier area are not sufficiently current for the proper development of cost finding formulas. Therefore, these studies must be adjusted with wage and price indices to bring them up to date. This is not a satisfactory method. Our budget for 1962 provides for making necessary improvements in these programs and for the development of transportation cost data for measuring competition in the transportation field.

ECONOMIC RESEARCH AND ANALYSIS

Many new problems are being encountered by the transportation industry and the Commission, and our research program is not geared to cope with increasing demands for economic studies and analyses. The need for more economic research in the transportation field is vital and, to meet this generally recognized need, additional funds are requested in the 1962 budget to permit the Commission to develop and research several of the more urgent economic transportation problems now pressing for solution. The Commission does not have adequate staff to devote to these problems.

ENFORCEMENT STAFF

The Commission's enforcement staff requires immediate bolstering. During the 1960 fiscal year, 760 court cases were instituted, which is an increase of 63 over the 1959 fiscal year. The courtwork in this area has increased more than 100 percent during the last 5 years.

The number of pending administrative cases involving rate matters, rulemaking and carrier fitness qualifications, has increased substantially. Another pressing problem is the number of complaints received alleging that shipper associations and agricultural co-ops are operating in violation of Commission regulations. The 1962 budget provides funds for increasing our staff of attorneys and investigators to handle the additional workload and to reduce inventories to a reasonably current level.

MOTOR CARRIER SAFETY

As highway transportation has increased, the number of motor carriers subject to our safety regulations has increased. Additional staff is requested in the 1962 budget to handle the increased motor carrier safety workload, including additional motor carrier field supervisors and safety inspectors which will enable us to reduce the excessive number of carriers for which some offices are now responsible.

AUTOMATIC DATA PROCESSING

The 1962 budget provides funds to enable the Commission to make studies to determine the advisability of extending automatic data processing techniques to all of its activities and operations. We need to determine the activities and operations in which data processing techniques could be applied most advantageously.

I would like to turn, now, to some of the significant actions taken by the Commission during the past several months to simplify processes and, by reorganization, to improve operating efficiency and increase productivity.

PROSECUTION AGAINST VIOLATORS

In January of this year the Director of our Bureau of Safety and Service was authorized to request court prosecution for railroad safety violations, without obtaining prior Commission approval in each case. The Director of Locomotive Inspection has this authority by statute in matters concerning locomotive safety.

Senator MAGNUSON. This puts the two on somewhat similar basis?

Mr. HUTCHINSON. Same footing; yes, sir.

The Commission later authorized the Director of the Bureau of Inquiry and Compliance to recommend criminal prosecution and appropriate civil action in the courts against violators of our motor carrier economic regulations. Another delegation of authority, effective May 1, makes it possible for the Director to take civil injunctive action in most railroad, oil pipeline, water carrier, and freight forwarder matters. Where institution of civil injunction proceedings is reserved to the Attorney General by statute, the Director may now make his own recommendation for action direct to the Justice Department.

FINALITY OF DECISIONS

One of the Commission's most significant changes was the adoption, in January, of a procedure under which decision of the divisions are final, except in cases of general transportation importance.

We estimate, Mr. Chairman, that this will reduce by about 700 the number of petitions to the entire Commission each year. In time, I believe this change, together with others we have made, will reduce the average of cases by as much as 3 months, and will generally speed up and improve the decisional process in both the simple and complex cases.

DELEGATION TO EMPLOYEE BOARDS

The Commission first acted last January to delegate additional informal proceedings cases—those that have not been subject to public hearings—to new employee boards—three in the Bureau of Finance and two in the Bureau of Safety and Service. In mid-February three additional boards were established in the Bureau of Motor Carriers. And then four additional employee boards were established—two the latter part of February in the Bureau of Traffic and two in the Bureau of Operating Rights in March. This will bring the total of no-hearing cases handled by employee boards up near the 29,000 per year mark.

I might point out, Mr. Chairman, that prior to the creation of these new boards, we had 4 boards that had been in operation for quite some time and these 4 boards were handling the total of about 11,000 cases annually.

TYPE OF CASES DELEGATED

Senator ALLOTT. What kind of a case would come under—give me a typical case that would come under this.

Mr. HUTCHINSON. Well, Senator, one—we will take traffic, for instance. The board there might handle released rates and that sort of

thing—sixth section applications for advancing effective dates of tariffs, which would normally be effective on 30 days' statutory notice.

Senator ALLOTT. Mostly routine.

Mr. HUTCHINSON. Yes, routine.

RIGHT OF APPEAL

Senator ALLOTT. Now, are these people deprived of any appeal they might have?

Mr. HUTCHINSON. They have an appeal in every case to an appellate division of three Commissioners. Decisions by two Commissioners are final and they can go to court from there and there have been over the period of the last 20 years, I think—well, not very many cases. In other words, our experience with boards has been very good and the parties generally have accepted the boards' action.

This does not mean that they do not take—in the case of the Suspension Board, for instance, those are frequently taken right on through and some of them do end up in the courts. But when I say few cases have gone to court, I mean few have gone to court on the board decision.

Senator ALLOTT. Well, you have answered my question. That is fine, thank you.

PURPOSE OF DELEGATION OF AUTHORITY

Mr. HUTCHINSON. Of course, the purpose of these additional delegations to boards is to free more time of Commissioners for consideration of formal proceedings cases, particularly those of general transportation importance, which now run to more than 7,300 a year. Substantially all cases that can be handled by employees under the present law have now been delegated to boards. Counting the 4 we had prior to the reorganization, we now have 16 employee boards. The importance of these actions was emphasized in the President's recent special message to the Congress on regulatory agencies.

PRESIDENT'S MESSAGE

The President's message noted that—

Some progress in this direction (reducing workloads) has already been made by the Interstate Commerce Commission in the past 2 months, which has delegated to intra-agency boards some 18,000 matters which otherwise would have required the attention of a Commissioner, a panel of that Commission, or the Commission as a whole.

Another action of great importance is the procedure the Commission adopted, effective March 7, for assigning the more important cases to the dockets of individual Commissioners. Thus, every case which has been the subject of an oral hearing becomes the personal responsibility of one of the Commissioners. This, too, helps speed the disposition of cases and improve the caliber of reports. The more important cases are better researched, the reports are better written, and we believe the decisions will have greater precedent value. Only the less important cases are now being handled under the familiar per curiam decisional process.

Senator MAGNUSON. Well, this is a matter, too, which has been under proposal for some time, because other than that, it places re-

sponsibility for a particular case with a Commissioner who can go right through as a whole and needs to know all about it.

Mr. HUTCHINSON. That is correct, Senator.

Senator MAGNUSON. And that gives you and the rest of the Board a better chance to give advice and consideration in these matters, because he will know all about it? He will have the responsibility in this particular case.

Mr. HUTCHINSON. He does have the responsibility in that case.

Senator MAGNUSON. Go ahead.

REORGANIZATION ACTION

Mr. HUTCHINSON. I should mention the reorganization action of the Commission with respect to the chairmanship. Our action was designed to reemphasize that the Chairman of the Commission is its chief administrative and executive officer.

Basically, this action strengthened the Chairman's hand by eliminating the reporting Commissioner procedure and directing the seven regulatory bureaus to report to the Chairman through a Vice Chairman rather than to the Commission through seven individual Commissioners.

In addition, the three proceedings bureaus were directed to report to the Chairman through three individual Commissioners (the chairmen of the proceedings divisions) rather than to the Commission. The term of office of the Chairman will continue to be 1 year. The Vice Chairman will serve for 1 year and, in addition to his other duties, will act as Chairman of the Commission in the absence of the Chairman.

Effective May 1, the Vice Chairman was authorized to institute formal docket investigations in most matters arising out of the work of the regulatory bureaus. Other investigative proceedings, such as those on petitions, will continue to be instituted by the division to which the general subject matter is assigned.

Another important "streamlining" change is the one which abolished Division 3 and assigned its rate work to Division 2. The other work of the division was given to Division 4 which was redesignated as Division 3, Finance, Safety, and Service. This reduces the number of Commission Divisions, Mr. Chairman, from four to three.

These reorganizations are sound. They are in the public interest. They will speed our work and improve our actions.

DECLINE OF COMMON CARRIER SYSTEM

Much has been accomplished, but there is still much to be accomplished. The common carrier system in America is in trouble. This means that the lifestream of our country is endangered.

The Senate Committee on Commerce has been holding hearings on the general subject of the decline of the common carrier system. The Commission is equally concerned over the erosion taking place in this vital industry.

We are doing our utmost to find ways to reverse this unhealthy trend. We want to continue these efforts—we are constantly seeking ways and making suggestions to turn the curve upward. It is therefore imperative that the reduction be restored if we are to con-

tinue to improve our own efficiency and find more effective ways of strengthening the foundation of our Nation's transport system.

We urge you, Mr. Chairman, and members of the subcommittee, to carefully examine what we are trying to accomplish at the Commission. We are working hard to do the job in the public interest—but we need your help. We respectfully request that the House cut be restored.

Mr. Chairman, this concludes my formal statement. If there are any questions, I would be glad to try to answer them.

Senator MAGNUSON. Thank you, Mr. Chairman, for that review of the reorganization work that the Commissioners voluntarily set themselves to in the past year or year and a half. I think, as you state in your statement, we are going to see some good results.

Mr. HUTCHINSON. We are very hopeful.

Senator MAGNUSON. In the expedition of cases.

HOUSE REPORT

Now, specifically, the House in their report, and I read from the House report, page 14:

The increase—

that is, the House increase—

is for 44 new jobs, including 10 hearing examiners and 5 attorney advisers to help reduce the backlog inventory of cases requiring hearings, which the committee has specifically allowed.

Now, what would be the category of the jobs broken down if we should grant this extra amount? That would be 22 more people?

Mr. HUTCHINSON. Yes, it would, Mr. Chairman.

Senator MAGNUSON. And what would they be doing?

Mr. HUTCHINSON. There would be by bureaus, in the Bureau of Operating Rights, five attorneys and one clerk, or a total of six. In the Bureau of Finance, three attorneys. In the Bureau of Inquiry and Compliance, one attorney. That is 10. In Accounts, the Bureau of Accounts, there would be two accountants. There would be six management analysts in the Office of the Managing Director. These would be in connection with the automatic data processing program. In the Bureau of Motor Carriers, three additional employees and two in the Bureau of Transport Economics and Statistics. I believe that is 20—

Senator MAGNUSON. Twenty-two.

Mr. HUTCHINSON. That is 22.

Senator MAGNUSON. Anyway, the 22, the House specifically limits this to 10 hearing examiners and 5 attorney advisers. The other 22 would be pretty well spread throughout the whole Commission?

Mr. HUTCHINSON. Yes; it would be spread among six bureaus and one office.

FIELD ATTORNEYS

Senator MAGNUSON. Now, the House also says:

There are also 24 attorneys in the field who are engaged in work the attorneys general could very well do, who should be given other assignments.

What have you got to say to that?

Mr. HUTCHINSON. This, in our view, would be unworkable in that it would completely demoralize our enforcement effort, Mr. Chairman. This is our entire—actually, we only have, I believe, 22 attorneys in the field. That would be our entire staff of attorneys plus two—I mean entire field staff plus two.

In practice, I think each attorney, on an average—some more and some less—take to court about 25 cases per year, civil and criminal. This would mean that most of these would not get to court because there simply would not be anyone in the field to bring them, take them to the U.S. attorney and help him with the case. It goes a little beyond helping.

EFFECT OF HOUSE ACTION IN FIELD

Senator MAGNUSON. It seems to me the House action there would pretty much knock out that whole system you had of trying to do a little more in the field than having these attorneys in the field that know the local cases, local aspects, and can work with the Assistant Attorney General or the U.S. district attorney or wherever the case is going to be tried.

Mr. HUTCHINSON. Mr. Chairman, I believe that this would mean we would not have any civil injunction cases any more, because only the Commission can bring those and I doubt that we could do that on any sort of effective basis with just our headquarters staff or Washington staff.

Senator MAGNUSON. Because the local district attorney is not going to give these civil injunction cases any particular priority if you have to work around the other way.

Mr. HUTCHINSON. Our experience has borne out what you have just said, Mr. Chairman. They are busy and it is very difficult for them to find time to handle some of these cases.

I have gotten together a rather detailed statement on this area and I would be very glad to furnish it for the record.

Senator MAGNUSON. You put that in the record, whatever you have.

Mr. HUTCHINSON. It shows the effect this would have on our court program.

(The information requested follows:)

The Commission has 22 field attorneys in the Bureau of Inquiry and Compliance, 21 of whom are engaged primarily in motor carrier enforcement. The impracticability of the U.S. attorneys performing the work now done by our field attorneys is apparent when the detailed character of that work is considered.

Investigations of violations of the Motor Carrier Act are made by employees of the Commission and the facts developed in the course of investigations are set forth in the investigators' reports and supporting exhibits. In such investigations the attorney plays an active part (1) in the determination of cases to be investigated, and (2) in counseling the investigators as to the relevancy of the facts to be sought and the admissibility of evidence to be secured.

Several avenues of legal enforcement action are available by proceedings in the Federal courts and before the Commission. The court actions include (1) criminal prosecution, (2) civil injunction proceedings, and (3) civil forfeiture proceedings to secure money judgments in the nature of a forfeiture. The Commission proceedings include (1) formal investigations with a view to entering cease and desist orders and with the possibility of suspension or revocation of operating rights; and (2) participation in application hearings for presentation of evidence bearing on applicants' fitness. In any enforcement case one or more of the above procedures may be used. The initial recommendation as to the

course to be taken is made by the attorney in the light of the facts in the investigation report and other information available in the Commission's files.

Of the five available enforcement actions only two are within the assigned duties of the U.S. attorneys; namely, criminal prosecution and civil forfeiture proceedings. Section 222(b) of the Motor Carrier Act provides for injunction proceedings to be instituted by the Commission or its agent. In such injunction proceedings the Department of Justice permits the U.S. attorneys to take no part therein other than to accept service of pleadings subsequent to the filing of the complaint by the Commission's attorney. Obviously in the two classes of enforcement proceedings before the Commission the U.S. attorney plays no part and the field attorney must handle each phase of the legal work including making recommendations for the institution of the Commission proceeding, introducing evidence, cross-examining witnesses, preparing orders, briefs, and exceptions and sometimes orally arguing the case before the Commission.

Adoption of the suggested assignment of the field attorneys to other work and the accompanying implication that enforcement work subsequent to the investigations should be handled by the U.S. attorneys inevitably would result in the loss of three effective implements of enforcement, i.e., civil injunction proceedings and the two types of Commission proceedings.

While it is true that a substantial portion of our enforcement actions are criminal prosecutions filed or presented by the U.S. attorneys, they rely on our field attorneys to prepare information and, in most cases, to prepare trial briefs and assist in the actual trial. Indeed, in many cases the U.S. attorneys avail themselves of the services of the field attorneys to conduct the trial in its entirety.

That our court enforcement cases involve a very specialized field of law is so apparent as to require no demonstration. Our attorneys spend years in acquiring the knowledge which is so essential to the understanding and proper handling of our cases. Even if willing to do so, the U.S. attorneys would not have the time to devote to research necessary to afford them the knowledge and background essential to effective handling of the cases. Seldom is the decisive factor a legal principle of general criminal law. Almost always the decisive factors are legal questions growing out of the interpretation and application of the Motor Carrier Act.

It should be emphasized that our attorneys work in close association with the U.S. attorneys in the criminal cases and civil forfeiture cases in which they are charged with responsibility. In no small part the willingness of the U.S. attorneys to file and prosecute such cases is due to the confidence in our attorneys and knowledge that they will render the greatest assistance in preparation and trial of the cases.

LETTER FROM BROTHERHOOD OF LOCOMOTIVE ENGINEERS

Senator MAGNUSON. We have a communication from the Brotherhood of Locomotive Engineers, again on the question of locomotive inspectors.

Now, under the House bill, how many locomotive inspectors do you have, as it stands?

LOCOMOTIVE INSPECTORS

Mr. SCHMID. We would have 50 locomotive inspectors.

Senator MAGNUSON. I have 109 locomotive inspectors.

Mr. SCHMID. Mr. Chairman, I believe that is the total personnel in the locomotive inspection work.

Senator MAGNUSON. And the budget would eliminate four, the present budget?

Mr. HUTCHINSON. No, I believe it would eliminate three locomotive inspectors and one clerical employee from that section; three inspectors.

Senator MAGNUSON. As the amount now stands, you would eliminate three.

Mr. HUTCHINSON. Three locomotive inspectors, yes, sir.

Senator MAGNUSON. Do you think that is wise?

Mr. HUTCHINSON. We do not think so. We could do a better job with more people.

Senator MAGNUSON. Would you put in the record the added amount that would be needed over the budget to retain these three you would have to eliminate?

Mr. SCHMID. Over the President's budget, you mean?

Senator MAGNUSON. Over the budget, yes. Because I understand the budget itself will eliminate that.

Mr. SCHMID. That is right. The House merely sustained the cut reflected in the President's budget.

Mr. HUTCHINSON. The House approved the budget.

(The information requested follows:)

The amount required over and above the budget estimate to restore the four positions eliminated from the 1962 budget for locomotive inspection activities is \$38,000.

TRAIN-TRUCK INVESTIGATIONS

Senator MAGNUSON. We also have communications from brotherhoods in regard to whether or not you would have sufficient funds in your overall budget to make a general investigation in the train-truck company inclusions, tank-truck inclusions.

Mr. HUTCHINSON. We have instituted a proceeding on that, Mr. Chairman, as you know. So far, we are getting along pretty well with it.

Senator MAGNUSON. And you have the amount in the regular overall budget to go along with this?

Mr. HUTCHINSON. For the foreseeable future, yes. We see no need over the budget estimate in connection with this investigation at this time.

COMMUNICATIONS

Senator MAGNUSON. We will also put in the record a letter from the Association of Interstate Commerce Commission Practitioners.

(The letters referred to follow:)

ASSOCIATION OF INTERSTATE COMMERCE COMMISSION PRACTITIONERS,
Washington, D.C., June 13, 1961.

Re H.R. 7445, independent offices appropriation bill, 1962 (appropriation for the Interstate Commerce Commission)

HON. WARREN G. MAGNUSON,
Chairman, Interstate and Foreign Commerce Committee,
Senate Office Building, Washington, D.C.

MY DEAR SENATOR: I am writing you on behalf of the association to express the earnest hope that your committee, in giving consideration to this bill, will restore to the appropriation for the Interstate Commerce Commission for the current fiscal year the reduction of \$250,000 made in the House. As I believe you know, members of this association, with others, have worked closely with the Commission and its staff during the past 2 years as members of a special advisory committee on Interstate Commerce Commission practices and procedures. In that work we have gained insight into the problems of achieving effective administration by the Commission of the tremendous substantive area of jurisdiction which has been delegated to it primarily because of the tremendous and increasing workload thus imposed. The advisory committee found that there were substantial areas of improvement which could be accomplished through internal changes and we have been extremely pleased to find that the Commission has acted swiftly and comprehensively to initiate those improvements which are within its power to accomplish.

The Commission cannot function efficiently and effectively, however, in light of its very large workload without an adequate staff and related services and facilities. It is apparent that in this transitional period, when the Commission is adopting new procedures and a new method of approach to its problems, congressional support through an adequate appropriation is an essential step in securing the improvements in the administrative process, the need for which has been so widely recognized.

Very truly yours,

DAVID G. MACDONALD.

BROTHERHOOD OF LOCOMOTIVE ENGINEERS,
Tacoma, Wash., May 19, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Interstate and Foreign Commerce,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: With reference to the Budget Bureau's recommendation that the ICC appropriation be cut to the extent it would eliminate the positions of three locomotive inspectors.

As you know the locomotive engineers represented by this committee are vitally concerned with the locomotive inspection as it now exists and we can readily see that any cut in the present staff would result in more flagrant abuse of the Federal inspection rules by the carriers. A review of the penalties and fines assessed the various railroads would no doubt reveal that these penalties and fines are in direct proportion to the amount of inspection given the railroads; we, therefore, believe that any reduction in inspectors would create untold increase of penalty defects to the locomotives in service.

We urgently request that you use the good influence of your office to protest any reduction in the ICC appropriation by the Senate Appropriations Committee.

Your sincerely,

G. H. RUSS, General Chairman.

CAR SERVICE AREA

Senator MAGNUSON. Now, how many field offices do we have?

Senator ALLOTT. Before we leave this, I have also had called to my attention the effect that this might have on the car service. We earmarked the locomotive inspection. The car service area is not earmarked; is that correct?

Mr. HUTCHINSON. Well, that is the same situation, Senator Allott, as in connection with the locomotive inspectors. The Budget cut our request and the House sustained the Budget. This was a reduction of three car service employees.

Senator ALLOTT. The same as locomotives, exactly.

Mr. HUTCHINSON. That is right.

Senator ALLOTT. So that under the budget request, you would be without these three?

Mr. HUTCHINSON. That is correct, sir.

Senator MAGNUSON. You might put in the record the amount that would be for those, too, in case we decide they should be in.

Mr. HUTCHINSON. Yes.

(The information requested follows:)

The amount required over and above the budget estimate to restore the three positions eliminated from the 1962 budget estimate for car service activities is \$32,000.

FIELD OFFICES

Senator MAGNUSON. Now, how many field offices do you have?

Mr. HUTCHINSON. Thirteen.

Senator MAGNUSON. Put in the record if you do not have it offhand, what would be the ratio of the number of employees in the field offices as compared to the Washington office from last year and this, 1962? Would there be more in the field or less in the field or vice versa?

Mr. HUTCHINSON. We will have to supply that.

Senator MAGNUSON. Supply that for the record.

Mr. HUTCHINSON. Yes.

(The information requested follows:)

The distribution of Commission employees between central office (Washington, D.C.) and the field offices for the fiscal year 1961 and the budget estimate for fiscal year 1962 is as follows:

	1961		1962	
	Positions	Percentage	Positions	Percentage
Central office.....	1,614	66.5	1,662	66.6
Field office.....	814	33.5	832	33.4
Total.....	2,428	100.0	2,494	100.0

CONSOLIDATION OF SMALL BUSINESS ACTIVITIES

Senator MAGNUSON. Because you will recall on many occasions, particularly up in front of our committee, that we have been hopeful that the trend, if there is going to be any trend of new employees, there should be more, as you have delegated within the Commission itself, as much delegation as possible within the field, because of the cost to litigants, the cost, particularly in the motortruck field, because that still is pretty much small business around the country.

Mr. HUTCHINSON. That is correct, Senator.

Senator MAGNUSON. And they cannot afford to come back here for everything.

Senator SCHOEPEL. I would like to ask whether there has been any effort made to consolidate some of your field offices, consolidate their activities?

Mr. HUTCHINSON. We have this under study at the moment, Senator Schoepfel, and we have actually consolidated some within recent years. For instance—the number of field offices has actually been reduced from 16 to 13. I do not know just over what period, but there has been some reduction there. We have only 13 now and we have the whole field organization under study at this very moment, Senator Schoepfel.

Senator SCHOEPEL. In your judgment, that consolidation down to the present 13, has that proven generally satisfactory?

Mr. HUTCHINSON. Yes; I think it is.

Senator SCHOEPEL. You do not contemplate reducing them further at this time, without the benefit of what your study shows?

Mr. HUTCHINSON. No; we do not.

Senator SCHOEPEL. I see. Thank you.

VIOLATION IN GRAY AREA

Senator MAGNUSON. Now, I noticed that you mentioned, of course, the thing that the Commission and the Senate Commerce Committee,

all of us have been discussing for a long time regarding the whole common carrier system, which—I do not want to belabor it here and go into any detail, but you say the Commission is concerned with this and is seeking ways and means and suggestions to do what we can to remedy this.

Now, would that be involved in a continuing study by the Commission of what we like to call the violations in the gray area?

EFFORT TO IMPROVE COMPLIANCE

Mr. HUTCHINSON. Well, it is a continuing effort toward improving the compliance.

Senator MAGNUSON. Compliance?

Mr. HUTCHINSON. Compliance with the act, which, of course, in turn, would reduce or minimize the so-called gray area. Some of the principal areas of concern now are in the agricultural co-ops and in the shipper associations that buy and sell or leasing of equipment and all of these areas, Senator, that you are familiar with.

Senator MAGNUSON. Yes, and of course, you could only do as much in this field as the law provides.

Mr. HUTCHINSON. That is correct.

Senator MAGNUSON. But there is sufficient appropriation in here for you to continue this activity, to look into these areas?

Mr. HUTCHINSON. Yes, I think so, Senator. If the cut is restored, I think we will continue to move forward.

TOTAL HEARING EXAMINERS

Senator MAGNUSON. Now, you have 10 new hearing examiners. How many do you have all together?

Mr. HUTCHINSON. We have now 114, that will be 124.

Senator MAGNUSON. Are they all out of the Washington office?

Mr. HUTCHINSON. All except one. We have one examiner in San Francisco.

Senator MAGNUSON. Why is it you have one there and not in the other field offices?

Mr. HUTCHINSON. I suppose distance has something to do with it. It is quite a good stretch to the west coast.

Actually, this is a carryover from an earlier day, when we had a hearing examiner in each of the motor carrier districts, Mr. Chairman.

Senator MAGNUSON. I remember when you did.

Now, is it that they did not have enough work in these districts, or what was it that gradually brought them in here?

ADMINISTRATIVE PROCEDURE ACT

Mr. HUTCHINSON. I think there were a number of reasons why they were drawn in. One is that the Administrative Procedure Act passed in 1946 requires the rotation of cases insofar as it is practicable. I was not around then, but I think the Commission found that having examiners in the field complicated compliance, complicated the effort to comply with this provision in the Administrative Procedure Act.

Senator MAGNUSON. But you still can send them out into the field?

Mr. HUTCHINSON. Oh, yes.

Senator MAGNUSON. And you do this, do you not?

Mr. HUTCHINSON. Oh, yes, we hold hearings in the area involved, for the convenience of the parties.

RAILROAD MERGERS

Senator MAGNUSON. Now, speaking of hearings in the field, how many railroad mergers have you got before you now? How many filed? Can someone answer that?

I am speaking of applications.

Mr. HUTCHINSON. Applications pending.

Senator MAGNUSON. Yes, formally filed.

Mr. BAKER. At present, there are 35 applications pending under section 5(2). They are not all strictly mergers. Some of them are acquisitions of control, some trackage rights, and the like. But under section 5(2) of the act, there are 35.

Senator MAGNUSON. But a great number of those are actual merger, are they not?

Mr. BAKER. There are quite a number.

Senator MAGNUSON. Applications for actual mergers.

Mr. BAKER. Most of the big cases we have before us actually involve acquisitions of control through stockownership—for example, the ones involving the Baltimore & Ohio Railroad, that is a stock control. The one involving the Western Pacific is stock control. Southern Railway has an application for control of the Central of Georgia.

POLICY ON MERGERS

Senator MAGNUSON. I suppose any time you have a merger, you have some stock manipulations that have to be handled for any merger. But generally speaking, they involve the problem of putting together two or more railroads?

Mr. BAKER. Unification of control, certainly.

Senator MAGNUSON. Now, I think it is correct, and correct me if it is not, it is my understanding and I ask this not only for myself and members of this committee, but for every Senator I have talked to that has been involved in the areas where the applications have been made, with maybe some exceptions right close by here, have expressed concern about whether or not the Commission was going to hold hearings in these particular cases in the field. I think we would like a restatement of what your policy is going to be on that.

Mr. HUTCHINSON. This can be done. Hearings will be held in the field and I think indications at the present time are that insofar as those applications in the West are concerned, an effort will be made to hold a hearing in every State that is involved.

Mr. BAKER. Substantially so.

Senator MAGNUSON. I know it is going to be difficult to determine exactly every point, but I think that they want to be assured that there will be the opportunity for these hearings for people to be heard.

Mr. HUTCHINSON. It certainly is our purpose to give everyone the opportunity.

Senator MAGNUSON. That was my understanding and I have so said to many of the Senators who have asked me and people who have been interested in this matter, because there is a great interest in it. I suppose the Commission gets the same amount of mail we do from different people who are concerned about this?

INTERVENTION IN WESTERN PACIFIC CASE

Mr. TUGGLE. Senator, this morning, I signed an order permitting 82 different parties to intervene in the *Western Pacific* case. That indicates the interest in the proceeding.

Mr. HUTCHINSON. That will give everyone an opportunity to be heard who has an interest and, as I say, perhaps something can be worked out so that the hearings can be held in most of the States involved.

Now, we do not think we can hold two hearings in one State and one in another, but it will be worked out for the convenience of interested parties.

Senator MAGNUSON. You have to work it out, I realize. So that, timewise, without pinning the Commission, as we would not want to, down to certain dates, some of these hearings will be held in the fall, will they not?

Mr. HUTCHINSON. Yes, they will be held right straight through.

Senator MAGNUSON. You will not get many in the next month or two.

Mr. HUTCHINSON. Summer is usually a little slower than the rest of the year.

RAILROAD LOANS

Senator MAGNUSON. How many applications for railroad loans do we have now in front of the Commission—well, let us say, for how many loans have we guaranteed and how many are pending under the 1958 act?

Mr. TUGGLE. I can answer that, I think.

We have approved guarantees for loans to 10 different railroads, aggregating slightly over \$120 million.

Senator MAGNUSON. \$120 million, that is 10 roads.

Mr. TUGGLE. We have applications pending from five other roads, aggregating about \$27 million. Two of those are in process of being closed before the month is out.

Senator MAGNUSON. What are the five pending? Do you know those offhand?

Mr. TUGGLE. I can tell you. There is an application for \$3½ million for the Monon, one for \$15 million from the Jersey Central and one for \$1 million from the Boston & Maine, one for \$6 million from the M-K-T, one for a million and a half from the Pittsburgh & West Virginia.

Senator MAGNUSON. Was the New Haven in there?

Mr. TUGGLE. No, sir.

Senator MAGNUSON. Have they made a recent application?

Mr. TUGGLE. We have no New Haven loans pending.

OCDM FUNCTIONS

Senator MAGNUSON. How does the OCDM get into this act under the 1958 act? That is a different proposition?

Mr. TUGGLE. It is under the Defense Production Act.

Senator MAGNUSON. They can ask for loans, too, can they not?

Mr. TUGGLE. Yes, sir.

Senator MAGNUSON. Are they guaranteed?

Mr. TUGGLE. They can be guaranteed or direct loans from the Treasury Department.

Senator MAGNUSON. Are they covered with collateral?

Mr. TUGGLE. Usually.

Senator MAGNUSON. Usually with collateral?

Mr. TUGGLE. Yes, sir.

NEW HAVEN PROBLEMS

Senator MAGNUSON. We are all familiar, I guess, with the New Haven's problems, but are you familiar with a recent application made by the New Haven?

Mr. TUGGLE. I know there is one pending.

Senator MAGNUSON. This is not to the ICC, this is to OCDM.

Mr. TUGGLE. As I understand it, the application was made to the Treasury Department.

Senator MAGNUSON. I think OCDM has to OK it.

Mr. TUGGLE. I think it is required that OCDM has to certify that it is essential to the national defense.

Senator MAGNUSON. Do they ever ask you about these things, the OCDM, before they certify it?

Mr. HUTCHINSON. We have a request from the Director of OCDM, Mr. Ellis, in connection with this application that is now pending.

Senator MAGNUSON. Because there were some statements made, I think, over the weekend about it, in the press or something. But I am glad to get this cleared up, because I was not quite sure whether they came to you for advice for their certification or whether they just went ahead and did it, this particular case. I suppose this is on the basis of defense.

Mr. HUTCHINSON. Yes, it is.

DEFENSE PRODUCTION ACT PROCEDURE

Can you comment on that, Director Baker, just what the procedure is?

Mr. BAKER. Well, the basis under section 3.02 is that they must—

Mr. HUTCHINSON. This is 3.02 of the DPA.

Mr. BAKER. Under the Defense Production Act, it must be certified as essential to national defense in order to be eligible.

Mr. HUTCHINSON. And the Director of OCDM has asked us for a recommendation in connection with whether he should issue a certificate of essentiality?

Mr. BAKER. He has asked for a report on the factual aspect, as to whether or not these projects covered by the loan application are essential to the national defense and for your recommendation as to whether or not he should issue a certificate.

Senator MAGNUSON. A certificate. So that the Interstate Commerce Commission does have a little to say about the facts that would lead up to them to justify their certification?

Mr. HUTCHINSON. In an advisory capacity.

Senator MAGNUSON. Yes.

Mr. BAKER. I might say also that we do have an application pending before the ICC for authority under section 20a of the act to issue notes in evidence of this loan.

Senator MAGNUSON. Any other questions?

Senator ALLOTT. I would like to say that I like very much the efforts the Commission has made to delegate authority. Both last year and the year before Congress, and particularly this committee, went into this matter very thoroughly with them. Since the ICC is an arm of Congress, I hope that your efforts to speed up this caseload will not end with a static situation which you have now created in case you find any of them do not work, but that you will keep going in an attempt to accelerate this.

GSA INTERVENTION BEFORE REGULATORY AGENCIES

I have a couple of questions on another matter with relation to your—are you familiar with the resolution of the National Association of Railroad and Utilities Commissioners governing the interventions of GSA before regulatory agencies?

Mr. HUTCHINSON. Only in a general way. I have heard about it.

Mr. ALLOTT. Do you know what the contents are?

Mr. HUTCHINSON. I cannot say that I am familiar with the contents, Senator.

Senator ALLOTT. Do you feel, from the standpoint of your staff, that the intervention of GSA is necessary in ratemaking matters, other than to represent the Government as a customer?

Mr. HUTCHINSON. Well, I think the Commission's position has been and is that it welcomes intervention by GSA and others who represent a user interest. In other words, as long as they represent the interests of the Government as a transportation user, then we welcome their appearance. But beyond that, I do not see any need for such interventions. In the case of the Commission, I do not know that their interventions have gone beyond this.

Senator ALLOTT. In your situation, do you call upon your staff to provide, in case it has not been developed in a case, the information which would develop on the record, adequate evidence which would permit the Commission to determine whether the overall public interest is being served?

Mr. HUTCHINSON. Yes, we do this, Senator. Not often, but we do it whenever and as often as we feel that the public interest would be served by such intervention by Commission counsel.

GSA FUNCTIONS

Senator ALLOTT. In other words, it is your position that the GSA has a function to preserve, to assert when it appears in behalf of the Government as a user or customer, but that it has no functions beyond that in the fundamental areas of ratemaking, such as policymaking, rate of return, capital investment, and things of that sort.

Mr. HUTCHINSON. I think that sums it up generally very well, Senator.

Senator ALLOTT. Thank you very much.

Senator MAGNUSON. Have they appeared in any of your cases down there? Do you remember?

Mr. HUTCHINSON. Yes, they have appeared in quite a number of cases; mostly they appear in rate adjustment cases. Perhaps Commissioner Freas can remember.

Mr. FREAS. As far back as I can remember, and that goes back beyond my time as a Commissioner, I think they have appeared in every one of the railroad cases, general rate increase proceedings. They also appeared in a number of the other cases.

Senator MAGNUSON. For general rate increases like railroad, where the Government is by far the biggest user, they have appeared in those, have they not, regularly?

Mr. FREAS. They have been appearing regularly, yes.

Senator MAGNUSON. Down there, as far as you know, they have not appeared beyond their function of protecting the Government as a user?

Mr. FREAS. I would say there have been cases in which they have gone beyond the function of a mere user. I think that is what the controversy is about.

Senator MAGNUSON. Would that be a duplication?

Mr. FREAS. I think the Commission is charged with looking after the public interest and to the extent another Government agency goes beyond the interest of that agency as a user, I think there is a certain amount of duplication.

RESPONSIBILITY OF COMMISSION

Senator ALLOTT. Commissioner Freas, you are charged, as a Commission, with seeing that fair rates are set and that the interest of the public is protected; are you not?

Mr. FREAS. That is right.

Senator ALLOTT. So that the public cannot be gouged and so that, using the carriers as an example, it gets a fair rate of return?

Mr. FREAS. Insofar as that is possible under the economic circumstances.

Senator ALLOTT. That is right. So that any attempt to duplicate this function of the Commission would at least be duplicative; would it not?

Mr. FREAS. That is the way I look at it.

Senator ALLOTT. Just one other thing, I think it might be wise to bring out, Mr. Chairman, is that if GSA, which is a big and powerful arm of the Government, should get too—assert too much effort and, by some chance, should get a rate which is actually too low by reason of the fact that it might have asserted itself in other fields, to that extent you would have damaged the other users of that particular carrier; would you not?

Mr. FREAS. Of course, we would try to prevent that, regardless of any activity they might exert.

Senator ALLOTT. I understand that, but if they were successful in it in any instance, they would have to do it at the expense of some other user?

Mr. FREAS. I think that would follow.

Mr. ALLOTT. Thank you.

TRAVEL ALLOWANCE

Senator MAGNUSON. What about your travel allowance this year? What did the House do? What is their limitation, or did they leave it off?

Mr. SCHMID. They reduced it by \$37,655.

Senator MAGNUSON. To what figure?

Mr. SCHMID. Under the House bill travel would be reduced to \$1,331,535. Part of this is attributable to the fact that they reduced some of the positions where travel would be required.

Senator MAGNUSON. What I am trying to say to you, do you think the limitation is too—there is no limitation, I see.

Mr. SCHMID. No.

Senator MAGNUSON. So you are all right there.

Mr. SCHMID. The budget amount would be the only limitation.

Senator MAGNUSON. But they do not have a flat limitation this year.

Mr. SCHMID. But, Mr. Chairman, if we had the full amount of our budget restored, this would be automatically restored and would support the new positions that have been deleted.

Senator MAGNUSON. Yes.

Senator Schoepfel, do you have any questions?

Senator SCHOEPEL. I do not believe I have any further questions.

Senator MAGNUSON. I do not either, and if there is nothing further, thank you very much for coming.

Mr. HUTCHINSON. Thank you, sir.

Senator MAGNUSON. We are adjourned until 10 a.m. tomorrow morning.

(Whereupon, at 2:50 p.m., Monday, June 26, 1961, the subcommittee adjourned, to reconvene at 10 a.m., Tuesday, June 27, 1961.)

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The first of the year
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1711

INDEPENDENT OFFICES APPROPRIATIONS FOR 1962

TUESDAY, JUNE 27, 1961

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to recess, in room F-37, U.S. Capitol, Hon. Warren G. Magnuson (chairman) presiding.

Present: Senators Magnuson, Robertson, Monroney, Allott, Smith and Schoeppel.

GENERAL SERVICES ADMINISTRATION

STATEMENT OF BERNARD L. BOUTIN, DEPUTY ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION; ACCOMPANIED BY WILLIAM P. TURPIN, COMPTROLLER; J. H. MACOMBER, JR., GENERAL COUNSEL; ROBERT T. GRIFFIN, ASSISTANT ADMINISTRATOR FOR CONGRESSIONAL AND PUBLIC AFFAIRS; MALCOLM D. MILLER, ACTING COMMISSIONER, TRANSPORTATION AND PUBLIC UTILITIES; T. A. KENNEDY, ASSISTANT COMMISSIONER, TRANSPORTATION; F. W. DENNISTON, ASSISTANT COMMISSIONER, PUBLIC UTILITIES; RAYMOND E. ODOM, DIRECTOR OF BUSINESS SERVICES AND SMALL BUSINESS; AND ROBERT T. DAVIS, DIRECTOR OF LEGISLATION

APPEARANCES BEFORE REGULATORY AGENCIES

Senator ALLOTT (presiding). The committee will come to order.

Mr. Boutin, the Deputy Administrator, is with us.

Off the record.

(Discussion off the record.)

Senator ALLOTT. On the record.

This session this morning was called for the purpose of going into that phase of the activities of GSA relating to appearances before the regulatory agencies of the Federal Government and the State regulatory agencies in which the Federal Government itself is a considerable user or customer.

First of all I think for the record we should try to find out how many of the people, the personnel, of GSA are involved in this work.

Mr. BOUTIN. Mr. Chairman, I would like to refer that question to Malcolm Miller, who is our Acting Commissioner of Transportation and Public Utilities Division.

Mr. MILLER. Senator, there is a tabulation of the data on that subject on pages 1126 and 1127 of the House hearings.

Senator ALLOTT. Which part?

Mr. MILLER. Part I, pages 1126 and 1127.

(The tabulation referred to follows:)

TOTAL POSITIONS

Mr. MILLER. You will notice that there are 39 positions in Transportation and Public Utilities Service, shown at the bottom of the first column, who are engaged in that activity. Moving to the fourth column you will note—

Senator ALLOTT. Wait a minute, now. How many did you say, 39?

Mr. MILLER. That is right. That is at the bottom of the first column.

Senator ALLOTT. What page are you on?

Mr. MILLER. 1127.

Senator ALLOTT. All right.

PERSONNEL FOR LITIGATION FUNCTION

Mr. MILLER. Then moving over to the fourth column you will note an allocation of the time of those 39 persons directed to the litigation function, which is 21.3 man-years for these 39 persons. I might explain that they are engaged in other activities, particularly the negotiations of rates directly with the carriers or carrier groups.

Senator ALLOTT. So this would be the amount of time of these 39 persons which would be 21.3 over 39?

Mr. MILLER. That is right, sir.

And to that has been added the time of attorneys engaged in the representation function, which is directly below that figure, of 12 persons, partly professional, 7.5 man-years of professional service, and 4.5 years of clerical service. To that we have also added what might be called the overhead time of the agency, a total of 4.3 man-years, for a total of 37.6 man-years in the agency as a whole for this particular function.

EXPENDITURES FOR FUNCTION

And then if you will move over by columns, you will find what the expenditures of the agency are for the two types of cases, \$220,600 for utility services and \$169,600 for transportation cases, with a total at the bottom right-hand corner of the page of \$390,200 for the entire representation activity in the litigation field.

Senator ALLOTT. Now as I interpret this, the 37.6 man-years time and the \$390,200 represent the total personnel application and the total expense of this operation?

Mr. MILLER. Yes, sir.

Mr. BOUTIN. That is correct, sir.

ENGINEERING EXPENSE

Senator ALLOTT. What about engineering expense? Do you have any engineering expense outside of this?

Mr. MILLER. You mean by way of our technicians, rate engineers and things of that sort?

Senator ALLOTT. Rate engineers, technicians, and that sort of thing.

Mr. MILLER. Yes, sir; that is included in there.

Senator ALLOTT. That is included in this? This is all of the personnel?

Mr. BOUTIN. Even including the administrative operations functions.

CONSULTANTS

Mr. MILLER. Senator, excuse me, I am informed it does not include our outside consultants.

Mr. Denniston, can you give us the figure on that?

Senator ALLOTT. While he is getting that, it does include the general administrative activities of personnel who are active, or supervisory, in this area?

Mr. MILLER. Yes.

Mr. BOUTIN. Those are consultant figures, Mr. Denniston, you are going to give us now?

Mr. MILLER. Mr. Chairman, we do not now have any consultants on any of our cases. I can give you a total figure for the years 1957, 1958, 1959, and 1960 of \$78,275.32. That is a 4-year figure and is—

Senator ALLOTT. From 1957 to 1960, inclusive, \$78,000?

Mr. MILLER. Yes. The detail of that data has been furnished this committee as an attachment to a letter to the chairman dated May 2, 1961.

(The information referred to follows:)

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 GORDON ALLOTT, COLO.
 ANDREW F. SCHOEFFEL, KANS.

United States Senate

COMMITTEE ON APPROPRIATIONS

March 24, 1961

EVERARD H. SMITH, CLERK
 THOMAS J. SCOTT, ASST. CLERK

The Honorable John L. Moore
 Administrator
 General Services Administration
 18th & G Streets, N.W.
 Washington 25, D.C.

Dear Mr. Administrator:

The report of the Senate Appropriations Committee accompanying the act providing 1961 appropriations for the General Services Administration requested that GSA "carefully reappraise" its activities in the transportation and utility regulatory field. The report further expressed the Committee's concern over increasing budget requests and allegations of duplication by GSA of work performed by the regulatory agencies. The report concluded by stating that the Committee would explore the matter more fully before the next budget period.

In view of the Committee's report, I would like to request, on behalf of the Subcommittee on Independent Offices and General Government Matters, information from which a determination can be made as to:

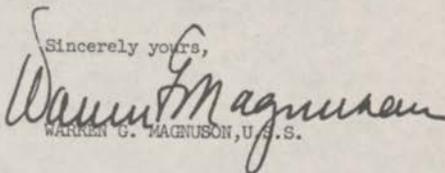
- 1) The scope of the activities of GSA in the regulatory field and the nature of its presentations before regulatory agencies;
- 2) Those areas of GSA's activities in the regulatory field which produce specific savings and efficiencies for the government;
- 3) The types of activities which have led to allegations that GSA's work duplicates that of the regulatory agencies.

There are several questions on the attached sheet which identify more particularly the information from which it seems to me these three determinations could be made.

You may have assembled some of this material as a part of the reappraisal which the Committee requested and therefore would wish to give us the benefit of any conclusions which you draw from it. I am sure that the Subcommittee would be pleased to have your present conclusions or any information that you care to give us as to the progress being made on the requested reappraisal.

This information, which I hope your staff can make available at an early date, will provide a better understanding of the scope of your present operations as well as facilitate discussion at this year's hearing.

Sincerely yours,


WARREN G. MAGNUSON, U.S.S.

WGM:ggm

Material for Study by Subcommittee on Independent Offices
and General Government Matters

1. Scope and Nature of Activities

Resume of cases in which GSA intervened from 1957 to date, showing the commission or court, date, docket number, position taken by GSA and ruling of commission, or court. Supply excerpts from the decisions discussing GSA's evidence and contentions, particularly with respect to overall level of earnings, rate base, rate of return, expenses or the granting of certificates of convenience and necessity.

2. Areas Productive of Identifiable Savings

How does GSA calculate savings which result from its (1) traffic management program, (2) utilities management program, (3) negotiation of less than tariff rates and (4) interventions in commission proceedings in which carriers or utilities were not permitted to increase rates to extent requested. Identify those cases in which charges to the government would constitute less than 30% of the total charges involved. Identify those cases in which GSA's presentation was limited to the level of rates and charges for particular carrier or utility services used by the government as distinguished from presentations which would effect the level of rates of all shippers or users. Identify those cases in which GSA's presentation concerned matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.

3. Allegations of Duplication

Identify the proceedings where the public was represented by staffs or counsel of commissions, representatives of State Attorneys General or special counsel employed to represent the public interest. Give the names of GSA counsel and witnesses making appearances and the names of other employees involved in the proceeding, identifying any attorneys or experts employed on a per diem basis. What records are available to show the total days spent in preparing and participating in cases including time spent in travel.

MAY 2 1961

Honorable Warren G. Magnuson
Chairman, Independent Offices Subcommittee
Committee on Appropriations
United States Senate
Washington 25, D. C.

Dear Mr. Chairman:

Your letter of March 24, acknowledged by my letter of March 31, 1961, refers to the participation in regulatory activities by General Services Administration and requests specified information.

Your specific questions are answered as follows:

1. GSA participation in regulatory activities is pursuant to Section 201(a)(4) of the Federal Property and Administrative Services Act of 1949, as amended (63 Stat. 383; 40 U.S.C. 481), and the so-called SAGE legislation (70 Stat. 1012; 50 U.S.C. 491) which directed that regulatory proceedings involving the Air Force semi-automatic ground environment (SAGE) system be in accord with Section 201(a)(4). Our presentations have been directed solely to the Government's interest as a consumer or shipper interested in the lowest reasonable rates consistent with the service required. This has included, among other things, submission of evidence as to cost of capital in public utility and communication cases, or other appropriate issues in the particular case.

2. The area of this activity which has been most productive of specific savings is in the field of communication utilities, where very substantial reductions have been sought by GSA and been granted by commission action or the voluntary act of the utility. In addition, savings in the form of avoidance of increases have resulted in so-called "general increase" cases in which GSA has participated. Efficiencies have resulted in a number of cases where GSA has urged a need and commissions have granted operating certificates or permits authorizing carrier service required by the Government.

3. The types of activities which have led to allegations that GSA's work duplicates that of regulatory agencies appear to relate primarily to general increase cases. Objection is also raised to participation in any cases other than those involving "discrimination."

The specific information listed in the enclosure to your letter is submitted in appendices A and B enclosed. As to the last item in your enclosure, GSA has not in the past maintained records which would show the total days spent in preparing and participating in cases, although such records have been kept since July 1, 1960, for TPUS personnel. Estimates have been prepared, however, which separate the time and cost of the employees working on these cases which provide in our judgment a reasonable indication of the cost of this work at the present time. This is submitted as Appendix C.

In connection with the reappraisal which the Committee suggested be made, our review is nearing conclusion and will be available for you prior to the hearings by your committee on the 1962 appropriations.

Sincerely yours
JOHN L. MOORE
Administrator

Enclosures -

APPENDIX AGSA REGULATORY ACTIVITIES IN
CASES IN WHICH IT INTERVENED FROM
JULY 1, 1956 (FY 1957) TO DATE1. Scope and Nature of Activities

A case-by-case summary is attached as Appendix B. In some instances it is difficult to select an excerpt from the decision which is fully informative, but those given are believed adequate. Complete copies of any specific decisions can be supplied, if desired.

2. Areas Productive of Identifiable Savings

The following methods are employed to calculate savings from the indicated programs:

(1) Traffic Management Program. Traffic management improvement programs, although productive of substantial savings and benefit, are not generally susceptible of measurement in terms of dollars. Savings are therefore not ordinarily calculated in this program. Certain of the management activities which are associated with rate negotiations are, however, included in (3) below.

(2) Utilities Management Program. As in the case of traffic management, utilities management is not susceptible of dollar measurement and savings. A few instances of savings reported in the past, which were labeled utilities management, in fact were related to regulatory proceedings and are so reported herein.

(3) Negotiations of less than tariff rates.

a. Reduction in Freight Rates or Charges.

(1) Reductions in freight rates or charges are computed by multiplying (1) the difference between the published tariff rate and the adjusted rate by the weight of the material shipped or (2) by the difference between the published tariff charge and the adjusted charge for each shipment made,

(2) Reductions from adjustments obtained in classification ratings are computed by determining the difference between the former class rate and the adjusted class rate and multiplying by the weight of shipments made.

b. Transit Arrangements.

Reductions for transit arrangements negotiated with carriers are computed by subtracting from the commercial rate from the transit point to the ultimate destination, the sum of the transit rate (balance out) from the transit point to the ultimate destination and the transit charge, and multiplying the difference by the weight of the material shipped.

c. Reduction in Accessorial Service Charges.

Savings in charges for accessorial services are computed by subtracting the adjusted charge from the published tariff charge and multiplying by the quantity of service used.

d. Other - Management Improvement.

Where improved methods lead to economies or avoidance of premium charges, the savings are computed by determining the difference between the charges as proposed to be shipped and as actually shipped.

(4) Interventions in Commission Proceedings. Where reductions in charges are sought and received, the specific savings are computed by applying the amount of reduction to the Government's annual bill. Where ten-year contracts or known long-term usage is involved, the ten-year savings is also computed.

Where utilities have not been permitted to increase rates to the extent requested (so-called general increase cases) a factor designated "avoidance of increase," rather than "savings" has been computed in the review submitted herewith. This factor is determined by computing the annual increase to the Government under the company proposal and subtracting from it the increase to the Government under the actual increase allowed by the Commission. It is understood that when the General

Accounting Office reviewed the savings computations of TP-US at the request of your committee in 1957, one utility general increase case was included in that review. Presumably the method of computation was approved.

A summary of these savings and avoidance of increases is attached.

Extent of Government Interest: In each case included in Appendix B, there has been indicated whether the Government's interest involved less than 30% of the charges included in that proceeding. A word of explanation is required with respect to the Virginia Electric Power Co. matter listed under the North Carolina proceeding. This has been listed as being not more than 30% of the total as this was true with respect to the two schedules of rates under discussion. In the ensuing voluntary settlement by the company, however, a new schedule was published of which the Government will be the sole user, although other consumers may later utilize the schedule. Cases of operating authorities, while not involving charges, generally represent 100% Government interest.

GSA Presentations: In each case we have distinguished between those dealing with specific rates or issues as distinguished from investigations of general rate structures. When GSA presents evidence in the latter proceedings, for example in general increase cases, the presentation of issues on cost of capital or rate of return or other broad issues, deal with the justification offered by the companies for the increases in the Government's charges. On such issues, it is not possible to separate the Government's consumer interest from that of any other customer.

Regulatory Policy: Relatively few proceedings deal with regulatory policy as such. Examples of such cases where GSA has intervened, however, are the proceeding of the California Public Utilities Commission on the treatment of accelerated depreciation for rate-making purposes, and the Railroad Passenger Train Deficit case of the Interstate Commerce Commission. In other cases, GSA's presentations deal with the specific issues in the particular case, and this has been treated as not involving regulatory policy in classifying the cases in Appendix B.

3. Allegations of Duplication

The listing indicates those instances where commission staff or counsel, representatives of State Attorneys General or special counsel represent the public interest. The exact extent to which this constitutes "public" representation will, of course, depend on the particular jurisdiction. For example, in cases before the Federal Communications Commission appearances are made for the Common Carrier Bureau of that Commission.

The desired information with respect to GSA counsel, witnesses and consultants is included in Appendix C. There has been included, in addition, the instances where lump sum contracts have been made with consultants.

In listing counsel, all names have been listed although, due to the length of some proceedings, resignations or other personnel changes have required substitution of counsel during the proceeding.

Att.

S U M M A R Y

A.	<u>Specific Reductions</u>	<u>Annual</u>	<u>10-Year</u>
1.	Fly Ash. (1954)	\$ 500,000	\$ 5,000,000
2.	Private Line Telephone (1958) SAGE	10,000,000	100,000,000
	Other Govt.	4,500,000	45,000,000
3.	Western Union Plan 55 (1958)	783,332	7,833,320
4.	Electric Rates - VEPCO (1960)	160,000	1,600,000
5.	AT&T (Lincoln Tillamook)	36,372	363,720
6.	General Tel. Co. of MW	2,280	22,800
7.	West Coast Tel. Co.	5,400	54,000
8.	AT&T (Calif. Water & Tel. Co.)	18,522	185,220
9.	AT&T (Gen. Tel. Co. of Iowa)	756	7,560
		<u>\$16,006,662</u>	<u>\$160,066,620</u>

B. Avoidance of Increase

<u>Amount</u>	<u>Docket No.</u>	<u>Case</u>
\$ 63,000	ICC 32290	LCL Rates
* 1/	ICC M-13652	Bills of Lading Surcharge
68,800	ICC 23944	Increased Frt Rates DC Metro Area
33,860	NJ 10049	NJ Bell Telephone Co.
456,000	Md. 5625	C&P of Maryland (Telephone)
171,500	NJ 10646	Public Svc. Electric & Gas Co.
141,936	Cal. 39309	Pacific Telephone & Telegraph Co.
5,900	Md. 5554	Baltimore Gas & Electric Co.
30,000	DC 3594, Case 456	Washington Gas Light Co.
280,000	NY 16548	NY Telephone Co.
62,500	FCC (to be assigned)	Western Union Co.
* 2/	VA E-22	Virginia Electric Power Co.
82,700	NY - 18011 & 18013	Consolidated Edison Co. of NY
1,900,000	FCC 11645	American Telephone & Telegr. Co.
2,000,000	FCC 11646	Western Union Co.
118,905 ^{3/}	Colo. 17406	Public Svc. Co. of Colorado
<u>4,285</u>	Texas 10356-T	Increased Rates & Charges
<u>\$5,419,386</u>		

- 1/ Specific proposal involved only one carrier. However, approval of this proposal could, in effect, have established a precedent, and application of this precedent to the estimated six million bills of lading processed annually by the Government could have resulted in increased shipping costs of an estimated \$3,000,000 annually.
- 2/ Included in Specific Savings List.
- 3/ Based on the Company's minimum proposal as compared to authorized increase the Govt.'s annual avoidance of increase is estimated to be \$118,905. Based on the Company's maximum proposal the Govt.'s annual avoidance of increase is estimated to be \$406,360.

(ATTACHMENT NO. 1)

APPENDIX B

GENERAL SERVICES ADMINISTRATION

MATTERS FOR STUDY BY SUBCOMMITTEE ON INDEPENDENT OFFICES
AND GENERAL GOVERNMENT MATTERS, 1961SUMMARY OF
REGULATORY PARTICIPATION BY GSA
CASES ENTERED SUBSEQUENT TO
JULY 1, 1956 (FY 1957)

<u>Federal Commissions</u>	<u>Rates</u>	<u>Regulatory Principle</u>	<u>Operating Certificates</u>
FPC	2	-	-
FCC	15	1	-
ICC	17	2	5
CAB	3	-	1
FMB	3	4	1
<u>TOTALS - 5</u>	<u>40</u>	<u>7</u>	<u>6</u>
<u>State Commissions</u>			
Georgia	-	1	-
California	2	2	-
North Carolina	1	-	-
Nevada	1	-	-
Colorado	1	-	-
Texas	3	-	1
Maine	1	-	-
Maryland	2	-	-
New York	2	-	-
D. C.	2	-	-
New Jersey	2	-	-
Illinois	1	-	-
<u>TOTALS - 12</u>	<u>18</u>	<u>3</u>	<u>1</u>
TOTAL	58	10	7
GRAND TOTAL		75	
Average cases per year	=	15,79	
Average rate cases per year	=	12,21	

April 12, 1961

FPC
RATES

1. Title of Case: El Paso Natural Gas Company
2. Docket Number: G-17929 and RP 60-3
3. Regulatory Agency: Federal Power Commission
4. Date of Intervention: Case G-17929, January 18, 1960; RP 60-3, May 6, 1960
5. Brief Resume of Case: Applications by the company for authority to increase natural gas rates have been permitted under bond without hearing to determine the reasonableness, justness, or elements of discrimination, if any. The money then collected under bond is now in excess of \$100,000,000. The Federal Government purchases large quantities of natural gas in Western and Southwestern States from distributing company customers of the El Paso Natural Gas Company. The Federal Power Commission has not set any of the applications so filed for the hearing.
6. Position of GSA: GSA's interest in this matter will be confined to the effect the increases collected under bond will ultimately have on the bills paid by the Federal Government. GSA's interest in the matter is from the point of view of the Government as a consumer, and reductions and refunds will be urged.
7. Ruling of regulatory agency: No hearing to date
8. Savings to Government: - - - -
9. Government's interest is not more than 30% of total.
10. Government's presentation: No hearing to date
11. GSA's presentation will not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing to date
13. Names of GSA Counsel: No hearing to date
14. Names of Government witnesses: No hearing to date
15. No attorneys or witnesses will be employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No hearing to date.

1. Title of Case: Southern Natural Gas Company
2. Docket Number: G-20509
3. Regulatory Agency: Federal Power Commission
4. Date of Intervention: January 26, 1960
5. Brief Resume of Case: Southern filed rates with FPC to increase its revenues \$7,756,563, or an increase of 8.3%. It is estimated that Government purchases are in excess of \$2 million annually.
6. Position of GSA: GSA sought to minimize or avoid increases. GSA urged that the cost of capital computed by the GSA witness at 5.78% be applied to a rate base of the type the Commission had found proper for the Company in the past.
7. Ruling of regulatory agency: (Interim Order Decision) The Commission found that the rates and charges proposed by the Company are unjust and unreasonable and are, therefore, disapproved. The Commission directed the Company to design revised rates that will result in a rate of return of 6.52% on the Company's net original cost rate base.
8. Savings to Government: - - - -
9. Government's interest is not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: FPC staff Counsel and Technician.
13. Names of GSA Counsel: Clarence J. Koontz
14. Names of Government witnesses: James K. MacIntosh, GSA
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpt from decisions discussing GSA's evidence and contentions:
(See attached sheet)

UNITED STATES OF AMERICA
FEDERAL POWER COMMISSION

RE SOUTHERN NATURAL GAS CO.

Southern and staff are in agreement that the weighted average cost of debt capital for Southern as of December 31, 1959, is 4.25 percent, and that as adjusted for the refinancing of bank notes in 1960, the cost of debt is 4.45 percent. GSA's witness computed Southern's weighted average cost of debt to be 3.946 percent, but this is based on the original amount of debt securities issued rather than on the amount of debt securities outstanding at the time of the hearing, and understates the cost of debt which Southern will experience because of the failure of this method to reflect the fact that earlier, low-cost debt has in large part been retired. The pro forma adjustment of the weighted average cost of debt as of December 31, 1959, to reflect the retirement of the bank notes and the issuance of long-term debt securities to replace them is proper in this case where we are determining rates for the future and where the funding of such loans in the very near future is reasonably to be expected and such funding is consistent with good practice. We therefore find Southern's cost of debt capital to be 4.45 percent, as determined by both Southern and staff. * * *

* * * On the other hand, there is no valid basis for the approach to cost of capital taken by Southern's witness. The "implicit" cost of equity devoted to jurisdictional business which he develops is based upon an unwarranted assumption of a 6 percent return to Southern on its jurisdictional business since 1950. Although actual return on Southern's jurisdictional business is not shown, the record shows that earnings on total invested capital for 1950 to 1958 averaged 7.51 percent. Furthermore, the return on common equity which Southern's witness would impute to Southern's jurisdictional business is no measure of the investor's appraisal of Southern's stock and is not an equivalent of the cost of attracting equity capital. Nor are we persuaded that the dividends-price ratios employed by GSA's witness are a better measure of investor requirements than the earnings-price ratios heretofore utilized by the Commission. We can find no good reason for departing from the Commission's practice of using earnings-price ratios, with judgment, as an indication of a proper return on common equity.

Excerpt Pages 4 and 5

Docket No. G-20509 Interim Order Decision (Issued July 8, 1960)

FCC
REG.

1. Title of Case: American Telephone and Telegraph Company, Lease and maintenance of equipment for private communication systems.
2. Docket Number: 11972
3. Regulatory Agency: Federal Communications Commission
4. Date of Intervention: Petition, April 29, 1957
5. Brief Resume of Case: Investigation on Commission's Motion - Jurisdictional Question - Whether lease and maintenance of private mobile communications system, covered by a proposed AT&T tariff, constitute "common carrier communications service" subject to the Communications Act.
6. Position of GSA: After intervention by Department of Justice, GSA participated as observer only.
7. Ruling of regulatory agency: FCC Order of April 15, 1959 terminated proceeding without rendering opinion.
8. Savings to Government: - - -
9. Government's interest was not more than 30% of total
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: Common Carrier Bureau Attorney, who limits participation to cross examination.
13. Names of GSA Counsel: Malcolm D. Miller, Allen C. Lande, Francis J. McShalley
14. Names of Government witnesses: None
15. No attorneys or witnesses were employed on a per diem basis
16. Excerpts from decisions discussing GSA's evidence and contentions: None

FCC
RATES

1. Title of Case: American Telephone & Telegraph Co., et al.
2. Docket No.: Pending
3. Regulatory agency: Federal Communications Commission
4. Date of Intervention: Complaint filed March 29, 1961 for reparations
5. Brief Resume of Case: GSA filed the complaint to obtain refunds of amounts due if company treated Government as a single customer in applying multiple channel tariff discounts.
6. Position of GSA: The company has refused GSA request that Government be treated as a single customer in the application of FCC Tariff No. 231. The complaint requests that the company be required to give single customer treatment for past period.
7. Ruling of regulatory agency: No hearing to date.
8. Savings to Government: - - - -
9. The Government's interest is more than 30% of total.
10. Government's presentation: No hearing to date.
11. GSA's presentation will not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing to date.
13. Names of GSA Counsel: No hearing to date.
14. Names of Government witnesses: No hearing to date.
15. No attorneys or witnesses will be employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No hearing to date.

1. Title of Case: American Telephone and Telegraph Company (United Telephone Co. of Ohio)
2. Docket Number: Pending
3. Regulatory Agency: Federal Communications Commission
4. Date of Intervention: December 16, 1960
5. Brief Resume of Case: The tariffs do not list prices in dollars and cents but are ambiguously worded based on indeterminate "costs." Prices also vary depending on whether the company uses one set of facilities rather than another even though the availability of such facilities is in the sole control of the company.
6. Position of GSA: Tariff charges should be stated in dollars and cents and tariffs should not leave alternatives in pricing to the sole discretion of the company.
7. Ruling of regulatory agency: No hearing to date
8. Savings to Government: - - -
9. Government's interest is more than 30% of total.
10. Government's presentation: No hearing to date.
11. GSA's presentation will not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing to date
13. Names of GSA Counsel: No hearing to date
14. Names of Government witnesses and their agency: No hearing to date
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No hearing to date.

1. Title of Case: American Telephone and Telegraph Co. (Peninsula Telephone and Telegraph Co.)
2. Docket Number: 13781
3. Regulatory Agency: Federal Communications Commission
4. Date of Intervention: August 24, 1960
5. Brief Resume of Case: Charges for Digital Data Transmitters and Common User Group equipment for use in SAGE system.
6. Position of GSA: GSA took the position that the charges were in excess of charges for identical equipment used elsewhere in the same service.
7. Ruling of regulatory agency: Peninsula's motion to dismiss investigation granted.
8. Savings to Government: - - - -
9. Government's interest is more than 30% of total.
10. Government's presentation: No hearing
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing
13. Names of GSA Counsel: No hearing
14. Names of Government witnesses: No hearing
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No hearing.

1. Title of Case: American Telephone and Telegraph Co.
(General Telephone Company of Iowa)
2. Docket Number: None assigned
3. Regulatory Agency: Federal Communications Commission
4. Date of Intervention: August 24, 1960
5. Brief Resume of Case: Charges for Digital Data Transmission Equipment used in SAGE.
6. Position of GSA: Charges were greatly in excess of charges for identical equipment in use elsewhere in the SAGE System.
7. Ruling of Regulatory Agency: Subsequent to GSA filing of the protest the Company filed new tariffs with reductions in the charges. GSA withdrew its protest on September 12, 1960.
8. Savings to Government, and How Computed: \$756.00 annually (per tariff unit). Estimated monthly charges of \$300 reduced to \$227, or \$63.00 X 12 months \$756.00.
9. Government's interest was more than 30% of total.
10. Government's presentation: No hearing
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representations: No hearing
13. Names of GSA Counsel: No hearing
14. Names of Government Witnesses: No hearing
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:
No hearing

1. Title of Case: Western Union Telegraph Company
2. Docket Number: None assigned
3. Regulatory Agency: Federal Communications Commission
4. Date of Intervention: August 5, 1960
5. Brief Resume of Case: Western Union increased rates for message service.
6. Position of GSA: In opposition
7. Ruling of regulatory agency: Utility filed revised tariff producing substantially same revenue but reducing Government bill by \$62,500 annually.
8. Savings to Government: \$62,500 annually. Computed on Utility's estimates.
9. Government's interest was not more than 30% of total.
10. Government's presentation: No hearing
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing
13. Names of GSA Counsel: No hearing
14. Names of Government witnesses: No hearing
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:
*** * 5. GSA does not attack the over-all level of Western Union rates as being excessive; nor does it question the need of Western Union for additional revenues - a need upon which the current rate revision was predicated. GSA's attack is directed at the fact that the subject rate revisions result in proportionately greater increases in charges for messages of longer text than for messages of shorter text. It contends that because the average length of Government messages is more than double that of public messages, the revised rates subject the Government to unjust discrimination. We are unable to conclude that this argument has sufficient merit to warrant our instituting an investigation of Western Union's rates at this time.
* * * EXCERPTS FROM: F.C.C. decision of Jan. 17, 1961, p.6.

1. Title of Case: American Telephone & Telegraph Co. (Farmers Mutual Telephone Co. of Lynden, Wash.)
2. Docket Number: None yet assigned
3. Regulatory Agency: Federal Communications Commission
4. Date of Intervention: July 28, 1960
5. Brief Resume of Case: Charges for Digital Data sending and receiving terminal equipment, interexchange channels, and common user group equipment.
6. Position of GSA: Charges for such equipment greatly exceeds the level of charges for identical equipment used elsewhere in the SAGE system.
7. Ruling of regulatory agency: No hearing to date.
8. Savings to Government: \$ - - - -
9. Government's interest was more than 30% of total.
10. Government's presentation: No hearing to date.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing to date.
13. Names of GSA Counsel: No hearing to date.
14. Names of Government witnesses: No hearing to date.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decision discussing GSA's evidence and contentions: No hearing to date.

1. Title of Case: American Telephone & Telegraph Company (Lincoln Tillamook Telephone Company of Oregon)
2. Docket Number: 13535
3. Regulatory Agency: Federal Communications Commission
4. Date of Intervention: May 20, 1960
5. Brief Resume of Case: Charges for channel terminals and terminal equipment used for data transmission in the SAGE system.
6. Position of GSA: GSA opposed charges as being excessive.
7. Ruling of regulatory agency: No formal decision. After protest by GSA, Company filed a new schedule reducing their rates to the general level charged throughout most of the SAGE system.
8. Savings to Government: \$36,372 annually, \$363,720 - 10 years, computed as difference in rates between those initially filed and rates effective following tariff revision.
9. Government's interest was more than 30% of total.
10. Government's presentation: No hearing
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
Comments: There was no need to present a direct case.
12. Public representation: No hearing
13. Names of GSA Counsel: No hearing
14. Names of Government Witnesses: No hearing
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No hearing.

1. Title of Case: American Telephone & Telegraph Company - Common User Group and Dual Facility Arrangements
2. Docket Number: 13514
3. Regulatory Agency: Federal Communications Commission
4. Date of Intervention: May 6, 1960
5. Brief Resume of Case: Rates and charges for Common User Group and Dual Facility Arrangements used in connection with channels for the remote operation of radiotelephone systems in the SAGE System.
6. Position of GSA: Rates and charges are excessive.
7. Ruling of regulatory agency: Pending
8. Savings to Government: \$ ---
9. Government's interest is more than 30% of total.
10. Government's presentation was limited to level of rates and charges for particular services.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: Common Carrier Bureau Attorney, who limits participation to cross examination.
13. Names of GSA Counsel: Thomas J. O'Reilly; Appearances entered for Wallace Brand, Donnegan Mann, Allen C. Lande, and Francis J. McShalley and Malcolm D. Miller.
14. Names of Government witnesses: Richard Gabel - GSA, and Paul D. Kagen - GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: Pending.

Title of Case: General Telephone Company of the Northwest

2. Docket Number: FCC Docket No. 13386
3. Regulatory Agency: Federal Communications Commission
4. Date of Interventions: April 19, 1960
5. Brief Resume of Case: Rates and charges for Digital data transmitters and associated common equipment used in connection with the SAGE system.
6. Position of GSA: Rates and charges were excessive.
7. Ruling of Regulatory Agency: Special permission to file new tariffs on one day notice reducing the rates and charges from \$440 to \$250. Action taken by company without Commission ruling.
8. Savings to Government: \$2,280.00 annually. Estimated monthly charges reduced from \$440 to \$250, or \$190 X 12 months - \$2,280.
9. Government's interest was more than 30% of total.
10. Government's presentation was limited to level of rates and charges for particular services.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representations: Common Carrier Bureau Attorney, who limits participation to cross examination.
13. Names of GSA Counsel: Allen C. Laude, Wallace E. Brand
14. Names of Government Witnesses: None
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: None.

1. Title of Case: AT&T (California Water and Telephone)
2. Docket Number: FCC 13381, FCC 13439
3. Regulatory Agency: Federal Communications Commission
4. Date of Intervention: 13381 February 9, 1960. 13439 was added on March 21, 1960.
5. Brief Resume of Case:
 - (1) 13381 - Charges for components of a distinctive tone and circuit assurance.
 - (2) 13439 - Charges for certain equipment used on connection with the 82-B-1 automatic switching system.
6. Position of GSA:
 - (1) Charges are excessive.
 - (2) AT&T contracted to supply the 82-B-1 service and should charge the Government on the basis of its contract. California Water and Telephone should be dismissed as a party.
7. Ruling of regulatory agency: California Water and Telephone voluntarily reduced its recurring monthly charges by 11% (Docket No. 13381). Decision pending in Docket No. 13439.
8. Savings to Government: \$18,522 per annum (Docket No. 13381). Estimated monthly charges of \$2,414.50 reduced to \$871.00, or \$1,543.50 X 12 months = \$18,522.
9. Government's interest is more than 30% of total.
10. Government's presentation was limited to level of rates and charges for particular services.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: Common Carrier Bureau Attorney, who limits participation to cross examination.
13. Names of GSA Counsel: Allen C. Lande, Wallace E. Branch and Thomas J. O'Reilly
14. Names of Government Witnesses: None
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No decisions rendered.

1. Title of Case: West Coast Telephone Company (SAGE)
2. Docket Number: 13221
3. Regulatory Agency: Federal Communications Commission
4. Date of Intervention: October 13, 1959- Informal Conference
5. Brief Resume of Case: Rates and charges for telephone grade interexchange channels when used for data transmission in the SAGE System.
6. Position of GSA:
 - A. Rates and charges are excessive.
7. Ruling of Regulatory Agency: No formal hearing. After conference, Company reduced its rates by 15%. FCC dismissed investigation.
8. Savings to Government: \$5,400. Estimated monthly charges of \$2,791.50 reduced to \$2,341.50, or \$450 X 12 months - \$5,400.
9. Government's interest was more than 30% of total.
10. Government's presentation: No hearing
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing
13. Names of GSA Counsel: No hearing
14. Names of Government Witnesses: No hearing
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No Hearing

1. Title of Case: AT&T Petition for Investigation of Trans-Oceanic Cable Rates.
2. Docket Number: Pending
3. Regulatory Agency: Federal Communications Commission
4. Date of Intervention: September 16, 1959
5. Brief Resume of Case: Because of new technical advances and for other reasons which contribute to AT&T's declining unit costs, it reduced the rates on private line services offered on Trans-Oceanic Cables.
6. Position of GSA: Much greater reductions should be made.
7. Ruling of regulatory agency: No hearing to date.
8. Savings to Government: - - - -
9. Government's interest is not more than 30% of total.
10. Government's presentation: No hearing to date.
11. GSA's presentation will not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing to date
13. Names of GSA Counsel: No hearing to date
14. Names of Government witnesses and their agency: No hearing to date
15. No attorneys or witnesses will be employed on a per diem basis
16. Excerpts from decisions discussing GSA's evidence and contentions: No hearing to date

1. Title of Case: Western Union Telegraph Company - Plan 55
2. Docket Number 12937
3. Regulatory Agency: Federal Communications Commission
4. Date of Intervention: Informal complaint March 30, 1959; Formal complaint June 29, 1959.
5. Brief Resume of Case: Reparations for excessive charges by Western Union for its Plan 55 Automatic Switching System used in connection with a teletypewriter network.
6. Position of GSA: After repeated requests by GSA, Western Union reduced the charges by 18.9%. GSA seeks refund of an equivalent amount for all billings rendered prior to the time company reduced its charges.
7. Ruling of regulatory agency: No hearing to date.
8. Savings to Government: - - - -
9. Government's interest is not more than 30% of total.
10. Government's presentation: No hearing to date.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing to date.
13. Names of GSA Counsel: No hearing to date.
14. Names of Government witnesses: No hearing to date.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No hearing to date.

1. Title of Case: American Telephone & Telegraph Co. - Investigation of Rates for Data Transmission
2. Docket No.: 12194
3. Regulatory Agency: Federal Communications Commission
4. Date of Intervention: December 18, 1957
5. Brief Resume of Case: Rates and charges for telephone private line services when used for the transmission of digital data. GSA was primarily interested in the rates and charges for Schedule 5 service.
6. Position of GSA: (1) The rates for interexchange channels should not be increased when the channels are used for data transmission, (2) the rates for other equipment used in this service are excessive, and (3) the tariff should be worded to show the physical capabilities of the interexchange channels rather than describe them in terms of a rate based on the use made by consumer.
7. Ruling of regulatory agency: Pending.
8. Savings to Government: \$ - - -
9. Government's interest was more than 30% of total - Schedule 5.
10. Government's presentation was limited to level of rates and charges for particular services.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: Common Carrier Bureau Attorney, who limits participation to cross examination.
13. Names of GSA Counsel: At different stages of the proceeding the GSA counsel were as follows: Frederick W. Denniston, Allen C. Lande, Francis J. McShalley, Thomas J. O'Reilly and Wallace Brand.
14. Names of Government witnesses: R. Gabel, GSA and W. Smith, USAF
15. Names of attorneys or witnesses employed on per diem basis: Curtis Bushnell (lump sum contract) and Howard Burroughs (per diem)
16. Excerpts from decisions discussing GSA's evidence and contentions: Pending

1. Title of Case: American Telephone & Telegraph Co. and Western Union - Investigations of Private Line Rates
2. Docket Numbers: 11645 and 11646
3. Regulatory Agency: Federal Communications Commission
4. Date of Intervention: December 28, 1956
5. Brief Resume of Case: FCC Docket No. 11518 was an investigation of AT&T's multiple channel tariff resulting from protests by Western Union which was merged into Nos. 11645 and 11646. Extensive hearings were held on the reasonableness of rates and charges for private line services. These included the reasonableness of rules contained in AT&T's tariff No. 145 (Special Construction); charges for the 82-B-1 Automatic Teletypewriter Switching System furnished the Navy (AT&T Tariff No. 208); and Western Union's Plan 55 Automatic Switching System (WU tariff No. 237) for the use of the Air Force.
6. Position of GSA: (1) Rates for private line services should be related to costs; (2) rates for telephone grade of private line services are excessive, and should be reduced, (3) proposed increases in teletypewriter grade rates were excessive and (4) tariff for Special Construction should be revised to make it more definite and certain.
7. Ruling of regulatory agency: An interim FCC ruling ordered a 15 percent reduction in AT&T's charges for telephone grade private line services. In addition, during the course of the investigation Western Union reduced charges for Plan 55 services to the A. F. by \$783,320 annually. Proposed increases in teletypewriter grade services, protested by GSA were substantially reduced.
8. Savings to Government: Based on 1958 usage, the savings to the Government was \$5.3 million annually, but by 1960 had reached at least \$8 million. When SAGE is completed, estimated savings will be increased to \$15 million. Proposed increase to Government for teletypewriter grade services reduced from \$5.4 million to \$1.5 million or avoidance of increase of \$3.9 million.
9. The Government's interest was more than 30% of total.
10. Government's presentation was limited to level of rates and charges for particular services.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.

12. Public representation: Common Carrier Bureau Attorney, who limited participation to cross-examination.
13. Names of GSA Counsel: Frederick W. Denniston, Francis J. McShalley and Allen C. Lande
14. Names of Government witnesses: Norman Budesheim - GSA,
William F. Huf - Navy Department
15. Names of attorneys or witnesses employed on per diem basis: Curtis Bushnell, Laurence S. Knappen, James M. Honaker, Mr. Goldthwaite (observed), Mr. Burroughs (limited participation)
16. Excerpts from decisions discussing GSA's evidence and contentions:
(See Attached Sheets)

1. The Commission has before it the record to date in the above-entitled proceeding, together with a Petition for Immediate Rate Reduction, filed February 7, 1958, by General Services Administration (GSA), party intervenor, requesting that the Commission take appropriate action to effectuate an immediate reduction in the charges of American Telephone and Telegraph Company (AT&T) for private line services furnished by means of channels of telephone grade. 1/ An opposition to GSA's petition was filed by AT&T on February 24, 1958, and a reply to the opposition was filed by GSA on March 3, 1958. Subsequently, on April 30, 1958, GSA filed a Petition for Expeditious Handling, reiterating its request for an interim rate reduction. An Opposition to such petition was filed by AT&T on May 13, 1958. The petitions generally seek to have the Commission issue an interim order on the basis of AT&T's direct presentation of evidence herein, designed to bring about a 25 per cent reduction in rates for the services specified which utilize telephone grade channels, together with any other appropriate upward or downward adjustments to bring the rate structures into balance. The petition also asks that AT&T be required to prepare a new cost study after the adjusted rates had been in effect for one year. Oral argument on the issues raised by the above-mentioned pleadings was held before the Commission en banc June 12, 1958.

1/ Such services include Private Line Telephone Services and Channels; Channels for Telephotograph Transmission; and certain channels furnished under Tariff FCC No. 220, namely, Channels for Remote Metering, Supervisory Control and Miscellaneous Signaling Purposes.

* * * * *

9. ^{*****} We are of the opinion that the charges of AT&T Co. for private line services using telephone grade channels are unjustly and unreasonably high and should be reduced. On the basis of the respondents' own cost studies, which, as we have said, must be presumed to present the facts in the most favorable light for respondents, such charges are producing a return on the respondents' claimed net investment devoted to rendering the services to which they apply which is beyond the realm of reasonableness. We are further of the opinion that such a reduction can and should be made forthwith and that our requirement of such a reduction at this stage of the proceedings will not deprive the company of any rights it may have to a full hearing. It should be stated, however, that our decision for an immediate reduction is based entirely on the evidence as to the operating results represented by the respondents' own cost studies. We have given no consideration in this connection to the allegations of GSA or AT&T with respect to subsequent or prospective changes in revenues and investment costs except to the extent that any such factors are reflected by respondents' restatement of the 1955 study results. * * * * *

* * * * *

11. In view of the foregoing, it is concluded that the charges of AT&T for its private line telephone grade service described above are and will be unjust and unreasonable. The Company IS HEREBY ORDERED to file revised tariff schedules to become effective on statutory notice 60 days from the date of this order which revisions shall be designed to effect a net reduction in gross revenues from the above-mentioned services in the amount of \$5,700,000 per annum when calculated on a basis consistent with the volume of usage from which the revenues reflected in the restated studies were derived. IT IS FURTHER ORDERED that the petition of GSA for interim rate reduction IS GRANTED to the extent indicated herein and in all other respects the petition IS DENIED.

FEDERAL COMMUNICATIONS COMMISSION

* * * * *

Excerpts from FCC Memorandum Opinion and Order, FCC 58 - 608 - 60288, June 25, 1958
Pages 1, 5, and 7.

ICC
RATES

1. Title of Case: Increased Freight Rates, 1960
2. Docket Number: Ex Parte 223
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: October 12, 1960
5. Brief Resume of Case: Railroads filed petition on September 7, 1960, requesting Interstate Commerce Commission to allow tariff to become effective on October 24, 1960, increasing freight rates generally by 1/2¢ or 1¢ on rates less than 65¢ or 65¢ and higher respectively. Special increases were proposed for particular rates and services.
6. Position of GSA: Opposed the proposed increases on class rates, switching charges, transit, waterborne traffic and coal rates.
7. Ruling of regulatory agency: Interstate Commerce Commission report and order of October 21, 1960, allowed most increases to become effective and set for investigation increases on particular rates. Ruling on "switching charges" still pending.
8. Savings to Government: \$ - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: None
13. Names of GSA Counsel: W. R. Pierce
14. Names of Government witnesses: John S. Peters, GSA; Joel Bartlett, GSA; and A. P. Bukovsky, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: None

1. Title of Case: Surchage on Government Bill of Lading Shipments
2. Docket Number: I&S No. M-13652
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: July 8, 1960
5. Brief Resume of Case: Proposed amendments of tariff to provide for one motor carrier a rule making all Government bills of lading subject to an additional charge of 50¢ per shipment. GSA petitioned IOC for suspension under date June 24, 1960. Suspension was granted and investigation ordered under cited docket. The rule was withdrawn by voluntary action of the carrier and the proceeding was cancelled.
6. Position of GSA: GSA is opposed to the imposition of a charge to the use of the Government bill of lading forms.
7. Ruling of Regulatory Agency: Proceeding cancelled.
8. Savings to Government and How Computed: None. Proposal involved only one relatively small motor carrier. However, the proposal if effective, would have constituted a precedent for all carriers and would probably have been adopted by all. Estimate of number of Government bills of lading issued is 6,000,000 per annum, which on the basis of a charge of 50¢ each would have resulted in an additional expenditure of \$3,000,000 per year.
9. Government's interest was more than 30% of total.
10. Government's presentation: No hearing
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing
13. Names of GSA Counsel: No hearing
14. Names of Government Witnesses: No hearing
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions; No hearing.

1. Title of Case: Increased Class Rates - To or From Points in Florida
2. Docket Number: M-13525
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: May 11, 1960
5. Brief Resume of Case: Motor carriers sought to increase all class rates between Class 50 and Class 65, applicable between Central Territory and Florida points.
6. GSA position: In opposition to the proposed changes.
7. Ruling of regulatory agency: Proceedings discontinued - carriers voluntarily withdrew rates.
8. Savings to Government: Not known
9. Government's interest was not more than 30% of total.
10. Government's presentation: No hearing
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing
13. Name of GSA Counsel: No hearing
14. Names of Government witnesses: No hearing
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No hearing

1. Title of Case: Increased Rates from and to Washington, D. C. area to Quantico, Va.
2. Docket Number: 23944
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: May 2, 1960
5. Brief Resume of Case: Middle Atlantic Conference carriers (motor) published rates which changed rate base resulting in increases, to and from Washington, D. C., based on the higher rates applicable to Quantico, Va.
6. Position of GSA: Opposed increase
7. Ruling of regulatory agency: Carriers withdrew the increased schedules.
8. Savings to Government: \$68,800 annually. Savings based on 43,000 tons annually at an average increase of \$1.60 per ton.
9. Government's interest was not more than 30% of total.
10. Government's presentation: No hearing.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing.
13. Names of GSA Counsel: No hearing
14. Names of Government witnesses: No hearing
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No hearing.

1. Title of Case: Motor Carrier Increases - Intermountain & Pacific Coast
2. Docket Number: 32887
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: June 15, 1959
5. Brief Resume of Case: Rate increase sought by Motor Common Carriers operating in California, Arizona, Nevada, New Mexico, Utah, Idaho, Montana, and Colorado.
6. Position of GSA: In opposition.
7. Ruling of regulatory agency: The increases were found to be just and reasonable.
8. Savings to Government: \$ - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities. GSA suggested certain tests of revenue need to augment the usual operating ratio test.
12. Public Representation: None
13. Names of GSA Counsel: Leonard M. Shinn
14. Names of Government witnesses: Gordon Webner - GSA, Henry Andrews - GSA, Herbert Thompson - GSA and Ernest Sanchez - GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:
(See Attached Sheet)

*** Exceptions to the examiner's recommend~~ed~~ report and order were filed by the respondents, to which a protestant, the General Services Administration (G.S.A.), replied. Our conclusions differ from those of the examiner. Exceptions and requested findings not discussed herein nor reflected in our findings or conclusions have been considered and found not justified.

The operating ratios shown in appendices A and E are systemwide, and do not necessarily portray the ratio of expenses to revenue in the areas covered by the rates here under investigation. Aware of this, the respondents point out certain increases in other areas. Specifically, they refer to an increase of 2 percent, with some exceptions, made in transcontinental class rates in April 1959, after a similar increase in the rail rates. One of the factors which would permit a higher percentage of increase in the 11-states area, as compared with transcontinental territory, is the general absence of forwarder competition in the former area. In No. 32886, General Increases - L.T.L. - Pacific Northwest, I.C.C.

(decided May 11, 1960, mimeographed), division 2 found just and reasonable an increase of 5 percent in motor-carrier rates, apparently the same as the corresponding rates before us here, in Idaho, Montana, Oregon, Utah, and Washington published by the Pacific Inland Tariff Bureau, Inc. A petition for reconsideration is pending in that proceeding. ***" Pages 1 and 8.

*** G. S. A. contends that the average ratios shown by the respondents do not necessarily indicate a need for additional revenue within the area under consideration because the operations of certain carriers are not confined thereto. For example, it points out that there are 13 carriers whose scope of operations is almost wholly outside the 11-states area. From the evidence before us, however, we are satisfied that the average ratios of record reflect with reasonable accuracy the respondents' operations in the considered territory.

As stated, recently the respondents have been subjected to substantial increases in their operating costs, the increases in labor costs on certain of the respondents ranging from 9.57 to 12.78 percent. The latest operating ratios of the respondents before us are convincing that there is a need for improvement in the revenues of these carriers. Because of competitive necessity, the respondents excepted from their general increase commodity rates subject to a stated minimum of 10,000 pounds or more. We are not impressed by the argument that the proposed increase is unreasonable and discriminatory because limited to certain selected tariffs of the respondents. As we stated in General Increases - I.T.L. - Pacific Northwest, supra, we are not considering the lawfulness of particular rates; our findings are restricted to the lawfulness of the 5 percent increase as applied to the basic rates. Therein, such an increase was found just and reasonable. A like conclusion is warranted here.

***" Pages 9 and 10.

EXCERPTS FROM INTERSTATE COMMERCE COMMISSION, DOCKET NO. 32887, MOTOR CARRIER INCREASES - INTERMOUNTAIN AND PACIFIC COACH. DECISION DATED AUGUST 24, 1960.

1. Title of Case: General Increases - LTL Pacific N. W.
2. Docket Number: 32886
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: June 1, 1959
5. Brief Resume of Case: I.C.C. investigation of a 5% rate increase sought by motor common carriers in Oregon, Washington, Idaho, and Montana.
6. Position of GSA: GSA urged that the rate increase was discriminatory and not proved by suitable carrier evidence.
7. Ruling of regulatory agency: Carriers removed some discriminatory features by new tariffs filed during the pendency of the litigation. I.C.C. ruled the rate increase was not shown to be unjust and unreasonable.
8. Savings to Government: \$ - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities. GSA made certain suggestions as to appropriate tests which might be used to ascertain carrier revenue needs to supplement the usual "operating ratio" test.
12. Public Representation: None
13. Names of GSA Counsel: Leonard M. Shinn
14. Names of Government witnesses: Alexis Bukovsky - GSA
William Cooper - GSA
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:
(See Attached Sheet)

"*** The protestant ^(GSA) contends that the periods used by the respondents in compiling the number of shipments of less than 10,000 pounds are much too short. The studies show the traffic handled for the periods selected, and October is normally a representative month. While the 2-day period for one carrier may not be representative, we are satisfied that the longer 5-day and 20-day periods used for the other three carriers may be regarded as fairly representative for those carriers. However, it may not be assumed that the data thus developed accurately reflect the total number of shipments of less than 10,000 pounds transported by the 105 other carriers operating in the area under consideration, even though, as the respondents point out, those carriers participate in this traffic jointly with the four carriers shown. ***" Page 6.

"*** The protestant contends also that the average ratios shown by the respondents do not necessarily indicate a need for additional revenue within the area under consideration because the operations of certain carriers are not confined thereto. For instance, the Western Division of Consolidated Freightways, includes California, and Garrett Freightlines operates in that State, Colorado, and New Mexico. Those carriers admit that more traffic is handled by them in areas other than that here concerned. The latter states that only 10 percent of its total revenue is earned within the affected area, and also that the installation of new diesel engines in its trucks has resulted in operating economies.³ The respondents point out that certain of the carriers whose ratios are shown by the protestant also operate in other areas, such as the Denver-Chicago Trucking Company and the Denver-Los Angeles Trucking Company; and that certain other carriers do not encounter the grades on routes east of the Cascade Mountains because their operations are restricted to points west thereof.

³Garrett Freightlines' ratios were 92.6 percent in the first quarter of 1958, 87.5 percent in the fourth quarter, 91.2 percent in that entire year, and 88.5 percent in the first quarter of 1959. ***" Page 7.

*** To further minimize the probative value of the operating ratios of record, the protestant shows that numerous carriers operating in the area covered by the tariffs have experienced constant growth and expansion, as measured by increases in assets and operating revenue, since 1947, and it computed an estimated composite rate of return for 45 carriers during a 12-month period of 11.52 percent before income taxes, and 8.16 percent after such taxes. However, the increases in assets of many of the carriers reflect new capital obtained through the issuance of securities or by other means, and the use thereof in the purchase of other carriers' equities; and the increases in gross revenue may be attributable to expanded operations in new areas.

The protestant also offered in evidence data purporting to show the out-of-pocket costs per 100 pounds on shipments from Seattle, Wash., to Great Falls, Kalispell, Fort Harrison, and Missoula, Mont., based on cost scales developed by our Cost Finding Section and compiled in public statement No. 3-56, entitled "Cost of Transporting Freight by Class I Motor Common Carriers of General Commodities in Pacific Region," from the costs in 1954 of 31 carriers in the latter region. The respondents objected to the receipt of such evidence on various grounds, including the fact that the Pacific Region embraces the States of Washington, Oregon, California, Arizona, and Nevada; that the cost scales are based on the operating costs of only 31 of 80 carriers operating in that region; that 14 of the 31 carriers do not operate in Idaho, Utah, or Montana; and that certain of the latter number operate exclusively between points in California. The objection was sustained by the examiner. In its brief and exceptions, the protestant argues that the ruling was in error, on the ground that the objections relate to the weight to be given the evidence offered, that general studies are extensively used, and that the costs of operating in all of the states shown are not substantially different. Any showing of out-of-pocket costs which do not reflect the costs of any of the respondents in this proceeding operating in 3 of the 5 states covered by the tariffs under consideration is irrelevant and immaterial. The ruling is affirmed. ***" Pages 7 and 8.

*** The record indicates that different interpretations have been followed in applying the originally-published increase on commodity rates. Some of these rate items show "LTL" rather than stated minimum weights in the minimum-weight columns. The protestant urges that such rates were not increased, and claims that this is one of the causes of discrimination against smaller shipments. The amendment of April 9, 1960, however, removed the cause of the misunderstanding in two of the tariffs by providing that the increase would apply on all commodity rates except those subject to minimum weights of 10,000 pounds or more. The third tariff, the Bureau's MF-I.C.C. No. 70, provides rates only for the local hauls of the Pacific Intermountain Express Co.; and insofar as the commodity rates therein are concerned, the supplements limit the increase to apply only "On all commodity rates *** subject to minimum weights of less than 10,000 pounds." Since the abbreviation "LTL" is not a stated minimum weight, the commodity rates published in connection therewith are not increased. There is no indication that failure to increase these particular rates has resulted in any unlawfulness.

Regarding other unlawfulness alleged by the protestant inherent in the basic rate structure, like issues were involved in No. MC-C-1762, Seattle Traffic Assn. v. Consolidated Freightways, Inc., 301 I.C.C. 483, and 306 I.C.C. 87, which embraced also No. MC-C-1796, Portland Freight Traffic Assn. v. M. & M. Fast Freight, Inc. Those proceedings were reopened, a further hearing has been held, and they are now pending. In the last report therein, the Commission found that class and commodity rates between Seattle and Tacoma, Wash., and related points, and points east of Pendleton, Oreg., in Oregon, southern Idaho, and Utah were unjust and unreasonable, unduly prejudicial to Seattle-Tacoma and shippers there located, and unduly preferential of Portland-Vancouver and shippers there located. Similar rates between Seattle-Tacoma and points in eastern Washington, northern Idaho, and Montana were found not shown to be unlawful. ***" Page 9.

*** The latest operating ratios of record for the instant carriers indicate a need for improvement. ¹¹ The 5 percent increase proposed approximates the recent increase in labor costs. ¹¹ As stated, the increase is not being applied to the commodity rates subject to minimum weights of 10,000 pounds or more because traffic moving at such rates is subject to more severe rail competition and is more likely to be diverted at increased rates. We are not impressed by the argument that the proposed increase is unreasonable and discriminatory because limited to a portion of the territory and to rates in only the abovementioned three tariffs. ¹¹ ^{AC} Various proposals for increases in this same territory, and in other territories in which members of the Bureau operate, are now pending before the Bureau. ¹¹ ^D Here, we are not considering the lawfulness of particular rates; our findings are restricted to the lawfulness of the general increase as applied to the basic rates. ***" Page 10.

EXCERPTS FROM INTERSTATE COMMERCE COMMISSION, DOCKET NO. 32886,
"GENERAL INCREASE - L. T. L. - PACIFIC N ORTHWEST"
DECISION DATED May 11, 1960.

1. Title of Case: Motor Carrier LTL and AQ increases between East and South.
2. Docket No.: 32903
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: March 11, 1959
5. Brief Resume of Case: Motor common carriers between East and South published increases of 2% on LTL and AQ traffic.
6. GSA Position: In opposition to increase.
7. Ruling of regulatory agency: ICC discontinued proceedings on February 15, 1960. Carrier received the 2% increase on LTL and AQ traffic.
8. Savings to Government: \$ - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation: No hearing
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing.
13. Name of GSA counsel: No hearing
14. Names of Government witnesses: No hearing
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No hearing.

1. Title of Case: Coal to New York Harbor Area
2. Docket No. 32871
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: Authorized but not consumated due to cancellation of tariff involved.
5. Brief Resume of Case: ICC investigation of reduced quantity rates on coal to Atlantic Seabord consuming areas conditioned by imported residual fuel oil.
6. Position of GSA: The Government was entitled to receive the benefits of conditional volume rates in the same measure as other large procurers of coal under similar circumstances.
7. Ruling of regulatory agency: Schedule applying to Washington, D. C. area was withdrawn by carriers.
8. Savings to Government: \$ - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation: No hearing
11. GSA's presentation did not concern matters or regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing.
13. Names of GSA Counsel: No hearing.
14. Names of Government witnesses: No hearing.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No hearing

1. Title of Case: United States of America vs. Oklahoma City Ada Atoka RR Co. et al
2. Docket Number: 32857
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: Complaint was filed February 16, 1959.
5. Brief Resume of Case: This complaint was brought by GSA particularly for the Bureau of Reclamation. The complaint seeks prescription of a uniform maximum scale of carload cement rates for the Western District of the United States.
6. Position of GSA: GSA recommends a lower maximum scale based on distance, conformable to the cost of service due to uniform progression, and which will provide a reliable rate standard in advance of need.
7. Ruling of regulatory agency: No decision
8. Savings to Government: \$ ----
9. Government's interest was not more than 30% of total.
10. Government's presentation was limited to level of rates and charges for particular services.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: None
13. Names of GSA Counsel: Leonard M. Shinn
14. Names of Government witnesses: Alfred R. Bolze, Bureau of Reclamation; Walter H. Price, Bureau of Reclamation; Harold W. Foster, Bureau of Reclamation; Herbert Thompson, GSA; A. L. Cupp, GSA; Gordon Webner, GSA, and Alexis Bukovsky, GSA.
15. Names of attorneys or witnesses employed on per diem basis: Gilbert J. Parr, Private Railroad Cost Consultant.
16. Excerpts from decisions discussing GSA's evidence and contentions: Pending.

1. Title of Case: Increased Express Rates - LCL
2. Docket Number: I & S 7095
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: December 12, 1958
5. Brief Resume of Case: Tariffs filed sought to increase by 3 1/2% all interstate rates and charges applicable to Railway Express shipments throughout the Continental United States.
6. Position of GSA: Opposed Increased schedules
7. Ruling of regulatory agency: Interstate Commerce Commission order dated April 4, 1959 discontinued proceedings. Carriers withdrew 3 1/2% increases in rates effective April 7, 1959, Special Permission No. 8162.
8. Savings to Government: \$ - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation: No hearing
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing.
13. Names of GSA Counsel: No hearing
14. Names of Government witnesses: No hearing
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No hearing.

1. Title of Case: Rules on Light and Bulky Articles
2. Docket Number: MC-C-2027
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: October 23, 1958
5. Brief Resume of Case: Proposed tariff rule that would provide alternative rates on cubic foot basis for light and bulky articles, which would increase rates based on weights.
6. Position of GSA: Opposed the proposed rule
7. Ruling of regulatory agency: ICC decision required cancellation of the proposed rules.
8. Savings to Government: - - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was limited to level of rates and charges for particular services.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: None
13. Names of GSA Counsel: Donnegan Mann
14. Names of Government witnesses: R. C. Utzelman, GSA
15. No attorneys or witnesses were employed on a per diem basis
16. Excerpts from decisions discussing GSA's evidence and contentions:
(See Attached Sheets)

Excerpts from I.C.C. Decision of August 27, 1959, in Docket No. MC-C-2047, p. 6

"A witness for the General Services Administration of the United States Government stated its opposition to cube rules on the ground that the classification process is the best means of conquering this problem, and that the cost to the shippers and carriers of weighing and measuring all commodities tendered for transportation, would far exceed the return that the carriers might receive on the shipment of some articles coming under the cube rules. An exhibit was introduced showing that during a ten-day period in 1958, 46 regularly moving commodities of a density of less than 15 pounds per cubic foot, which would become subject to the proposed cube rules, moved for the General Services Administration. These commodities, with a considerable portion of them moving within the area under consideration, had a value in one year of \$25,147,310. The Federal Government ships packages of numerous shapes and sizes and the witness asserted that it would be subjected to increased expense if a cube rule were applied in the computation of charges thereon."

1. Title of Case: Increased Rates - Central States Territory, 1958
2. Docket Number: 32385
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: Placed on mailing list by General Counsel under Rule 1.55b October 2, 1958
5. Brief Resume of Case: Petition of carriers seeks a general increase in class and commodity rates throughout the territory.
6. Position of GSA: Opposed to increases
7. Ruling of regulatory agency: No hearing to date
8. Savings to Government: - - - -
9. Government's interest is not more than 30% of total
10. Government's presentation: No hearing to date
11. GSA's presentation will not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing to date
13. Names of GSA Counsel: No hearing to date.
14. Names of Government witnesses: No hearing to date
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No hearing to date.

1. Title of Case: U.S. by GSA v. A.T.&SF Ry. Co. et al.
2. Docket Number: 32462
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: Complaint filed by GSA June 2, 1958
5. Brief Resume of Case: GSA, as a shipper, seeks reparation from rail carriers for excessive rates and charges on shipments of crude rubber from N.Y. Harbor to Pauline, Kansas, during the period 7/25/55 to 2/5/57.
6. Position of GSA: That the Pauline rates published, charged and paid were unlawful, in violation of Sections 1, 2, and 3 of Interstate Commerce Act, to the extent that they exceeded rates contemporaneously maintained to Topeka, Kansas.
7. Ruling of Regulatory Agency: Pending.
8. Savings to Government: - - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was limited to level of rates and charges for particular services.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: None
13. Names of GSA Counsel: Ann G. Brand, Malcolm D. Miller, William R. Pierce
14. Names of Government Witnesses: Henry J. Andrews, GSA, and Kenneth J. Zoeller, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: Pending.

1. Title of Case: Harrison Construction Co., et.al. v. Pennsylvania Railroad Company, et al. and related proceedings
2. Docket Number 29932 et seq.
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: May 28, 1958
5. Brief Resume of Case: The proceeding involves railroad freight rates applicable to truck chassis shipped by the United States during World War II.
6. Position of GSA: GSA recommends that 40% of the first class rate is a reasonable maximum level to be applied to the Government shipments.
7. Ruling of regulatory agency: Proceedings discontinued.
8. Savings to Government: Proceeding involves protection of Government's interest in the more than \$3,000,000 at issue. Money is being held by GAO.
9. Government's interest was more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities. GSA urged, among other things, that the Interstate Commerce Commission should not reopen records in proceedings more than ten years old, thereby reversing important precedent proceedings on the basis of such reopened record.
12. Public representation: None
13. Names of GSA Counsel: Leonard M. Shinn and Malcolm D. Miller
14. Names of Government witnesses: Clarence Williams - GSA, Wilma Dalton - GSA, W. Levinstein - GAO, James L. Callan - GAO, Melvin E. Ault - Army Ordnance Corps, John D. Riggs - General Motors Corp.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: (See attached sheets)

*** In the embraced proceeding, No. 32114, the Government filed a complaint on February 7, 1957, as amended, pursuant to an order dated December 12, 1956, issued by the United States Court of Claims in case No. 306-54, Cheapeake and Ohio Railway Company v. United States. The Court order suspended proceedings in that action pending a determination by the Commission as to whether the charges asserted by the carrier on the involved shipments were reasonable and the making of such findings or report as the Commission may deem necessary and advisable. It is alleged in that complaint, as amended, that 579 carloads of motor vehicle chassis, knocked down, packed in boxes, were shipped for the account of the Government during the year 1943 from Halethorpe, Md., West Carteret, N. J., and Philadelphia, Pa., to Newport News and Norfolk, Va., for export. Freight charges thereon were paid, but upon audit by the General Accounting Office of the Government it was determined that the maximum charges allowable for such transportation were on the basis of the class-40 rate in accordance with the Commission's decisions in Harrison Construction Co. v. Pennsylvania R. Co., 280 I.C.C. 279, and Grafton Coal Co. v. Baltimore & O. R. Co., 280 I.C.C. 435, hereinafter referred to as the Harrison and Grafton cases, respectively. Recovery of alleged overcharges was made by the Government through deductions from subsequent shipments, after which suit was brought in the Court of Claims for the amounts claimed due on the basis of rates which the carriers contended were applicable. ***" Pages 2 and 3.

*** Exhibit No. R-13 was objected to as being irrelevant and immaterial, but primarily because the witnesses were not present at the hearing for direct or cross examination. It is argued that to permit the testimony in this record of these three witnesses made in another proceeding before the Commission prohibits the right of cross-examination, in violation of the Commission's procedural rules and the general rules of evidence. Rule 1.82 of the General Rules of Practice provides, among other things, that if any portion of the record before the Commission in any proceeding other than the one on hearing is offered in evidence, a true copy of such portion shall be presented for the record in the form of an exhibit, unless the portion is specified with particularity in such manner as to be readily identified and the parties represented at the hearing stipulate upon the record that such portion may be incorporated by reference, and the officer directs such incorporation. Failure of the parties to stipulate to the incorporation by reference of the proffered testimony as an exhibit brought the rule into play, and exhibit No. R-13 was properly received in evidence. This did not cut off examination of the witnesses as claimed by the General Services Administration. The Government was not restricted from calling these witnesses for a voluntary appearance or, if need be, assuring their appearance through the issuance of a subpoena. While the rule provides that any such exhibit so offered shall be subject to objections, the purpose of the exhibit was to show generally the war-time and abnormal transportation conditions during the period from 1941 through 1951. The objections of irrelevancy and immateriality, therefore, go to the weight to be given the evidence offered, and such objections were properly overruled. ***" Page 4.

*** The Government objected to the testimony and exhibits as being irrelevant, immaterial, beyond the issues involved, and unduly broadening the issues. The defendants argued that such testimony and exhibits were for comparative purposes to show the applicable rates on other shipments of the same or identical type moving within the same territory. The examiner received in evidence exhibit Nos. R-1, R-2, R-3, and R-4 and the testimony made with respect thereto, but excluded additional testimony and exhibits purporting to emphasize the same point as being cumulative evidence. The defendants made offers of proof of the remaining testimony to have been offered in such regard and on brief renew their objection to the examiner's ruling. The Government, on the other hand, renews its objections to the ruling to the extent the examiner permitted any of such testimony and exhibits into the record, and moves that it be stricken entirely. The principal issue in the Harrison and Grafton cases now opened for further hearing and reconsideration is the justness and reasonableness of the rates and charges. The purpose of the testimony and exhibits here considered was to measure the rates and charges involved in those two cases by comparisons with other shipments, showing the commodity shipped, the origin and destination, and the rates and charges that were made. To permit a reasonable showing of these comparisons was not an error after which the same type of testimony, differing only to the extent that the shipments and charges occurred on another railroad, becomes cumulative in nature. The examiner's rulings with respect to this testimony and exhibit Nos. R-1, R-2, R-3, and R-4 are sustained. ***" Page 5.

*** Government's evidence. - As previously noted herein, the General Services Administration was permitted to intervene in the Harrison and Grafton cases. The Justice Department also represented the Government. The role of the Government has been to support the two prior decisions in these cases with new and additional evidence. It takes the position that the real question is not whether certain statements in the prior reports were erroneous, but whether the end result was correct.

A compilation of all items in Consolidated Freight Classification No. 16, official territory, taking a third-class rating with a 15,000-pound minimum, shows a total of 83 items. Contrasted with that showing, a summary of items taking a class-40 rating with minima of 18,000 to 50,000 pounds appears as follows:

<u>Minimum weight in pounds</u>	<u>No. of Items</u>	<u>Percentage of class-40 items in each carload minimum-weight category</u>
18,000	2	.2
20,000	39	4.4
24,000	661	74.5
28,000	1	.1
30,000	136	15.3
36,000	36	4.0
40,000	9	1.0
45,000	1	.1
50,000	2	.2
Total	887	100

Testimony with respect to the various elements to be considered in determining reasonable and lawful classification ratings, with emphasis on a class-40 rating, was presented. This testimony followed largely the classification principles set forth by the Commission in Class Rate Investigation, 1939, 262 I.C.C. 447. The Government witness indicated the weight of the involved shipments to be about 25 pounds per cubic foot and the value to be about 22 cents per pound. He admitted no investigation was made as to value of the Harrison and Grafton shipments, but the value of 22 cents was the result of studying a large number of Government shipments which moved during 1942 through 1946. By the use of data from the Class Rate Investigation, 1939, supra, he concludes that the proper rating for a cube of 25 pounds should average no more than 43.6 percent of first class, and that the average classification for items valued at 22 cents per pound should carry a carload rating of less than 47.2 percent of first class. His testimony shows that before an average rating of 54.4 percent of first class is reached, the value of the articles must range between 50 and 59 cents per pound. According to one of his exhibits, articles having a value of 22.36 cents per pound should be rated class 40 in official territory, while articles taking a third-class rating are shown to have an average value of 55.80 cents per pound. In the opinion of this witness, the 15,000-pound minimum on twin-unit pack vehicle chassis is wholly inconsistent with the physical ability of the articles to load from 43,390 to 79,960 pounds per car, which indicates to him that the articles were improperly classified. It was pointed out that the density of the motor-vehicle chassis, as shipped, utilized fully the carriers' equipment and produced charges approximately four times greater than charges computed on the minimum weights published for automobile chassis, knocked down.

An exhibit was introduced purporting to show that a 2.5-ton 6 x 6 truck chassis, twin-unit packed, as in the Harrison case, reduced the cube by about 70 percent, as compared to the cube of the chassis set up.

A compilation of statistical data taken from the files of the Commission's one percent waybill study, purports to show that the class-40 rating basis applied to the shipments in the Harrison and Grafton cases is consistent with ratings actually applied on traffic which moved within official territory during 1947 and 1956. Comparison was made of classes of commodities that were believed to be similar to the articles involved in the instant shipments, showing the average percentage of first-class rates applied in 1947 and 1956. Such averages in percentages of first class are shown to be as follows: Automobiles and auto-trucks, knocked down (class 621), 31 and 30, respectively; vehicle parts (class 623), 32 for both 1947 and 1956; motor vehicles (class 617), 41 and 28, respectively; and agricultural implements (class 591), 39 and 33, respectively. Admittedly, the study did not cover the period 1941 through 1946 because 1947 was the first year the waybill studies of the Commission were available. The record shows many changes in the consist of the commodity classes after January 1, 1947 due to a change in the accounting classification effective on that date. While the traffic shown moving in 1947 and 1956 for comparative purposes moved to a great extent on commodity rates or exception ratings, the record does not disclose any history or background of any such rates or ratings.

An official of the Truck Division of General Motors testified with respect to the way shipments of trucks and truck chassis were made by his company both before and during World War II. General Motors was the largest manufacturer of 2.5-ton 6 x 6 truck cargo chassis. Prior to World War II, that company's commercial shipments for export were shipped both in single-unit and twin-unit packs. The single-unit commercial pack was substantially the same size as the single-unit military pack, and that was also true as to the commercial and military twin-unit packs. According to this witness, a shipment of freight automobile chassis or complete freight automobiles weighing 78,000 or 80,000 pounds would be a rare and unusual shipment. The principle reason was because of the size of the available rail cars. Such loads required cars of 60-foot lengths and over, and those cars were in least abundance. ***" Pages 10 and 11.

"*** At the further hearing the Government's evidence treated the issues in a general fashion. For example, they introduced data showing all items in the classification taking third-class and class-40 ratings. Analysis was made of these ratings to show the average classification rating assigned to articles of various values per pound and weights per cubic foot. The numerous factors involved in determining reasonable and lawful classification ratings were discussed in the light of the Commission's report in Class Rate Investigation, 1939, supra, with the conclusion that class 40, minimum weight 24,000 pounds, was the proper, reasonable, and just rating to be accorded the involved commodities. Carload waybill statistics purported to show the class-40 rating was consistent with ratings applied on traffic moving within official territory during 1947 and 1956 of similar commodities in average value or average weight. ***" Page 13.

"*** The complainants and the Government both argue that the minimum weights of 12,000 and 15,000 pounds for the second and third class ratings, respectively, indicate that these minima were too low for shipments averaging 80,000 and 44,000 pounds as here involved. Division 2 was apparently of that opinion when it found that because of the method of packing the cars could be and were loaded greatly in excess of the established minimum weight. The fact that the minimum weights in the classification were made subject to rule 34 cannot be overlooked in an attempt to argue that they are too low and inconsistent with the ability of heavier loading for this traffic. Where the base rate was 12,000 pounds, rule 34 made the applicable minimum weights for 45 feet 11 inch and 65 feet 6 inch cars 17,040 and 24,000 pounds, respectively; where the base rate was 15,000 pounds, rule 34 made the applicable minimum weights 21,300 and 30,000 pounds, respectively. Moreover, the mere ability to load more than the minimum weight does not justify, in and of itself, the prescription of rates with higher minima. Minimum weights are generally fixed to best serve the public, and changes therein should be required only upon convincing evidence that they are unsuitable to the particular commodity and unsatisfactory to the shipping public generally. See Thrifty Drug Stores Co., Inc. v. Southern Pac. Co., 277 I.C.C. 615, 618. A General Motors witness stated that loads of these types of commodities weighing 80,000 pounds were unusual. ***" Page 14.

*** The Government argues that the new packing developed during World War II was the real basis for the division's prior decisions. The record made at the further hearing, however, shows a General Motors witness testified that his company made shipments of vehicle chassis before the war in single-unit and twin-unit packages. They were comparable, except he said the military twin-unit pack was more dismantled than the commercial twin-unit pack. *** Page 15.

*** The Government is contending that the charges should not exceed the class-40 rate between origin and destination. On that basis the rate from West Garteret would be 41 cents and from Philadelphia and Halethorpe the rate would be 36 cents.

The Government is not attacking the classification or exceptions ratings, as such. However, it contends that since the vehicle freight chassis were shipped knocked down and boxed in twin-unit packs there was such a marked change in both density and value, as well as other transportation characteristics, from the articles originally contemplated and shipped at the time the classification and exceptions ratings were first established in 1911 and 1923, and that the charges claimed are so excessive they are unreasonable. On the theory that the classification of commodities is not a finality and that frequently manufactured commodities undergo marked and permanent changes in their density or value or both, the Government undertook to show that the ratings which once may have been on a proper basis became, as a result of such developments, too high. Testimony was produced with respect to each element to be utilized in the determination of a just and reasonable classification as set out in Class Rate Investigation, 1939, 262 I.C.C. 447, 508-509. Of the various elements, particular stress is placed upon density and value, however realizing neither is controlling to the exclusion of other transportation characteristics.

The Government shows the density of what it calls 14 representative shipments to range from 21.1 to 29.6 pounds per cubic foot, with an average of 27.2 pounds. The average weight of the 14 shipments was 44,498 pounds per car. Reference is then made to appendix 6, table 1, of the Commission's report in Class Rate Investigation, 1939, *supra*, which indicates the average classification rating of items having a density of 20 pounds and under 30 pounds per cubic foot was 43.6 percent of first class in official territory during the period June 1, 1940 to September 30, 1942.

These 14 shipments moved between June 20 and July 14, 1943. The carriers show that in 1943 the average tons per car of freight originated was at an all-time high, five tons per car over 1939, for example. The same increase in tonnages also applied to manufactured articles. It is contended by the carriers that such heavy loading occurred as a result of the war emergency to conserve space and utilize to best advantage the transportation equipment. It appears that the per cubic foot density may be somewhat overstated by the Government. According to appendix 6, table 1, of the Commission's report above referred to, items with a density of 10 pounds and under 20 pounds had an average classification rating of 49.4 percent of first class in official territory. The Commission, in the War Materials Reparation Cases, 294 I.C.C. 5, 18, observed that heavy loading of shipments and heavy volume of movement incident to the temporary war emergency could not be recognized as a basis for a finding of unreasonableness.

A witness for the Government placed a value of 22 cents per pound on these vehicle chassis, which value was obtained from purchase price figures found in 1941 and 1942 Government procurement contracts. A representative of General Motors stated that the contract prices were very low as compared to commercial prices. He indicated that the large production brought the costs down to the minimum. To attach a minimum of value to an article due to the war emergency and volume of production places a strained significance on the element of value for rate making purposes.

The record shows no loss or damage was experienced with this traffic.

The Government contends the minimum weight of 20,000 pounds is unrealistic when applied to the involved traffic where the average loading was 40,396 pounds per car and with the capability of loading as high as 78,220 pounds per car. Overlooked in such an argument is the fact that the 20,000-pound minimum was subject to rule 34. A witness for the defendants outlined the history and application of rule 34 with respect to 432 cars here involved; 92.4 percent of the shipments contained four chassis in twin-unit packs, and the remaining 7.6 percent differed only in the number of vehicles per car, ranging from one vehicle in one car to five cars loaded with 8 chassis each. During the period from February 7 to May 28, 1943, instead of being subject to a minimum of 20,000 pounds, 7 cars were subject to a minimum of 22,400 pounds, 3 cars subject to 24,400 pounds, 6 cars to 28,400 pounds, 10 cars to 32,400 pounds, and 6 cars to 40,000 pounds under the provisions of rule 34. From May 29, 1943 to the end of 1943, 21 cars were subject to a minimum of 24,400 pounds, 85 cars to 28,400 pounds, 70 cars to 32,400 pounds, 52 cars to 34,400 pounds, and 32 cars to 40,000 pounds. It is clear that the proper comparison would be between the average weights and the actual minimum weights applicable under rule 34 rather than with the base minimum weights. ***" Page 17.

*** The evidence shows that the rule 26 level of rates were established August 1, 1923, after extensive conferences between representatives of the automobile industry and the railroads. They were to apply on boxed freight automobiles or chassis, for export, from origins in trunk line territory to north Atlantic ports. The industry convinced the railroads these reduced export rates were necessary to stimulate the exportation of automobiles and to develop markets for the American surplus production. At the time the rule 26 basis was authorized it reflected 80 percent of third class, but under a new scale of class rates published effective December 3, 1931, rule 26 became 55 percent of first class.

*** At the outset of this report it was pointed out that the Government is not attacking the classification or exceptions ratings, as such. Thus by taking that position it is clear that a third-class rating (70 percent of first class) with a minimum weight of 15,000 pounds, subject to rule 34, was the legally-established normal and maximum basis for application on shipments of boxed freight automobile chassis, knocked down, during 1943. It is equally clear that a legally-established exceptions rating rule 26 (55 percent of first class) with a minimum weight of 20,000 pounds, subject to rule 34, applied on the commodities involved in this proceeding. There is not a hint of any ambiguity between the descriptive language used in the tariff and the description of the vehicle chassis that were shipped. The Government submits it should be found that the application of rates and charges based on the rule-26 exceptions ratings resulted in freight charges which were unjust and unreasonable, in violation of section 1 of the Interstate Commerce Act. The Government further submits that charges reflecting a rating of class 40 (40 percent of first class) with a carload minimum weight of 24,000 pounds should be found just and reasonable.

The carriers have shown that the rule-26 rating was established in 1923, or 20 years prior to the shipments here involved. During that period there were no protests or complaints having been registered with the railroad or the Commission. It is well settled that there is a presumption of reasonableness arising from the long existence and maintenance of a rate or rating without attack. That presumption, however, is not conclusive upon a proper showing of changed conditions affecting the transportation of the commodity which would render the rate or rating too high or too low. Considering the transportation characteristics of the commodities shipped and the circumstances under which they moved, the evidence relied upon by the Government is not convincing that the ratings or rates shown to be applicable were unreasonable. The examiner finds that the rates, ratings, and tariff provisions governing their application assailed in No. 32114 are not shown to have been unjust or unreasonable.

An order discontinuing the proceedings will be entered. ***" Page 16.

EXCERPTS FROM INTERSTATE COMMERCE COMMISSION, DOCKET NO. 29932,
HARRISON CONSTRUCTION COMPANY ET AL. v. PENNSYLVANIA RAILROAD CO.
DECISION DATED NOVEMBER 7, 1960.

1. Title of Case: Increased Freight Rates 1958
2. Docket Number: Ex Parte 212
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: January 20, 1958
5. Brief Resume of Case: The railroads on December 23, 1957, filed schedules of increased freight rates and charges to become effective February 1, 1958
6. Position of GSA: Opposed increases.
7. Ruling of regulatory agency: Final order of ICC issued September 9, 1958, generally approved the increases.
8. Savings to Government: \$ - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: None
13. Names of GSA Counsel: Malcolm Miller
14. Names of Government witnesses: John S. Peters, GSA, and Alexis P. Bukovsky, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:

Excerpt Ex Parte No. 212 Decision, February 11, 1958, p. 696

"Fly ash. The proposed increases on this commodity are opposed by a number of electric utility companies, which derive fly ash as a by-product in burning powdered coal, a company which buys fly ash and sells it for subsequent use; a company, which buys fly ash for use in making oil well cement, and General Services Administration, using fly ash as an additive for cement in building dams."

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Excerpt Ex Parte No. 212 Decision, September 9, 1958, p. 345.

"Fly ash. Respondents originally proposed an increase of 3 percent, maximum \$1 per ton, on this commodity. In our prior report, we approved an increase of 3 percent, maximum 20 cents per ton. Respondents seek approval of their original proposal.

Fly ash is the precipitate of powdered coal burned by electric utility companies. It is used as an aggregate in construction and in cementing the casings of oil wells. In Fly Ash, Chicago and Trenton, Mich., to Official Points, 292 I.C.C. 349, we stated that rates on basis of 9.5 percent of the docket No. 28300 scale would place fly ash on about the same basis as cinders and industrial sand, which are also low-valued commodities with transportation characteristics similar to fly ash, and that we believed rates on that basis would permit this commodity to move freely in competition with competitive pozzolans and other low-value commodities."

Excerpt Ex Parte No. 212 Decision, September 9, 1958, p. 350

"The General Services Administration, the American Retail Federation, the Bicycle Institute of America, and others, object to the proposed 2 percent increase in class rates, stating that such rates should be increased by means other than on a horizontal percentage basis. They stress the fact that class rates have received the full impact of all general increases in the eastern district, and in other areas, except as adjusted by the Commission, and that while substantial rate increases in the past are shown to have been authorized on numerous commodities, revenue therefrom has not been realized to the full extent thereof."

Excerpt Ex Parte No. 212 Decision, September 9, 1958, p. 380

"A witness on behalf of the General Services Administration opposed item 140 proposing a 5 percent increase in transit charges directing his objection principally to a maximum of \$22.50 per car originally embraced therein but subsequently eliminated by the carriers from the proposal."

1. Title of Case: Increased LCL Rates In Official Territory
2. Docket Number: 32290
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: December 17, 1957
5. Brief Resuem of Case: Petition filed on behalf of principal rail carriers sought permission to publish increased rates applicable to all less-than-carload shipments weighing less than 5,000 pounds.
6. Position of GSA: In opposition.
7. Ruling of Regulatory Agency: ICC report and order denied petition of rail carriers for increase.
8. Savings to Government: \$63,000 estimated annual savings. Using the carriers' estimated increase in freight revenue of \$6.3 million annually had the ICC approved the increase, the executive agencies (except DOD) on an approximate basis of 1% would have had their annual freight bill increased by \$63,000.
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public Representation: None
13. Names of GSA Counsel: Donegan Mann and Morris Levinson
14. Names of Government Witnesses: Kenneth J. Zoeller, GSA, and William J. Cooper, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contention: None.

1. Title of Case: Increased Demurrage Charges - 1956
2. Docket No. : I & S 6646
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: July 31, 1956
5. Brief Resume of Case: The railroads proposed increased charges, or less free time, in car demurrage rules and charges.
6. Position of GSA: In opposition.
7. Ruling of regulatory agency: The Interstate Commerce Commission authorized increases in demurrage at a level lower than proposed by the carriers.
8. Savings to Government: \$- - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: None
13. Name of GSA Counsel: John Reagan
14. Name of Government witnesses: Alfred L. Cupp, GSA
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:
(See attached sheets)

Excerpts from I.C.C. Decision of May 27, 1957, in Docket No. 6640
(I.C.C.)

"Upon protest by shippers, shipper organizations, trade associations, State public utility commissions, executive agencies of the Federal Government, and others throughout the Nation, the operation of the proposed schedules was suspended until March 31, 1957, and the respondents have voluntarily postponed the effective date until June 30, 1957." p. 578

"The protestants generally take the position that railroad operating practices result in delays and the bunching of cars, thereby contributing to detention by interfering with work schedules, and that the basic reason for car shortages is the failure of the respondents to acquire and maintain a supply of rolling stock sufficient to meet the needs of commerce. While the shippers favor reasonable measures to improve equipment utilization, they are of the opinion that the proposed increased charges and restrictive rules would not accomplish the objective. They object to the inclusion of Saturdays, Sundays, and holidays after the expiration of 4 working days, on the ground that industry and business generally observe a 5-day workweek, after which overtime must be paid. With respect to the reduction of maximum debits which may be offset by earned credits, they maintain that fewer cars would be released in the first 24 hours of free time because the reduced number of credits that could be used profitably would reduce the incentive to accumulate such credits." p.582

"Many protestants aver that the proposed schedules would result in unreasonable demurrage charges, based on comparisons of charges which have been paid under the present regulations and those that would accrue under the proposed schedules." p.583

ICC
REG.

1. Title of Case: Equalization of Rates at North Atlantic Ports
2. Docket No.: 6615
3. Regulatory agency: Interstate Commerce Commission
4. Date of Intervention: June 1957
5. Brief Resume of Case: Investigation by the ICC into the equalization of rail import and export rates of North Atlantic Ports with ports of New York.
6. Position of GSA: Supported equalization of rates.
7. Ruling of regulatory agency: ICC Order of December 5, 1960, served January 3, 1961, denied equalization of rates.
8. Savings to Government: - - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: None
13. Names of GSA Counsel: Malcolm D. Miller and Ann G. Brand
14. Names of Government witnesses: J. K. Cowling, GSA
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:
(See attached sheets)

^{***} The import rates from Portland have been on the Baltimore basis for ever 30 years. Being ice free in winter, that port serves as a winter port for Canada and is accorded the same import basis as Halifax, St. John, and Montreal on traffic routed through Canada. The evidence is clear that the impact of the differential is of itself insufficient to induce the movement through Portland. Virtually the only commodities which are imported through that port are woodpulp and china clay, for which special handling facilities are provided at the port. They are raw materials used in the paper industry, which is the chief industry of Maine. As less than one-fifth of the woodpulp and one-fourth of the china clay move to the affected territory, it is evident that the movement to that territory is mostly incidental to the movement through Portland for the local market.

In seeking to show that the differentially-lower rates from the southern tier ports are an absolute bar to its participation in the north Atlantic traffic, Boston also relies on evidence presented by the General Services Administration, an agency of the Federal government, which supports the respondents. This agency directs the routing of about 300,000 tons of import traffic annually to the affected territory. ^{***}

^{***} Government-controlled import traffic. - The General Services Administration presented evidence in support of the respondents. It states that in the interest of economy, its duty and interest is to seek the lowest reasonable rates "in the furtherance of its shipper *** interest", as a representative of the Government's executive

agencies, and that with respect to foreign commerce this means that, other factors being equal, it should route its traffic through the ports having the lowest transportation cost. Accordingly, it favors equalization because it would enable it to select the port used on the basis of efficiency and service.

It presented no data as to its export traffic, which is of much less importance to it than the imports. Its choice of ports of export is dependent principally upon the availability of sailings and the total land cost to the foreign destination. In 1955 and 1956 the tonnage of imports through north Atlantic ports to the affected territory for which it was in a position to designate the port of entry, and which represents about 60 to 70 percent of its imports and at least 10 percent of all import tonnage here concerned, was as follows:

Port	1955 (Tons)	1956 (Tons)
Boston		339
New York ¹	22,246	26,598
Philadelphia ¹	54,797	14,251
Baltimore	294,515	195,805
Newport News	21,404	30,340
Total -	392,962	268,033

¹Includes movements through other ports or subports in the same area.

*** The imports through Baltimore were principally ores, other than iron ore. Although the differentials are important to it from the standpoint of economy, many considerations other than the rail rates have affected the selection of the port used. Among those cited are

the practices of private industry and established markets, such as the principal market for crude rubber, which is in New York, and the fact that at that port the best inspection service is available. Also, vessel operators have some measure of control over ports of call and will schedule only those at which there is adequate traffic. That such considerations often have controlling importance is shown by the fact that the movement through Newport News was only about a tenth of that through Baltimore although the rates were the same, and that, except for a small volume through Boston in 1956, no northern tier port other than New York was used, although such ports had rates the same as or lower than those from New York. ***" Page 60.

EXCERPTS FROMS DECISION DATED December 5, 1960, INTERSTATE COMMERCE COMMISSION DOCKET NO. 6615 - "INVESTIGATION AND SUSPENSION DOCKET NO. 6615 - EQUALIZATION OF RATES AT NORTH ATLANTIC PORTS".

1. Title of Case: Railroad Passenger Train Deficit
2. Docket Number: 31954
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: September 5, 1956 (Pre-trial conference appearance)
5. Brief Resume of Case: Investigation by the Interstate Commerce Commission on its own motion into passenger train deficits.
6. Position of GSA: Intervened on basis that remedy of the deficit situation would benefit the Government as a user of both passenger and freight services.
7. Ruling of regulatory agency: By order of May 18, 1959, ordered the proceeding discontinued.
8. Savings to Government: \$ ----
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: None
13. Names of GSA Counsel: M. D. Miller, J. Regan, L. Shinn, A. C. Lande
14. Names of Government witnesses: D. Mater, GSA, D. Church, Commerce Dept.
15. Names of attorneys or witnesses employed on per diem basis: Mr. Gilbert Parr (contract) and Dr. Melville J. Ulmer (contract)
16. Excerpts from decisions discussing GSA's evidence and contentions: (See Attached Sheets)

"***

be supplemented by knowledge of the operations of the industry being studied." He stated:

Our group considers the ARF study to be a landmark in statistical cost-finding. More specifically, we believe that it provides the best answer to date to the thorny question of the size of the passenger deficit. We believe that the statistical methods used are superior to those used in other studies of the problem. These remarks should not be taken to imply that we regard the ARF study as the final word on the subject of the passenger train deficit. The results obtained could be improved if additional data were available on which to base the statistical analysis.

This witness also entered upon a detailed countercriticism of the criticism of the research witness for the GSA before mentioned. The issue raised by these discussions concerns the nature of railroad costs and their meaning in connection with the various purposes for which such costs are used.

We do not agree with the GSA economists that the ARF study "must be judged an unequivocal failure," or, as the NARUC committee asserts, that "the study developed nothing of value to this proceeding." The conclusion from the study that its "statistical estimates of avoidable costs more often exceed than fall short" of the showing in our statistical reports bearing on the passenger deficit is of major significance and serves as a warning that common costs cannot be lightly dismissed.

A question to be considered is what further use can be made of the methods employed in the ARF study. The critic-witnesses before mentioned agree that the method of multiple regression is a valuable statistical technique. The ARF itself states that the basic purpose has been methodological—"to explain and illustrate how the method of statistical costing can produce a meaningful estimate of avoidable costs."

The respondents have expressed no opinion as to the practical value of the study for the future, and GSA presumably does not concur in the recommendation of its economists that this Commission "undertake an analysis of this kind, utilizing as much outside help as may be necessary to insure the most accurate estimates possible." The coal association goes further, and urges that we either directly or by mandatory requirement of the railroads make use of multiple correlation in a "determination of cost coefficients separately for each of the railroads and perhaps separately for distinctive divisions or sections of these railroads over a series of years, say ten." We question the further observation of the coal association that this would be "a relatively simple, quick and inexpensive method" of correcting deficiencies in our separation rules. ***"

"***

RAILROAD PASSENGER TRAIN DEFICIT

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Cost studies.—Among the subjects listed for consideration at the outset of this proceeding was the following:

A cost study to determine what part of the passenger deficit is attributable to the various kinds of passenger-train service, viz., parlor-car, dining-car and sleeping-car operation, coach, commutation, headend service, such as mail, express, etc.

An exhaustive and authoritative study of this kind would be helpful in many ways, but the project was found not to be feasible without greatly prolonging the investigation and increasing its cost. For that reason the respondents opposed such a study, which was considered desirable, if not indispensable, by the Post Office Department, GSA, and the coal association. The NARUC committee was not impressed by that need. ***"

RAILROAD PASSENGER TRAIN DEFICIT

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"***

If the private automobile continues to gain * * * the remaining [railroad] percentage share of the market will continue to get smaller. That kind of market squeeze can only result in an intensification of competition. And as an economic fact, an intensification of competition in any field can be met successfully only by lowering prices either directly or indirectly. * * * In the case of the railroads, price sensitivity exhibits itself in the fact that the decline in coach travel has not been as serious as it has been in the first-class service. In other words, it seems doubly clear that people are price conscious in regard to passenger fares. * * * Furthermore, since load factor is so very low and fixed costs so very high, it means automatically that price reductions hold very real possibilities for benefiting the carriers' position. The price reductions could be in terms of direct fare reductions or in the form of indirect price decreases—meaning the increased cost of whatever marketing devices might be utilized to increase the attractiveness of railroad travel.

Manifestly a price reduction of this kind could be brought about simply by repeal of the Federal excise tax of 10 percent on passenger fares, but GSA is not ready to join other participants in this proceeding who urge that this repeal is long overdue, saying in its brief:

If the Commission should conclude that reduction of fares would be a remedy of the passenger deficit problem, then GSA and other executive agencies of the United States Government would have a basis for recommending favorably to Congress that the tax be repealed; * * *

In our opinion repeal of the tax need not and should not await determination of the most profitable fare level, judged by other considerations. ***"

EXCERPTS FROM INTERSTATE COMMERCE COMMISSION DECISION
Docket No. 31954, dated May 18, 1959. "Railroad Passenger
Train Deficit".

ICC
CERT.

1. Title of Case: Kenosha Auto Transport Corp. and Arco Auto Carriers, Inc.
2. Docket Nos.: 30837, Sub 280; 52657, Sub 590 - operating authorities
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: July 25, 1960
5. Brief Resume of Case: The Post Office Dept. requested that GSA intervene in support of applications filed by Kenosha Auto Transport Corporation and Arco Auto Carriers, Inc., seeking operating authority for the transportation of "mailsters" from Stockton, California, and Kalamazoo, Michigan, to points throughout the United States.
6. Position of GSA: GSA supported the need for service.
7. Ruling of regulatory agency: Applications were approved and certificates issued.
8. Savings to Government: \$ - - -
9. Government's interest was more than 30% of total.
10. Government's presentation: Not applicable
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: None
13. Name of GSA Counsel: Leonard M. Shinn
14. Name of Government witness: Carl Peterson, Post Office Department
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:
(See Attached Sheet)

Excerpts from I.C.C. Report and Order of August 31, 1960

". . . The applications were referred to the examiner for hearing and the recommendation of appropriate orders thereon. Hearing was held on a consolidated record on July 27, 1960, at Washington, D. C. The Executive Agencies of the U. S. Government, except the Department of Defense, intervened in support of both applications. Dealers Transit, Inc., United Transports, Inc., Clemans Truck Line, Inc., Associated Truck Lines, Inc., Consolidated Freight Company, and Great Lake Express protest the granting of the application in No. MC-52657 (Sub-No. 590) only. Associated Heavy Specialties Carriers, Transamerican Van Service, Inc., and Clemans Truck Line, Inc., oppose the granting of the application in No. MC-30837 (Sub-No. 280). . . ." p. 2

". . . The United States Post Office Department presently uses approximately 9,000 mailsters similar to the commodity herein involved, in its operations in the delivery of mail and parcel post. It has contracted with the West Coast Machinery Company of Stockton, Calif., for the manufacture of 2,401 additional mailsters that it proposes to use in various postal facilities. This quantity may be increased by 25 percent at the option of the Government, but quantities will probably not be available for shipments to Alaska and Hawaii. The Post Office Department will pay for and control the transportation of the commodity from Stockton to destination and all will be shipped under Government bills of lading. It desires to ship the mailsters in both truckload and IITL quantities and it will require stop off deliveries at more than one facility. Both applicants have provided similar transportation service to that herein proposed, for the Post Office Department, from Crisfield, Md., to points in the U. S. and their services have been satisfactory. The department desires that the commodity not be crated in shipment in order that deliveries can be expedited and in order that the time and expense of crating and uncrating can be avoided. Many of the Postal facility delivery points do not have facilities for unloading of this commodity when it is shipped crated. Crating is required for rail transportation of the commodity and has also been required by general commodity motor carrier for IITL shipments. The Post Office Department has experienced considerable damage in shipment of the considered commodity by rail. It desires single line service in order to expedite deliveries and to avoid change to the commodity by excessive handling. . . ." p. 5

1. Title of Case: Wells Fargo Armored Service Corporation, et al.
2. Docket Number: MC-3083 (Sub. No. 33), et al. - Operating authority
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: December 16, 1959
5. Brief Resume of Case: Applications of contract carriers for permits to transport coin and bullion between Federal Reserve Banks and Branches.
6. Position of GSA: GSA supported the applications.
7. Ruling of regulatory agency: Pending.
8. Savings to Government: - - - -
9. Government's interest was more than 30% of total.
10. Government's presentation: Not applicable
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: None
13. Names of GSA Counsel: Leonard M. Shinn and Malcolm D. Miller
14. Names of Government witnesses: Kenneth Failor, Bureau of the Mint
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussion GSA's evidence and contentions: None

1. Title of Case: National Freight, Inc.
2. Docket Number: MC-55878 (Sub 8) - Operating Authority
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: April 9, 1959
5. Brief Resume of Case: Applicant National Freight, Inc., filed application for permanent authority to haul ores in bulk in dump trucks from Port of New York and Port of Newark, N. J., to Belle Meade, N. J.
6. Position of GSA: Supported need for the particular type of service.
7. Ruling of regulatory agency: Interstate Commerce Commission denied application for public convenience and necessity 2/14/61. Petition for reconsideration filed.
8. Savings to Government: \$ - - -
9. Government's interest was more than 30% of total
10. Government's presentation: Not applicable.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public presentation: None
13. Names of GSA Counsel: M. D. Miller, L. Shinn
14. Names of Government witnesses: Kenneth J. Zoeller, GSA, and Joseph Daly, GSA
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: (See attached sheets.)

Interstate Commerce Commission Docket No. MC-55878 (Sub-No. 8)Decision February 14, 1961

*** In its exceptions GSA contends that present transportation facilities are inadequate and that detailed information about the traffic under consideration cannot be revealed because of requirements of national security. In its exceptions it renews an objection made at the hearing to the admission of certain evidence adduced by rail protestants concerning the movement of GSA traffic. It contends that this evidence should not have been admitted, and it interprets section 15(11) of the Interstate Commerce Act as an absolute prohibition against divulging any information concerning a shipper's business transactions which the shipper considers deleterious to its best interests.

Protestants reply that the self-imposed security regulations of GSA should not place it in a favored position and excuse it from presenting evidence of a genuine need for service; that the information which GSA contends is classified is obtainable from public files, and that, in any event, it becomes public information after the first shipment; that adequate transportation facilities are now available; and that no need is shown for future service to Belle Mead as the evidence relating to service at that point concerns past shipments only. *** (p. 3)

*** As a matter of policy GSA does not support a specific motor carrier in applications of this nature, but appears as an intervenor to demonstrate that a need exists for a particular transportation service. (p. 4)

It is willing to utilize the services of any carrier which can meet its transportation needs. GSA is charged with the duty of procuring, arranging for the transportation of, and stockpiling materials which are ordered by other government agencies. As pertinent here, fulfillment of this obligation consists primarily of the procurement and stockpiling of chrome ore, manganese ore, fluor spar, and ferro-chrome, and it requires a complete and flexible motor carrier service capable of serving stockpile depots which now are located or may in the future be established in the proposed service area. It prefers to use a motor carrier service, such as that provided by applicant under temporary authority, in which the carrier would take full responsibility for an entire shipload and provide certain "special" services such as providing bulldozer service at stockpile, for example. Security Order No. 11 of the General Services Administration prohibits the release of specified details of government stockpiling activities, and thus representatives of that agency could not give detailed information concerning the need for transportation. GSA did, however, give applicant permission to testify as to the service it has provided from Port Newark to Belle Mead and corroborated applicant's evidence in this respect. On the other hand, it objects to the rail carriers' testimony relating to service performed by them for GSA from Port Newark to Belle Mead since this information has not been cleared by GSA. It asks that such testimony be stricken. *** (p. 5)

GSA objected at the hearing to testimony by the rail carrier protestants which it contends violates its privilege as a shipper under section 15(11) of the Act. In general, that section provides that a common carrier shall not divulge with certain exceptions, information concerning the business activities of its shippers or consignees without the consent of the shipper or consignee. The information which the carrier is prohibited from disclosing without consent is information which may be used to the detriment or prejudice of such shipper or consignee, or which may disclose his business transactions to a competitor. GSA, as shipper in this proceeding, objects to the divulgence by the various rail carrier representatives of information, which would reveal the nature of the commodities shipped, the destination or volume of its shipments, or any other information pertaining to the movement of the material.

We are of the opinion that the purpose of this section of the act is to curb the unwilling or intentional dissemination of commercial business information by a carrier or its agents to business competitors of the shipper or consignees. To apply this restriction to the disclosure of the information in question here would be an undue enlargement of the underlying purpose of this section. Furthermore, much of the information which GSA contends should be stricken is public information or is of a cumulative nature and similar to that submitted by GSA to serve its own purpose in support of a need for motor carrier service. GSA cannot claim that it is entitled to a privilege in order to prevent rail protestants from divulging so-called classified information when similar information is being published by GSA itself and used selectively to rebut protestants' position. We find it impossible to conclude in these circumstances that GSA will be harmed or prejudiced by the examiner's ruling which permitted rail carrier protestants to adduce the considered evidence. (pp. 6 & 7)

Turning to the issue of the classified nature of this information, it is not our duty to inquire into the internal rules and security regulations of GSA. We are aware that security regulations have at times placed restrictions upon the free publication of transportation data; however, such restrictions cannot serve as a substitute for the information which is requisite to a proper determination of public convenience and necessity. In Riss & Company, Inc., Extension - Explosives. 64 M.C.C. 229, 328, the Commission said:

While we recognize certain disabilities of the military in the presentation of evidence, we must, in order to carry out our duty under the Act, be furnished with sufficient facts on which to base our conclusions with respect to the need for motor service. Unless such facts are made available, we cannot act intelligently in disposing of the issues, and particularly, where as here, the problems presented are varied, complicated, and controversial. Where necessary facts are lacking, we are not warranted in making allowances for the failure to produce them or in according the Department of Defense or any other shipper special consideration, except perhaps under some unusual circumstances. * * * (p. 8)

1. Title of Case: Motor Carrier Applications for Operating Rights From Lincoln, Nebraska
2. Docket Number: MC-30837, Sub 242, MC-2230, Sub 9, MC-52657, Sub 541 - Operating Authority
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: December 8, 1958
5. Brief Resume of Case: The Post Office Department requested GSA intervene in support of applications filed seeking operating authority for the transportation of "mailsters".
6. Position of GSA: Supported the need for service
7. Ruling of regulatory agency: Interstate Commerce Commission granted certificate to Mack's Transport Service, Inc. Denied application of Kenosha Auto Transport and Arco Auto Carriers.
8. Savings to Government: \$ ----
9. Government's interest was more than 30% of total.
10. Government's presentation: Not applicable.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: None
13. Names of GSA Counsel: Malcolm D. Miller
14. Names of Government witnesses: Carl R. Peterson, Post Office Department
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: (See Attached Sheet)

Excerpt from I.C.C. Decision in Docket MC-2230 (Sub No. 9) (81 M.C.C., p. 391)

"The Post Office Department is interested in the availability of a motor carrier able to provide multiple-delivery service on uncrated mailsters to its various installations. It had about 4,000 mailsters in operation in December 1958, and plans to purchase an additional 5,000 in 1959. Its contract with Cushman, scheduled to be completed by April 1959, called for delivery of 2,200 of these units from Lincoln to its various installations. It also has a contract with a manufacturer of the same type of product at Crisfield, Md. As a general rule the units produced at Lincoln are shipped to points west of the Mississippi River and those produced at Crisfield to points east thereof, but on occasion deliveries are required throughout the United States from either origin."

*** The United States Post Office Department presently uses approximately 9,000 mailsters similar to the commodity herein involved, in its operations in the delivery of mail and parcel post. It has contracted with the West Coast Machinery Company of Stockton, Calif., for the manufacture of 2,401 additional mailsters that it proposes to use in various postal facilities. This quantity may be increased by 25 percent at the option of the Government, but quantities will probably not be available for shipments to Alaska and Hawaii. The Post Office Department will pay for and control the transportation of the commodity from Stockton to destination and all will be shipped under Government bills of lading. It desires to ship the mailsters in both truck-load and LTL quantities and it will require stop off deliveries at more than one facility. Both applicants have provided similar transportation service to that herein proposed, for the Post Office Department, from Crisfield, Md., to points in the U. S. and their services have been satisfactory. The department desires that the commodity not be crated in shipment in order that deliveries can be expedited and in order that the time and expense of crating and uncrating can be avoided. Many of the Postal facility delivery points do not have facilities for unloading of this commodity when it is shipped crated. Crating is required for rail transportation of the commodity and has also been required by general commodity motor carrier for LTL shipments. The Post Office Department has experienced considerable damage in shipment of the considered commodity by rail. It desires single line service in order to expedite deliveries and to avoid change to the commodity by excessive handling.

***" Page 5.

The Post Office Department, has also required return transportation of the mailsters to the manufacturers in order for repairs and modifications to be made and therefore desires a transportation service that would provide for transportation of return shipments from all points in the U. S. to the manufacturer. It believes that the services of both applicants will be necessary. ***" Page 6.

1. Title of Case: Whitfield Transportation Co. - Extension of Operating Authority
2. Docket Number: MC-108461 (Sub 56)
3. Regulatory Agency: Interstate Commerce Commission
4. Date of Intervention: January 27, 1958
5. Brief Resume of Case: On August 1, 1957, Whitfield Transportation Co. filed application for authority to operate as a common carrier in the transportation of cement and cement ad-mixes in bulk from several Utah railheads to the Glen Canyon Dam Site, Arizona.
6. Position of GSA: On behalf of the Bureau of Reclamation, GSA presented witnesses and testimony in support for the need of additional common carrier motor service for the transportation of cement and pozzolan to Glen Canyon Dam Site.
7. Ruling of regulatory agency: Certificate was awarded to Whitfield.
8. Savings to Government: \$ - - -
9. Government's interest was more than 30% of the total.
10. Government's presentation: Not applicable.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: None
13. Names of GSA Counsel: Morris Levinson
14. Names of Government witnesses: Herbert M. Thompson, GSA
William J. Cooper, GSA
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:
(See Attached Sheet)

" . . . GSA, at the request of the Bureau of Reclamation of the Department of Interior, supports the application because of the alleged existence of a need for additional common carrier service to transport cement and pozzolan in bulk, to the dam site. . . ."

" . . . The dam will be located on the Colorado River, approximately six miles south of the Arizona-Utah border. The origin points involved are the nearest railheads. The estimated requirements will be approximately 564,000 net tons of cement, and 220,000 net tons of pozzolan during the estimated peak period of construction. The delivery has to be made at the dam site's unloading hopper facilities, designed for road level, bottom-dump-type equipment utilized for bulk shipments. The Government will furnish and install a heavy duty road level platform scale at the dam site for the weighing of these commodities. Pozzolan will be furnished by the one successful bidder, but the supplying of cement may be contracted with six different producers, since they can bid for 500,000 barrels of cement each, and thus the movement of cement may occur from several mills simultaneously. The flow of cement is expected to last approximately 42 months. To insure the continuous flow of supplies and to satisfy the daily requirements, the use of 32 to 53 hopper-type truck units will be required on the basis of one round trip daily. Although the movements of the bulk of cement and pozzolan requirements are not scheduled to begin until August 1, 1959, GSA expresses an urgent need for establishing the type of motor carrier service here proposed, which will be able efficiently to transport these commodities through any of the railheads to the dam site. The reason for the urgency is the fact that the GSA, in evaluating the bids and awarding the contracts (which is to take place in the Spring of 1958), must consider the service and the transportation rates in effect on the date that the bids are open. The GSA sent 33 letters to 33 common carriers, in order to find out their availability, their equipment, and their rates. Milne was the only one who answered this inquiry; however, it did not provide any list of equipment and expressed no willingness to provide facilities at any of the involved rail-head points. In view of this, GSA decided to support the instant application. . . ."

Excerpts from Report and Order Recommended by Joint Board, No. 48 of May 29, 1958, pp. 3 and 4.

CAB
RATES

1. Title of Case: proposed Jet Coach Fare Increases
2. Docket Number: CAB Dockets 11791 and 11618
3. Regulatory Agency: Civil Aeronautics Board
4. Date of Intervention: September 15, 1960
5. Brief Resume of Case: Carriers proposed increases in jet coach fares ranging from 10 to 18 percent, effective October 1 and 7, 1960.
6. Position of GSA: GSA contended the proposed fares are unduly discriminatory, unduly preferential, unjust and unreasonable.
7. Ruling of regulatory agency: CAB dismissed GSA protest without further proceedings.
8. Savings to Government: \$ - - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation: No hearing
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing.
13. Names of GSA Counsel: No hearing.
14. Names of Government witnesses: No hearing.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:

" * * * We have reviewed the Petition of the United States of America, filed by the Administrator of General Services, and upon consideration of such petition, and in the light of the factors herein noticed, we conclude that the petition does not state facts which warrant an investigation or other action at this time and the petition will be dismissed." (emphasis added.)

* * * Excerpt from C.A.B. decision of October 7, 1960, p. 2.

1. Title of Case: Domestic Trunkline Passenger Fare Increases
2. Docket Number: 11426
3. Regulatory Agency: Civil Aeronautics Board
4. Date of Intervention: June 30, 1960
5. Brief Resume of Case: The 12 trunkline air carriers filed tariff increases varying from 5 1/2% to 12% to become effective at various times beginning June 4, 1960. The CAB issued three orders of investigation and suspension, May 20, June 10 and June 23, the latter confirming a Board press release of June 17, 1960, announcing that it would permit an increase of 2 1/2% plus \$1.00 per one-way ticket. On June 30, 1960, GSA filed a petition for leave to intervene. By order of August 5, 1960, the Board dismissed the proceeding, stating in a footnote that its action "makes moot the Petition to Intervene."
6. Position of GSA: The increase in fares fell within the CAB order of February 25, 1958, in Docket No. 9288, where the Board said further increases would be difficult if carriers continued increasing capacity beyond increases in traffic unless there was "searching review of the load factor problem." GSA urged "searching review" suggested by the Board.
7. Ruling of regulatory agency: The carriers were given part of the increases requested.
8. Savings to Government: \$ - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation: No hearing
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: No hearing
13. Names of GSA Counsel: No hearing
14. Names of Government witnesses: No hearing
15. No attorneys or witnesses was employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: "Our action herein makes moot the Petition to Intervene filed by GSA on June 30, 1960. No complaint was filed by GSA as to the tariff filings which were involved in this docket and suspended by the Board. In addition, those tariffs were canceled by the carriers prior to the filing of the GSA position. To the extent that the GSA petition relates, as it does primarily, to the general level of fares for the domestic trunkline carriers, the GSA is a party to the General Passenger Fare Investigation, Docket No. 8008, and its views as to general fare levels are on record in that proceeding." (CAB Order No. E-15622, August 5, 1960).

1. Title of Case: Passenger Fare Level of Domestic Trunk Line Carriers
2. Docket Number: 8000 et al.
3. Regulatory Agency: Civil Aeronautics Board
4. Date of Intervention: July 27, 1956
5. Brief Resume of Case: General investigation of the passenger fare structure of domestic trunkline carriers.
6. Position of GSA: Opposed increase in passenger fares.
7. Ruling of regulatory agency: CAB approved a 10-1/2% rate of return.
8. Savings to Government: \$ - - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: Bureau Counsel of CAB.
13. Names of GSA Counsel: M. Miller, J. Regan, D. Mann, J. McShalley, and L. Hillsinger.
14. Names of Government witnesses: D. Mater, GSA; G. Webner, GSA; and Donald E. Church, Commerce Department.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decision discussing GSA's evidence and contentions:

" * * * * The Examiner concluded that Section 167 did not result in a permanent tax saving but rather a deferral of a portion of the tax in the early years of the service life which must be paid in the later years. He held that failure to allow normal taxes would negate the Congressional intent to grant an interest-free loan of the difference between taxes paid and taxes due under the straight-line method in order to encourage modernization and expansion."

" * * * * Bureau Counsel and GSA have excepted to this decision. They argue that the effect of Section 167 is to produce a permanent tax saving for the indefinite future rather than a mere deferral of taxes,

16. Continued

and that Congress in enacting Section 167 did not intend to modify regulatory practice in ratemaking cases or affect rate policy under the Federal Aviation Act."

" * * * * We agree with the Examiner's conclusion that the income tax allowance should be normalized, for the reasons set forth in the Initial Decision. In our view the Examiner correctly concluded that to deny the normalized taxes would be contrary to the clear intent of Congress to grant to all taxpayers what amounts to an interest-free loan in the earlier years of the service life of assets to be repaid in later years."

" * * * * Some of the carriers and Bureau Counsel agree that the nature of the industry requires that fare levels be set on the basis of the industry as a whole, whereas other carriers and the GSA argue that the Initial Decision method violates the requirement of Section 1002(e) (5) that we consider the need of 'each' carrier. We agree in general with the result, although we reach that result by somewhat different means and would subject it to some qualifications."

* * * * Excerpts from C.A.B. decision of November 25, 1960, pp. 66, 67, 72 & 73.

CAB
CERT.

1. Title of Case: Pacific Northwest Local Air Service
2. Docket Number: 5463 - Operating Authority
3. Regulatory Agency: Civil Aeronautics Board
4. Date of Intervention: July 28, 1958
5. Brief Resume of Case: On July 23, 1958, OCDM requested GSA to intervene because, after hearing, the Examiner had not awarded service extension north from OCDM headquarters at Santa Rosa, Calif., to Portland and Salem.
6. Position of GSA: Supported OCDM need for service.
7. Ruling of regulatory agency: Desired service was ordered to be made available - No rate increase was involved.
8. Savings to Government: \$ - - - .
9. Government's interest was not more than 30% of total.
10. Government's presentation: Not applicable.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: Bureau Counsel of CAB.
13. Name of GSA Counsel: Malcolm D. Miller
14. Names of Government witnesses: None.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: None.

FMB
REG.

1. Title of Case: Filing of Tariffs by Terminal Operators
2. Docket No.: 875
3. Regulatory Agency: Federal Maritime Board
4. Date of Intervention: February 16, 1960
5. Brief Resume of Case: December 10, 1959, notice was given that the Federal Maritime Board was considering adopting rules relating to persons engaged in the business of furnishing wharfage, dock, warehouse, or other terminal facilities in connection with the common carrier by water within the United States and its territories and possessions.
6. Position of GSA: GSA is in favor of the proposed rules.
7. Ruling of Regulatory Agency: No hearing to date.
8. Savings to Government: § - - -
9. Government's interest will not be more than 30% of total.
10. Government's Presentation: No hearing to date.
11. GSA's presentation will concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public Representation: No hearing to date.
13. Names of GSA Counsel: No hearing to date.
14. Names of Government Witnesses: No hearing to date.
15. No attorneys or witnesses will be employed on per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No hearing to date.

1. Title of Case: Investigation of Ocean Freight Forwarders
2. Docket Number: 765 and 831
3. Regulatory Agency: Federal Maritime Board
4. Date of Intervention: October 10, 1958
5. Brief Resume of Case: Rule-making proceedings designed to prescribe rules and regulations covering the practices of ocean freight forwarders and the practices of common carriers by water with respect to the payment of brokerage to ocean freight forwarders.
6. Position of GSA: It opposed the payment of brokerage by water carriers to ocean freight forwarders and in general it supported the rules proposed by the Board's staff.
7. Ruling of Regulatory Agency: Pending
8. Savings to Government: \$ - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities. The FMB has the statutory duty to regulate the practices and operations of ocean freight forwarders. In this proceeding GSA introduced data to assist the Board in determining its responsibilities in this respect.
12. Public Representation: FMB Public Counsel
13. Name of GSA Counsel: Clarence J. Koontz
14. Names of Government Witnesses: Robert T. Bain, GSA
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: Pending

1. Title of Case: Terminal Operators - Atlantic and Gulf Ports
2. Docket Numbers: 816 and 836
3. Regulatory Agency: Federal Maritime Board
4. Date of Intervention: July 18, 1958
5. Brief Resume of Case: An investigation of the general practices, charges, services, definitions and agreements of terminal operators at Atlantic and Gulf ports.
6. Position of GSA: GSA's interest in the proceeding is confined to the effects that any order of the Board may have on the rates, charges and services of respondents, in connection with freight shipments of Federal Government agencies.
7. Ruling of Regulatory Agency: A prehearing conference was held by the Examiner on June 17, 1958. There has been no action taken in this case since that time.
8. Savings to Government: \$ - - -
9. Government's interest will not be more than 30% of total.
10. Government's presentation was limited to level of rates and charges for particular services.
11. GSA's presentation will not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public Representation: FMB Public Counsel
13. Name of GSA Counsel: Malcolm D. Miller
14. Name of Government Witnesses: Pending
15. No attorneys or witnesses will be employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: Pending.

1. Title of Case: Common Carriers by Water - Status Express, Truck Lines, Non-Vessel Carriers
2. Docket Number: 815
3. Regulatory Agency: Federal Maritime Board
4. Date of Intervention: March 3, 1958
5. Brief Resume of Case: FMB instituted an investigation to determine whether motor truck companies, freight forwarders and express companies who provide the service of moving household goods and other personal property from points in the United States to points overseas using both trucks or vans which they own or operate and ocean vessels which they do not own and operate were common carriers within the meaning of the Shipping Acts.
6. Position of GSA: It was the position of GSA that respondents to these proceedings were common carriers by water within the meaning of the Shipping Acts.
7. Ruling of regulatory agency: The FMB ruled that the respondents were common carriers by water within the meaning of the Shipping Acts.
8. Savings to Government: \$ - - - .
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: FMB Public Counsel.
13. Name of GSA Counsel: Clarence J. Kqontz.
14. Names of Government witnesses: Robert T. Bain, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: None.

FMB
RATES

1. Title of Case: General Increase in Rates-Pacific-Atlantic/Guam Trade
2. Docket Number: 901
3. Regulatory Agency: Federal Maritime Board
4. Date of Intervention: April 1960
5. Brief Resume of Case: Pacific Far East Lines and American President Lines proposed rate increases to Guam/Wake/Midway reflecting about 32 percent advances over current rates.
6. Position of GSA: In opposition.
7. Ruling of regulatory agency: Pending.
8. Savings to Government: \$ - - - .
9. Government's interest is not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: FMB Public Counsel.
13. Names of GSA Counsel: Clarence J. Koontz, William R. Pierce, Max Misener.
14. Names of Government witnesses: A. L. Cupp, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: Pending.

1. Title of Case: General Increase in Alaskan Rates and Charges
2. Docket Number: FMB 881
3. Regulatory Agency: Federal Maritime Board
4. Date of Intervention: December 31, 1959
5. Brief Resume of Case: Ocean Carriers Filed new tariffs providing increases in freight rates of 10% on traffic between U. S. Pacific Coast ports and Alaska ports.
6. Position of GSA: Requested suspension of proposed increases, investigation to determine the just and reasonable rates.
7. Ruling of regulatory agency: Entire increase requested was granted subject to refund of excess over levels ultimately determined by Board.
8. Savings to Government: \$ - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: FMB Public Counsel and the State of Alaska was represented by State Attorney General and Washington, D. C. private attorney retained by State.
13. Names of GSA Counsel: Malcolm D. Miller and John Regan.
14. Names of Government witnesses: G. H. Bowersox, GSA; John S. Peters, GSA; Harold Spain, GSA; Wilma M. Dalton, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: None.

1. Title of Case: General Increases in Alaskan Rates and Charges
2. Docket Number: 828
3. Regulatory Agency: Federal Maritime Board
4. Date of Intervention: November 22, 1957
5. Brief Resume of Case: Alaska SS Company and other Alaska lines filed tariff schedules to become effective December 2, 1957, increasing rates, generally, by 15%.
6. Position of GSA: That the proposed increase of 15% in current rates was not justified.
7. Ruling of regulatory agency: Proposed increased rates and charges of respondents found just and reasonable.
8. Savings to Government: \$ - - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. The public was represented by Counsel for Territory of Alaska.
13. Names of GSA Counsel: John Regan and C. M. Craff.
14. Names of Government witnesses: Wilburh S. Jones, GSA; Gordon Webner, GSA, and Glen H. Bowersox, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:
None

STATE
REG.

1. Title of Case: Consolidated Van and Storage Co.
2. Docket Number: 1786-M
3. Regulatory Agency: The Georgia Public Service Commission
4. Date of Intervention: October 25, 1960
5. Brief Resume of Case: Georgia Public Service Commission issued order September 26, 1960, requiring carrier to show cause why its certificate should not be revoked because it had contracted with GSA to move household goods at less than tariff rates.
6. Position of GSA: Contract rates are not subject to State regulation.
7. Ruling of regulatory agency: Adverse ruling of Commission. Department of Justice has brought suit to challenge.
8. Savings to Government: \$ - - -
9. Government's interest was more than 30% of total.
10. Not applicable.
11. Not applicable.
12. Public representation: None.
13. Name of GSA Counsel: L. M. Shinn
14. Names of Government witnesses: George D. Krueger, GSA
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:
No decision.

1. Title of Case: "Tax Treatment of Accelerated Depreciation"
2. Docket Number: 6148
3. Regulatory Agency: California Public Utilities Commission
4. Date of Intervention: November 13, 1958
5. Brief Resume of Case: Investigation on Commission's own motion concerning proper treatment for rate-making purposes to be accorded accelerated depreciation allowed under Federal Income Tax Laws.
6. Position of GSA: GSA favors the "flow-through" method of accounting for income taxes, charging as expenses only those taxes actually paid in the period under consideration in the rate-making procedures.
7. Ruling of Regulatory Agency: Utilities contention for normalization overruled and position recommended by GSA and others adopted.
8. Savings to Government and How Computed: \$ - - -
9. Government's interest was not more than 30% of total.
10. Government's Presentation: Not applicable.
11. GSA's presentation did concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. The public was represented by staff and counsel of California PUC and representative of State Attorney General.
13. Names of GSA Counsel: F. W. Denniston and C. W. Hull.
14. Names of Government Witnesses: None.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: None.

1. Title of Case: Passenger Deficit Investigation
2. Docket Number: 5829
3. Regulatory Agency: California Public Utilities Commission
4. Date of Intervention: May 1957
5. Brief Resume of Case: Southern Pacific Company petitioned the California PUC for discontinuance of certain passenger service.
6. Position of GSA: In support of petition to avoid burden of passenger deficits on freight rates.
7. Ruling of regulatory agency: California PUC discontinued some services and ordered others consolidated.
8. Savings to Government: \$ ----
9. Government's interest was not more than 30% of total.
10. Government's presentation: Not applicable.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: None
13. Names of GSA Counsel: F. W. Denniston
14. Names of Government witnesses: A. P. Bukovsky, GSA.
15. No attorneys or witnesses employed on per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: None.

STATE
RATES

1. Title of Case: Pacific Telephone & Telegraph Co. (SAGE)
2. Docket Number: Case No. 6950
3. Regulatory Agency: California Public Utilities Commission
4. Date of Intervention: July 8, 1960
5. Brief Resume of Case: Charges for 112A key equipment, etc., used at Camp Meale, California
6. Position of GSA: GSA alleges the charges to be excessive
7. Ruling of regulatory agency or court: Pending
8. Savings to Government: - - - -
9. Government's interest is more than 30% of total.
10. Government's presentation was limited to level of rates and charges for particular services.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. The public was represented by staff of regulatory agency. The staff cross-examined witnesses but did not present a direct case.
13. Names of GSA Counsel: Thomas J. O'Reilly
14. Names of Government witnesses and their agency: Richard Gabel, GSA
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:
Pending

1. Title of Case: In the Matter of Request of GSA to Require Virginia Electric Power Co. to Render Electric Service to Voice of America Transmitter Station
2. Docket Number: E-22, Sub 46 (GSA Case No. 23-U)
3. Regulatory Agency: North Carolina Utilities Commission
4. Date of Intervention: Formal Order of the Commission - July 8, 1960
5. Brief Resume of Case: Informal request initially made to North Carolina Public Utilities Commission to require company to make VEPCO rate Schedule No. 11 available to Government. Conferences held with Utilities Commission and VEPCO on GSA's position to the effect that the particular operation should be considered industrial and the Government permitted to take service under Schedule 11. VEPCO declined such request and said that Schedule 10 to commercial users should apply. On July 8, 1960, Utilities Commission issued its Order for investigation of VEPCO rates as they pertained to users under Schedules 10 and 11.
6. Position of GSA: Determination by VEPCO of who was an industrial consumer was arbitrary and its action in excluding the Voice of America activity from Schedule 11 was discriminatory. GSA took the position that a utility should not extend the benefit of an established rate to some customers of a class and yet deny to others who belong in that class.
7. Ruling of regulatory agency: The Commission's order was dismissed on October 13, 1960, because VEPCO voluntarily filed Schedule No. 15, which became applicable to Government operations and large consumers regardless of whether industrial or commercial, thereby avoiding further controversy.
8. Savings to Government: \$160,000 annually. The savings on the particular Voice of America operation estimated at approximately \$30,000 annually, whereas a total of \$160,000 annually will be saved by the Government when those installations presently taking under Schedule 10 transfer to Schedule 15.
9. Government's interest was more than 30% of total.
10. Government's presentation was not directed to the level of rates and charges.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. The public was not represented by counsel of regulatory agency, representatives of State Attorney General or special counsel employed to represent the public interest.
13. Names of GSA Counsel: Morris Levinson.
14. Names of Government witnesses: Alvin J. Garber, GSA
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: None.

1. Title of Case: Bell Telephone Company of Nevada
2. Docket Number: None yet assigned
3. Regulatory Agency: Nevada Public Services Commission
4. Date of Intervention: June 20, 1960
5. Brief Resume of Case: Rates and charges for key equipment systems in connection with the SAGE System of air defense. (Related to similar case in California)
6. Position of GSA: GSA filed a complaint alleging that the rates and charges are excessive.
7. Ruling of Regulatory Agency: The Nevada Commission declined to suspend the rates and charges but stated they would process the complaint.
8. Savings to Government: \$ - - -
9. Government's interest was more than 30% of total.
10. Government's presentation: No hearing.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public Representation: No hearing.
13. Names of GSA Counsel: No hearing.
14. Names of Government Witnesses: No hearing.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: No hearing.

1. Title of Case: Public Service of Colorado
2. Docket Number: 17406
3. Regulatory Agency: Colorado Public Utilities Commission
4. Date of Intervention: February 5, 1960
5. Brief Resume of Case: Company filed an application with the Commission on September 25, 1959, praying that the Commission determine, for rate making purposes, the reasonable value of the Company's electric and gas properties devoted to public use, and the gross revenues to which the Company would be entitled, and for such further relief, findings, and orders the Commission may determine are just and proper. The Company contended they were entitled to a rate of return of 6.75%, regardless of the theory of rate base - this could result in an increase in revenues of over \$27,000,000.
6. Position of GSA: That a rate of return of 5.43% ("cost of capital") will satisfy minimum requirements of a non-confiscatory rate of return or the floor or range of fair return and that it is the responsibility of the Commission to determine the fair rate of return based upon all the evidence introduced by all the parties. That whatever rate of return is found to be fair and reasonable should be related to a rate base of the type the Commission had found proper for the Company in the past. With respect to the Company's depreciation practices, GSA proposed that the "flow through" principle be applied.
7. Ruling of Regulatory Agency: The Commission rejected the Company's contention that the reproduction cost new less depreciation rate base of \$372,206,883 be allowed with a rate of return of 6.75%. The Commission authorized the Company to file new tariffs which will produce the rate of return of 6.15% on a rate base of \$260,754,667 or a gross annual increase of \$4,389,139.
8. Savings to Government: \$118,905 - \$406,360 per annum. Avoidance of increase. Authorization of the maximum increase requested by the Company would have increased the Government's bill by an estimated \$445,960 annually. The increase authorized by the Commission is estimated to increase the Government's annual bill by \$39,600, or a gross avoidance in possible increased cost to the Government of an estimated \$406,360 per annum. Based on the Company's minimum proposal, the Government's annual bill would have been increased by \$158,505. The consequent gross avoidance is \$118,905.
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)

11. GSA's presentation did concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities. The Commission had before it the question of how to treat accelerated amortization and liberalized depreciation under the Internal Revenue Code. GSA urged the adoption of the flow-through method. This method was adopted by the Commission.
12. Public Representation: Staff and counsel of regulatory agency.
13. Names of GSA Counsel: Clarence J. Koontz and Leroy Thurtell
14. Names of Government witnesses: James K. MacIntosh, GSA; Alvin J. Garber, GSA, and James E. Ginter, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:

* * * Issue was joined principally by the Staff of the Commission with assistance from the Colorado Municipal League and the General Services Administration of the United States of America, on the validity of any theory of rate base other than original cost, on property that was used or useful utility property, on working capital, accelerated depreciation; the Staff of the Commission and the General Services Administration also presented expert testimony on the present and future cost of money, and the rate of return. * * *

* * * The Commission likewise had the advantage of hearing testimony from James K. MacIntosh, an employee of the United States of America, who used the same ratios of securities and capital structure that existed at the end of the test period, and it was his conclusion that the cost of the Common Equity for the Company was 8.58%; that the cost of Preferred Stock and debt was approximately the same as that found by Mr. Kosh and Mr. Reis, exclusive of imbedded cost, which resulted in a cost of capital of 5.43%. The United States of America, however, declined to render an opinion on reasonable rate of return. * * *

The General Services Administration of the United States of America took the position that a rate of return of 5.43% was a minimum reasonable rate of return. * * *

Excerpts from Commission Decision No. 54367, dated May 27, 1960, pp. 7, 8, & 42

1. Title of Case: Rates and Charges - Application of Common Motor Carriers to Increase.
2. Docket Number: 11943-T
3. Regulatory Agency: Railroad Commission of Texas
4. Date of Intervention: January 18, 1960
5. Brief Resume of Case: Common motor carriers operating in Texas filed an application for a general increase in the Texas intrastate motor rates.
6. Position of GSA: GSA opposed the increases sought.
7. Ruling of Regulatory Agency: The increase, in modified form, was granted by the Commission.
8. Savings to Government: \$ - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure).
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public Representation: None.
13. Name of GSA Counsel: Clarence J. Koontz.
14. Names of Government Witnesses: Alexis P. Bukovsky, GSA; and William J. Cooper, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: None.

1. Title of Case: Texas Industrial Traffic League, et al.
2. Docket Number: 11755-T
3. Regulatory Agency: Railroad Commission of Texas
4. Date of Intervention: January 18, 1960
5. Brief Resume of Case: The complaint was filed by the Texas Industrial Traffic League and the Dallas Chamber of Commerce charging that the Texas intrastate motor carrier rates should be no higher than the interstate motor rates for the Southwest Territory. In addition, the application of common motor carriers operating in Texas for the adoption of National Motor Freight Classification A-4 and the discontinuance of National Motor Freight Classification No. 15, was considered.
6. Position of GSA: GSA intervened in support of the complaint and in support of the application for the adoption of National Motor Freight Classification A-4.
7. Ruling of regulatory agency: The Commission denied the complaint and approved adoption of National Motor Freight Classification A-4.
8. Savings to Government: \$ - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: None
13. Names of GSA Counsel: Clarence J. Koontz
14. Names of Government witnesses: Alexis P. Bukovsky, GSA, and William J. Cooper, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:

* * * "Representatives of the General Services Administration appeared at the hearing and stated that they intervened in this case in support of complainants. The complaint pleads that in no instance should scales of rates prescribed for application on Texas intrastate traffic be higher than the interstate scales published in Southwestern Motor Freight Bureau, Inc., Tariff No. 301-C. In their preparation for this case they

16. Continued

approached the matter as a reduction in Texas intrastate rates to the interstate level. That is their position here, and they support that position. They further stated that on the matter of continuing the present intrastate scales where lower, retaining present minimum rate and minimum charge, and using short line distances they take no position. As to the alternating rates, it is their opinion that the class rates, exception ratings and commodity rates should alternate. They introduced a number of exhibits depicting actual shipments made from their warehouses located at Fort Worth and San Antonio to various air force bases and other Governmental agencies throughout the State; various differences in interstate and intrastate class rates; statements of the growth and expansion of major Southwestern motor carriers, whose operations are primarily Texas intrastate, during period 1938 through 1958 together with their expansions in employees and equipment; certain carriers operating statistics, etc. Also a cost study for transporting certain freight weighing in excess of 300 pounds. This data is based on an Interstate Commerce Commission study of the cost of operation of Class 1 motor carriers of general freight in the Southwest territory for the year 1953. It does not relate to Texas carrier operations only, nor does it include shipments less than 300 pounds of which one motor carrier testified their 1-day study showed 70% of their shipments consisted,"

Excerpt from Railroad Commission of Texas decision of November 28, 1960, pp. 3 and 4.

1. Title of Case: New England Telephone and Telegraph Company
2. Docket Number: F. C. 1622
3. Regulatory Agency: Maine Public Utilities Commission
4. Date of Intervention: January 11, 1960
5. Brief Resume of Case: Rates and charges for 112A key equipment used in SAGE System.
6. Position of GSA: Rates and charges are excessive.
7. Ruling of Regulatory Agency: Pending
8. Savings to Government: \$ - - -
9. Government's interest was more than 30% of total.
10. Government's presentation was limited to level or rates and charges for particular services.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public Representation: None
13. Names of GSA Counsel: Francis J. McShalley.
14. Names of Government Witnesses: Cecil C. Harvell, USAF
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: Pending.

1. Title of Case: C & P Telephone Co. of Maryland
2. Docket Number: 5625
3. Regulatory Agency: Maryland P.S.C.
4. Date of Intervention: December 2, 1959
5. Brief Resume of Case: The Peoples' Counsel of the State of Md. filed a petition with the Commission seeking reduction in the Company's intra-state rates and charges. The Company filed a petition seeking authority to file new rate tariffs that would increase the rates and charges by \$13.5 million. The Commission joined the petitions and application for joint hearing. The Company in its application requested a 7.25% rate of return on the present fair value rate base. A series of hearings in this matter were held, and the brief of the Administrator of GSA was filed October 21, 1960.
6. Position of GSA: GSA's interest in the proceeding was confined to the effect the proposed increases would have on the rates and charges paid by the Federal Government for communication service. GSA urged that the cost of capital computed by the GSA witness at 5.8% as the minimum range of a non-confiscatory rate of return. Advocated that whatever rate of return was established by the Commission that it be applied to a net book cost rate base.
7. Ruling of regulatory agency: The Commission disallowed \$13,042,000 of the Company's \$13,500,000 requested increase.
8. Savings to Government: \$456,000 avoidance of increase. Estimated proposed increase to Government (\$472,500 X % of proposed increase disallowed by Commission (\$13,042,000 ÷ \$13,500,000) = \$456,000.
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public was represented by: Commission Counsel and Baltimore City Solicitor.
13. Names of GSA Counsel: Francis J. McShalley and Dowegan Mann.
14. Names of Government witnesses: James K. MacIntosh, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: None

1. Title of Case: Consolidated Edison Company of New York
2. Docket Number: 19757
3. Regulatory Agency: New York Public Service Commission
4. Date of Intervention: August 17, 1959
5. Brief Resume of Case: Consolidated Edison Company sought an increase in rates designed to produce about \$31 million in additional revenue.
6. Position of GSA: In opposition. GSA offered evidence on cost of capital at 5.52%; it also offered evidence on cost of service.
7. Ruling of regulatory agency: Pending
8. Savings to Government: - - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public Representation: Staff and counsel of the regulatory agency.
13. Names of GSA Counsel: Clarence J. Koontz
14. Names of Government witnesses: James K. MacIntosh, GSA; Alvin J. Garber, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:
Pending.

1. Title of Case: Potomac Electric Power Company
2. Docket Numbers: D.C.PUC (3614); Md. PSC (5612); Va. SCC (14273)
3. Regulatory Agency: PUC of District of Columbia; Maryland PSC; and Virginia State Corporation Commission
4. Date of Intervention: February 12, 1959
5. Brief Resume of Case: The Potomac Electric Power Company filed application with the District of Columbia, Maryland and Virginia regulatory commissions for modification of its existing terms and conditions and rate schedules for electric service. The company requested that it be granted increased revenues to the extent necessary to restore the company to the same relative position as that in which the commissions sought to place the company as of the end of 1954. That is, provide the company with a 5.85% rate of return on its 1958 year-end rate base.
6. Position of GSA: GSA opposed the request. GSA contended that no emergency existed and the company was not entitled to any rate relief at that time.
7. Ruling of regulatory agency: Proposed increases were authorized by all three jurisdictions. (D.C. opinion adopted by Md. and Va.)
8. Savings to Government: \$ - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level or rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. The public was represented by Staff and Counsel (D.C. PUC)
13. Names of GSA counsel: Malcolm D. Miller, Donegan Maxn and Ann G. Brand.
14. Names of Government witnesses: James K. MacIntosh, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions dismissing GSA's evidence and contentions: (See attached sheet)

PUBLIC UTILITIES COMMISSION OF THE DISTRICT OF COLUMBIA
RE POTOMAC ELECTRIC POWER COMPANY

*** James K. MacIntosh, a witness for the intervenor, General Services Administration, testified that in his opinion no emergency exists and the Company is not entitled to any rate relief at this time. He based his conclusion on a number of factors, including the record of growth in earned surplus since 1954 as a result of earnings retained in the business after payment of dividends, the increases in the dividend rate during the period, and the increase in earnings per share. He stated that the Company's decision to raise its total requirements for new capital during 1957 and 1958 by issuing debt securities and preferred stock, rather than by raising a portion of same by issuing common stock, was the result of the Company's own discretion and that in his opinion earnings were sufficient to permit the issuance of additional common stock at favorable terms, had the Company so elected.

The witness called attention to the beneficial effect on earnings of rapid depreciation and pointed out that rapid depreciation should be continued in the future and would result in benefits at an even higher level. He also directed attention to the investment in construction work in progress included in the year-end rate base for the years 1955 through 1958, inclusive, and set forth the resulting rates of return that would have been earned if construction work in progress had been excluded from the rate base. On cross-examination, however, he stated that he had made no recommendation that construction work in progress should be excluded from the rate base.

This Commission has included construction work in progress in the rate base in lieu of accruing interest during construction in every rate proceeding involving the Company since 1948 and as will be set forth more fully hereafter, we believe that it is in the best interests of both the customers and the investors that construction work in progress be included for purposes of this proceeding. We, accordingly, reject Mr. MacIntosh's recommendation that no increase in revenues is justified at the present time to the extent that such recommendation is based on excluding construction work in progress from the rate base.

With respect to the other factors cited by this witness, we feel that he has failed to give reasonable consideration to growth in earnings, dividends, and earned surplus, which is normal and essential for any public utility that is to maintain its financial stability and compete successfully in the money market for the required amounts of capital for a rapidly expanding company such as Potomac Electric Power Company. Therefore, we cannot agree with his conclusion that no increase in rates is justified at this time. ***

*** Without specifically objecting to the inclusion of construction work in progress in the rate base, Mr. MacIntosh, witness for the intervenor General Services Administration, presented figures to show the effect of excluding construction work in progress from the rate base. In every rate proceeding by this Commission since 1948 involving Potomac Electric Power Co., we have included construction work in progress in the rate base in lieu of accruing interest during construction. ***

P. U. C. No. 3614, Case No. 464, Order No. 4525, dated Apr. 10, 1959 Excerpts from pp. 7 & 12

1. Title of Case: Public Service Electric & Gas Company
2. Docket Number: 10646
3. Regulatory Agency: New Jersey Board of Public Utility Commissioners
4. Date of Intervention: June 2, 1958,
5. Brief Resume of Case: The Company on April 18, 1958, filed an application seeking a 15% increase in gas rates. The Company subsequently amended the application to include an increase in electric rates.
6. Position of GSA: GSA sponsored the use of a "original cost" rate base and opposed application of the "trended original cost" rate base proposed by the Company. GSA opposed application of the proposed "fuel escalation clause"; advocated establishment of a rate base computed on the 1959 average; and requested deduction from the rate base of the accumulated reserved for future Federal income taxes ("liberalized depreciation"). GSA introduced "cost of capital" evidence to assist the Commission in formulation of a reasonable and just rate of return.
7. Ruling of regulatory agency: The Commission permitted the Company to increase its gas and electric rates in the aggregate by approximately 2.3% whereas the Company had sought a revenue increase of 10.5%.
8. Savings to Government: \$171,500 annually. The Federal Government procures gas and electric service costing about \$2,315,000 annually from the Company. Application of the 10-1/2% increase as requested by the Company, would have increased Government's bills by approximately \$235,000. The revenue increase allowed by the Commission will increase Government's bills approximately \$63,500.
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public Representation: Commission - Public Counsel; 3 Counsel "in the public interest" by appointment of Attorney General; Counsel representing sundry New Jersey towns, cities, etc. (25 in number).
13. Names of GSA Counsel: Eugene T. Brennan, Donegan Mann, and Malcolm D. Miller.
14. Names of Government witnesses: James K. MacIntosh, GSA; James E. Cinter, GSA, and William L. Getty, Navy.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: (See Attached Sheets).

Public Service Electric & Gas Co. - N.J. Board of Public Utility Commissioners

*** The record contains testimony as to the elements of rate of return presented by three expert witnesses, one each on behalf of the Petitioners, Rate Counsel and GSA. The Company's witness in this field was Mr. M. J. Reis, Vice President of Reis & Chandler, Inc., financial analyst and investment advisors.

<u>Capital Structure</u>	<u>Reis</u>	<u>Clemens</u>	<u>MacIntosh</u>
Debt	3.8% - 4.00%	3.96%	3.86%
Preferred Stock	4.4% - 4.75%	4.42%	4.41%
Common Stock Equity	9.5%	8.86%	8.42%
Conclusion as to Cost of Capital	6.1% - 6.2%	5.81%	5.64%

<u>Capital Structure</u>	<u>Reis</u>	<u>Clemens</u>	<u>MacIntosh</u>
Debt	50%	54.8% - 55.7%	54%
Preferred Stock	11%	8.2% - 8.3%	8%
Common Stock Equity	39%	37.0% - 36.0%	38%

**** Counsel's expert was Dr. E. W. Clemens, Professor of Economics and Business Administration in the Department of Business Organization at the University of Maryland. GSA presented as their expert in this field Mr. J. K. MacIntosh, Director of the Public Utilities Division, Transportation and Public Utilities Service, General Services Administration. ****

**** Mr. MacIntosh developed equity cost in a manner similar to that of Dr. Clemens in that such costs were developed on the basis of dividend yields and pay-out ratios. Mr. MacIntosh adopted a dividend yield of 6% and a pay-out ratio of 75%. To this he applied an adjustment of 3% for "pressure". The resulting cost of equity thus developed amounted to 8.42%. ****

**** Mr. MacIntosh stated that: "In my opinion, the capital costs to the Public Service Electric and Gas Company at this time are 5.64%, and *** My cost of capital computation will satisfy the minimum requirements of a nonconfiscatory rate of return. My calculation represents the floor of a range of fair rate of return ***." ****

 Orderdated August 12, 1960 - N.J. Board of PUC

Excerpts from pp. 9, 10 & 12

7-086

Public Service Electric & Gas Co. - N. J. Board of Public Utility Commissioners

**** From our review and examination of the evidence on this subject we are of the opinion that the approach followed by Mr. Reis tends to overstate the fair rate of return, while the testimony of Dr. Clemens and Mr. MacIntosh does not fully give consideration to all factors. ****.

**** GSA submitted data on page 78 of its brief which indicates that the 1959 Year-End Rate Base is \$987,144,337 and the 1959 Average Rate Base is \$939,457,592.****

**** GSA also accepts in substance the Petitioner's original cost and would make a lower allowance for working capital. They would make no allowance for unamortized conversion costs, gas plant acquisition adjustment and the unamortized abandonment loss on the Camden Coke plant. They would deduct property held for future use and in addition, property (including transformers, meters and services) which they contend are not presently in use, as well as the restricted surplus arising from both taxes deferred by amortization of emergency facilities and accelerated depreciation. ****.

**** GSA used the Petitioner's actual 1959 income statement and makes an adjustment for abandonment of Camden Coke plant. GSA eliminates the normalization of the tax reductions available for liberalized depreciation and accelerated amortization, amortizes rate case expenses over five years, eliminates charitable and educational contributions, and considers merchandising and jobbing net cost to be a non-operating expense. GSA's calculation of operating income in its brief shows the net effect of eliminating the electric fuel adjustment recoveries and the net effect of eliminating the \$3,500,000 negotiated gas increase. ****.

**** In summary form, the calculations of operating income are shown below:

	<u>Petitioner</u>	<u>Rate Counsel</u>	<u>GSA</u>
Actual - 1959	\$ 58,928,239	\$58,928,239	\$ 58,928,239
Normalization	(3,415,431)	(3,415,431)	(See Footnote 2)
Camden Coke			3,472,426
Adjusted Operating Income	<u>55,512,807</u>	<u>55,512,807</u>	<u>62,400,665</u>
Rate Case Expense		56,756	56,756
Contributions		92,935	92,935
Income Tax Normalization		5,957,406	6,870,789
Unbilled Revenues		461,772	
Straight-line Depreciation		(76,722)	
Franchise Tax and Tax in lieu of Personal Property Tax		1,297,799	
Raw Materials Adjustment		341,048	
Insurance		299,437	
Merchandising & Jobbing			167,280
Fuel Adjustment			(7,591,533)
Negotiated Gas Increase			1,012,475
Total Adjustments		<u>8,430,431</u>	<u>(1,316,288)</u>
Operating Income	<u>\$ 55,512,807</u>	<u>\$ 63,943,238</u>	<u>\$ 60,484,416</u>

Order dated August 12, 1960 - N. J. Board of PUC

Excerpts from pp. 13, 14,
15, 16, 19

Public Service Electric & Gas Co. - N.J. Board of Public Utility Commissioners

* * * *

- 1/ This figure is shown on page 1, Rate Counsel Exhibit 110/ The calculation of operating income on the basis of book reserve and remaining life depreciation is shown as \$60,019,960 on page 2 of the exhibit.
- 2/ This figure is shown on page 78 of GSA brief as \$60,927,660. It should be noted that the presentation is not comparable with the calculations of operating income shown above because it reflects the elimination of revenues from the negotiated gas increase and from the Electric Fuel Adjustment Clause.

* * * *

* * * * The Board will also adopt the position of Rate Counsel and GSA for the amortisation of rate case excoebases on a five-year basis. * * * *

1. Title of Case: Baltimore Gas and Electric Company
2. Docket Number: 5554
3. Regulatory Agency: Maryland Public Service Commission
4. Date of Intervention: April 1, 1958
5. Brief Resume of Case: The utility requested an increase in its gas and electric rates of 6.5% and in its steam rates of 10%. This would result in an over-all annual increase in revenues to the utility of \$30 million. The annual electric and gas bill of the Government in the Baltimore area is in excess of \$2 million. The increase would result in additional charges to the Government of about \$130,000.
6. Position of GSA: GSA opposed the increases. GSA urged that the cost of capital computed by the GSA witness at 5.11 - 5.20% be applied to a rate base of the type the Commission had found proper for the Company in the past.
7. Ruling of regulatory agency: The Commission allowed the company a rate of return of 6.25% for each of its services. This permitted the new filed rates of the Company, with respect to gas and steam, to go into effect and the new rates for electricity to go partially into effect. The decision of the Commission was appealed by People's Counsel and other intervenors of the Circuit Court of Baltimore City, which court set aside the Commission's order as unreasonable and unlawful with respect to certain phases of the rate base. This ruling of the court was appealed by the utility to the Court of Appeals of Maryland, which court reversed the Circuit Court and reinstated the order of the Commission.
8. Savings to Government: \$5,900 per annum. The Company was granted the entire amount requested for gas and steam and slightly less than 90% of the amount requested for electric. Government's annualized September-October 1958 electric bill was over \$900,000.
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. The public was represented by People's Counsel who represented all consumers. Testimony on "Cost of Capital," as submitted by GSA, was adopted by People's Counsel as its own.
13. Names of GSA Counsel: Donegan Mann and Clarence J. Koontz
14. Names of Government witnesses: James K. MacIntosh, GSA
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: (See attached sheet)

MARYLAND PUBLIC SERVICE COMMISSION
RE BALTIMORE GAS & E. CO.

.....
The principal witness in opposition to company's proposed rates was James K. MacIntosh, Director of the Public Utilities Division, Transportation and Public Utilities Services, General Services Administration, whose office is in Washington, D. C. Mr. MacIntosh's testimony was confined to that of cost of capital and was supplemented by government Exhibit No. 1, containing 26 schedules and entitled "Baltimore Gas and Electric Company Capital Costs."

Mr. MacIntosh testified that in his opinion the cost to the company of a new issue of bonds would be in the range of 3.5 per cent to 3.75 per cent. He estimated the cost of a new preferred stock would be between 4 per cent and 4 1/2 per cent. Equity costs as indicated by investors he estimated to be "about 4.9 per cent to 5.2 per cent" with an allowance of between 2 per cent and 2.6 per cent for corporate costs of issuance. By use of a 5.2 per cent dividend yield, an allowance of 5 per cent for pressure, and assuming a 71 per cent pay-out ratio, Mr. MacIntosh concluded that 7.71 per cent was a fair estimate of the company's cost of equity.

..... Government's witness MacIntosh, by using the historical cost of preferred issues to the company as a guide, arrived at a cost of 4.1 per cent as a cost for this stock. For the purpose of computing present cost of preferred issues we will accept the figure approximately at the lowest cost issue sold so far this year, Southern California Edison Company's issue at a cost of 4.27 per cent, or 4.75 per cent.

On the question of cost of equity company contends that present equity costs will approximate 8 per cent, compared to Mr. MacIntosh's figure of 7.71 per cent. Based upon 1957 sales of common stock Mr. MacIntosh's would be near the average for the year. In the last part of 1957, however, equity costs rose to over 8 per cent. For the purpose of determining present costs we must find that cost of equity will be somewhere near the recent figure of 8 per cent.

.....
This witness, using a capital structure, based on a 9-year (1949 to 1957, incl.) average of 48.5 per cent debt, 11 per cent preferred stock, and 40.5 per cent equity, then determined a weighted cost of capital to be 5.11 per cent. The witness also anticipated the 1963 cost of capital, after the \$270 million proposed expansion program, to be 5.2 per cent.

Mr. MacIntosh also agreed that investors in the company's stock are dependent on the present \$1.80 dividend and "They are buying it with the hope that it will be increased and that it won't be reduced." He also agreed that a reduction in stock dividends would add to the company's financing problems.

This witness further stated that a "long-term pay-out ratio of 71 per cent would be reasonable and would provide sufficient earnings to maintain its dividend, if not actually increase its dividend." He later stated that he limited his consideration of the 71 per cent pay-out ratio to "cost of capital and cost of capital only." It escapes the commission how a 71 per cent pay-out ratio can be "reasonable" for the purpose of determining cost of capital to the company but not "reasonable" when applied to company's actual financial policies.

.....
Mr. MacIntosh predicts that company will be able to obtain its debt portion of the required \$270 million at a cost of 3.204 per cent. We hope that the company may be that fortunate but, in light of the economic conditions of the past five years, it would be wishful thinking for this commission to anticipate that the cost of debt will arrive at that low level during the next five years. It appears that sound judgment requires us to accept as cost of debt a figure approximating the cost of the recent company issue, or 4 per cent.

Excerpts from 24 PUR 3d

Pages 254, 255, 259, & 260

1. Title of Case: Washington Gas Light Company
2. Docket Number: PUC No. 3594, Formal Case No. 456, Order No. 4468
3. Regulatory Agency: District of Columbia Public Utilities Commission
4. Date of Intervention: January 10, 1958
5. Brief Resume of Case: Application by natural gas company serving in three jurisdictions for authority to increase rates. The company requested a 8.8 per cent increase in revenues, or approximately \$4,300,000 annually before taxes, and approximately \$2 million after taxes.
6. Position of GSA: GSA opposed the increase. It offered evidence that 5.51% is the cost of capital and will satisfy the minimum requirements of a nonconfiscatory rate of return or the floor or range of fair return and that it is the responsibility of the regulatory body to determine the fair rate of return based upon all the evidence introduced by all the parties. That whatever rate of return is found fair and reasonable should be related to an average yearly net investment rate base consistent with the type the Commission had found proper for the Company in the past.
7. Ruling of Regulatory Agency: The Commission found that the rates and charges proposed by the Company were unjust and unreasonable and were therefore disapproved. The Commission directed the company to design revised rates that would result in a reasonable distribution of the overall increase in gross revenues to the customers in three separate jurisdictions, District of Columbia, Maryland, and Virginia. The Company was granted 61.36 per cent of the requested increase.
8. Savings to Government: \$30,000. The total annual gas bill paid by the various Federal Agencies amounts to \$880,000 and the proposed increase would have resulted in increased charges to the Government of about \$77,000 annually. The approved rates will increase the Government's annual cost by about \$47,000.
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure).
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.

12. The public was represented by staff counsel. Appearances on behalf of the Commission, the Federation of Citizens Association, the Brookland Citizens Association, the Shepherd Park Citizens Association, the Capital Hill Southeast Citizens Association, and the Arlington County (Va.) Public Utilities Commission. Representatives of the Public Service Commission of Md., and the State Corporation Commission of Virginia attended the hearings as observers.
13. Names of GSA counsel: Donegan Mann and Malcolm D. Miller
14. Names of Government witnesses: James K. MacIntosh, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:
(See attached sheets.)

DISTRICT OF COLUMBIA PUBLIC UTILITIES COMMISSION

RE WASHINGTON GAS LIGHT COMPANY

•••••
 In a brief filed by General Services Administration, exception was taken to the use of the net investment as of June 30, 1957, hereafter referred to as the "end-of-period" rate base, rather than the average investment during the 12-month test period ended June 30, 1957. •••••

••••• James K. MacIntosh testified on behalf of General Services Administration as to the cost of capital, but stated that he was not making a recommendation of what might constitute a fair rate of return, although he did state that his determination of cost of capital would satisfy the minimum requirements of a nonconfiscatory rate of return or the "floor" of a fair rate of return. •••••

••••• [8] Reference has previously been made to the fact that General Services Administration objected to the use of the net investment as of June 30, 1957, rather than the average net investment for the 12-month period ended June 30, 1957. •••••

•••••
 The capitalization ratios used by Mr. MacIntosh in his calculations of the cost of capital represent an average of the capitalization ratios for the period 1950-1956. The record shows that there has been a steady improvement in the capitalization of the company during this period, whereby the combined ratio for debt and preferred stock capital has gradually decreased, with a corresponding increase in the ratio for common equity capital, to a point where the ratios as of June 30, 1957, are fairly representative of the capitalization ratios for the distribution gas industry as a whole. In view of this fact, and the further fact that we know of no intention on the part of the company to reduce materially the common equity ratio under any plan for permanent future financing, we reject the capitalization ratios used by Mr. MacIntosh for purposes of this proceeding. Since it is our opinion that the low common equity ratio is responsible in large measure for the cost of capital of 5.51 per cent, and without any recommendation from him as to what extent this "bare-bones" cost of capital should be increased to arrive at a fair rate of return, we conclude that this determination is useful as far as it goes but it is our obligation to go further and determine a fair rate of return. •••••

	Ritenour	Kosh	MacIntosh
Debt	3.80%	3.81%	3.76%
Preferred Stock	4.18%	4.35%	4.28%

••••• Mr. MacIntosh's determination of cost of capital, or the floor of a fair rate of return, was 5.51 per cent. All of these determinations were based upon elaborate studies and analyses which will be discussed hereinafter. •••••

EXCERPTS FROM 24 PUR 3d

PAGES , 426, 427, 433, 434, and 435.

	Ritenour Exhibit 2 Page 7	Kosh Exhibit 8 Page 24	MacIntosh Exhibit 9 Page 22
Debt	50.12%	50.52%	50%
Preferred Stock	0.59	8.03	16
Subtotal	57.11%	58.55%	66%
Common Equity	42.89	41.45	34
Total	100.00%	100.00%	100%

1. Title of Case: Pacific Telephone & Telegraph Co.
2. Docket Number: 39309
3. Regulatory Agency: California P. U. C.
4. Date of Intervention: December 1957
5. Brief Resume of Case: The company filed tariffs with the Commission seeking increase in annual revenue of \$40,800,000 computed on a rate of return of 6.91% on a rate base of \$1,316,740,000.
6. Position of GSA: GSA opposed the increase proposed. GSA urged that the cost of capital computed by the GSA witness at 5.61% applied to a rate base of the type the Commission had found proper for the Company in the past would meet the minimum requirements of a non-confiscatory rate of return.
7. Ruling of regulatory agency: The Commission disallowed \$13,300,000 of the Company's request and reduced the proposed 6.91% rate of return to 6.75%. The Commission eliminated \$40,322,000 from the Company's proposed rate base.
8. Savings to Government: \$141,936
Estimated annual increase to Government on rates sought was \$443,568 -
On basis approved-annual increase estimated to be \$301,632
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. The public was represented by staff of regulatory agency, and City Attorney or special counsel for 15 California Cities or Counties.
13. Names of GSA Counsel: Donegan Mann, Clarence W. Hull, and Malcolm Miller.
14. Names of Government witnesses: James K. MacIntosh, GSA, and W. Trigg Miller, GSA.
15. No attorneys or witnesses were employed on a per diem basis.

16. Excerpts from decisions discussing GSA's evidence and contentions:

*** Witnesses for other parties urged rates of return ranging from 5.61 per cent to 6.35 per cent. To a considerable extent, their conclusions were predicated on market prices of common stock and were derived by a series of calculations involving earnings-price ratios and dividend-price ratios and relating yields at prices at which the stock was traded in the market to arrive at estimated costs at which additional securities could be placed. By so doing, an overall cost for additional securities was derived which, according to one witness would be sufficient to allow applicant "to raise all of its capital requirements and to maintain its financial integrity for the foreseeable future.

In viewing the testimony of all of the witnesses on rate of return, we see two basic limitations. Applicant's witnesses seem to see rate of return only as it pertains to their own profits as investors. In other words, their view is limited to one aspect of the subject. The witnesses of protestants and interested parties seem to see rate of return only as it pertains to the needs of the utility as measured by the past market. Their view is also limited to one aspect of the subject. A broader view is needed. The interests of the telephone subscriber must not be ignored. A balancing of investor and subscriber interests must be obtained. ***

Excerpt from 23 PUR 3d, Pages 222-23

1. Title of Case: Commonwealth Edison Company
2. Docket Number: 44391, 44551-44555
3. Regulatory Agency: Illinois Commerce Commission
4. Date of Intervention: October 15, 1957
5. Brief Resume of Case: Application by company for authority to increase electric rates approximately 7.3 per cent per annum. On the basis of operations for the test year ended June 30, 1957, the increases would approximate \$26,434,000. The increase would result in estimated additional charges to the Government of about \$200,000 per annum.
6. Position of GSA: GSA opposed increases. GSA urged that the cost of capital computed by the GSA witness at 5.25 per cent would support a conclusion by the Commission that it should adhere to a rate of return percentage no higher than the 5.8 per cent rate of return found reasonable in the 1954 proceeding.
7. Ruling of regulatory agency: The Commission granted to the Company substantially all of the increase sought. A rate of return of 5.85 per cent based on a rate base of \$1,263,454,000 (fair value) was allowed.
8. Savings to Government: \$ - - - -
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: The Cities of Chicago, Batavia, Geneva, Naperville, Rock Falls, St. Charles, Northlake, Pontiac, Waukegan, North Chicago, Cicero, Elmhurst, Joliet, Berwyn, and Calumit City entered appearances.
13. Names of GSA Counsel: F. J. McShalley, R. L. Pendergast, and M. D. Miller.
14. Names of Government witnesses: James K. MacIntosh - GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: See Attached Sheet.

ILLINOIS COMMERCE COMMISSION

RE COMMONWEALTH EDISON CO.

The director of the Public Utilities Division of the General Services Administration, James K. MacIntosh, testified on behalf of that agency, submitting an opinion that a fair and reasonable rate of return would be 5 1/2 per cent.

Mr. MacIntosh applied the historical cost of money, heretofore experienced by the company, to the debt structure the company expects to have in 1961.

Justifying the reliance upon current dividend yields, MacIntosh used charts designed to show a correlation between earnings-price ratios and dividend payouts based on average data for the period from 1949 to 1956. The company statistician analyzed the MacIntosh data for each individual year and obtained some data for the year 1957. When reviewed for the individual years, it appears that the significance of dividend payouts as determinants of market price declined steadily during the period and for the last four years other factors have been controlling common stock market prices. In addition to the direct testimony of MacIntosh the commission considered evidence relating to the current and future costs of debt on preferred stock capital. MacIntosh's position appears to savor of the mechanical "dividends plus interest" formula which has been struck down by the supreme court in Illinois Bell Teleph. Co. v. Illinois Commerce Commission (1953) 414 Ill 275, 98 PUR NS 379, 111 NE2d 329. Reflecting the infirmities of their own witness is General Service Administration's brief conceding that a rate of return as high as 5.8 per cent would be reasonable. We note that General Service Administration did not attempt, in presenting data in this case, to concentrate upon proposals directly affecting it or agencies of the federal government as customers of the company but concentrated instead upon the subject of rate of return, which is an area in which the commission itself has particular competence and concern.

Expert testimony on the subject of rate of return was submitted by two witnesses for the company, supplemented by other evidence, and a witness for the General Services Administration. The commission has carefully reviewed the studies of these witnesses, their testimony in the proceedings, both direct and cross, and the exhibits they sponsored.

Excerpts from 24 PUR 3d

Pages 224 & 228

1. Title of Case: New Jersey Bell Telephone Co.
2. Docket No. : 10049
3. Regulatory Agency: New Jersey Board of Public Utility Commissioners
4. Date of Intervention: June 1957
5. Brief Resume of Case: Application by the Company for authority to increase operating revenues.
6. Position of GSA: GSA opposed increases. GSA urged that the cost of capital computed by the GSA witness at 5.6% be applied to a net investment rate base of the type the Commission had found proper for the Company in the past.
7. Ruling of regulatory agency: The Commission rejected Company's contention that it was entitled to a 7% return when related to the trended original cost rate base, which would have resulted in the Company receiving additional operating revenue of \$34,190,100. The Commission authorized the Company a rate of return in the range of 6% to 6.37% when related to net original cost rate base, which will result in additional annual revenue of \$27,384,806.
8. Savings to Government: \$33,860. Difference between approved rates and Company's proposed rates.
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. The public was represented by Special Peoples Counsel appointed by the Attorney General of New Jersey.
13. Names of GSA Counsel: E. T. Brennan; F. W. Denniston, T. F. Rowe, Jr.; and M. Miller.
14. Names of Government witnesses: James K. MacIntosh, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions:
" * * * Briefs or memoranda were filed on behalf of the Company, the State, and the United States Government. * * * "
" * * * The Commission decision treats the overall presentation in a general manner and does not particularize as to positions taken by intervenors. * * * "

Excerpts from 22 PUR 3d, page 169.

1. Title of Case: Application to Increase Rates and Charges, Common Carrier Motor Carrier
2. Docket Number: 10356-T
3. Regulatory Agency: Railroad Commission of Texas
4. Date of Intervention: April 30, 1957
5. Brief Resume of Case: Texas motor carriers filed application with the Railroad Commission of Texas requesting permission to publish a 7% increase in intrastate rates.
6. Position of GSA: In opposition to increase.
7. Ruling of regulatory agency: Railroad Commission of Texas authorized a 5% increase in lieu of the 7% requested.
8. Savings to Government: \$4,285 (2/7 of increase disallowed) Estimated that increase would increase Government costs a minimum of \$15,000 per annum.
9. Government's interest was not more than 30% of total.
10. Government's presentation was directed to level of rates of all shippers or users. (General rate structure)
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: None.
13. Names of GSA Counsel: Malcolm D. Miller
14. Names of Government witnesses: W. V. Vaughn, GSA and W. M. Dalton, GSA.
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: None.

1. Title of Case: Consolidated Edison Company of New York
2. Docket Number: 18011, 18012, and 18013
3. Regulatory Agency: New York Public Service Commission
4. Date of Intervention: November 1956
5. Brief Resume of Case: The Company filed an application with the Commission seeking authority to eliminate the practice and procedure of conjunctional billing for electric, gas and steam service.
6. Position of GSA: GSA opposed the proposed elimination of conjunctional billing and urged that the practice and procedure of conjunctional billing be continued.
7. Ruling of Regulatory Agency: The Commission ruled that customers as of May 31, 1959, who were at that time entitled to conjunctional billing would be continued. Conjunctional billing would not be available to customers added after that date.
8. Savings to Government: \$82,700. Estimated annual bill without conjunctional billing of \$1,021,210, less estimated annual bill with conjunctional billing of \$938,510, or \$82,700.
9. Government's interest was not more than 30% of total.
10. Government's presentation was limited to level of rates and charges for particular services.
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. The public was represented by staff and staff counsel of the regulatory agency.
13. Names of GSA Counsel: John Hagan, Frederick W. Denniston, Thomas A. Kennedy, and Clarence J. Koontz.
14. Names of Government Witnesses: None
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: None.

STATE
CERT.

1. Title of Case: **Merchant's Fast Motor Lines, Inc.**
2. Docket Number: **2024 - Operating Authority**
3. Regulatory Agency: **Railroad Commission of Texas**
4. Date of Intervention: **August 20, 1959**
5. Brief Resume of Case: **The Merchant's Fast Motor Lines, Inc. requested the Railroad Commission of Texas for an order amending its common carrier motor carrier certificate to authorize service to the Twin Butte Dam Site.**
6. Position of GSA: **The Department of Interior by letter dated July 29, 1959, requested GSA to intervene in proceeding and support the motor carrier application. GSA offered evidence as to information and statistical data concerning the size and scope of the project.**
7. Ruling of Regulatory Agency: **The Commission by order dated September 3, 1959, authorized the amendment of common carrier certificate as petitioned.**
8. Savings to Government: **\$ - - -**
9. Government's interest was more than 30% of the total.
10. Government's presentation: **Not applicable.**
11. GSA's presentation did not concern matters of regulatory policy to be followed by the regulatory agencies in performing its responsibilities.
12. Public representation: **None.**
13. Names of GSA Counsel: **Clarence J. Koontz**
14. Names of Government Witnesses: **G. A. Samson, Department of the Interior.**
15. No attorneys or witnesses were employed on a per diem basis.
16. Excerpts from decisions discussing GSA's evidence and contentions: **None.**

APPENDIX C

PRESENT COSTS OF LITIGATION PROGRAM -
TRANSPORTATION & PUBLIC UTILITIES SERVICE

As personnel assigned to litigation also work on negotiations and other management activities, it has been necessary to prorate personnel costs on the basis of estimated divisions of work. Table 1 sets forth the breakdown of costs including technicians, attorneys, service direction and other services paid from the Administrative Operations fund.

Table 1

TPUS Litigation Costs

	<u>Litigation</u>	<u>Other</u>	<u>Total</u>
Traffic Management	\$	\$125,500	\$125,500
Program analysis		136,000	136,000
Transportation operations:			
Departmental		356,400	356,400
Field		980,400	980,400
Communications Division	34,200	46,100	80,300
Public Utilities Division	47,200	34,300	81,500
Representation Division	127,200	114,700	241,900
Subtotal	208,600	1,793,400	2,002,000
AO Fund - Legal	142,000	11,800	153,800
Subtotal	350,600	1,805,200	2,155,800
Service direction	14,700	126,400	141,100
AO Fund - Balance	24,900	214,200	239,100
Total	390,200	2,145,800	2,536,000

Table 2 shows the breakdown of technical personnel, showing the percentage of time spent in either a witness or assisting capacity.

Table 3 shows figures for employment and costs for transportation and public utilities functions for 1950 when GSA was organized; 1957 when TPUS was organized as a separate service, and estimates for 1961 and 1962. The top portion of the Table reflects data for activities financed from the appropriation "Operating expenses, TPUS" in addition to reimbursable items and comparable activities performed in other organizations in prior years. Because of several changes in budget structure and organizations over the 12-year period presented, this treatment is necessary to present a meaningful picture of trends in the level of these activities. This Table reflects an increase in year-end employment from 75 in 1950 (GSA's first year) to 240 in 1957 and 271 in 1961, an increase of 13% between 1957 and 1961. In 1957, activities in connection with foreign aid procurement were financed separately (included on the third line); these are financed direct from "Operating expenses, TPUS" in 1961 and 1962. This is the major reason why total employment increases much less sharply than that financed from "Operating expenses, TPUS".

With the adjustments discussed to this point, obligations increased from \$408,000 in 1950 to \$1,579,000 in 1957 and \$2,783,000 for 1961. The lower portion of the Table indicates some of the major adjustments necessary to make these figures more comparable. With the adjustments noted, TPUS obligations increased from \$1,168,000 in 1957 to \$1,647,000 estimated for 1961, or about 41%. In these adjustments, no attempt was made to reflect increases in the general price level, increases in travel allowances, and financial policy changes which have required TPUS to pay for some goods and services previously paid for elsewhere. If these factors were reflected, the comparable increase from 1957 to 1961 would probably be close to the 13% increase in employment. In summary, on a comparable basis, TPUS employment has increased by about 13% since the end of 1957, and it appears that costs have increased by an approximately equivalent amount.

Table 4 indicates growth in some of the transportation and utilities items in which TPUS is involved. It will be noted that these volumes are increasing much more sharply, sometimes for only 3 years, than TPUS employment.

Table 5 shows consultants employed on a per diem basis. There are also included those instances where flat sum contracts have been made with consultants.

TABLE 2
ESTIMATED COST OF PARTICIPATION BY TPFS
BEFORE REGULATORY AGENCIES, FY 1961

	No. Pos.	GS Grade	Annual Salary	M. Y. in Representation	Cost of Representation			Total
					Witness Assistance	Utilities Assistance	Transportation Assistance	
<u>Representation Division</u>								
Office of Chief	1	15	\$13,730	.5	\$6,865	-	-	-
	1	6	5,490	.5	-	\$2,745	-	-
<u>Transportation Case Branch</u>								
	1	14	12,990	.35				\$4,546
	1	13	11,935	.2				2,387
	4	12	36,880	2.2				20,791
	1	11	7,680	.5				3,910
	1	1	4,345	.5				2,172
	1	4	4,250	.5				2,125
	1	3	3,760	.35				1,316
<u>Economics & Statistics Branch</u>								
	1	14	13,510	.5				6,755
	1	13	11,155	.9				7,250
	2	12	18,690	1.8				12,148
	1	9	6,600	.1				660
	1	7	6,435	.1				643
	1	5	5,335	.5				2,667
	1	4	4,040	.1				404
<u>Utilities Case Branch</u>								
	1	14	12,210	.85				10,378
	1	12	8,955	1.0				8,955
	1	5	5,830	.5				2,915
<u>Total, Representation Division</u>	<u>23</u>		<u>195,500</u>	<u>11.95</u>	<u>6,865</u>	<u>24,993</u>	<u>31,898</u>	<u>53,877</u>
<u>Public Utilities Division</u>								
	3	14	38,450	1.9				24,629
	1	13	10,895	.5				5,448
	1	12	9,215	.65				5,990
	1	9	6,765	.8				5,412
	1	6	4,830	.5				2,415
	2	5	10,010	1.8				9,009
<u>Total, Public Utilities Division</u>	<u>9</u>		<u>80,165</u>	<u>6.15</u>	<u>36,067</u>	<u>16,836</u>	<u>52,903</u>	<u>75,233</u>

Table 3
Employment and Costs for TPUS Functions
(Thousands of Dollars)

Total obligation or estimate:	1950		1957		1961		1962	
	Year-end employment	Obs.	Year-end employment	Obs.	Year-end employment	Obs.	Year-end employment	Obs.
Transfers from PBS and FSS	22	\$135	-	\$-	-	\$-	-	\$-
Transfers from S&CM	50	256	-	-	-	-	-	-
Foreign aid procurement, CCC, OCIM, DPA, etc.	-	-	62	319	33	247	35	254
Bureau of Reclamation functions, Denver, absorbed by BOB	3	17	3	20	-	-	-	-
determination during 1958 (1958 figures estimated)	-	-	172	1,240	238	2,536	238	2,500
Operating Expenses, TPUS	75	408	240	1,579	271	2,783	273	2,754
Total								
Adjustments for dollar comparability								
Payments to AO Fund, included above	-	-	-	204	-	393	-	393
Personnel benefits	-	-	-	3	-	154	-	153
Pay raises since 1950	-	-	-	204	-	589	-	587
Comparable amounts	75	\$408	240	\$1,168	271	\$1,647	273	\$1,621

TABLE 4
Trends in programs in which TPUS is involved

	Fiscal Years		Net. 1961	Increase
	Actual 1971	Actual 1960		
Government-wide obligations (millions)^{1/}:				
Transportation (Object Class 03)	\$1,852	-	\$2,106	13.7%
Communications services	227	-	306	70.0%
Other utilities	608	-	817	34.4%
Total	<u>2,687</u>	<u>-</u>	<u>3,209</u>	<u>23.1%</u>
Federal Supply Programs:				
Warehouse, tons received	246,731	255,875	-	-
Warehouse, tons shipped	225,159	220,356	-	-
Total tons	<u>471,890</u>	<u>476,231</u>	<u>-</u>	<u>24.8%</u>
Sales (\$ Millions):				
Warehouse and fuel yard	\$116.4	-	\$171.7	47.9%
Direct delivery	148.0	-	187.6	25.4%
Total of above	<u>264.4</u>	<u>-</u>	<u>357.3</u>	<u>35.1%</u>
National Archives and Records Services:				
Cubic feet of records moved	3,336,842	5,134,274	-	53.9%
Defense Material Programs:				
Inbound tonnage for EACR, IFA, OOC, and Defense Materials	2,589,682	3,595,525	-	38.8%

^{1/} These data are based on summaries prepared by the Bureau of the Budget. The 1961 estimates are over one year old; labor estimates were not used because of a change in object class structure. The figure for communications services reflects object class 04, less amounts paid to the Post Office Department for penalty mail, other postage and fees. Other utilities reflects object class 05, rents and utility services; less amounts paid for real property rental. The figures do include an unknown amount for rental of personal property; but include primarily utility services.

TABLE 5

Consultants Employed on a Per Diem Basis.

Name	Period	No. Days Worked	Per Diem	No. Days Travel	Travel - Per Diem	Transportation & Other Exp. (Est.)	Total Cost
Knappen, Laurence J.	* 4-17-57						
	11-25-59	455-3/4	\$ 31,776.28	73-1/4	\$ 879.00	\$ 749.68	\$ 33,404.96
Burrughs, Howard A.	10-28-57						
	12-10-60	87	7,975.00	23-1/4	279.00	278.10	8,532.10
Bushnell, Curtis M.	10-28-57						
	10-27-59	301-1/2	23,912.50	49	588.00	596.57	25,097.07
Fosdick, Ellery R.	8-10-59						
	11-30-59	9	450.00	-	-	-	450.00
Goldthwaite, George E.	10-28-57						
	3-27-58	53-3/8	5,337.50	5-1/2	66.00	180.49	5,583.99
Honaker, James M.	11-24-58						
	11-28-59	32-1/2	2,437.50	20-1/2	246.00	403.70	3,087.20
Beicher, Joseph R.	5-9-60						
	7-23-60	53	2,120.00	-	-	-	2,120.00
Totals		992-1/8	\$74,008.78	171-1/2	\$2,058.00	\$2,208.54	\$78,275.32

Contracts with Consultants for Performing Services in the Following Cases:

ICC Dockets 31954 and 32141.	Gilbert J. Parr	1957	\$ 4,000.00
Western Cement Case	Gilbert J. Parr	1958	2,500.00
ICC Dkt. 32857	Gilbert J. Parr	1958-1959	20,000.00
ICC Dockets 31954 and 32141	Melville J. Ulmer	1957	2,675.00
Ex Parte 206 Case	Merril G. Roberts	1957	1,200.00 (Reimbursement to TVA)
FCC Dkt. 12194	Curtis M. Bushnell	1960	7,500.00
Total			\$ 37,875.00

* Except for the period 7-13-58 to 10-28-58, served as Public Utilities Specialist, GS-14, \$11,355 Per Annum.

GENERAL SERVICES ADMINISTRATION

Washington 25, D. C.

May 19, 1961



Honorable Warren G. Magnuson
Chairman, Independent Offices Subcommittee
Committee on Appropriations
United States Senate
Washington 25, D. C.

Dear Mr. Chairman:

By my letter of May 2, 1961, I forwarded the material requested by your letter of March 24, 1961, for the purpose of committee study of the function of GSA relating to regulatory proceedings.

The reappraisal of the function suggested by the committee in its report (No. 1611) on the Independent Offices Appropriations, 1961, has been completed. In addition to the material assembled for your committee, it includes a history, a copy of which is enclosed, and a general review of the function. As a result of our reappraisal, our general policy with respect to participation in regulatory proceedings is as follows.

Section 201(a)(4) of the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 461) places a statutory duty on the Administrator of General Services to represent executive agencies "in proceedings involving carriers or other public utilities before Federal and State regulatory bodies." The statute authorizes the Administrator to enter such proceedings "to the extent that he determines that so doing is advantageous to the Government in terms of economy, efficiency, or service, and with due regard to the program activities of the agencies concerned."

Prior to participation in or institution of such regulatory proceedings determination will be made on the basis of facts then available that such representation of the Government will tend to produce rate or service benefits of a substantial character to executive agencies making use of, or having need for, the transportation or utility services involved. Determination of the Government's interest will be based upon (a) tonnage as a shipper or volume as a user of utility services, actual or potential;

Honorable Warren G. Magnuson

(b) dollar impact on agency programs; (c) precedent-making character of the issues; and (d) other criteria such as might be applied by shippers or consumers generally in deciding whether to participate in regulatory proceedings.

In its presentations to regulatory agencies GSA will emphasize, to the extent relevant and material, the Government's particular service needs and uses, and the volume of expenditures by the Government under the rates and charges involved in the proceedings. GSA does not consider that its participation as authorized by the statute quoted above is limited to the issue of discrimination against the Government in the narrow meaning of that term as used in the regulatory statutes. It will therefore, to the extent permitted by limitations of facilities and staff, present evidence and legal arguments on all issues in proceedings in which it participates.

In cases involving authority to engage in new operations, intervention will be based upon a determination that present services are inadequate to meet the Government's need and will be limited to supporting the need for service.

Sincerely yours

(Signed) JOHN L. MOORE
Administrator

Enclosure

HISTORY OF
SECTION 201(a)(4) OF THE
FEDERAL PROPERTY AND ADMINISTRATIVE
SERVICES ACT OF 1949, AS AMENDED
WITH REGARD TO GSA REPRESENTATION
BEFORE REGULATORY AGENCIES

February 1961

Section 201(a)(4) of the Federal Property and Administrative Services Act of 1949, as amended, provides:

"The Administrator shall, in respect of executive agencies, and to the extent that he determines that so doing is advantageous to the Government in terms of economy, efficiency, or service, and with due regard to the program activities concerned - -

* * *

"(4) with respect to transportation and other public utility services for the use of executive agencies, represent such agencies in . . . proceedings involving carriers or other public utilities before Federal and State regulatory bodies . . ."

This study is to develop the history of the representation provision as it relates to regulatory proceedings. Through much of the history, however, it is discussed in a general manner in conjunction with the specified negotiation authority or, in some instances, in conjunction with procurement generally. Wherever possible, however, the regulatory agency aspect is separately stated.

PRIOR TO FIRST HOOVER COMMISSION

Executive Order 6166^{1/} dated June 10, 1933 issued under the Reorganization Act of March 3, 1933, established a Procurement Division in the Treasury Department. The duties were specified in general terms as including "procurement, warehousing, or distribution." Organization orders issued pursuant to the Executive Order and approved by the President, April 12, 1935, established "traffic activities" which included the following function:

^{1/} The Order is set out in full in Cumulative Supplement, Title 5, U. S. Code Annotated, at page 68.

"20.3 The Assistant Director will prepare and file with the Interstate Commerce Commission, State commissions, or public service boards, formal or informal complaints affecting the transportation of Government property when such action is necessary."^{2/}

A Public Utilities Division was created on July 2, 1944^{3/}. Accordingly, pursuant to Executive Order issued under the statute in 1933, the function of representation before regulatory bodies, at least to the extent of the filing of complaints, has existed in the transportation field since 1935.

The Public Utilities Division actively participated in a number of regulatory proceedings prior to July 1, 1949, when the GSA Act was enacted. The issues covered included rate of return, rate base, cash working capital requirements, and rates. The proceedings dealt primarily with the reasonableness of rates.^{4/}

^{2/} 41 C. F. R. 20.3 (Original 1939 Edition).

^{3/} As this is written, no record has been found of published orders creating this Division. The source of the date is an article written by the original Director of the Division "Uncle Sam-Biggest Utility Customer," Public Utilities Fortnightly, July 21, 1955. Moreover, a revision of the Code of Federal Regulation issued January 1, 1947, included public utility services expressly within the term "supplies, materials, equipment and services." (41 C. F. R. 5.1(a), 1946 Supp.)

^{4/} U. S. v. B&O R. R. Co. 211 I. C. C. 208(1935)
 C&P Telephone Co. of Md. 70 PUR(NS)97(1947)
 New Jersey Telephone Co. 72 PUR(NS)37(1947)
 Illinois Bell Telephone Co. (Unreported) (1947)
 Western Union Telegraph Co. 70 PUR(NS) 168 (1947)
 Pacific Telephone & Tel. Co. 75 PUR(NS) 379 (1948)
 Potomac Elec. Power Co. 72 PUR(NS) 11 (1948)
 Pacific Gas & Elec. Co. 84 PUR(NS) 455 (1948)
 New Jersey Telephone Co. 78 PUR(NS) 97 (1948)
 Consolidated Edison Co. 78 PUR(NS) 21 (1949)
 82 PUR(NS) 151 (1949)
 Pacific Tel. & Tel. Co. 80 PUR(NS) 355 (1949)
 C. & P. Tel. Co. 86 PUR(NS) 379 (1949)
 New York Tel. Co. 84 PUR(NS) 267 (1949)
 Washington Gas Light Co. 83 PUR(NS) 4 (1949)

Intervention by Government bodies in regulatory proceedings for specified purposes appears in other regulatory statutes. For example, the Postmaster General acts in a representative capacity in proceedings before the Interstate Commerce Commission in matters pertaining to parcel post rates which though fixed by the Postmaster General require the consent of the Interstate Commerce Commission, since 1912 (39 U.S.C. 247) and with respect to railway mail service pay since 1916 (39 U.S.C. 542-566). While these statutes do not spell out representation in those terms, it is inherent in the statutory scheme provided. This was recognized by the inclusion of an exempting provision in Section 602d of GSA's Act, as follows:

- "(15) The Postmaster General or the postal establishment with respect to the means and methods of distribution and transportation of the mails, and contracts, negotiations, and proceedings before Federal and State regulatory and ratemaking bodies relating to transportation of the mails;"

Further, specific provision has been made for participating in regulatory proceedings by the Secretary of Agriculture before the Interstate Commerce Commission with respect to rates and other matters pertaining to farm products. This has been in effect since 1938 (7 U.S.C. 1291). In 1946, this authority was broadened to include not only the Interstate Commerce Commission, but the Maritime Commission, the Civil Aeronautics Board, and other Federal or State transportation regulatory ^{bodies} (7 U.S.C. 1622 j)

WAR MATERIALS REPARATION CASES

A major controversy developed with respect to whether the war time traffic of the military departments was being transported by the railroads at proper rates. This led to the creation of a special committee by the Director of the Bureau of the Budget. The report of that committee, dated October 20, 1945, reached the following general conclusions, in addition to others:

". . . it [the Committee] cannot escape the general conclusion and the firm conviction that the Government ^{has} is paid and is paying many millions of dollars in excessive charges for the transportation of materiel and supplies of the War Department:

"(1) There has never been any organization within the Department adequately equipped, staffed and fully empowered to negotiate with the carriers necessary revisions of such rates, ratings, charges, rules and regulations, or institute proceedings before the Interstate Commerce Commission, and other regulatory bodies, involving the reasonableness or lawfulness otherwise of such rates, ratings, charges, rules and regulations, and prepare and present the necessary evidence in such proceedings; . . ."

Later and long after the fact, the Department of Justice brought an action before the Interstate Commerce Commission in 17 dockets which were combined in the "War Materials Reparations Cases." By this time, however, many of the rates had been adjusted properly although not as to the past and the suit became one solely for damages or reparations for past shipments. The Interstate Commerce Commission eventually dismissed the complaints in their entirety. (War Materials Reparation Cases, 294 ICC 5, 297 ICC 635)

FIRST HOOVER COMMISSION

The Hoover Commission Task Force report on the Federal supply system was written in January, 1949. Representation as such was not extensively discussed but was specifically provided for in the new organization recommended by the report. Criticism was contained in the findings and discussions (Report, p. 75) because most agencies failed to seek a "permanent level of reasonable rates!"^{5/} The recommended organization was directed to a mission "of obtaining the most efficient transportation of Government property at the lowest possible cost." Included in the suggested personnel was counsel that "should be experienced in transportation law and in practice before transportation regulatory bodies." Representation before regulatory agencies was listed as one of nine primary functions. The anticipated achievements listed for such an organization included the following: (1) To establish a reasonable level of transportation charges for Government shipments, (2) to produce initial savings which should amount to from 20 to 25 per cent of the total amount paid as transportation charges and continued annual savings in lesser amounts.

Nowhere was it suggested that the Government's problem stemmed from discrimination, the stated objective being to get reasonable rates.

The official report of the Hoover Commission, February 1949, commented only on the fact that the Government then was spending approximately \$1 billion a year for transportation and adopted the specific

^{5/} Where underscoring appears, it has been supplied.

recommendation of the Task Force with respect to representation of all agencies before transportation regulatory bodies. No specific discussion appeared with respect to public utility activities.

THE LEGISLATION
(81st CONGRESS)

While a number of bills were introduced to give effect to the Hoover Commission recommendations on transportation and traffic management, that finally enacted grew out of HR 4754, 81st Congress, and a related Senate version S. 2002. The Hoover Commission was silent on public utilities, management and representation, but these were nevertheless included in the legislation. There was discussion of this specific point in the hearings on H. R. 2781, one of the related bills. Section 102(a)(IV) of that bill provided that the Administrator would:

"(IV) advise all executive agencies on traffic management and as to reasonableness of carriers' rates and charges, and represent all such agencies in negotiating rates and charges with carriers and in proceedings involving carriers' rates and charges before Federal and State regulatory bodies;"

The General Counsel of Federal Works Agency, later General Counsel of GSA, suggested an amendment to the quoted clause to include public utility services. He stated in justification:

"The new wording is not actually a substantive change because the Bureau of Federal Supply now under Executive Order 6166 does perform such functions respecting public utility services for the Government generally. But it was thought better by the Bureau of Federal Supply people and counsel for this Committee and ourselves to spell it out again in this Act so it would all be in the one package. But even if it were not spelled out, it would continue to be in effect as an existing function of the Bureau of Federal Supply." (Hearings, Mar. 24, 1949, HR 2781, p. 26)

The Honorable Clarence J. Brown, Representative from Ohio and a member of the Hoover Commission also testified on this bill. He explained the traffic management provision as follows:

"Next we have item (k) under this traffic management - advise agencies as to the reasonableness of carriers' bills. In other words, if a bureau or agency of the Government has charges for transportation made against it that they question then they have a central place to clear it and they clear up the whole matter." (Hearings, p. 116)

The Comptroller General commented on HR 2781 by letter of April 14, 1949 (Hearings, pp. 239-242). He stated in part as follows:

"With particular reference to paragraph (IV) of subsection (a), section 102, regarding the representation of executive agencies by the Administrator in negotiations with carriers and other public utilities and in proceedings involving carriers or other public utilities before Federal and State regulatory bodies, this is a step in a direction the General Accounting Office has advocated for many years; that is, the centralization in some agency in the executive branch of responsibility for coordinating the Government's use of transportation facilities and securing the most reasonable rates obtainable therefor"

The Director of the Bureau of Federal Supply and his representatives also commented on this provision at some length - on S. 990 another bill, identical to HR 2781 so far as transportation and public utilities were concerned: (Hearings on S. 990, pp. 48 - 64)

"Mr. Hayghe. Mr. Chairman, for purposes of clarification largely, I should like to say that the job of traffic management as distinguished from personal service related to the physical shipment of goods, is one of establishing policies and methods for the movement of property via that mode of transport and by proper description to protect the lowest rates available in the published tariff. It goes beyond that to the extent of examining the presently established published rates, and all proposed changes and amendments in them, to determine to what extent these rates applied to the traffic of your principal are reasonable in fact. In cases where unreasonableness or other unlawfulness is obvious, to take necessary steps with the carriers to negotiate in the case of public property for the establishment of rates which are in fact reasonable, and failing in that, then to petition the appropriate regulatory body to order established rates which are in fact reasonable and lawful.

"The Chairman: Do you anticipate material savings in transportation costs to the Government if this law is enacted and procedures established and followed in accordance with the provisions of this act?

"Mr. Hayghe. I would be willing to say we could guarantee substantial savings."

The Senate Committee reported out S. 1809 on May 9, 1949, (Senate Report 338, 81st Congress) substantially similar to the House version, H. R. 4754, which was subsequently enacted. What had been Section 102(a)(IV) became Section 201(a)(4) in the exact language of the provision later enacted. Thus, "public utilities" had been added to the original provision. The report made no special comment other than to say the representation authority was not intended "to abrogate any authority of the Department of Justice with respect to legal proceedings."

Another Senate Bill, S. 2020, indetical with S. 1809, so far as Section 201(a)(4) was concerned, was reported out June 3, 1949.

The Report (Senate Report No. 475-81st Congress) was identical in this respect with the report on S. 1809.

When H. R. 4754 came before the Senate on June 9, 1949, it was amended by a complete substitution of S. 2020 for H. R. 4754, and a few amendments were made on the floor, including the revision, without debate or explanation, of Section 201(a)(4) by deleting reference to transportation, leaving the paragraph to read as follows:

"(4)With respect to public utility services for the use of executive agencies, represent such agencies in negotiations with public utilities and in proceedings involving public utilities before Federal and State regulatory bodies." (Cong. Rec., p. 8207)

On June 23, 1949, Representative Holifield, on the floor of the House (Cong. Rec., p. 8436), made a statement concerning the Senate amendment in which he said:

"I refer to the problem of traffic management, which is an important aspect of the whole procurement problem in the Federal Government. This is basically and fundamentally a problem of management; yet, although it has nothing whatsoever to do directly with the regulation of public utilities, members of the Committee on Interstate and Foreign Commerce in the Senate have seen fit, not merely to raise objection to certain provisions in the Federal Property and Administrative Services Act relating to traffic management, but to insist upon their deletion of this vitally important piece of legislation, as the price of their consent for consideration of the bill under unanimous consent."

The conference of the House and Senate restored the original language, reinserting transportation in the cited section. The conference report (House Report No. 935) contained only the following explanation:

"Transportation and Traffic Management

"The Senate conferees receded from the Senate amendment which deleted references to transportation and traffic management in section 201(a) and which in section 502(b) provided for the continuance of transportation and traffic management functions under Executive Order 6166. The provision of section 201(a) of the House bill with respect to transportation and traffic management are in accordance with the recommendations of the Commission on Organization of the Executive Branch of the Government and provide clear authority on this subject."

The Chairman of the Senate Committee, Mr. McClellan, stated from the floor on June 29, 1949 (Cong. Rec. p. 8746):

"Mr. McClellan . . . There are also included a number of other functions and services. I know of one in which the able Senator from Colorado is particularly interested. The Senate agreed to the amendment as the committee had requested. We took it to conference and the conferees of the House would not accept it. I want to say to the able Senator from Colorado and to other members of the Committee that upon a study of the provision in the bill in which the Senator is interested, I do not believe it will materially affect any of the substantial rights of other agencies. I think it will be of aid to them. I think it is in the interest of economy and that considerable economy will result in the field of transportation if the provisions of the bill go into effect and are properly administered."

Mr. Johnson, of Colorado, who was Chairman of the Committee on Interstate and Foreign Commerce, then stated: (Cong. Rec. p. 8747)

"Mr. President, the members of the Committee on Interstate and Foreign Commerce realize the difficulties under which the Senate conferees were

laboring when they met with the House on the provisions of H. R. 4754, to which the Committee objected. We did not object because we were opposed to what was being done. We objected because H. R. 4754 did not go far enough. We desire to have further hearings in our Committee to develop the need for the establishment of a Federal Traffic Bureau."

The text of S. 1095, a bill to create a "Federal Traffic Bureau" was then inserted in the record by Mr. Johnson. This bill would have created a bureau with exclusive jurisdiction over negotiations, routing, auditing of freight bills, claims, and:

"(3) the representation of the United States in all proceedings before administrative tribunals relating to matters within the jurisdiction of the Bureau."

Section 7 of the same bill amplified this basic authority, and Section 10 established the right of the Director to sue in any court or tribunal, for the recovery of "any unlawful, unjust, or unreasonable charge." No executive agencies were exempted as in H. R. 4754.

Mr. Johnson continued with a criticism of the bill under consideration (H. R. 4754) because "they eliminate the transportation of the military."

"It is in the interest of economy as the Hoover report pointed out, that we have a centralized agency to handle this transportation. So while the bill which is being considered, H. R. 4754, does move in the right direction, our committee is not entirely satisfied with all its terms and provisions."

He also announced his purpose to have further hearings on the subject. The bill, H. R. 4754, was passed by the House on June 29, 1949, by the Senate on June 30, 1949.

In addition to Section 201(a)(4) previously discussed, section 102(a) provided for the transfer of both the functions and personnel of the Bureau of Federal Supply and another section 602(b) provided that the new act superseded Executive Order 6166 under which the litigation program of the Bureau had been conducted.

GSA Reports to Congress

The Administrator's Annual Reports to Congress have from time-to-time referred to GSA's program under section 201(a)(4). The following are examples:

Year Ending June 30, 1950

Pursuant to the Act, GSA "developed a comprehensive program of freight-traffic management designed to eliminate excessive charges . . ."

"Accordingly it is planned to accelerate the development of the following activities: . . . (4) participation in the more important utility rate negotiations and representation of the Government in the more important formal rate cases before regulatory commissions."

The report listed participation in two major telephone rate cases, D. C. and California, among the accomplishments.

Year Ending June 30, 1951

Studies of freight-rate structures reported as continuing "to identify elements deemed unreasonable or otherwise unlawful."

Participation in one electric, one telegraph and three telephone rate cases was reported.

Year Ending June 30, 1953

Participation was noted in Ex Parte 175, a general increase case before the Interstate Commerce Commission, and a case in which reductions in rates were being sought on fly ash.

Savings of \$605,000 annually were reported as a result of participation in major utility rate cases.

Similar statements concerning regulatory proceedings have been included in each subsequent year's Annual Report. In the report for the year ending June 30, 1956, the creation of the Transportation and Public Utilities Service was discussed. Specific cases, including general increase, were enumerated.

Second Hoover Commission

In 1954 - 1955, the Second Hoover Commission studied the transportation activities of the Department of Defense. While not organized for the purpose, its Task Force on Transportation Activities in the Department of Defense included a study of the civilian agencies as well.

The Task Force report was generally critical of GSA for not having implemented its authority under Section 201(a) into "strong centralized traffic management." (Report, pp. 49 - 54). It also recom-

mended an organizational status for traffic management "equal to and independent of procurement!" Its recommendations included a Central Traffic Management Division with authority over all civilian branches, with the removal of all exemptions from the GSA Act.

It also included the following under a heading "National Transportation Policy," under which Government agencies were accused of ignoring this policy: (Report, p. 97)

"Appearance of numerous Government agencies before the Interstate Commerce Commission as advocates of the public interest not only results in unwarranted expense but constitutes to the extent not authorized by Congress a breach of national transportation policy and is contrary to the fundamental principle of fair play by the Government."

The Task Force also set out a separate chapter on National Transportation Policy which is part of the Interstate Commerce Act. (Report, pp. 23-27). It criticized GSA and other agencies for not assuming responsibility for the administration of the policy. It pointed out differences of view between the language employed by the Senate Appropriations Committee in 1954, hereafter discussed and set out as appendix A hereto, and statements of the Comptroller General, which took a diametrically opposed view. Participation in general revenue proceedings was singled out for criticism, so far as representation was concerned. The criticism, however, was directed to the number of Government agencies participating in one particular case (Ex Parte No. 175) and to the fact that undisclosed agencies participated "purely as advocates of the public interest." This was viewed as placing the Government "in the untenable position of representing one group of citizens, opposing another, and judging the case all at the same time."

The Hoover Commission itself commented briefly on this point in its report (Report, p. 95-97). The complete statement follows:

"The Interstate Commerce Commission is the Government agency exclusively responsible for determination of the surface carriers' revenue requirements. It is required by law to authorize adequate and reasonable rates. However, in some proceedings before it where carriers have sought increases to meet revenue deficiencies, several Government agencies have appeared and introduced testimony and argument in opposition to the carriers' requests.

"Some of these agencies appeared in compliance with statutory directives and some were motivated by direct interest. In one case, separate appearances were made by seven Government agencies. Our task force concluded that the agencies could be of help in determining issues by supplying facts and statistics upon the request of the Commission, or by appearing in their own behalf as interested shippers, but should not appear in favor of one private party against another."

The Commission in effect rejected the position of the Task Force and merely recommended that the National Transportation Policy be studied and revised by Congress "to make it more definite and detailed . . . When this is done the Government in its capacity as a user of transportation should conform to that policy with respect to its commercial-type traffic." It also recommended "That regulatory agencies dealing with transportation be authorized to request the Department of Defense and the General Services Administration, and these agencies be required to furnish unclassified facts and statistics to assist them in the performance of their functions."

Congressional Interest Since 1949.
Appropriations Committees

On a number of occasions, interest in GSA's role in regulatory proceedings has been indicated by the Appropriations Committees of Congress and detailed explanations have been supplied.

1955

During the hearings before the Senate subcommittee on the Supplemental Appropriations Bill, 1955, the chairman inquired of the GSA Administrator as to GSA participation in regulatory proceedings and the provisions of Section 201(a)(4) were explained. Also at the request of the chairman, a written statement of GSA policy in these cases was supplied by letter of July 24, 1954, and specific cases were discussed under the heading of "Accomplishments." (Hearings, pp. 945-949). The policy statement in that letter follows:

"GSA takes part only in those rate cases which are of major importance to it as a shipper or user. Virtually all large industrial concerns operate on this basis.

"GSA takes part only in a very limited number of the many thousands of cases which take place each year before regulatory commissions. The mandate to the Administrator in section 201 quoted above requires that he determine what is advantageous to the Government. Therefore, in considering whether to take part in a particular case, consideration is always given first to its relative importance or the impact of the case on the Government as a shipper or user. The availability of experienced technical and legal personnel required for these cases must next be considered. In other words, GSA seeks maximum results within budget and personnel limits.

"All of the cases before the Interstate Commerce Commission in which GSA participates are governed by the national transportation policy which is administered by the Interstate Commerce Commission. While the State statutes generally do not have such a provision, those same general principles are usually recognized by the State commissions. GSA does not attempt itself to administer that policy and this is in line with the view of the Comptroller General (April 13, 1951, B-102080). (Copies of these Comptroller General letters are attached as Appendix C hereto).

"The president of the San Francisco Chamber of Commerce recently questioned GSA policies in this field. While my reply was directed to certain special questions raised in that inquiry, it is nevertheless a good general statement of GSA policy. A copy of that letter is enclosed. The Secretary of Commerce has reviewed that letter and concurs in it."

Notwithstanding this explanation, the Committee in reporting the bill (Senate Report 2034, 83rd Cong.) included a statement on "National Transportation Policy." This statement is set out as Appendix A hereto. It dealt with freight routing practices as well as rate proceedings. The activities of GSA in rate proceedings was at least inferentially criticized, apparently on the primary grounds that GSA should administer the National Transportation Policy contained in the Interstate Commerce Act. No reference to the matter was contained, however, in the subsequent Conference Report (House Report No. 2663).

By letter of March 11, 1955, the Administrator restated GSA's policies to the Chairman of the Appropriations Committee in the light of the statement in the Committee report and defended continued participation under the existing policies. The letter was incorporated in the hearings on the 1956 Appropriation Act. (Hearings, Independent Offices Appropriations, 1956, p. 146, 147). There were no further statements of the committee at that time.

1957

At the hearings on the Independent Offices Appropriation, 1957, however, there was critical questioning of the Commissioner of GSA's newly-formed Transportation and Public Utilities Service, which had been created to improve operations in this area. This dealt with GSA's entry of an appearance in but failure to oppose or otherwise participate in a 7% general increase case before the Interstate Commerce Commission, Ex Parte No. 196. (Hearings, pp. 287-301). In addition, the Chairman inquired as to whether GSA would participate in the SAGE proceedings and was assured it would. The pertinent questioning is as follows:

"Senator Magnuson. I am glad to hear you are going to appear in the SAGE case. I agree with you, you could not appear in all these little rate cases, but Ex Parte 196 was a general, broad case, and the SAGE thing is very serious, too.

"Senator Ellender. Was any other Government agency represented in that case in 196?

"Mr. Elliott. Yes, sir, the Department of Defense was represented, I know.

"Senator Ellender. What position did they take?

"Mr. Hyde. They filed the same type of appearance that we did.

"Senator Ellender: Was that a rigged case? That is, did one defend it? No one got up and tried to show whether a 7 per cent increase was justified or not?

"Mr. Hyde. No, sir."

In response to a specific comment by the Chairman, the Administrator of GSA thereupon indicated an intent to take part in similar cases in the future.

"Senator Magnuson. And 7 per cent is a big item for the Federal Government. I do not pass on the case, whether it was justified or not, but surely we have the responsibility of a definite interest in this matter, and interest, it seems to me, would justify being right in there as attorney of record.

"Mr. Floete. Mr. Chairman, I see no reason why we should not go in there. It will be my interest to see that we do.

"Senator Magnuson. I appreciate that"

1958

In the 1958 appropriation bill, increased funds for rate litigation and other items for the Transportation and Public Utilities Service were sought. The following occurred before the Senate Subcommittee. (Hearings, p. 541)

"Mr. Mills. On the contrary, we will need the cut restored more than ever. That will increase rate litigation. In any event, as I recall, your Committee indicated last year that the Transportation and Public Utilities Service should participate fully in these rate proceedings.

"At that time we had intervened in 5 major rate cases. In fiscal year 1957 we have participated in 24 major rate cases; so we have followed your mandate. We are only asking for a restoration for that purpose of \$39,000 which is sufficient for 5 or 6 technical personnel.

"Senator Magnuson. This Committee in effect practically directed you people to get into these things.

"Mr. Mills. We have taken it as a direction.

"Mr. Floete. We have taken it very seriously."

1958 Supplemental

A contrary attitude was exhibited, however, at the hearings before the same Committee on February 26, 1958, on the Second Supplemental Appropriation Bill, 1958, in which added funds were sought specifically for the rate litigation in connection with SAGE. Typical of the questioning is the following: (Hearing, p. 77)

"Senator Ellender: Why is it that you have intervened in this? Is that not a function of the FCC?"

"Mr. Mills: We feel that it is not, Senator. You will recall that the 84th Congress passed Public Law 968 relative to SAGE. Under Section 303 of that Act we were directed to proceed under our basic GSA Act, which provides that we must intervene in proceedings before Federal and State regulatory bodies and represent the Government as a shipper or consumer of the service.

"Senator Ellender: Shouldn't the FCC handle these matters without assistance from your office?"

"Mr. Mills. They act in effect in their capacity as a regulatory body, a quasi-judicial body, that weighs both sides of the case. They are interested both in the consumer interest and the investor - company interest. We appear under our statute in a limited capacity representing the Government as a user of a service. We come in like any other consumer in connection with our total bill."

"Senator Ellender. I have information to the effect that in the last few years you have intervened in State cases.

"Mr. Mills. That is correct . . .

"Senator Ellender. I can well understand your intervention in the SAGE cases, but I cannot understand why you should intervene in other cases where all consumers are represented by the FCC.

"Mr. Mills, Congress has directed us to intervene, sir.

"Senator Dirksen. Is your authority clear that you also make representation before the State regulatory commissions?"

"Mr. Mills. Yes, sir. . . . Now, within the framework of our statutory mandate to intervene in these regulatory proceedings, the only yardstick that is given the Administrator is what he determines to be advantageous to the Government in terms of economy, efficiency, or service.

"Where the bill to the Government is a substantial one or where a proposed rate increase will involve a substantial increase in the size of the Government's bill, the Administrator believes that under this legislation he should intervene in these regulatory cases and represent the Government as a shipper or user of the service.

"We do not presume to act as a regulatory agency in any quasi-judicial capacity determining the fair and reasonable rate. We limit ourselves to representing the Government's interest as a consumer or user of

services to see that the Government gets a fair bill for the service which it uses

"Mr. Mills. Could I inject one remark? As long as a statute is on the books, we in GSA interpret that we have to abide by the statute. If there is duplication in functions between FCC and us which we do not believe exists, we think it is the responsibility of Congress to clarify the matter, but as long as the statute reads as it does and imposes this responsibility upon us, our duty is to intervene in these cases. You will recall that GSA was severely criticized for having withdrawn from one of these cases 2 years ago, Ex Parte 196.

"Senator Ellender. It is not a question of withdrawing but the money requested is a little too much."

The Committee in reporting the bill made a general comment on the representation responsibility in its report and included an amendment to the bill.

The general comment is verbatim the language of the statement on National Transportation Policy used in the report on the 1955 supplemental bill previously noted, with slight modification to embrace utilities. The complete text is attached as Appendix B.

In substance, the report states the Government is interested in the "development and preservation" of transportation and communication systems, as well as charges that are "just and reasonable and non-discriminatory." These elements are directed primarily to the regulatory agencies but "other agencies and departments" should carry out their functions consistent with these objectives.

The fact that GSA's statutory standard is "economy" is said not to require opposition to general increases in rates of carriers or utilities simply because it would increase costs to the Government. It is up to the regulatory commissions to assure that increases will not result in more than a fair return; the regulatory agency "makes such investigations and adduces such evidence as will enable it to determine the proper level of earnings to maintain sound credit, yield a fair return, and provide adequate service;" thus the course of conduct under GSA's act should be "to assure that no disproportionate rate burden is placed on the Federal Government and that the particular interest and requirement of the Government as a consumer are made known. Questions of overall earnings, rate of return, and adequacy of service should be left to the Federal and State regulatory agencies, as clearly intended by the Congress and the State legislatures when the statutes establishing these agencies were passed."

The report added that an amendment had been added to the bill prohibiting expenditures "except to prevent discrimination against the executive agencies by any carrier or public utility in the matter of services, facilities, or charges as compared with other users of similar services or facilities of the carrier or public utility."

The bill, H. R. 10881, as reported, contained the following provision:

"No moneys appropriated under this Act shall be expended for any activity authorized by Section 201 of the Act of June 30, 1949, as amended (40 U. S. C. A. 481), or by section 303 of the Act of August 3, 1956 (Public Law 968) except for the purpose of assuring that the executive agencies are not discriminated against in terms of quality, kind, or charges for service as compared to other customers of the utility."

The matter was debated in the Senate on March 11, 1958 (Cong. Rec., pp. 3562 - 3566). The quoted amendment was ruled out on a point of order after the Chairman of the Appropriations Committee conceded the matter was legislation inappropriate to an appropriation bill. The only debate relating to the intent of the Committee as to the quoted restriction was as contained in the following excerpts:

"Senator Saltonstall . . . The Committee was trying to have the General Services Administration given this authority, because the members of the Committee wished to protect the Government in the cases the Senator from Ohio has been discussing.

"But in the opinion of the Committee, representatives of the General Services Administration have been appearing in cases in which their appearance was not necessary, and in that way the General Services Administration has spent for these services much more money than was needed to be spent.

"By means of this amendment, the Committee was trying to accomplish a reduction in the number of appearances made by representatives of the General Services Administration."

The Senator, however, also expressed the hope that the amount of money for the purpose of the bill would be increased in conference.

Other Senators construed the amendment as preventing GSA from continuing representation. For example:

"Mr. Lausche . . . It would completely deprive the General Services Administration of the ability in any way to represent the public interest before the Federal Communications Commission, except when there had been discrimination against the Government.

"I suggest that it would be difficult to find where there had been discrimination, because the rates charged to the Federal Government undoubtedly would be identical to the rates charged to the general public.

"Mr. Humphrey. Mr. President, the amendment . . . would force the General Services Administration to pull out of the three very important telephone and communication rate cases pending before the F. C. C."

The effect of the Congressional action on this 1958 Second Supplemental Appropriations should be gauged in relation to the action in the House of Representatives as well. A total of \$100,000 had been requested for SAGE Participation and supporting Administrative Operations, as well as authority to employ consultants at the special rate of \$100 per day. The House approved only \$75,000 but pointed out this would supplement the \$50,000 already made available from the President's Emergency Fund. The consultant rate was reduced to \$50 (Report No. 1373).

In appearing before the Senate Committee, GSA did not appeal this cut of \$25,000 in the amount originally requested (Hearing, p. 77), but GSA participation in regulatory proceedings became the subject of intensive questioning (Hearings, pp. 79-85). The Senate Committee recommended granting the \$100 rate for consultants on the grounds it had been advised that denial of that rate "would render GSA unable to continue to supply adequate technical experts in such rate proceedings," but reduced the amount authorized to \$37,500 without a statement of reasons (Senate Report No. 1344). Added to the report, however, was the extended general discussion as to GSA's role previously mentioned and quoted in full in Appendix B, and the addition of the restrictive provision, already noted, to limit GSA activity to regulatory cases involving discrimination.

On the floor of the Senate, a proposed amendment was offered by Senator Lausche to increase the \$37,500 back to the \$75,000 figure. (Cong. Rec., March 11, 1958, p. 3563). A letter was read from the GSA Administrator to the Chairman of the Appropriations Committee, March 7, 1958, pointing out that the restrictive language "substantially narrows" GSA authority. The Presiding Officer ruled the restrictive language out of order (Cong. Rec., p. 3566); by floor amendment, the \$37,500 was increased to \$50,000. In conference, the consultant rate was fixed at \$75 and the amount appropriated was increased to \$75,000 (House Report 1544).

The general statement of policy contained in the Senate Report did not appear in the Conference Report (House Report 1344) and the Statement of the Managers on the part of the House, contained in that report, included the following (p. 5):

"The managers on the part of the House do not agree to the statement of policy in the Senate report regarding the role of this service.

"Former Chairman Hyde of the Federal Communications Commission described the role the General Services Administration has in matters before the Commission as follows:

"Our duty is to protect all users -- private users, corporate users, Government users, when they appear before us in that capacity, to see that there are no discriminations favoring one class as against another; and we do endeavor to protect all; we will call them consumers in a collective way. That does not mean that any person who feels he has a view to urge should not seek to make a presentation in this kind of case. I believe that they (GSA) have a duty to watch out for their interests from their viewpoint, and that is not a duplication of our work.

"The House managers are of the opinion General Services Administration's responsibilities are clearly established by law in this matter.

"The conferees expect the General Services Administration to act with good judgment and not enter into any harassing activities--to avoid trivialities and protect the interest of the Government."

1959 Appropriation

In reporting the bill (H. R. 11574), the House Committee reduced the over-all request for TPUS from \$2,000,000 to \$1,800,000. (House Report 1543). The report stated:

"Last year this Service received the complete support of the General Accounting Office when the Committee asked if it is worth the money to the taxpayers." (Report, p. 9).

There was also set forth the statement by FCC Commissioner Hyde as quoted in the Conference Report on the 1958 Supplemental Appropriation.

The Senate Committee increased the amount by \$100,000 and incorporated the following in the report (Senate Report No. 1656):

"Section 201 of the Federal Property and Administrative Services Act of 1949, under the title for property management, provides that the Administrator shall, in respect of executive agencies, and to the extent that he determines that so doing is advantageous to the Government in terms of economy, efficiency, or service - -

with respect to transportation and other public utility services for the use of executive agencies, represent such agencies in negotiations with carriers and other public utilities and in proceedings involving carriers or other public utilities before Federal and State regulatory bodies.

"The committee believes that GSA has performed satisfactorily and with resulting savings to the taxpayers in negotiations with carriers and other public utilities for advantageous rates, charges, tariffs, routings, etc.

"Complaints have been received by the committee, however, regarding the participation of GSA in proceedings involving carriers or other public utilities before Federal and State regulatory bodies, that GSA representatives have exceeded a clear interpretation of the law in connection with such proceedings.

"In the opinion of the committee, GSA should act in such proceedings to protect the interests of the Government's executive agencies as users of such utilities, in the same fashion as any other user of such utilities without interfering with the functions of the regulatory bodies before whom they make appearance."

The Conference fixed \$1,850,000 as the amount to be authorized. (House Report 2237). The Bill was so enacted but was vetoed by the President for reasons not related to TPUS. It was later reenacted as H. R. 13856, Public Law 85-844, without developments of interest to this question.

1960

Before the House subcommittee, there was again extensive discussion of GSA regulatory participation. A list of transportation cases active during the first half of fiscal year 1959 was supplied (Hearings, p. 1327) as well as a similar list of public utility cases (Hearings, p. 1338). There was extended discussion of the SAGE project and of the relationship of FCC to GSA in these matters. GSA was described as an attorney or advocate and FCC as possessing the legal authority to determine fair and reasonable rates. (Hearing, p. 1334, 1345). There was no discussion before the Senate subcommittee nor in committee reports.

1961

Before the House subcommittee, litigation matters were again reviewed in some detail (Hearing, p. 184-219). A letter of the Comptroller General, November 21, 1959, to the Chairman of the House Committee on Appropriation was put in the record with excerpts of a Report indicating the Government had incurred excessive costs in communications through erroneous application of rates and inefficient administrative practices on the part of Government agencies. Various aspects of GSA representation activities and relations between GSA responsibility and that of the regulatory agencies were discussed. A letter of the U. S. Chamber of Commerce dated March 18, 1960, to the chairman of the subcommittee was also placed in the record (Hearings, p. 1222). The letter urged a reduction of \$1,090,000 in the appropriation of \$2,400,000 for the Transportation and Public Utilities Service. This was stated to be for the purpose of reducing the appropriation for all purposes to 1957 levels. No comment was made by the Committee in its report.

In the Senate hearings there was placed in the record a letter of May 20, 1960 from the U. S. Chamber of Commerce to the Chairman of the subcommittee substantially the same as the March 18, 1960 letter mentioned above, and a copy of GSA's statement in reply. (Hearings pp. 229-231). In its report the Senate Committee urged the reappraisal by GSA of this function as mentioned above.

SAGE LEGISLATION

A Military Construction Act,
P. L. 968 - 84th Congress
(Approved August 3, 1956)

This Act originated as H.R. 9893, 84th Congress, on March 12, 1956. Section 303 proposed to authorize the Secretary of the Air Force (1) to procure communication services for SAGE (semi-automatic ground environment system), (2) to make contracts therefor, for not more than 10 years, and (3) to incur contingent liabilities not exceeding \$222,000,000 at any one time. The Secretary was also directed to utilize to the "fullest extent" of services from communication common carriers, including cooperatives.

The Committee on Armed Services in reporting the bill (House Report No. 1890) referred to decisions of the Comptroller General which had challenged the right of the Air Force to make 10 year contracts (Report, pp. 18-21).

Surveillance of Rates

"In view of the magnitude of the SAGE program and the large number of leased communications which will be authorized, it is the view of the Committee that the rates charged should be kept under strict surveillance by the appropriate Governmental agencies. In this connection, the Committee wishes to draw specific attention to section 201(a)(4) of the General Services Administration Act which grants the Administrator authority to represent executive agencies of the Government in negotiations with carriers and other public utilities and in proceedings involving carriers or other public utilities before Federal and State regulatory bodies."

The Senate Committee stated substantially the same intent in its report stating that the Committee "feels that the rates charged for these services should be rigidly scrutinized." (Senate Report No. 2364, p. 9). The Committee also stated:

"The Committee notes that pursuant to the authority granted by the above-cited section and an understanding reached by the General Services Administration and the Department of Defense, the Department has already intervened in a proceeding currently pending before the Federal Communications Commission involving the bulk of the communications services for the SAGE project.

"It is desired that the Department of the Air Force maintain constant surveillance of the rates charged and report thereon to the Committee semiannually. . ."

The Conference Report (House Report No. 2641) substantially reiterated the comments in the Senate Report, giving indication, however, of an intent that the rate surveillance be performed by Air Force (Report, p. 35).

The foregoing, while indicating a clear intent for strong surveillance, raised question as to whether Air Force or GSA was to perform this duty. The question of representation and an inquiry into the level of charges for the communications services were the subject of considerable testimony during the hearings on H. R. 9893 and on the Department of the Air Force Appropriations for 1957, in March 1956. The Air Force representatives took the position that its interest was limited to the tariff rate, that any efforts to review the rates would be duplicating the work of F. C. C. and other regulatory agencies. (Hearings, pp. 685, 693, 698, 717 and 742).

At the hearings on the 1957 appropriations there was introduced a "Report to the Committee on Appropriations, United States House of Representatives on SAGE and DEW, January 14, 1956. It stated in part (House Hearings, p. 678):

"C. Rates.

"With ultimate annual rentals of possibly as high as \$240 million at present rates, the desirability of early action to reduce rates wherever possible is obvious. That this action should be prompt and vigorous is evident when it is realized that even a 1 percent overall reduction would effect a saving of possibly \$2.5 million per year.

"It may be well, at this point, to discuss the recent rate filing with the FCC by A. T. & T. long lines. Under date of December 6, 1955, following a series of prehearing conferences, a formal hearing was held before the FCC.

"It is noted that although the Air Force, as a party of very substantial interest because of the impact of the proposed rates on the annual charges for SAGE circuits, participated in the prehearing conferences, it was not represented at the formal hearings.

* * *

"It is the view of staff representatives that this matter of possible rate adjustments for SAGE circuit components is one that has been almost completely ignored by the Air Force. In fact, in the entire area of rates, there is a marked philosophy of 'laissez faire,' relying on the communications industry to initiate adjustments, and then trusting that the industry and the commissions will see that the Government receives its fair share . . ."

Portions of other statements by Air Force representatives, commenting on the staff report, follow:

"The Air Force does not consider that it would be justified in creating a large staff of communications rate experts who would, in effect, duplicate the work of Federal and State regulatory bodies in reviewing tariff rates. Although a certain degree of review is certainly justified and necessary, the size of the staff and scope of review must be kept within reasonable limits. . . ." (Hearings, p. 685).

The following is from the concurrent hearings by the Senate Subcommittee on the Military Public Works Construction Act (S. 3122, H. R. 9893):

"General Blake. . . We have been paying the going rate, which I might say we think is fair. . . (Hearings, p. 544).

* * *

"Senator Jackson. You have adequate authority and are willing to stand by it to deal with this problem so that you can protect the Government's interest in not being overcharged and being improperly billed on an unjust basis?

"General Blake. Let me put it this way. I have enough faith in the regulatory bodies concerned, and in our experience in doing business with the telephone companies of the country, Bell, Independent, Cooperatives, to think that we get our money's worth for the taxpayer. (Hearings, p. 548).

* * *

"Mr. Johnson (AF). The way this has worked, let's take the particular tariff [bulk rate] that has been filed with the Federal Communications Commission.

"That is the only one that is in any way tied up with SAGE at the present time, and, incidentally, the Air Force did address a request to American Telephone & Telegraph Co. indicating our interest in this kind of rate modification. They of course did make the computations here and filed their tariff. This is a normal way of doing business. That tariff is currently being considered by the Federal Communications Commission. (Hearings, p. 550).

* * *

"Senator Jackson. . . .

"As you know, this problem of what is or is not a fair rate is a matter of continuous litigation in 48 States.

"I don't think you would want to leave the impression that these rates are achieved amicably or are fixed amicably, because lawyers would go out of business in the rate field. . . . Those things are litigated constantly, and I am just wondering whether the Air Force has the personnel and the facilities available to it to determine what is or what is not a fair rate.

* * *

General Blake (AF): I never thought of it this way before, but maybe this very fact of constant litigation by other users and by the regulatory bodies protecting the public interest is the reason why we feel confident that we can continue to get our money's worth. (Hearings, p. 557).

* * *

"Senator Jackson. Do you have lawyers who are qualified by experience and background to deal with public service agencies on the rate questions?

"Do you have public utility accountants who thoroughly understand all the varying rules in all the different States?

"You are really walking into one now, that can know what is the fair return? Are you aware of the fact that in one State the rate of return allowed to a telephone company may vary from another, because they follow a different formula and a different doctrine? Are you aware of that?

"General Blake(AF): Yes, sir.

"Senator Jackson. Do you have lawyers in the Air Force and available to you that are competent to deal with this problem all over the country?

* * *

"Mr. Johnson (AF). Absolutely not, Senator." (Hearings, p. 558).

In discussing House Resolution 444, adopting rules for the consideration of H.R. 9893, the following was included in a reference to the SAGE program in the bill: (Cong. Rec. 5365).

"And, I am happy to be able to report to the House this afternoon that as a result of the discussions that took place between the leadership of the House and the leadership of the Committee on Armed Services and between the members of the Committee on Rules and the discussion that took place during the hearings on this bill between the leadership and the members of the Committee on Armed Services, the gentleman

from Georgia (Mr. Vinson), the Chairman of the Committee on Armed Services, will offer an amendment at the proper time in the consideration of this bill that will protect the interests of this country in connection with the SAGE program and will save hundreds of millions of dollars for the taxpayers of the United States."

The Chairman of the House Committee originally stated on the floor that his amendment to the bill to insert Section 303 "will require the General Services Administration to keep constant surveillance over the rates and to appear before Federal and State regulatory bodies to insure that the Government receives every possible benefit in the ratemaking process as is possible." (Cong. Rec., April 10, 1956, p. 5368). Later the Chairman read Section 201(a)(4) of GSA's Act and pointed to the possibility that DOD might exercise the proviso following that paragraph. He indicated that if DOD should use this exemption the Committee would "follow up and watch any rates charged." He also expressed the hope the Secretary of Defense would not exercise the exemption and thereby "to eliminate the General Services Administration from any consideration of these very important matters." (Cong. Rec., p. 5584).

Discussion on the floor between the Chairman of the Committee and the Majority Leader confirmed this intent. There was inserted in the record, however, an exchange of correspondence between the Majority Leader and the Administrator of GSA, in which the latter, by letter of July 5, 1956, indicated a GSA DOD agreement for GSA to handle the matter. (Cong. Rec. 11028).

While H. R. 9893 was vetoed in connection with sections other than Section 303 (House Document No. 450), it was reenacted so far as that section was concerned as H. R. 12270 (Public Law 968, 84th Cong., 70 Stat. 991) without further discussion of Section 303 (Senate Report No. 2775).

As enacted, the provision read:

"The Secretary of the Air Force is authorized to procure communication services required for the semiautomatic ground environment system . . . Negotiations with communication common carriers, including cooperatives, and representation in proceedings involving such carriers before Federal and State regulatory bodies where such negotiations or proceedings involve contracts authorized by this paragraph shall be in accordance with the provisions of Section 201 of the Act of June 30, 1949, as amended, (40 U. S. C. A. Sect. 481)." (GSA's Act).

APPENDIX A

EXCERPTS FROM

SENATE REPORT NO. 2034

SUPPLEMENTAL APPROPRIATION BILL, 1955

(H. R. 9936)

NATIONAL TRANSPORTATION POLICY

Testimony presented before the committee indicated that some confusion may exist as to the proper policies to be followed by executive agencies of the Government in their relations to carriers and public utilities. There was not sufficient evidence presented at our recent hearings to make a fair appraisal of the extent of such confusion, but it is deemed appropriate to outline here certain basic propositions in the interest of assuring for the future an administration of existing statutes consistent with the congressional intent.

The sound objective of our national transportation policy, as set forth in the declaration contained in the Transportation Act of 1940, is the development, the coordination, and the preservation of a national transportation system by water, highway and rail, as well as other means, adequate to meet the needs of the United States, of the Postal Service, and of the national defense. To achieve this ultimate, it was recognized in the declaration that it was necessary to "foster sound economic conditions in transportation and among the several carriers, and to encourage the establishment and maintenance of reasonable charges for transportation services, without unjust discriminations, undue preferences or advantages, or unfair or destructive competitive practices." While the declaration of policy by its terms is directed primarily at the establishment of principles for the guidance of the Interstate Commerce Commission in the administration of the Interstate Commerce Act and in the regulation of carriers subject to that act, other agencies and departments of the Government are expected to carry out their respective functions in relation to these carriers in such a way as to be consistent with the objectives of the transportation policy.

For instance, the Administrator of General Services is required by the Federal Property and Administrative Services Act to represent executive agencies before Federal and State regulatory bodies in proceedings involving transportation and other public utility services to the extent that he determines that so doing is advantageous in terms of economy, efficiency, or service. The fact that one of the guiding standards is "advantageous in terms of economy" would not require opposition to proposed general increases in rates of carriers or utilities simply because such increases would increase the cost of operations of certain Government departments. Opposition for such a reason would constitute a misconception of duty, a narrowness of outlook, and a misconstruction of the intent of Congress. Efficiency and proper service cannot long be maintained by carriers and utilities unless they are accorded a rate structure that will provide them with sound credit and yield them a fair return. If the increases sought would not yield more than enough for such purposes, then no Government agency or department should oppose such increases because ultimately the ability of the Government itself to render efficient service and to insure our national security is dependent upon the maintenance of sound and efficient systems of transportation and other utilities. The importance of these considerations far outweighs the importance of a showing of greater economy in a department's expenditures for transportation. In short, a proper interpretation of the standards of the Federal Property and Administrative Services Act calls for a course of conduct in connection with appearances before regulatory bodies consistent with the requirements of the national transportation policy.

The same thing is true in connection with the exercise by the General Services Administrator or other executive department officials of the right to negotiate with carriers for transportation services at rates lower than those set by regulatory agencies for application to the general public. It has long been recognized that transportation charges may be unreasonable because of being too low, and any policy of bargaining for rates or playing one carrier off against another with the primary objective of getting the lowest possible transportation rate without regard to the consequences for the carrier is promotive of destructive competitive practices and fosters unsound economic conditions in transportation contrary to the national transportation policy.

Accordingly, all Government agencies and executive departments are admonished to pay full heed to the national transportation policy in their dealings with carriers.

APPENDIX B

EXCERPTS FROM

SENATE REPORT NO. 1344

SECOND SUPPLEMENTAL APPROPRIATION BILL, 1958

(H. R. 10881)

Pages 10 - 11

The committee recommends that the limitation for per diem for individuals be increased from \$50 to \$100 per day, as specifically authorized by the President in allocating his emergency funds for this purpose. The committee is advised that the denial of this authorization would render GSA unable to continue to supply adequate technical experts in such rate proceedings.

The Government is vitally concerned with the development and preservation of adequate nationwide transportation and communications systems, as well as seeing to it that the charges for these services are just and reasonable and nondiscriminatory. These objectives of the Government are clearly set forth in the Transportation Act of 1940 and the Communications Act of 1934. While these declarations of policy by their terms are directed primarily at the establishment of principles for the guidance of the Interstate Commerce Commission and the Federal Communications Commission, other agencies and departments of the Government should carry out their respective functions in such a way as to be consistent with the objectives of these policies.

For instance, the Administrator of General Services is required by the Federal Property and Administrative Services Act to represent executive agencies before Federal and State regulatory bodies in proceedings involving transportation and other public utility services to the extent that he determines that so doing is advantageous in terms of economy, efficiency, or service. The fact that one of the guiding standards is "advantageous in terms of economy" would not require opposition to proposed general increases in rates of carriers or utilities simply because such increases would increase the cost of operations of certain Government departments. Opposition for such a reason would constitute a misconception of duty, a narrowness of outlook, and a misconstruction of the intent of Congress. Efficiency and proper service cannot long be maintained by carriers and utilities unless they are accorded a rate structure that will provide them with sound credit and yield them a fair return.

It is the responsibility and function of the regulatory agency to assure that increases sought by carriers and utilities result in a fair return and no more than a fair return. The regulatory agency bears the responsibility for regulating the overall level of earnings allowable to a carrier or a utility and that agency makes such investigations and adduces such evidence as will enable it to determine the proper level of earnings to maintain sound credit, yield a fair return, and provide adequate service. No Government agency or department should oppose increases requested by carriers or utilities merely because there may be some advantage "in terms of economy," because ultimately the ability of the Government itself to render efficient service and to insure our national security is dependent upon the maintenance of sound and efficient systems of transportation, communication, and other utilities.

In short, a proper interpretation of the standards of the Federal Property and Administrative Services Act calls for a course of conduct in connection with appearances before the regulatory bodies and interventions in rate proceedings before such bodies which seeks to assure that no disproportionate rate burden is placed on the Federal Government and that the particular interest and requirements of the Government as a consumer are made known. Question of overall earnings, rate of return, and adequacy of service should be left to the Federal and State regulatory agencies, as clearly intended by the Congress and the State legislatures when the statutes establishing these agencies were passed.

The committee has therefore provided that no moneys appropriated by this act shall be expended for representation of executive agencies in proceedings involving carriers or other public utilities before Federal and State regulatory bodies under authority of section 201 of the act of June 30, 1949, as amended (40 U.S.C.A. sec. 481) or of section 303 of the act of August 3, 1956 (Public Law 968, 84th Cong.) except to prevent discrimination against the executive agencies by any carrier or public utility in the matter of services, facilities, or charges as compared with other users of similar services or facilities of the carrier or public utility.

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APPENDIX 2
COMPTROLLER GENERAL OF THE UNITED STATES
Washington 25

B-102080

Oct. 19, 1954

Mr. P. H. Shoemaker, Chairman
Committee on Transportation
Commission on Organization of the
Executive Branch of the Government
441 G Street, N. W.
Washington 25, D. C.

Dear Mr. Shoemaker:

Reference is made to your letter of September 9, 1954, concerning the statement of the national transportation policy, as contained in the Interstate Commerce Act, and the discussion of that policy which appears in a letter from this Office to the Administrator of General Services, dated April 13, 1951, B-102080, and in Senate Report No. 2034, on the Supplemental Appropriation Bill, 1955, H.R. 9936, 83d Congress, 2d Session. After calling attention to these matters, you request the opinion of this Office on two specific questions, with an explanation of the reasons why the indicated position is taken by this Office, if such questions are answered in the affirmative. Those questions are:

"1. Do traffic managers for the Federal Government have responsibilities under the national transportation policy which require that they carry out their duties in a manner different from the manner in which they would act if the national transportation policy did not exist?

"2. Is the following a reasonable interpretation of Acting Comptroller General Yates' position?

"Enforcement of the national transportation policy is not the function of traffic managers of the federal government."

These questions, in the form stated, seem necessarily to presuppose that traffic managers for the Government are charged with some duty to enforce the national transportation policy so declared. However, no explicit statutory provision imposing such a duty upon them has been found and the consideration given the question of enforcing the policy in decided court cases seems rather to support the view that it was intended to guide the operation of regulatory bodies, such as the Interstate Commerce Commission, in their efforts so to regulate carriers as to result in the establishment of an adequate and efficient transportation system, fair to all types of regulated surface

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carriers and to the general public as well. In this connection, the Transportation Act of 1940, 54 Stat. 898, 899, which enacted the national transportation policy in amending the Interstate Commerce Act, declared it to be the policy of the Congress " * * * to provide for fair and impartial regulation of all modes of transportation subject to the provisions of this Act * * *" and enumerated specific objectives, in substance, as follows:

1. To recognize and preserve the inherent advantages of each mode of transportation.
2. To promote safe, adequate, economical, and efficient service.
3. To foster sound economic conditions in transportation and among the several carriers.
4. To encourage the establishment and maintenance of reasonable charges, without unjust discriminations, undue preferences or unfair or destructive competitive practices.
5. To cooperate with duly authorized state officials.
6. To encourage fair wages and equitable working conditions in the transportation industry.

The closing sentence of the national transportation policy, as enacted, reading "All of the provisions of this Act shall be administered and enforced with a view to carrying out the above declaration of policy," indicates that the stated policy is an integral part of each of the ensuing subdivisions, or parts, of the Act and must be read as if written separately into each of the several parts.

The role of the national transportation policy in connection with determinations made by the Interstate Commerce Commission, has been the subject of comment in Interstate Commerce Commission v. Inland Waterways Corporation 319 U. S. 671, especially the dissenting opinion of Mr. Justice Black at pages 697-703; McLean Trucking Company v. United States 321 U. S. 67; Eastern Central Motor Carrier Association v. United States 321 U. S. 194, and United States v. Pennsylvania Railroad Company, 323 U. S. 612, all of which discuss the policy in more or less general terms and in relation to its impact upon the actions of the Interstate Commerce Commission in connection with its regulatory functions and duties. No mention is made in any of these cases of the effect of the stated policy on the actions of members of the other

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administrative branches of the Government in their dealings with carriers, and while it does not appear that any action or operation of officials of other administrative branches of the Government were involved in those cases, they do not appear to afford any expression of obligation upon shippers generally in that connection which would serve as a guide or direction to Government officials in the discharge of their duties as traffic managers.

When other departments or agencies of the Federal Government deal with the carriers, they represent the Government usually as a shipper or user of transportation services, and their relationship to the carriers is comparable to the relationship of other shippers or users of such services to such carriers. A commercial shipper, upon locating or establishing a new plant or facility to manufacture or process a product, becomes concerned with the problem of ascertaining whether satisfactory rates are available via carriers by rail, motor, water, or otherwise, both on the raw materials inbound to, and the manufactured products outbound from, the new plant, and in undertaking to procure the establishment of such rates, if they are not available. To this end negotiations may be undertaken with the carriers involved and if they are completed satisfactorily, the carriers ordinarily will initiate the necessary action to establish the proper rates by filing tariffs with the Interstate Commerce Commission, such tariff rates to become effective on statutory or other notice, subject to suspension or rejection for due cause by the Interstate Commerce Commission or other controlling regulatory body. Obviously the same process is available when a department or agency of the Federal Government initiates a new program authorized by the Congress, with the exception that if the negotiated rates are less than established tariff rates they may be made available in the form of "Section 22" tenders or quotations, rather than in the regularly published tariffs to be filed with the Interstate Commerce Commission.

As pointed out in the letter from this Office dated April 13, 1951, B-102080, to the General Services Administrator, it is difficult to understand how a Government traffic manager, engaged primarily in the procurement of transportation services, properly can give effect, in his day-to-day dealings with the carriers, to the provisions of the national transportation policy which require for their implementation consideration of such variable factors as the reasonableness of charges, the maintenance of sound economic relations in transportation and among the carriers, the prevention of unjust discrimination and destructive competitive practices — all as they may be affected by the particular transportation services which it is the function of the traffic manager to procure. The traffic manager ordinarily does not have readily available the vast amount of data concerning the financial

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structure of the carriers, their costs of operations, the value of their plant and equipment, the extent of their operations, their current earning position, and many other matters that seem pertinent to the proper enforcement of the national transportation policy. What might seem to one traffic manager or to one set of traffic managers as contributing to "sound economic conditions in transportation" or as constituting "unjust discrimination" or "destructive competitive practices" might seem to another traffic manager or another set of traffic managers as constituting neither an unjust discrimination, nor a destructive competitive practice, nor as contributing to unsound economic conditions in transportation. The question as to what constitutes an unjust discrimination or a destructive competitive practice must be determined in the light of the pertinent surrounding facts in particular situations. In order that the prime objectives of the Interstate Commerce Act against unjust discrimination, unreasonableness, etc., may be attained uniformly in its administration, the courts generally have required that such matters, constituting administrative questions, be considered as primarily within the jurisdiction of the Interstate Commerce Commission for determination, in the light of the particular facts and circumstances involved. It is believed to be expecting too much to assume that traffic managers for the Government, operating in the widely unrelated fields in which the various departments of the Government have need for transportation services, peculiar to their individual requirements, would attain anything less than chaos in the acceptance or rejection of rate tenders, if the traffic managers are supposed to give effect to their individual ideas of what the national transportation policy requires in relation to the particular services, which it is their function or duty to procure.

The discussion of the national transportation policy contained in Senate Report No. 2034 on the Supplemental Appropriation Bill, 1955, has been carefully noted and considered. The question of Government appearances in connection with rate increase proposals was discussed in testimony before the Senate Committee on Appropriations by Mr. Edmund F. Mansure, Administrator of the General Services Administration, during hearings on H.R. 9936. Mr. Mansure was questioned by the Committee with respect to the appearance of personnel of the General Services Administration before the Interstate Commerce Commission and other regulatory bodies in opposition to general rate increases sought by the carriers or utilities, and was asked to explain the authority for such activities. Mr. Mansure replied that such appearances were authorized and required by the provisions of paragraph (4), section 201 (a) of the Federal Property and Administrative Services Act of 1949, Public Law 152, 81st Congress,

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and he was granted permission by the Committee to furnish subsequently a more complete explanation of such activities by the personnel of his agency. See, in this connection, pages 945 to 949 of the Report of Hearings before the Senate Committee on Appropriations on the Supplemental Appropriation Bill, 1955, H.R. 9936. In the material thus furnished, it was explained that since the Government is one of the largest--if not the largest--single user of transportation and utilities services, it was deemed right and proper that it be represented at proceedings before the regulatory bodies during the consideration of requests for general increases in rates and charges, so that it could furnish a proper evaluation of the effect of such general increases upon its costs in connection with future procurement programs. In other words, the Government as a shipper or user of the service should have "its day in court" along with other shippers and users, and where proposed increases were considered excessive it did not seem improper for the Government to oppose the granting of the general increases sought by the carrier or utility. This position appears highly logical and in keeping with the terms and provisions of the cited Federal Property and Administrative Services Act of 1949. The General Accounting Office is without information warranting a conclusion that opposition by Government agencies to proposed general increases in rates has been undertaken solely because such increases, if made effective, would increase the cost of Government operations, though, of course, it agrees that such proposed increases should not be opposed solely to accomplish a saving of appropriated funds available to the several departments and agencies. The occasion for, and the extent of, the opposition by Government personnel to requests for general increases would seem to be a matter for the exercise of sound, informed, administrative judgment in individual cases. Abuses of discretion in any case will no doubt be properly adjusted when brought to the attention of the responsible officials in the departments or agencies involved. The General Accounting Office agrees, also, that the bargaining for rates or the playing off of one carrier against another by Government procuring officials, where it is known to the Government negotiators that such procedure is destructive of the ability of the competing carriers to function, is not justified. It is not understood, however, how administrative officials of the Government can assume to determine that rates voluntarily tendered by the carriers should be rejected because, in the opinion of Government personnel involved, the rates may not be sufficiently productive of profitable revenue.

In view of what has been said above, the answer to the first specific question on page 2 of your letter is that the requirements of the national transportation policy are believed to be too comprehensive and indefinite to permit any satisfactory application by

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traffic managers for the Government in the discharge of their function in procuring transportation services. With respect to the second question, you are advised that it was and is the considered opinion of the General Accounting Office that traffic managers of the Federal Government are not charged directly with responsibility for the enforcement of the national transportation policy and that any attempt on their part to give it effect in procuring services at proper rates for the Government would result in uncertainty and confusion in the award of Government business, with understandable protest and objection from the carrier or carriers tendering rejected lower rates.

Considering now your reference particularly to the last paragraph and last sentence of the letter of April 13, 1951, from former Acting Comptroller General Yates to the Administrator of General Services, it is proper to call attention to the fact, as stated in the first paragraph of that letter, that it was written in response to a request from the addressee for review of a proposed regulation and for advice "as to concurrence or recommendations for changes and improvements therein." It was in the light of the request so made that the letter of April 13, 1951, was written. The conclusion expressed in that letter with respect to the effect of the national transportation policy is considered proper and will be given effect by this Office in the audit and settlement of transportation accounts. Applying that conclusion this Office will endeavor to see that payments made for services procured at reduced rates are audited in conformity with the reduced rates tendered and accepted. It will not assume to pass upon any question as to whether the rates are so tendered are or are not in conformity with the declarations of national transportation policy for the reason that it considers that the determination of any such question requires a consideration of extensive pertinent factors for the evaluation of which it does not have the necessary facilities, and for the further reason that it does not have authority finally to resolve any question of transgression of the national transportation policy that may be involved. If aggrieved carriers who consider themselves unwarranted victims of a disregard of the national transportation policy, notwithstanding that the award of the Government business by reason of which they may consider themselves aggrieved was made pursuant to specific statutory authority for them to furnish transportation for the United States at free or reduced rates, elect to contest the assumed

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violation, this Office considers that their protests or objections can be resolved finally and authoritatively only by a reference of the question to the Interstate Commerce Commission or the courts.

Sincerely yours,

/s/ E. L. Fisher
Acting Comptroller General
of the United States

E-102080

April 13, 1951

The Administrator of General Services

General Services Administration

My dear Mr. Administrator:

Reference is made to your letter dated March 9, 1951, furnishing copies of a proposed "PERSONAL PROPERTY MANAGEMENT REGULATION" to be issued by your office on the subject of "Transportation and Traffic Management," designed, as stated in the mentioned letter, "to effect economy and efficiency in the transportation of Government property, including the procurement of traffic information, rates and services." Your office requests that this Office review the document and furnish advice as to concurrence or recommendations for changes or improvements therein.

As indicated in your letter, section 201 of the Federal Property and Administrative Services Act of 1949, Public Law 152, 81st Congress, provides that the Administrator shall to the extent that he determines it is advantageous to the Government in terms of economy, efficiency, or service, "prescribe policies and methods of procurement and supply of personal property and nonpersonal services, including * * * transportation and traffic management." This is consistent also with the declaration of policy contained in section 2 of said act. The present proposed regulation appears to be a step in

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the direction of systematic and coordinated procedures in the procurement of transportation services and generally should promote orderly improvements and effectiveness in practices covering the transportation of Government property. Any proposal which contemplates economy and efficiency in Government transportation and traffic management, as in this instance, if properly managed and observed, should result in the conservation of public funds appropriated for that purpose.

Giving consideration to particular provisions of the proposed regulation, it is believed that the addition of a requirement in paragraph 4 for showing car number and initials of cars involved in carload shipments would contribute to definiteness, particularly in instances in which shipments may move under commercial bills of lading. It seems possible also that administrative agencies would be aided in their functioning under this paragraph if required to retain a copy of each bill of lading for a stated period of, say, not less than three years.

Concerning item 5, it is noted that the word "recurring," in the third line of this item, may be subject to different interpretations. It may be advisable to specify the number of carload or truckload movements within a definite period

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of time, as, for example, 10 or more carload or truckload movements within any single month. There has been an urgent need for a program of the type contemplated, to afford the Government a sound basis for initiation of proper proceedings before regulatory bodies or other action seeking favorable adjustments in applicable freight rates and charges or modification of unreasonable tariff requirements.

It is noted that item 6(a) makes specific reference to section 22 of the Interstate Commerce Act, as to interstate movements, and to comparable provisions of state regulatory laws, as to intrastate movements. To bring attention to the availability of other transportation agencies authorized to carry Government freight free or at reduced rates, it is suggested that item 6(a) might well include also a reference to 49 U.S.C. 317(b), 906(c), 1006(c), and a general reference to similar provisions in state regulatory laws, pertaining to motor common carriers, water common carriers, and freight forwarders, respectively.

In connection with item 6(d) it may be observed that prompt notification, to this Office, of changes created by agreement between Government agencies and carriers affording the Government lower-than-tariff rates, or rates and services not authorized in published tariffs, is essential

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to the full protection of the Government's interest in the audit of carriers' bills by the General Accounting Office. Accordingly, it would assist in the orderly examination of affected transportation accounts and tend to minimize disruption of the audit program conducted by this Office, if item 6(d) may be amended to embody a direction that a signed copy of any quotation or concession in the matter of rates or services, or, if no such signed tender results, then copies of the forms designated as Appendix A and Appendix B, be forwarded directly, and promptly upon signing, to the General Accounting Office, wherever the negotiations result in a concession or accepted quotation.

Since the proposed regulation has for its indicated purpose the effectuation of economy and efficiency in the transportation of Government property, being consistent in this respect with the general purpose of section 201 of the Federal Property and Administrative Services Act of 1949 and with the imperative need for prudent and efficient application of appropriated moneys to the payment of the considerable transportation bill annually incurred by the Government, the purport of item 6(f), if intended to serve as an inviolate rule for the guidance of public officials Responsibility for the transportation activities of the Government, seems likely to

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inject considerations which because of their generalities may render negotiating operations so uncertain as to preclude the Government from advantages, to which, under other provisions of the act, as construed by the courts, it could become entitled through free negotiation. Said item 6(f) apparently requires executive agencies, including the General Services Administration, in their function of negotiation, to observe the statement of the national transportation policy enunciated in the Transportation Act of 1940, 54 Stat. 898, 899, as a controlling element in the determination of the propriety of "negotiations for, and the unsolicited tender by carriers of, special rates, and services." The pertinent provision of the law which precedes part 1 of the Interstate Commerce Act, states:

"It is hereby declared to be the national transportation policy of the Congress to provide for fair and impartial regulation of all modes of transportation subject to the provisions of this Act, so administered as to recognize and preserve the inherent advantages of each; to * * * foster sound economic conditions in transportation and among the several carriers; to encourage the establishment and maintenance of reasonable charges for transportation services, without unjust discriminations, undue preferences or advantages, or unfair or destructive competitive practices * * *."

This provision of the law amended the Interstate Commerce Act, chapters 1, 8, 12, and 13 of 49 U.S.C., which relate to the regulation of carriers by railroad, by motor vehicle, and by water, and freight forwarders, respectively. Implementation

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of the national transportation policy as here set forth appears to be entrusted to the care and management of the Interstate Commerce Commission which is peculiarly equipped and has or can assemble and examine comprehensive data and information necessary to give proper effect to this policy. In this connection it is noted that the Supreme Court of the United States has characterized the national transportation policy as the "Commission's guide to 'the public interest.'" See McLean Trucking Co. v. United States, 321 U.S. 67, 82, where it is stated:

"* * * That policy, which is the Commission's guide to 'the public interest' * * * demands that all modes of transportation subject to the provisions of the Interstate Commerce Act be so regulated as to 'recognize and preserve the inherent advantages of each; to promote safe, adequate, economical, and efficient service and foster sound economic conditions in transportation and among the several carriers * * *.'" "

And in I.C.C. v. Parker, 326 U.S. 60, 66, it is stated that the declaration of the national transportation policy "requires administration so as to preserve the inherent advantages of each method of transportation" and that "the solution lies in the balancing by the Commission of the public interests in the different types of carriers with due regard to the declared purposes of Congress." (Underscoring supplied.)

It is difficult to understand how shipping or procuring officers of the Government, not having available to them the detailed facts normally produced before, or available to, the

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regulatory bodies, and not enjoying ordinarily the broad perspective which those bodies acquire through their comprehensive study of related transportation facilities, can be expected adequately to balance and apply the factors inherent in the application of the stated policy or how they can, with any degree of uniformity and certainty, govern their acceptance or rejection of tenders by carriers primarily through attempted observance of the elements of such policy. The statement of the national transportation policy in the Interstate Commerce Act makes no reference to section 22, or to similar exempting provisions which sanction transportation performed for the Government free or at reduced rates, and neither section 22 nor other similar provisions have been amended to indicate that an obligation is imposed on Government shipping officers to condition their acceptance or rejection of any tender of service free or at reduced rates because of a consideration of the national transportation policy. On the contrary section 22 of the act seems to have been viewed as making it incumbent upon Government shipping officers to obtain and accept tenders of reliable carriers where it is established that such action will result in reduced transportation cost without sacrifice of efficiency. In this connection it is noted that as recently as 1944, the Supreme Court of the United States, in considering operations

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under an agreement made in pursuance of said section 22, stated in Southern Railway Company v. United States, 322 U.S. 72, 77: "We must assume that the contracting officers for the United States drove as provident a bargain as a reading of the agreement fairly permits." It is believed, therefore, that the effect of item 6(b) in the proposed regulation, relating to "National Transportation Policy" would be to impose an unwarranted burden upon interested Government agencies in their negotiations for reduced rates and that it may prejudice the rights of the United States to benefits tendered or available to it under specific statutory enactments. So far as the matter may be for official consideration by this Office in connection with the audit of said accounts or otherwise, it is considered necessary that the validity and effect of reduced rate tenders or other concessions offered the Government under the provisions of section 22 of the Interstate Commerce Act, and comparable provisions relating to transportation facilities other than railways, be determined independently of the provisions establishing the national transportation policy.

Sincerely yours,

/s/ Frank L. Yates

Acting Comptroller General
of the United States

INTERVENTION IN STATE PROCEDURES

Senator ALLOTT. Senator Robertson, I have just opened this for the purpose of really getting into the record the number of personnel and the amount of money devoted to this particular activity, and that is as far as we have gone.

Senator ROBERTSON. I believe he just testified there is \$390,000 plus being spent on this type of work?

Senator ALLOTT. Yes.

Senator ROBERTSON. I would like to know how much of that is spent for intervention in State procedures. Representatives of the States testified that they thought the GSA activity in this field was gratuitous and that they could do without it without any recognized loss.

Mr. BOUTIN. Can you give us that figure, Malcolm, the approximate division between State and Federal representation?

UTILITIES AND TRANSPORTATION

Mr. MILLER. We can supply it. But I might point out that, probably, it will show that a large part of the utilities figure will be included, but only a small part would be included for transportation. That is due to the fact that a large proportion of our representations in utilities are before State commissions and in transportation our representations are largely before the Federal regulatory agencies. However, we do have quite a lot of work before FCC in the SAGE cases so that we would have to break that out particularly from the utilities.

(The information referred to follows:)

It is estimated that of the amount of \$390,200 estimated to be the total costs of litigation, \$160,020 is expended in cases before State regulatory commissions. Comparable costs of participation in State proceedings since fiscal year 1958 are as follows: 1958, \$65,121; 1959, \$69,617; and 1960, \$154,395.

During the past 4 or 5 years the cases before State commissions have ranged between 25 percent and 30 percent of the cases entered. For example, State cases have represented 22 out of 75 cases from July 1, 1956, through December 31, 1960, or an average of 5 cases per year. The increase in State cases beginning in fiscal year 1960 has been occasioned primarily by the present filing with State commissions of tariffs covering SAGE services which have been rendered for 2 or 3 years prior thereto.

OBJECTIONS TO GSA PARTICIPATION

Senator ROBERTSON. The committee feels, in view of a very serious objection made to us by the National Association of Railroad and Utility Commissioners, that you should at least give some special justification for the use of the taxpayer's money in appearances at State hearings.

Mr. MILLER. Well, Senator, we believe that this function does have the effect of keeping down the rates that are paid by the Federal Government. Our reason for believing so is that in many of these cases the amount which the utility company requests is not the amount that the regulatory agency decides they should have, and regulatory agencies quite commonly give them less than they ask for. While it is difficult to pinpoint the exact effect of our representation, nevertheless we believe that it is at least partially responsible for the action of the regulatory agency.

Senator ROBERTSON. Isn't it true, that if you appear before the State Corporation Commission in Virginia, for instance, you are appearing in a hearing that deals only with intrastate commerce?

Mr. MILLER. We do appear in some cases involving only intrastate commerce.

Senator ROBERTSON. Aren't all these State cases intrastate commerce?

Mr. MILLER. Yes, sir.

Senator ROBERTSON. All right. Then you go into a hearing over which the Federal Government has no control. Why do you think you are called upon to do that?

GSA REASONS FOR INTERVENTION

Mr. MILLER. Because the prices established by the regulatory agencies are paid by the Federal Government. For example, it has been estimated that the Federal Government pays about \$817 million per year for utility services, not including communications, and another \$386 million for communications. The prices for these services, are largely intrastate.

Senator ROBERTSON. Isn't it true that a utility, certainly under the Virginia laws, and I assume under all the State laws, cannot arbitrarily charge one customer one rate and another customer a different rate?

Mr. MILLER. They do charge different rates to different classes of customers; yes, sir.

Senator ROBERTSON. But all customers in that class pay the same rate; isn't that true?

Mr. MILLER. Yes, that is correct.

Senator ROBERTSON. Now, there will be plenty of customers who will have as much business as the Federal Government in Virginia. So, I still do not understand why, if the rate is going to be uniform in the classification, you feel it is your function to appear in a State matter. In other words, it is claimed that GSA intervention in these cases has just been a device to build up a lot of personnel and to spend money that is not really needed for the protection of the taxpayers. That is our present inquiry. We want to know what good you are doing with the \$390,000 when you are asking us to continue—

Mr. BOUTIN. If I might, Mr. Chairman, I would like to call on our General Counsel, Mr. Macomber, who I think can shed some light on this.

AUTHORITY FOR REPRESENTATION ACTIVITY

Mr. MACOMBER. Mr. Chairman, the Federal Property and Administrative Services Act, which is the fundamental charter of GSA, contains this provision with respect to our participation in these representation proceedings, and it is section 201(a)(4). It is short and I will read it:

The Administrator shall, in respect of executive agencies, and to the extent that he determines that so doing is advantageous to the Government in terms of economy, efficiency, or service, and with due regard to the program activities of the agencies concerned, with respect to transportation and other public utility services for the use of executive agencies, represent such agencies in negotiations with carriers and other public utilities and in proceedings involving carriers or other public utilities before Federal and State regulatory bodies.

Senator ROBERTSON. All right. Now read that again, beginning with, " * * * to the extent * * * ." What is that language?

Mr. MACOMBER. That—

The Administrator shall, in respect of executive agencies, and to the extent that he determines that so doing is advantageous to the Government in terms of economy, efficiency or service, and with due regard to the program activities of the agency concerned, * * * with respect to transportation and other public utility services for the use of executive agencies, represent such agencies in negotiations with carriers and other public utilities and in proceedings involving carriers or other public utilities before Federal and State regulatory bodies.

APPEARANCES BEFORE FEDERAL REGULATORY AGENCIES

Senator ROBERTSON. We had testimony by the Federal Trade Commission, and, as I recall, they said the result of your interference in their cases was to postpone action on them.

Do you go into a case of a Federal agency, when they do not ask you to come in, and when they tell you, if they tell you anything, you are messing up the details and delaying action?

Mr. BOUTIN. Mr. Miller.

Mr. MILLER. We have never had a State regulatory agency ask us to remain out.

Senator ROBERTSON. I am talking about Federal regulatory agencies now, the Federal Trade Commission.

Mr. MILLER. Well, sir, we have never had a case before the Federal Trade Commission.

Senator ROBERTSON. I mean a case where the Federal Trade Commission was in court and you intervened.

Mr. MILLER. I do not remember us ever having done that, sir.

Senator ROBERTSON. It might be some other agency, maybe the Federal Communications Commission.

Senator ALLOTT. If the Senator will yield, we have had testimony with respect to the ICC, the CAB, the FCC, and the FPC. I do not personally recall—

Senator ROBERTSON. FTC is Federal Trade Commission.

Senator ALLOTT. FPC, Federal Power Commission.

DELAY IN PROCEEDINGS BECAUSE OF GSA

Senator ROBERTSON. Well, I remember I was sitting here one day when one of the Federal agencies said that you had delayed proceedings and they thought they did not need your services. We asked, "Why can't you handle it?" and they said, "We can." We said, "Do you have to have the General Services Administration tell you how to handle this case in court?" And they said, "Oh, no, we can handle it all right."

Mr. BOUTIN. Senator and Mr. Chairman, when we first came aboard we sat down with several of these Commissions, trying to gather together information that would help us in future policy, and asked them if the GSA, by its action, was interfering with their work or was creating any hardship on their operation, or if we were simply excess baggage, and we were told in every instance that they thought we were performing a very worthwhile function by filing—

DATE OF ACT

Senator ROBERTSON. All right, let me ask General Counsel if the answer he read us, concerning Federal and State regulatory bodies, was in the original act.

Mr. MACOMBER. Yes, sir.

Senator ROBERTSON. All right. We have only heard complaints about this in the last year. How long have we had the GSA Act?

Mr. MACOMBER. It was passed on June 30, 1949, sir.

Senator ROBERTSON. Thank you.

Senator ALLOTT. Actually, if the Senator would yield there, I think you would find that in the hearings on this matter last year, this matter was gone into to some degree.

Senator ROBERTSON. Yes.

Senator ALLOTT. Well, the last year that I know of. I am informed by the staff it has been the last 3 years.

ANNUAL APPROPRIATIONS FOR INTERVENTION

Senator ROBERTSON. I want to put in the record now the amount of the appropriation that you have had each year for this specific purpose. I cannot recall that this was considered any major responsibility of GSA 8 or 9 years ago, or that we even heard it was engaged in it.

Mr. BOUTIN. Mr. Chairman, I think it was only a few years ago that GSA appeared before either the Senate or the House Committee and was very severely censured for not entering into more cases.

Senator ROBERTSON. Do the hearings on the House side show the annual appropriation over a period of years so we can compare your current activities with what you have been doing previously?

Mr. BOUTIN. I think we could supply that for the record.

Senator ROBERTSON. I think it would be helpful.

Senator ALLOTT. You will supply the man-years for this year and the total cost of \$390,200. I wonder if we could get these figures for the 3 preceding years, these two corresponding years?

Mr. MILLER. Senator, the figures would not be very realistic for the reason that they are not kept in that manner. We were able, by making a survey of our people this past year, to determine from them approximately how much time they spent on this activity. If we would go back very far, I think the facility of human memory would make that impossible.

Senator ALLOTT. Then your 37.6 man-years is based upon memory rather than actual accounting of time?

Mr. BOUTIN. Actually a study, because we are in the current fiscal year—a study of the personnel and their duties, Mr. Chairman.

Would you say, Mr. Miller, in the last 4 years, as an example, there would be a very great variation in man-years or in expenditure? Would it be less, would it be more, or relatively the same?

Mr. MILLER. Well, in the past 4 years there probably would not be any large increase. There might be some.

Senator ALLOTT. You certainly have a record of all of the people during the last 4 years that have been assigned to this activity?

Mr. MILLER. That is true.

Senator ALLOTT. To any extent.

Mr. MILLER. Yes.

Senator ALLOTT. And you could give us that number for the 4 years, and also certainly the amount that was used or assigned to this in your own budget, could you not?

Mr. BOUTIN. We could do that. It would be an approximation, Mr. Chairman, but it would be very close.

Senator ALLOTT. All right.

Mr. BOUTIN. Most of these people are dual-purpose people. They are serving other functions as well.

(The information requested follows:)

The the estimated number of people in the Transportation and Public Utilities Service assigned full or part time on regulatory cases, the man-years equivalent and estimated cost in GSA of this activity follows:

Fiscal year	OE, TPUS employees assigned full or part time		Overhead and legal services man-years	Total man-years	Estimated cost
	Positions	Man-years			
1958.....	35	19.3	14.0	33.3	\$338,500
1959.....	35	19.3	14.2	33.5	357,200
1960.....	39	21.3	16.3	37.6	368,700
1961.....	39	21.3	16.3	37.6	390,200

GSA ROLE IN APPEARANCES BEFORE REGULATORY COMMISSIONS

Senator ALLOTT. I think the real question in this matter comes here, and I listened to Mr. Macomber's reading of the statute very carefully. The real question I think comes, not in GSA's appearances as a customer or user—and, Mr. Boutin, you are entirely correct in the statement you made a few moments ago, that several years ago GSA was sort of taken to task because they had not put enough attention on this—the real objection to this comes in the area, as Judge Hooker testified the other day, that the GSA appears, not just as a customer or user, but in the basic and attempts to set up the basic ratemaking policies of the particular agency, which ever one of these it may be that is setting up rate structure.

For example, on page 277 of the hearings this year Mr. Kuykendall stated in response to a question from me, and I quote:

TESTIMONY BY FEDERAL POWER COMMISSION

Senator ALLOTT. You speak of this matter as if it were a very tender subject. I feel very strongly about it, that it is up to the Federal Power Commission to set these rates, and I am opposed to the GSA setting up, in effect, its own power commission in this field, or its own commission in other fields in rate fields, and super-imposing itself as a super-powered advisory board to the Commissions which Congress has established to handle these matters.

Mr. KUYKENDALL. Well, I agree with you, that in that case they introduced evidence of a nature which our staff always introduces; that is in regard to cost of money and rate of return to be derived from the use of that. They covered that same ground in a different way and came up with a different answer.

Senator ALLOTT. But the answer, according to your own decision or opinion, was that they had understated by several million dollars the debt which Southern Natural Gas Co. owed at that time.

Mr. KUYKENDALL. Yes.

Senator ALLOTT. Now, let me ask this one last question, I hope it will be the last one.

Do you feel that your staff is qualified and is sufficient to advise you as to the rate of earnings that a given company would have to establish in order to meet its minimal requirements and continue in business?

Mr. KUYKENDALL. Yes, I do.

I think we have a very sincere and devoted staff. I will go so far as to say I think they are better qualified than the GSA staff.

Now this is the real question in my mind, and this is the real purpose of this. Because I feel that the GSA does have a right and an obligation to appear before these agencies on behalf of the GSA as one of the large customers or users, as you may use the term interchangeably. Now I am sure you are all familiar with the resolution of the National Association of Railroad Utilities Commission.

Mr. BOUTIN. Yes, sir.

NATIONAL ASSOCIATION OF RAILROAD UTILITIES COMMISSION

Senator ALLOTT. And Judge Hooker appeared here the other day with respect to that. In the Senate Committee on Reorganization, the hearings on S. 1571, on June 24, Commissioner Walrath of the ICC testified as follows about public representation before the ICC:

Generally speaking there is considerable representation in proceedings before the Interstate Commerce Commission. This can be determined by an examination of the list of appearances in any major rate proceeding before us. If the Commission considers parties to a particular proceeding are not likely to develop on the record adequate evidence which would permit the Commission to determine where "the overall public interest lies" it may, and frequently does, call upon its own staff to develop at the hearing facts which would be of assistance in a determination or making such determination.

Now the question that we are all interested in, that I am interested in, is where does GSA stop? I think they have the right to appear on behalf of a consumer or customer, but I do not believe that they have any right to appear as they have almost arrogantly at some hearings that I have had described to me by people in attempting to set out the basic rate policy of the agency, setting the return on the money, setting the overall return to which the utility is entitled to earn upon their capital investment. This is the real question.

POLICY ON GOVERNMENT REPRESENTATION

Mr. BOUTIN. Mr. Chairman, if I may speak, please, on the matter of policy. Of course we are in no position to speak for what has gone on before, we were not aboard—speaking of Mr. Miller and myself. It would be very unfair to make a comparison. We can only speak to what our policy is going to be in trying to properly fulfill our statutory responsibility.

We believe that the effort should be made by the Government through GSA to negotiate with any utility and transportation company, for reasonable rates and for reasonable services on behalf of the Government as a user. We only intend to intervene in those cases where negotiations have failed to produce the desired results, both as to amount of rate and as to the service that is rendered to the various Government agencies. We intend in those cases to present evidence to the best of our ability without confining it to specific issues because we think this would destroy the entire principle of our being there

in the first place—to present the issues before the regulatory body in the interest of the Government as a large and substantial user, in fact many times as principal user.

PRAISE FROM NORTH DAKOTA

I would also like to point out that while we are aware of this resolution of the Commission's, the resolution was far from unanimous. We have recently received a letter, completely unsolicited, in fact it came as a complete surprise to us, received in the last few days, from the Public Service Commission of the State of North Dakota, praising the activities of General Services. This concerns the question in Virginia. Mr. Miller, could you tell us how many times General Services has intervened in cases before the Virginia commission?

INTERVENTION IN VIRGINIA

Mr. MILLER. The only time we have done so since 1951 is in the jointly considered case of the Washington Gas Light Co. in which the proceedings were primarily before the District of Columbia Public Utilities Commission. The Virginia commission held a hearing in Richmond, at which time the District of Columbia record was merely inserted without any further evidence. We did send an attorney down there to observe that proceeding, but it was a rather perfunctory matter, and that was the only time we have been before the Virginia commission.

In 1951 GSA intervened in a case involving rates of the Chesapeake & Potomac Telephone Co. of Virginia.

TESTIMONY BY CIVIL AERONAUTICS BOARD

Senator ALLOTT. Let me give you another example of this. This occurred before the CAB. I believe GSA opposed an increase in fares for the airlines before the CAB. Is this true?

Mr. MILLER. We opposed it to the extent that it would not be justified by the carriers.

Senator ALLOTT. And yet the CAB testified before us within the last week that all of the carriers were bound to a very minimal profitmaking area, and referred repeatedly to the fact that you could not impose more burdens even on the trunklines because of the situation prevailing. Now your position was sufficiently summarized by the CAB as, "the General Services Administration opposes any fare increase." That is in quotations. This is CAB order No. 16068, November 25, 1960, appendix A, page 1. This statement of position previously appeared in the examiner's initial decision. GSA took no exceptions to it though it did except to other portions. Now the position of Capital Air Lines was well known. And even a 1-percent increase of fares would reduce subsidies to local service carriers by some \$330,000 in this country.

Now this is exactly the principle that I am talking about. You took a position here which went far beyond the position of a user in an attempt to set up what the rate structure of the airlines themselves should be. This is an area in which I believe the GSA should not go, and I think we will find a way to do something about it.

Mr. BOUTIN. Mr. Chairman, may I bring one thing out that I think should appear on the record: that GSA simply does not appear

against a utility. In fact, they filed in favor of a particular filing by A.T. & T. at the present time relative to their Telpak rate because we think that the filing would assist the Government, and that it was a good filing. So it is not strictly an anticoncept; it is a proconcept as well.

POLICY ON GOVERNMENT REPRESENTATION

Senator ALLOTT. Now I would like to refer to your memorandum entitled "History of Section 201(a) (4) of the Federal Property and Administrative Services Act," dated February 1961, and your letter to Senator Magnuson on May 19, 1961.

And I would like to ask this question. Which of the cases listed in your May 2 letter would GSA had refrained from entering if the policy expressed in your May 19 letter had been in effect during the pendency of these 75 proceedings?

Mr. BOUTIN. Mr. Miller.

Senator ALLOTT. I believe Senator Magnuson sent that to you, Mr. Miller.

Mr. MILLER. Yes.

The policy contained in the letter of May 19 was not based upon any analysis of the prior decisions, as to which we would have entered or which we would not have entered. The policy, as stated, would not necessarily have resulted in our refraining from entering any of those cases. The policy does propose to add additional considerations for entering into the proceedings and to provide for full participation in the cases.

Pursuant to Mr. Boutin's statement concerning negotiation, to be followed by participation in the cases, it is probable we will be much more selective in the future in choosing cases for intervention. There is really no way of applying this policy to the past that I can see. If anything, it would be a matter of saying, "Well, we should not have been in the cases we were less successful in, and we should have been in the cases we have more successful in." That is about all that can be said.

NATIONAL ASSOCIATION OF RAILROADS AND UTILITY COMMISSIONERS STATEMENT

Senator ALLOTT. Well, again I call to your attention, and I have tried to restate this in several ways, and I think Judge Hooker presented it pretty well in a resolution:

It is resolved that the National Association of Railroad and Utility Commissioners and the convention assembled does hereby express its conviction that GSA should limit its participation in any rate proceeding so as to bring to the attention of the regulatory commissions any peculiar needs of the Federal agency represented by GSA and GSA should make only such studies and produce such evidence as is necessary to assure that a Federal agency is not discriminated against in terms of quality, kind or charges for service.

DISAGREEMENT BY GSA

Now I would like to ask you, Mr. Boutin, do you disagree with that statement?

Mr. BOUTIN. Yes; I do.

Senator ALLOTT. In what respect?

Mr. BOUTIN. I disagree to this extent, that I think we would be wholly ineffective in performing our statutory responsibility if we sim-

ply appeared before any regulatory body on the basis that the Federal Government, per se, in and of itself, was being discriminated against. I think we have to go one additional step to determine if the rates are too high as they pertain to the Federal Government. And, of course, from that it necessarily follows that others are going to be affected too, who are in our same category.

POSITION AS LARGE USER

Now again going back to my previous statement, in many instances we are the largest user, or one of the largest users. In some cases it may be United States Steel, it may be Alcoa, or it may be anyone of the big companies—for instance, in the transportation field—who may be in roughly the same user category that we are. And they might also benefit from any reduction in rates or improvement in service, or reduction in increases in rates that are proposed by a carrier or group of carriers, or a utility or group of utilities. I think it would be very difficult for us to do a good job on behalf of the Government. In fact, we would be only reasonably effective if we simply were to go in and say, "Well, only the Government is being discriminated against, everyone else is being treated fine but we are being mistreated."

Senator ALLOTT. Well, you place an interpretation on there that might be drawn from this paragraph, but I do not interpret it this way. Certainly the Government would have to make a presentation of its rates with respect, or vis-a-vis, the other rates that were being established, or sought to be established, in a given case. But this does not justify—and I still have not gotten an answer from any of you on this—the GSA going into the basic responsibilities of the Commission in determining ratemaking policies, capitalization, rate of return in these areas. This is where we are getting the kick from all these people, not in the Government appearing in behalf of itself, which you are in effect, to assure itself that it gets a full rate compared with other rates, but rather that the Government goes beyond this and is attempting to usurp the functions of the various commissions.

METHOD OF PRESENTING GOVERNMENT'S POSITION

Mr. BOUTIN. Of course, we are demonstrating in our appearances—we are attempting to demonstrate to all regulatory bodies before which we appear on these rate cases, that the rates that are requested are unjustified. That pertains to the cases where we are appearing in opposition, rather than those cases where we support the proposed changes as I stated earlier.

Now, Mr. Miller, would you take it from there? You have a great deal of experience in that.

Mr. MILLER. Senator, the typical utility rate case consists of a request by a utility for an overall increase of rates on the ground that it is not earning a fair rate of return. And, in most of the utility cases, the proceeding, at least in the initial stages, has only a single issue: Does the utility need increased revenues to increase its rate of return. Unless we meet that issue, as an opposing party, we have no purpose in being in the case. And unless we present evidence on the various issues related to the utility's need for increased revenues, we would not be presenting anything material to the proceeding.

GSA DENIAL OF USURPED RESPONSIBILITY

Senator ALLOTT. But each one of these agencies, either directly or by innuendo, has said in effect that they felt GSA is going beyond this.

Mr. MILLER. No, sir; we do not. We make it very clear in our proceedings and presentation that we are appearing only as a party for the purpose of representing the consumer interest of the U.S. Government, just as though we were a private corporation, that we are presenting only evidence, and that we are not attempting to decide the case.

A very typical statement, for example, that we invariably put in our pleadings is, and I quote from a brief that we filed recently which says:

GSA recognizes that the authority to determine the issues in this proceeding is vested solely in this commission—

meaning in this case the Maryland Public Service Commission—

under the provisions of the Maryland Public Service Commission law.

Now we make that very plain in all of our proceedings, and we put it in all of our pleadings, or at some stage or other in the case. And we do not attempt to arrogate to ourselves any role of being the decision-determining agency in the case. We appear simply as a party.

SOUTHERN NATURAL GAS CO. CASE

Senator ALLOTT. Well let's take a specific case, the *Southern Natural Gas Co.* case, FPC docket No. G-20509. It is my understanding in that case GSA presented evidence on the cost of capital which would "satisfy the minimum requirements of a nonconfiscatory rate of return," or the "floor of a range of fair rate of return."

Now is this not the function of the agency?

Mr. MILLER. Senator, it is the function of the regulatory agency to decide what is a fair rate of return for Southern Natural Gas Co. But in order for the agency to make a decision, it must have facts of record upon which that decision must be based. The Supreme Court requires that. Now those facts must be presented by witnesses.

Senator ALLOTT. But those are produced by the agency?

Mr. MILLER. No, sir—only some of them are.

Senator ALLOTT. Well each of these agencies has responded to questions within the last 2 weeks to the effect that they did present this and if the information, as I just read you a while ago, was not sufficient they ask their own people to put on additional evidence with respect to these matters.

Mr. MILLER. Well in the *Southern Natural Gas* case the evidence on that subject was put in by three groups of witnesses, the company witness, the GSA witness, and a witness of the staff. There were differences—

EXCERPT FROM DECISION

Senator ALLOTT. There are two excerpts from that particular decision of July 8, 1960, 24 FPC, page 28:

(GSA) understates the cost of debt securities outstanding at the time of hearing and understates the cost of debt which Southern will experience because of the failure of this method to reflect the fact that earlier low-cost debt has in large part been retired.

In that case I think you omitted several million worth of the company's outstanding obligations.

Then continuing a quote :

Nor are we persuaded that the different price ratio employed by the GSA witnesses is a better measurement of investment requirements than the earning-price ratio heretofore utilized by the Commission. We can find no good reason for departing from the Commission's practice of using earnings-price ratios with judgment as an indication of a proper return on common equity.

Now in that case, if a decision had been made on the basis of a representation of GSA, this particular company about which I know absolutely nothing, and I have never talked with one of its members or anyone associated with it in my life, if GSA's position had been taken in that particular situation someone would have suffered very greatly.

Mr. MILLER. Senator, I might point out that that particular situation is a demonstration of what I have said. The Commission did reject our contention, as you point out by reading from the decision, which makes it clear that our position was merely that of presenting facts as a party to the proceeding. It is true, in all of these cases, that the parties present different facts, and it is up to the regulatory agency to pick and choose which it shall use in the decision. In this instance they chose their own staff's facts. Perhaps the next time our witness will succeed in persuading them to use the GSA facts.

DUPLICATION OF COMMISSION EFFORTS

Senator ALLOTT. Well, aren't you therefore duplicating the efforts of the Commission? Each one of these commissions has said before this committee that they feel they are adequately staffed and perfectly qualified to take care of the interest of the public.

Mr. MILLER. Senator, all the staff members take the attitude that the evidence that they present is on behalf of the general public, which includes the regulated industry. There is also a need in these proceedings for evidence presented from the consumer viewpoint, if for no other reason than to counterbalance the evidence put in from a company viewpoint also.

DATE OF ASSUMPTION OF RESPONSIBILITY

Senator MAGNUSON (presiding). When did you people take on the responsibility that should be taken on by the CAB, ICC, or any other regulatory agency that was set up to be in the consumers' interest? In other words, if I understand your testimony, just what little I have heard, and we have had this problem for a long time, they are not doing their job? Now either there is no desire to do their job, or maybe it might be a condition where they cannot do all the work and the GSA furnishes them with part of the material, I mean helps them with it. But technically they were set up, and the basic law is, to do the very thing that you suggest GSA is now at least assuming a part of as their responsibility.

Mr. BOUTIN. All that we are doing is presenting in each one of these cases evidence for consideration by the regulatory body itself. We certainly are not dictatorial, nor do we think that we are unduly influencing these regulatory bodies. It seems to us that all we are trying to do is to present to these regulatory bodies the opinion of the Government as a user, as a consumer.

Senator MAGNUSON. Well the point I am trying to make is whether you come to the conclusion down there in this shop that the regulatory agencies that were set up to protect the consumer interests are not doing their job?

Mr. BOUTIN. We think they are doing a fine job, Mr. Chairman.

Senator MAGNUSON. Well that is one thing, because we give them ample money to be the devil's advocate in some of these cases. It may be in some cases they cannot, I do not know. That could be possible.

But go ahead, I did not want to interrupt.

GSA ROLE NOT PUBLIC DEFENDER

Mr. BOUTIN. We are actually only represented at these hearings as a consumer, a particular consumer, not as a public defender. I think this is the distinction that we continually try to make.

Senator MAGNUSON. But the agency should be the public defender?

Mr. BOUTIN. Our agency?

Senator MAGNUSON. No, the regulatory agency.

Mr. BOUTIN. That is right. Not GSA. Nor do we feel that we are.

Senator MAGNUSON. All right.

ILLINOIS AND COLORADO COMMISSION REPORTS

Senator ALLOTT. Well I have a notation here that the Illinois Commission thought you had gone into these other matters, the cost of capital and sale rate of return. The Colorado Commission said in its decision in the public service case:

The staff of the Commission and the General Services Administration also presented expert testimony on the present and future cost of money in the rate of return.

Now if you are doing this, isn't the rate of return function to be governed by the individual agency, whether it be a State agency, or whether it be a Federal agency to which Congress has specifically delegated this authority?

Mr. MILLER. Yes, sir, the determination of the fair rate of return should be decided by the regulatory agency. We present to this agency facts and expert testimony for the purpose of making a record upon which that decision can be made.

RESOLUTION OF RAILROAD AND UTILITY COMMISSIONERS

Senator MAGNUSON. Are you familiar with the resolution of the National Association of Railroad and Utility Commissioners?

Mr. MILLER. Yes, sir.

Senator MAGNUSON. Do you disagree with it?

Mr. MILLER. Yes, sir.

Senator MAGNUSON. Every State in the Union is involved here.

Mr. MILLER. No. There were some of the important State commissions that objected to that resolution, sir.

Senator MAGNUSON. Well they purport that it is the considered judgment of the association, at least the majority did.

Mr. MILLER. Well, sir, may I say that that resolution was opposed on the floor by three principal public utility commissions before which

we had had cases, namely, California, New Jersey and Maine. And we do not know just how that resolution recognized the sentiment of all the commissions because it was a voice vote on the floor, and there were "nays" on both sides.

Senator MAGNUSON. That is no excuse. We have voice votes upstairs in the Senate, but when we vote it that is the position of the Senate.

Mr. MILLER. Yes, sir.

Mr. BOUTIN. Isn't it true, Mr. Miller, that in a great many of the States we have never appeared at all?

Mr. MILLER. That is true. We have probably appeared in less than half the States.

Senator ALLOTT. You have appeared in less than half?

ACTION OF NATIONAL ASSOCIATION

Senator MAGNUSON. I see the president of the association is Peter Mitchell of California.

Mr. MILLER. Yes, sir, and he spoke in opposition to that resolution on the floor of the convention.

Senator MAGNUSON. Joseph Brown of Nebraska is the vice president. And this is what they sent to us as the action of the convention.

Mr. MILLER. Mr. Mitchell spoke in opposition to that resolution on the floor at the convention.

Senator MAGNUSON. All right, but he was voted down.

Mr. MILLER. Yes, sir.

Senator MAGNUSON. So this is the action of the public utilities, State public utilities organization, is it not?

Mr. MILLER. Yes, sir.

Senator MAGNUSON. And what they say in here you disagree with?

Mr. MILLER. Yes, sir.

Senator SMITH. Would you tell me, or tell the committee, who in Maine expressed themselves in disapproval of the resolution?

Mr. MILLER. Mr. McMahon.

Senator SMITH. Yes, I thought so. Thank you.

Senator MONRONEY. May I ask a question?

PERSONNEL HANDLING WORK

How many men are in the Department are handling the protest and submission of evidence before these regulatory bodies?

Senator MAGNUSON. They had 21 men in 1950 and they now have an estimated 247 in 1961. Is that correct?

TOTAL TRANSPORTATION AND UTILITIES SERVICE PERSONNEL

Mr. MILLER. That is for the entire Transportation and Public Utilities Service operation, a good part of—

Senator MAGNUSON. In the shop you have 247 people, is that correct? If it is not correct, put in the record how many people you have in the shop.

Mr. BOUTIN. Mr. Chairman, earlier in this hearing we did put it in the record.

Senator MAGNUSON. I think it is in the record now. But what is it, 200-something?

Mr. MILLER. 249 positions for this fiscal year.

Mr. TURPIN. Mr. Chairman, under the appropriation, "operating expenses, Transportation and Public Utilities Service," that is the total.

Senator MAGNUSON. I understand that. That is the total in this particular branch of GSA.

Mr. TURPIN. Yes, sir. And about two-thirds or three-fourths of those numbers are engaged in transportation routing and related services.

EFFECT OF LIMITATIONS

Senator SCHOEPEL. If the chairman is through I would like to ask a couple of questions here. I do not know whether they have already generally been asked or not.

I would like to ask, would the limitation of GSA's regulatory activities to specific rates and services still protect the Government's interest while eliminating some of this controversy with these regulatory agencies.

Mr. MILLER. No, sir, it would not. It would not protect the Federal Government against those increases of rates involved in what are known as the general revenue increase cases, where rate of return is the primary issue.

Senator SCHOEPEL. Well GSA would be left freer to make arguments and presentations as to the reasonableness of any particular rate, or the adequacy of any particular service required for the Government, wouldn't it?

Mr. MILLER. If we were precluded only from entering general revenue increase cases, yes.

Senator SCHOEPEL. Now, with GSA's activities confined to specific rates and services required by the Government, would it not be left without a substantial workload?

Mr. MILLER. No, we would not be left without a substantial workload.

Senator SCHOEPEL. In that particular field?

Mr. MILLER. We have a big workload in that field, a big load that is not even touched.

Senator SCHOEPEL. You say you are familiar with the NARUC proposal. Would that proposal leave you in a position to fully protect the Government's interest? I take it from your answer before it would not.

Mr. MILLER. That is correct.

DUPLICATION OF SERVICES

Senator SCHOEPEL. It has been advocated that it was intended that GSA be in a position to assure the availability to the Government, first, of adequate services of the types and quality required, and also to make certain that the rates charged therefor are reasonable and fair in relationship to the rates charged others for like and comparable services. Now it would seem to me that unless the GSA takes the position that the regulatory agencies and their staff are incompetent and ineffectual, the Government's interest would be fully protected. It would seem to me that you would be duplicating some of these, saying to these State commissions and other regulatory agencies, "Well, you are incompetent; you have not been doing the job right." I think that is what is causing this difficulty that is developing.

Mr. MILLER. Well, sir, if we did that then the Federal Government would be doing nothing to protect itself against the amount of charges for utility and communications services which are increased by these general revenue cases, charges which approach, or are more than, a billion.

Senator SCHOEPEL. Well I think that is an extreme view. I would beg to differ with you on your interpretation. I am pointing out the reasons for some of these regulatory agencies in this particular field, why they are making some of these objections.

Mr. MILLER. Well, the persons who object to our appearances do not want us in the general revenue cases.

Senator SCHOEPEL. You are sure of that?

Mr. MILLER. I would say that is the gist of these various objections.

Senator SCHOEPEL. But you do have the opportunity to go in to fully protect the Government's interest on these charges on these rates, though, without duplicating the agency set up by the Government to make those determinations?

Mr. MILLER. But in these general revenue cases all rates of the utility are at issue, not particular rates.

Senator SCHOEPEL. Thank you.

RECORD OF TRANSPORTATION AND UTILITIES SERVICES

Mr. BOUTIN. Mr. Chairman, if I might, I realize that this hearing was called for the specific purpose of the discussion of our interventions in regulatory cases. However, since there was no appeal made on the appropriation voted by the House, we did not get into the operation of our Transportation and Public Utilities Service other than this question of intervention.

I would like to point out for the record that we think we have established an excellent record and have plans for improving on that record in the general transportation services rendered to the agencies of the Federal Government, including a tremendous service to the Federal Supply Service of our own agency, and also in the field of public utilities. We think that we have done a good job and will be doing a better job. I would hate to leave the impression that the entire operation of Transportation and Public Utilities is in this field of intervention. It actually comprises a very, very small part. We think we are just scratching the surface, for instance, in this field of transportation, of doing a job that needs to be done.

ALLOCATION OF RESPONSIBILITY

Senator MAGNUSON. The thing that bothers me about this is that this is what we set up the other agencies for. Why should the Interstate Commerce Commission, for instance, call upon the General Services Administration for information that they have a responsibility to get themselves, or the FCC, or any Government regulatory agency, or the State agencies? Now there is no use in your suggesting that all of this is wrong in here. This is a prevalent thing. I have heard this from 25 heads of State regulatory agencies, and these are pretty able fellows who are always looking out for the consumer interest. Now, there must be some overstepping, at least in their minds, of the activities of the GSA, or this would not have happened. And I do not know why—in the CAB, for instance, we

give them plenty of appropriations to protect the public interest in a rate case. That is their job. And I think the suggestion of duplication in many cases is well taken.

Now, maybe in the consumer interest you ought to say things twice, I do not know, that might be a little guarantee, but I do not think that you people could suggest that there is not duplication. Either there is duplication, or the regulatory agencies are not doing the job they are supposed to do. It is one of the two.

Senator ALLOTT. It is one of the two.

Senator MONRONEY. Mr. Chairman, I think you can divide this question into two parts. One is the Federal regulatory bodies. We are empowered to finance them with adequate staffs to satisfy the public interest. I am not so sure about the State agencies because legislative budgets are skimpy and they deny a lot of expert appraisals and other research. I also imagine a lot of our rates, such as intrastate telephone rates, are fabulously excessive. You can call nearly halfway around the world for a rate that is not much more than calling 100 miles across your own State. There is a vast difference in these intrastate and interstate rates, one of which appears to be probably because of funding and the adequate prosecution of the public interest side in the Federal regulatory agencies. But I am not so sure that we do not need someone on guard with a little bit of data on some of these rates that we have to pay that maybe the staff did not have the money to produce. On electric power, on telephones, on truck and railroad transportation, and such things.

Senator MAGNUSON. It may be true. All I know is what my own State experiences. I do not think they need any advice on power rates out in my State. They have been living with it for many, many years.

GSA INTERVENTION IN MAINE

Senator SMITH. Mr. Chairman, since Maine has come into this, may I ask how many cases GSA has intervened in in the State of Maine?

Mr. MILLER. We are presently intervening in a proceeding involving SAGE telephone rates before the Maine Commission. That is the only case that GSA itself has intervened in in Maine. However, we have delegated authority to the Department of Defense to appear before the Maine Commission in a couple of small proceedings involving only the military.

Senator SMITH. Then when Mr. McMahon took his position on the resolution, you had not been in any cases in Maine?

Mr. MILLER. At the time we were, yes. We were an intervenor in this Maine SAGE case.

Senator SMITH. It seems to me he was hardly qualified to express the views of the State of Maine on such a meager experience.

Thank you, Mr. Chairman.

Senator ALLOTT. Mr. Chairman, I think that the real duplication comes in here. It is either duplication or our regulatory agencies are not doing their job. And they have all testified—I think sometimes I tire the chairman with my questions on this matter—that they feel that they are adequately staffed and adequately qualified to protect the public interest. And the real bear in this whole thing is GSA's practices of making very extensive studies and adducing evidence on the

various factors in the ratemaking process, including the valuation of property, the rate base, which is certainly for the Commission, the respective Commission, whoever it is. The cost of capital and the amount of earnings which constitute a fair return—these things are all within the province of the particular commission or agency, the commission or State agency as the case may be, and this is their function. It is their function by State statute and in the case of the Federal Government it is their function by Federal statute. And it is in this area that we are getting increasing and constant criticism.

I have received communications using such words as "usurping functions properly belonging to the States," "impugning the competency and integrity of Government regulatory commissions," "wasteful duplication," "frequency prolonging proceedings and increasing the cost of the proceeding."

Now either you have to arrive at the conclusion that our Federal agencies, if we limit it to this, are not doing their job, or you have to come to the conclusion that in arriving at these specific items which I have just enumerated, they and you are doing a duplication, and the duplication is the thing that is bothering this Committee.

DIFFERENCES BETWEEN GSA AND CITY INTERVENTION

Mr. BOUTIN. Senator, if I might, presuming, which we contend, that GSA only represents the Government, or the agencies of the Government, as a consumer, having a substantial interest in the charges, in the rates and in the service, it is much like an experience that I had as mayor of the city of Laconia, where in the interest of the people of our city we went before the New Hampshire regulatory agency, the Public Utilities Commission, and intervened in cases there. In those cases we felt that the city had a good and substantial interest, and we also believed that unless we intervened the Commission would not know of our interest, and would not know of our feeling relative to service or to rates. By intervening we were actually supplying them with information which in their discretion they could use or not use in arriving at a determination.

Senator ALLOTT. But this is a different situation. I have appeared in a few of these cases in my life, and you are there doing this on behalf of the city as a customer or user.

Mr. BOUTIN. Yes, sir.

Senator ALLOTT. And this is the point to which we are speaking here. You were not trying to tell the Utilities Commission what constituted a fair rate of return, what the future cost of money was going to be and all these sort of things which is the function of the Utilities Commission itself and the Commission itself.

Mr. BOUTIN. I think we would have, Senator. We had the staff personnel in our city solicitor's office to enable us to do it. However, we went in more on matters of opinion. But actually, isn't that precisely what GSA is doing, on going to the next step in preparing this expert testimony that again can be used or not used in the—

Senator ALLOTT. But in that respect, and this is exactly the point, that is where we reach the bear in that you are then duplicating the regulatory agencies of the Government. If not, then you have to arrive at the opposite conclusion, which is that the regulatory agency is not doing its job.

LEGISLATION PROHIBITING DUPLICATION

Senator SMITH. Will the Senator yield right there?

Senator ALLOTT. Yes.

Senator SMITH. Since you state there is not any duplication, would you and your associates object to legislation that would prohibit the use of funds for any action that is duplication?

Mr. BOUTIN. Well it would leave, Senator, the question of what constitutes duplication. Now we maintain that there is no duplication at the present time. We certainly, as I stated earlier, have every intention to see to it that there is no duplication. We do not want to see any duplication any more than I am sure the members of this committee want to see duplication. But what someone else might construe to be duplication and what we might construe to be duplication could be quite different.

Senator SMITH. Would you object to such legislation?

Mr. BOUTIN. I would have to ask the attorneys that. I would have no objection that I can think of if it was clearly spelled out. Mr. Miller or Mr. Macomber would be better judges in making a recommendation than I would.

Mr. MILLER. Well, suppose we would prepare a cost of capital study, not knowing that any other party to the proceeding was doing the same, and we put it in the record without knowing any party was coming along and doing the same, but subsequently another party did so. Would we be violating the restriction of the legislation?

Senator SMITH. Yes. I would think it your responsibility to see to it that some other party was not proceeding, and that you would not be doing it until you made sure no one else was doing it. I would think GSA would be the last resort in such action.

Mr. MILLER. Sometimes we cannot find out. Sometimes the parties are pretty closed mouthed as to what they are doing.

Mr. BOUTIN. Mr. Miller, is it true that one of the problems created here, and one of the difficulties in making a determination, is that there is no set pattern any place in the country, or no set formula, for determining the various costs, how they are allocated in the rate structure, the question of original cost and appreciation allowances and so forth? Don't these vary within jurisdictions?

Mr. MILLER. Yes.

Senator ALLOTT. Yes, but the authority for varying these lies within the people of the State who create these commissions.

Senator SMITH. Wouldn't such legislation that I have suggested cause everyone to be a little more conscientious and careful of what they were doing?

Mr. BOUTIN. In the example that Mr. Miller brings out, Senator, I am afraid, again going back to a different question by Senator Allott, that it would make our activity ineffectual and it would mean that we would not be living up to our statutory responsibility. This is the only thing we are trying to do. If we can find a better way to do it, we are very anxious to find this way, as anxious as I am sure you are.

Mr. MILLER. Let me give a specific example of what actually happened. In a CAB case we made a very definite and positive effort to avoid duplicating what the staff put in. After reviewing the evi-

dence that they put in, we found that one area involved the area of the effect of the rate upon the movement of traffic, and we put in evidence on that point. Subsequently, and after our evidence was presented, the staff put in evidence on the same subject. It was quite different evidence insofar as the details were concerned, but it was on the same general subject. Now we had no idea that they were planning to do so, but they did so after we had put our evidence in.

CLARIFYING GSA ROLE

Senator MAGNUSON. But the point I am making here, and in this room we all know that the private utilities do not like this, and we start from there, and I understand that and I think everyone understands that. It just subjects them to more scrutiny. But we have a basic thing here. We set up these regulatory agencies to determine what is a fair and reasonable rate which the utility is entitled to as well as the public. They have been set up. We set up this basic authority to see that the Government, being a user, was not discriminated against along with other users. We did not suggest that the GSA come in and determine what would be a fair and reasonable rate. Now maybe, as I say, we ought to have two lines of defense against the utilities, but that is not the basic reason this was set up. And we do have these other regulatory bodies that we assume are carrying out their responsibility in the public interest. Now either they are not, or they cannot—it could be one or the other. As Senator Monroney points out, some of the State agencies perhaps cannot, but instead of directing yourself solely to whether the Government is going to be treated fairly and not discriminated against within the rate that the utility decides upon, they claim that you have gone into the whole question of whether this is a fair rate for everyone. Now is that a fair statement?

Mr. MILLER. Well, sir, we represent only the Government's consumer interest in the rates that we pay.

Senator MAGNUSON. Yes, I know.

Mr. MILLER. Now it may be that the general public is paying the same rates, based upon the same tariff schedule. They may, as a by-product, benefit from our efforts. But our efforts are for the purpose of protecting the Federal Government for those particular rates and charges that we pay.

Senator MAGNUSON. And you claim that in order to do that you have to go beyond and protect, or determine whether the rate is fair for everyone?

Mr. MILLER. We do not determine anything, Senator.

Senator MAGNUSON. Well, you make a suggestion?

Mr. MILLER. That is right.

Senator MAGNUSON. Of course you do not determine it in the long run.

PROPOSED LEGISLATION

Senator SMITH. Mr. Chairman, I would like the record to include my wording, and ask the question again so that I may get a very definite answer whether you would object to this or not:

No part of the funds appropriated by this act shall be used in any way for work duplicating the statutory functions of personnel of Federal and/or State regulatory agencies.

I do not think I got a specific answer to my question. I got a lot of words.

EFFECTS OF PROPOSED LEGISLATION

Mr. BOUTIN. Without going into a detailed study on what this would do to the work of GSA, Senator, I would say that we would object because it is my belief that it would place a limitation on our activities that would be detrimental to our fulfilling our present responsibility, and that we could not be effective before the regulatory agencies.

Senator SMITH. Would you object to GSA coming in at the end of a case so that they would be sure there would not be any duplication? Would you object to that?

Mr. BOUTIN. I would have to defer to one of the attorneys who has had some experience, Senator, if I might.

Mr. MILLER. We do not feel that we have any control over the procedure. If a regulatory agency says, "You are No. 2" rather than last, we comply with that. Because we have to comply with their directions.

Senator SMITH. But you could request that you file at the end?

Mr. MILLER. We could. I think we would in many instances meet opposition to that.

Senator SMITH. But you would be solving a problem that is facing us, I would think.

Mr. MILLER. It might lead to charges that we were delaying the activities, too.

Senator ALLOTT. May I ask this question? I do not know whether the Senator has an answer to her question or not.

Senator SMITH. I have an answer to this, that they object.

Senator ALLOTT. I will ask you to yield to me if you have finished.

Senator SMITH. I think the answer to this is sufficient.

OTHER PROPOSALS

Senator ALLOTT. Would you object to the limitation that—

No money appropriated by this act shall be used in any way for the preparation or presentation of argument before State or Federal regulatory agencies concerning the regulatory policies of such agencies, determining the overall earnings level, total property valuations or general expenses of transportation and utilities companies.

Mr. BOUTIN. We would object to that, too, Senator, for the same reason, that we think any limitation would prohibit us from discharging our responsibilities effectively.

ATTITUDE OF AGENCY

Senator ALLOTT. Well, as I gather from the testimony, the agency feels it is perfectly justified in this—although I feel very definitely it is not—particularly in the areas that I mentioned a few moments ago with respect to the matters of regulatory policies, in determining the overall earnings levels and the property values, the general rate of return or other matters of regulatory policy.

Now does GSA still feel it should get into this area?

Mr. BOUTIN. It does, sir.

Senator ALLOTT. Well, I do not think I have any more questions. I do not know whether the chairman is coming back in a moment, but I certainly can only draw one conclusion, and that is either the regu-

latory agencies of the Federal Government are not doing their job, or we are having a lot of duplication. And each of the agencies has testified that they have adequate staff to do the job and are taking care of the public interest in this respect.

Mr. BOUTIN. Well, Senator, as I said before, we think the regulatory agencies are generally doing a good job. We have no complaint to make to this committee or to anyone else on the way the regulatory agencies, State or Federal, are conducting themselves, or conducting the hearings, or in their decisions. We abide by their decisions, as we naturally would. We feel, like any very large industry, that where we are the biggest user in the country, we should not be deprived of the opportunity to appear and offer evidence for their consideration on behalf of the Government as a user.

Senator ALLOTT. Do you object to this:

No moneys appropriated under this act shall be expended for any activity authorized by section 201 of the act of June 30, 1949, as amended, or section 303 of the act of August 3, 1956, except for the purpose of assuring that executive agencies are not discriminated against in terms of quality, kind or charges for service as compared to other customers of the utility.

Mr. BOUTIN. That is a little too technical for me to handle, Senator, and I would like to defer that to either Mr. Miller or Mr. Macomber.

Mr. MILLER. Senator, I think that would put us out of business. It is a good deal like saying it is all right to go swimming but stay out of the water.

Senator ALLOTT. Why would it put you out of business? This is the same right that any other user has to come in. Now let's get a good square answer. Why would it put you out of business? You would have the same right under this that I, representing a city or representing a private industry or anyone else that comes in, would have in appearing before the Commission. Why should the Government have a bigger right than any other user?

Mr. MILLER. It would not, sir. The principal question in most rate cases is whether the rate is reasonable, in that it is too much, or less than a reasonable rate. The question of discrimination is a matter of comparison between persons paying rates. It could be that everyone was paying the same rate, and yet the rate was too high. The effect of that proposal would be to eliminate us from making the contention that the rate is too high even though everyone is paying it.

Senator ALLOTT. No, you would still have, as compared to other customers of the utility in here—

Mr. MILLER. No. Because we may be paying the same rate as the other customers, but that rate still may be too high. And we feel that we should be permitted to prove, or try to prove, that that rate is so high even though everyone may be paying the same rate.

Senator MAGNUSON. Of course after it is decided by the utility, then the Government should pay the same rate as everyone else, shouldn't it?

Mr. MILLER. Oh, yes. We would expect to.

REPRESENTATION OF DEFENSE DEPARTMENT

Senator MAGNUSON. Let me ask one question to clear this up. I do not know although I should know. The Defense Department

rates are mainly negotiated under section 22, are they not? Do you represent the Defense Department in any of these cases?

Mr. MILLER. In utility cases, yes. In transportation cases, no.

Senator MAGNUSON. What field would you represent the Defense Department in?

Mr. MILLER. We have a working arrangement with them that we represent them in utility cases; and where we delegate cases to them, they represent us.

Senator MAGNUSON. What would those cases be, what type of cases?

Mr. MILLER. Gas, electric cases, telephone cases and matters of that sort.

Senator MAGNUSON. You represent them in those particulars?

Mr. MILLER. Yes, sir.

Senator MAGNUSON. But on actual transportation, they negotiate under section 22, do they not?

Mr. MILLER. Yes; they do to a considerable extent.

Senator MAGNUSON. Surely, that is what the section is there for. So that there will be a different situation altogether.

Mr. MILLER. They have exempted themselves from our statute in transportation.

Senator MAGNUSON. Of course, I think section 22 should be repealed. But I am just speaking for myself.

Senator SMITH. Mr. Chairman, when you leave this subject I have some questions on another subject. But I do not want to interrupt you on this one.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

Senator MAGNUSON. Any further questions?

Senator ALLOTT. Just one further remark about this. I do not think it is just utility companies that are affected by this.

Senator MAGNUSON. It is the State agencies, too.

Senator ALLOTT. And it is also other smaller people who are pitted against all the armed force and might of the Federal Government, who may be affected adversely by a to strenuous and maybe over-balanced case of the Federal Government who comes in and has this tremendous staff to work on those things, whereas the smaller individual who may be competing for a rate in the same case is completely overwhelmed with the power of the Federal Government in this thing, especially when the Federal Government gets into telling the public utilities commission or the railway commission of a State, the basic things that that commission was established to do, which is to establish the basic rate of return, capitalization, and so forth.

HOUSE ALLOWANCE

Senator MAGNUSON. The House in this case gave you the same amount, did they not, as last year?

Mr. BOUTIN. A reduction of \$25,000 in the amount requested for 1962, Mr. Chairman.

Senator MAGNUSON. Generally speaking, the same?

Mr. MILLER. Well, it is \$61,000 under last year's appropriation.

Senator MAGNUSON. Yes; the House says:

This is \$61,000 less than 1961 and \$25,000 under the 1962 budget estimate. The committee went into the activities of this service carefully in the hearings and it was testified that only 50 of some 273 employees are engaged in representation work before regulatory bodies. The committee has not reduced the amount for representation but it does not want the number increased above the present level. The Service has grown substantially since its inception and the committee is of the opinion that it has all the employees now it needs in the foreseeable future.

And you did not appeal from that?

Mr. BOUTIN. We did not appeal.

Earlier in the hearings, Mr. Chairman, we did get in the exact number of man-years and the exact number of people.

Senator MAGNUSON. There is quite a complete record in the House.

Mr. BOUTIN. Yes, sir.

Senator MAGNUSON. Do you have anything further?

Senator ALLOTT. I think not, Mr. Chairman.

COMMITTEE DECISION

Senator MAGNUSON. This is something the committee will have to decide. It is a difficult question. But there has grown up, I am sure, a duplication. But it is the kind of job that has to be done, let's all of us agree upon that, by some one. It is the kind of job which has to be done in the public interest. And it may be that with the shifting of these regulatory agencies into these quasi-judicial positions all the time in cases, we might have to have a public defender that is independent. But then we would have to go in one way instead of the other way. I am not so sure that this might be what we are going to have to take a long look at.

SPECIAL GOVERNMENT RATES

Senator MONRONEY. I wonder, do we get any special Government rates on telephone service, or on the use of large quantities of electricity, or any credit for the vast volume of rail or air transportation, or do we buy on the basis of an individual buyer?

Mr. BOUTIN. On the basis, I believe, of an individual buyer in a like capacity as far as the size of the use. Is this correct, Mr. Miller? Perhaps you want to expand upon that?

Mr. MILLER. Generally speaking that is correct. From the telephone companies and utilities we get, ordinarily, no special rates. In very few instances the utilities may establish what is called a Government rate. I do know of one instance in which that is done, but that is rather exceptional. In the field of transportation that is not so true. We do make special rates, as a matter of fact all shippers make some special rates with the carriers.

Senator MAGNUSON. Isn't there a Government rate, Senator Monroney, on air transport? A tax is not put on it?

Senator MONRONEY. It is exempt from tax.

Senator MAGNUSON. Which is 10 percent in itself.

Senator MONRONEY. I presume there must be some economies to the telephone company. I imagine the major user of telephone service in the United States is the Government. I just wonder if we paid the same all the way through as I do for my local calls.

Mr. MILLER. We do take advantage of quantity rates, but they are also available to any commercial user on a quantity basis.

SUGGESTED STUDY ON BLOCK RATES

Senator MONRONEY. I should think if you would study and bring out facts and statistics on savings on the large-scale use of telephone or electricity or transportation to the Government, you would be earning a lot more money for the Federal Government. For example, if you could use your statistical desk to try to prove that on a quantity value basis, for services maintained and various other things, we would be entitled to a bloc rate which could be available to another utility, or to a railroad, or others using the same type of service, and to bargain for some quantity as one means of where the Government would perhaps be better protected.

Mr. BOUTIN. We are in the process, Senator and Mr. Chairman, of doing that at the present time. This will not be a Government rate, but it will be taking advantage through a comprehensive study that has been made of all of the possibilities offered in various rate filings, including the Telpak rate that I referred to previously that is under consideration at the present time, where we think we are going to be able to save the Federal Government a very substantial amount of money. Not through a particular rate, but by utilizing every possible advantage of rate filings, combination of rates, combination of lines, leased lines and so forth to the advantage of the Government. You say we are spending a great deal of money and that is certainly true. It is estimated that this year the Federal Government will expend about \$87 million on communications alone.

Senator MONRONEY. I think it will run more than that.

Mr. BOUTIN. Excuse me, that is just for the civil agencies. That is exclusive of DOD.

Senator MAGNUSON. Defense Department?

Mr. BOUTIN. Yes, sir.

FCC STATEMENT ON INTERVENTION

Senator ALLOTT. Mr. Chairman, I think I have quoted most of these other agencies, but I would like to read a very short item in here. In the hearings before this committee this year, on page 261, with relation to the Federal Communications Commission, I questioned Mr. Minow and said this:

Now I have read parts of your testimony here as I have had time. I know the Commission is not in full agreement in their attitudes on this matter and it would be my hope, and I think this is as far as I will go, that the Commission would distinguish and draw a very clear line between the Government acting as a customer, GSA acting as a customer, and GSA attempting to act as a sort of a second or advisory regulatory agency to the FCC.

Would you agree with this?

Mr. MINOW. I think unquestionably, and I think I could say all of us unanimously would agree to that, Senator. We may differ with respect to certain specifics, but we all agree with that principle wholeheartedly.

Senator MAGNUSON. Is that all?

Senator ALLOTT. That is all.

Senator MAGNUSON. We have other letters on this matter that we will place in the record.

(The letters referred to follow :)

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
June 15, 1961.

HON. WARREN MAGNUSON,
Chairman, Subcommittee on Independent Offices, Committee on Appropriations, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: I enclose letter from the chairman of our State corporation commission, in which he protests against Federal funds for the General Services Administration to deny State jurisdiction over rates and charges for services and facilities furnished in connection with SAGE.

On the second page of the memorandum attached to his letter, you will note that Judge Hooker suggests three questions to be asked GSA witnesses and I would appreciate your kindness in asking them.

With best wishes, I am,
Sincerely yours,

A. WILLIS ROBERTSON.

COMMONWEALTH OF VIRGINIA,
STATE CORPORATION COMMISSION,
June 14, 1961.

Senator A. WILLIS ROBERTSON,
Senate Office Building,
Washington, D.C.

DEAR WILLIS: Since writing you on the 12th, I understand that the General Services Administration will appear before the Senate Subcommittee on Independent Offices Appropriations on June 16 in support of its budget request and, as I stated to you in my letter of the 12th, we are very much interested in opposition to the General Services Administrations' proposals.

I am attaching hereto a memorandum for your information, with the hope that you will ask the witness, who testifies in support of said budget, the three questions which I have outlined in this memorandum.

With best wishes, I am,
Sincerely yours,

H. LESTER HOOKER, *Chairman.*

GSA'S FCC PETITION SEEKING TO ESTABLISH RULE THAT STATE COMMISSIONS
HAVE NO JURISDICTION OVER RATES AND CHARGES FOR SERVICES AND FACILITIES
FURNISHED IN CONNECTION WITH SAGE

Although Senator Magnuson's letter of March 24, 1961, requested that GSA supply a résumé of all cases "from 1957 to date," GSA's response of May 2, 1961, omits reference to a very significant proceeding which it initiated on March 17, 1961. Despite the fact that Congress in enacting the Communications Act of 1934 clearly indicated that State and local regulatory agencies were to have jurisdiction over intrastate communications facilities, GSA petitioned the FCC to rule that all SAGE facilities and services, including internal SAGE equipment, be classified and determined as interstate or foreign service.

Thus far this petition has been opposed by A.T. & T., the United States Independent Telephone Association, the California Public Utilities Commission and the National Association of Railroad and Utilities Commissioners (NARUC). The opposition of the NARUC states, in part:

"It may be true that, as the petition alleges, separate regulation of the SAGE system by both State and Federal agencies presents administrative problems to the Air Force which would be eliminated if jurisdiction were vested exclusively in a single agency. Nevertheless such separate regulation does not hinge on the administrative convenience of any customer, but is required by the statutory scheme of utility regulation. It is not unique to the SAGE services but applies to all phases of telecommunications service utilized by the Air Force and by telephone subscribers generally. It also applies to many other utility services used by the Federal Government.

"The petition seeks to divest the State commissions of all jurisdiction over SAGE communication. But this can be done only if it be found that no interstate communication service is involved. Unless such a finding can be made, GSA's goal of vesting exclusive jurisdiction in the Federal Commission cannot

be achieved. It is apparent from the affidavit accompanying the petition that some SAGE communications services are intrastate, particularly those which have no access outside the direction center, and that no finding to the contrary could be made. Therefore any classification procedure such as that requested would be fruitless because it could not result in a determination of exclusive Federal jurisdiction.

"It is the position of this association that any effort to divest the States of jurisdiction must be strenuously resisted. The institution of proceedings for classification would constitute a direct challenge to the jurisdiction which already has been assumed by some of the States over SAGE internal communications services. Furthermore, it would impose on all States the obligation to defend the challenged basic principle that is equally applicable whether the service rendered be part of the SAGE system or part of the regular telephone exchange and toll network. It is therefore submitted that the institution of classification proceedings would be burdensome on the States in that it would require them to prove a fact already evident from the moving papers. It is therefore requested that the petition for Declaratory Ruling be denied."

GSA's action has raised a number of significant questions:

1. How can this action be justified in view of State jurisdictional rights?
2. Would GSA apply the same thing to services and facilities, other than SAGE, furnished the Government?
3. Won't this attempt to bypass the State commissions on rates and charges for local services worsen GSA's relationships with these agencies?

ERIE-LACKAWANNA RAILROAD CO.,
Cleveland, Ohio, June 14, 1961.

HON. WARREN G. MAGNUSON,
Senate Office Building,
Washington, D.C.

DEAR SENATOR MAGNUSON: It is my understanding that you will give consideration, later this week, to the matter of the activities, and possibly the appropriations level, for the Traffic and Communications Division of General Services Administration.

Among other things, I assume that consideration will be given to whether or not General Services Administration's activities in the transportation and communication regulatory field, that is with respect to regulatory proceedings, go beyond the intent of the Congress in Public Law 152.

I had the privilege of being chairman of the Second Hoover Commission's Transportation Committee, and one of our major studies related to the adequacy and the general functioning of this arm of General Services Administration. Our findings at that time were necessarily somewhat critical. In recent years I have followed General Services' handling of this subject from the standpoint of my being a member of the Transportation and Communications Committee of the Chamber of Commerce of the United States.

There is reason to be seriously disturbed by the magnitude of those General Services Administration activities which tend to place it in the role of a "public defender" rather than in the role of meeting its proper responsibility with respect to expenditures of the Federal Government in the field of transportation and communication.

I hope that in your consideration of this subject you will find it possible to reevaluate General Services Administration's proper function and clarify it through the appropriate process, if that be necessary.

Cordially yours,

P. M. SHOEMAKER.

ARIZONA RAILROAD ASSOCIATION,
Phoenix, Ariz., March 15, 1961.

HON. CARL HAYDEN,
U.S. Senate,
Washington, D.C.

SIR: As you know, participation by General Services Administration in regulatory rate proceedings is a matter of much concern to us. In connection with your previous correspondence with Mr. Crawford, we are enclosing a copy of

the reply made by the Transportation and Communication Department of the U.S. Chamber of Commerce to the Administrator of General Services Administration.

Quite possibly, you already have a copy of this reply, but we would emphasize the chamber's belief that the two prime issues are: (1) whether nonregulatory agencies such as the Transportation and Public Utilities Services of the GSA should properly involve themselves in matters of regulatory policy which are the statutory responsibilities of the regulatory agencies, and (2) whether the wasteful and ineffective duplication of functions already performed by regulatory agency personnel should be continued by T.P.U.S.

Then, we would reiterate Mr. Crawford's belief that the remedy lies with your committee; that clipping the wings of GSA by decreasing its appropriation should limit it to its proper functions.

Very truly yours,

FRED F. BOCKMON.

STATE OF ALABAMA,
ALABAMA PUBLIC SERVICE COMMISSION,
Montgomery, Ala., March 3, 1961.

HON. CARL HAYDEN,
Chairman, Committee on Appropriations,
Senate Office Building, Washington, D.C.

DEAR SENATOR HAYDEN: It has been called to my attention that the General Services Administration is seeking from Congress an appropriation of \$2,500,000 for fiscal year 1962 for its transportation and utility activities, \$500,000 of which would be allocated for the purposes of appearing before regulatory commissions involving regulatory policy.

Appearances by GSA before regularly established Federal and State regulatory agencies offering testimony and arguments on matters of regulatory policy such as base rate, rate of return, expenses, depreciation, separation, pensions and other operating data and results transgress the rights and responsibilities of such agencies and should be prohibited. Should Congress appropriate funds to GSA for this purpose it would bring about conflict of responsibility, create wasteful duplication, prolong proceedings and promulgate activities of GSA beyond its statutory authority.

The National Association of Railroad and Utilities Commissioners, at its annual meeting in November 1960, adopted a resolution concerning the unrestricted intervention of GSA in the jurisdiction of State and Federal regulatory commissions. It stated that GSA seeks to have overall prices for carriers and utilities set solely on the basis of the effect of increases in the Federal budget, thereby ignoring controlling National and State policy to permit rates and charges fair to the public and regulated industry alike.

The NARUC resolution further approved the conviction that "GSA should limit its participation in the rate proceedings so as to bring to the attention of the regulatory commissions any peculiar needs of the Federal agency represented by GSA and that GSA should make only such studies and adduce such evidence as is necessary to assure that the Federal agency is not discriminated against in terms of quality, kind or charge for service."

As a member of the executive committee of this association I would like to bring this resolution to your attention and urge that you use your influence to include in GSA's appropriation a proviso restricting it to matters peculiar to the Government's rates and services as opposed to regulatory policy; and that, no funds be appropriated to GSA beyond those required to carry out the statutory functions of the agency.

Your consideration of this most important matter and support of the foregoing position will be appreciated.

Very truly yours,

C. C. (JACK) OWEN, *President.*

APPRAISERS STORE AND WAREHOUSE IN LONG BEACH

Senator MAGNUSON. Senator Smith, before you go into your matter I want to ask one thing.

Since we had our regular hearing I have had many inquiries. As I understand it in our public building projects there is included \$2

million for construction separately of an appraisers store and warehouse in the Long Beach area.

Mr. BOUTIN. That is correct.

Senator MAGNUSON. Do we understand that would include the customs problem that they had?

Mr. BOUTIN. That would include the appraisers warehouse for the Bureau of Customs.

Senator MAGNUSON. You can put the Customs man in there, too, can't you? I will tell you why. Because apparently they are having a lot of trouble down there, the people that come in just as passengers, when they land at the Long Beach area or Pedro area, have to go all the way downtown. And the goods coming in are supposed to be appraised there, but they are hoping the people with their baggage and things—

Mr. BOUTIN. I am not sure on that, Mr. Chairman.

Senator MAGNUSON. Let's get that in the record so we can tell the Senators from California just what this includes.

Mr. BOUTIN. We will.

(The information requested follows:)

The current plan is to house administrative activities of the collector of customs, including its agency services and mail examination, in the proposed Customs House and Federal Office Building in downtown Los Angeles, as previously contemplated. The appraisers store, customs laboratory, and related customs activities will be provided for in the separate building to be located in the Los Angeles—Long Beach Harbor area.

The Assistant Commissioner, Customs Bureau, has informed GSA that passengers and their baggage arriving in the harbor area will be cleared by Customs personnel at the pier upon disembarking from the vessels.

Senator MAGNUSON. I think the idea is to give more convenience out at Long Beach, rather than going all the way downtown to Los Angeles.

Mr. BOUTIN. In our letter of June 26, 1961, we asked for some change in language, Mr. Chairman, which will allow us to better pinpoint the area where this operation can go. We have an offer now of a donation of a site that we are afraid does not quite meet with the language that was previously in the House bill, and we would like it expanded a little bit. We have not really gone into this site yet, but if it is a good one we would like to be able to take advantage of the substantial savings that would accrue.

Senator MAGNUSON. All right, thank you.

(The letter referred to follows:)

GENERAL SERVICES ADMINISTRATION,
Washington, D.C., June 26, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of the Independent Offices Appropriation
Bill for 1962, Committee on Appropriations, U.S. Senate.

DEAR SENATOR MAGNUSON: The proposed amendments to H.R. 7445, transmitted with the Administrator's letter of June 12, 1961, sought no change in language or amount for the customs and appraisers warehouse, Long Beach area, California, appearing on page 17, lines 17 and 18, of the bill as reported to the House.

As you know, a prospectus for the project was approved by the Public Works Committee of the House on June 14, 1961. During consideration of the prospectus by a subcommittee of the Senate Committee on Public Works earlier this week, the proposed location was discussed together with the possibility of obtaining a donated site. The current donation offer is for a site at Wilmington,

Calif., which, it is understood, is in the Los Angeles Harbor area, a separate and distinct area adjacent to the Long Beach Harbor area.

It is our opinion that the appropriation language as now constituted would limit the location of the project to the Long Beach area and thus preclude realization of substantial savings that would accrue from acceptance of a suitable donated site and construction of the facility at a place not so situated.

In order to preserve the necessary flexibility in siting the project to the best advantage of the Government, within the general harbor area contemplated by the Congress, I respectfully recommend adoption of the following amendment:

"On page 17, line 17 of the bill as reported to the House after the first comma insert 'Los Angeles—' and on the same line after the word 'Beach' insert 'Harbor.'"

Sincerely yours,

BERNARD L. BOUTIN, *Acting Administrator.*

CONGRESSIONAL AND PUBLIC AFFAIRS PERSONNEL

Senator MAGNUSON. Now Senator Smith has some questions.

Senator SMITH. Mr. Chairman, the last time Mr. Boutin and his associates were before the committee you may remember that I asked some questions that he was unable to answer, saying that Mr. Moore would be up at a later date. I note that Mr. Moore is not here this morning.

Mr. BOUTIN. He is still in the hospital, Senator.

Senator SMITH. Do you have anyone here who can answer my questions?

Mr. BOUTIN. Yes, I have Mr. Griffin here.

Senator SMITH. Mr. Chairman, some of this may be repetitious but I would like to have the record clear in one place if I may.

From information that has been supplied me. I note that in your budget you have the following positions. You are the Administrator for Congressional—

Mr. GRIFFIN. I am the Assistant Administrator for—

Senator SMITH. Congressional and Public Affairs?

Mr. GRIFFIN. That is right.

Senator SMITH. In your budget you have asked for an Assistant Administrator for Congressional and Public Affairs.

Mr. Chairman, this may be repetition but I want to get it into the record at this point.

Senator MAGNUSON. Go right ahead. I was going to suggest, as to the people that are here on this public utilities, we are through with questions so they may be excused if they want to leave.

Mr. BOUTIN. Thank you, Mr. Chairman.

Senator SMITH. (a) Assistant Administrator for Congressional and Public Affairs; (b) confidential assistant; (c) congressional and public affairs officer; (d) assistant to the Assistant Administrator for Congressional and Public Affairs; (e) Deputy Assistant Administrator for Congressional and Public Affairs. In other words, there is an Assistant Administrator, a Deputy Assistant Administrator, a confidential assistant to the Assistant Administrator, and assistant to the Assistant Administrator, and just plain officer, all for the same title of Congressional and Public Affairs.

Will you state for the record whether any of these are new positions or not, Mr. Griffin.

NO NEW POSITIONS

Mr. GRIFFIN. Senator, we have created no new positions in this Office. I inherited an organization, and the only new position we have created is a clerical position, grade 5, to assist the legislative officer.

I have brought, if you will permit me, Senator, Mr. Robert Davis, the Director of our legislative program, and Mr. Raymond Odom, Director of Business Services and Small Business.

Mr. GRIFFIN. We have created no new positions whatsoever, Senator. The only changes which have taken place in my office have been when two of the previous schedule C employees, from the previous administration left voluntarily one left to take a position with Senator Mundt and the other to go back to George Washington University to pursue a Ph. D. degree. There have been no other changes except the creation of this one grade 5 position.

NO INCREASE IN SALARIES

Senator SMITH. Have there been any increases in the salaries for these people?

Mr. GRIFFIN. No; only decreases in some instances when vacancies have occurred, Senator, just to alleviate any confusion, these titles, to the best of my knowledge, are primarily for civil services purposes. They are not titles which clearly pinpoint all of their exact assignments. They are mainly civil service titles. There was a slight change in the name of the Office, which required changes in the names of titles. But no new positions were created. The Deputy Assistant Administrator for Congressional and Public Affairs is, in fact, the director of public information. But in order to satisfy civil service requirements and position description terminology this deputy assistant title was assigned to him. He is the director of public information. Under the previous administration this position was a GS-16, it is now a GS-15. Under him we had an information specialist, GS-13. We have abolished this position and reestablished it at GS-9. Any changes have been of a downward nature rather than an upward nature.

FUNCTION OF CIVIL SERVICE COMMISSION

Senator SMITH. The Civil Service Commission controls the grades; is that right?

Mr. GRIFFIN. They have to be approved by the Civil Service Commission.

JOB DESCRIPTIONS

Senator SMITH. Who controls the descriptions of the jobs?

Mr. GRIFFIN. The agency submits descriptions and the civil service accepts or rejects them.

Senator SMITH. Who controls the titles of them? Can you call them anything you want to after you get them into your—

Mr. GRIFFIN. They have to be acceptable to the Civil Service Commission, Senator. We have made no recent attempt to rephrase titles. This office was created about 8 or 9 years ago. At that time it was designated the Special Assistant to the Administrator for Congressional and Public Affairs. Mr. Moore reconstituted the Office and designated it as Assistant Administrator for Congressional and Public Af-

fairs. Under the previous administration, a title such as was submitted to you (which now reads assistant to the Assistant Administrator for Congressional and Public Affairs) was designated as Assistant to the Special Assistant for Congressional and Public Affairs. The other titles of Assistant to the Assistant and the Deputy Assistant to the Special Assistant and so on just did not read very well.

The titles were merely changed to be consistent with the change in the title of the top position. There have been no other changes except that, and there have been no increases in salaries as compared with my predecessor's organization. The confidential assistant is a carryover title which, as Mr. Boutin previously explained, should be a confidential secretary. Whether or not she is confidential is of no particular concern because she and I do not share confidences which require such a title. I do not think any of the people in the Office have any great desire for particular titles.

Senator SMITH. I understood you to say these were misleading, the titles were misleading, and that was the reason for my question. If they are misleading, why don't you change them so they will be more realistic?

Mr. GRIFFIN. Mr. Gilmore's title in the previous administration was Assistant to the Special Assistant. I have retitled this position to more clearly describe his duties. I certainly have no opposition to changing confidential assistant to confidential secretary or anything else, and I will be happy to review this.

STAFFING OF ACTIVITY

Senator SMITH. Will you, for the record, give us a list of exactly what you have, what you are asking for, and the grade or pay and the vacancies? Do you have any vacancies?

Mr. GRIFFIN. We have one grade 9 vacancy. That is all.

Senator SMITH. Do you expect to fill that?

NEED FOR NEW EMPLOYEE ON LEGISLATIVE PROGRAM

Mr. GRIFFIN. Senator, this would be a new position. It was previously allowed but not funded. We have a large legislative program in GSA, and Mr. Davis has been in charge of this program since it was established. This year, for example, he was concerned with 840 bills which affect the operations of GSA, and which required comments to the Bureau of the Budget and subsequently to the various Senate and congressional committees. Some of these bills required two or three reports. Up to this year Mr. Davis and one girl have handled this workload, and it is an enormous one compared to some other agencies. When I was assigned to this office Mr. Davis spoke to me and we asked Mr. Moore about the advisability of attempting to recruit a trainee to backstop him because this workload, in all honesty, has put Mr. Davis into the hospital on two occasions. That is the only purpose for this new position.

If we had found a young legal trainee who could have learned the program we would have recruited him. At the moment we do not have an eligible candidate.

I would say at this late date in the legislative program we would probably not fill it this year.

PERSONNEL IN CONGRESSIONAL RELATIONS

Senator SMITH. Are any of these people whom I have named doing other than congressional affairs and public affairs, or congressional relations and public affairs?

Mr. GRIFFIN. Actually, in the congressional liaison part Senator, there are only four people, in addition to myself. We consider the legislative program a separate responsibility because the people connected with it have no opportunity for liaison work other than in developing a GSA legislative program and in answering questions from Members of Congress and congressional committees in connection with legislative proposals and bills, and clearance with the Bureau of the Budget of GSA comments on proposed legislation. So we have four people in the congressional liaison unit, and at the moment Mr. Davis with two clerical people in the legislative part of my office.

Senator SMITH. Those are not among these that I have read.

Mr. GRIFFIN. Some of them would be in clerical positions. In the legislative office we have Mr. Davis. Mr. Gilmore is the congressional liaison officer. A vacancy was recently filled in the grade 13 assistant position, which is a congressional liaison position. Mr. Webster left to go to George Washington University and the legislative assistant position is now vacant. We have three other clerical positions. This is not a large staff, Senator.

Senator SMITH. What I was trying to get at are those who have the double title doing other work than that that you and I discussed.

MISLEADING TITLES

Mr. GRIFFIN. None that you have referred to previously, except for the Deputy Assistant Administrator for Congressional and Public Affairs, who in fact is our Director of Public Information. He is the official who handles our dealings with the press, with trade magazines, and so forth. The others are either congressional liaison or legislative program people.

Senator SMITH. Well now, Mr. Griffin, I want to help, rather than be—

Mr. GRIFFIN. I understand that, Senator.

Senator SMITH. But why do you list these people, congressional people, when they are actually just information people? Why don't you separate them so that they will be realistically labeled or titled? Why charge congressional relations with the public information operations?

Mr. GRIFFIN. Well, Senator, I think that without attempting to be the least bit critical—and I have no intention of being that—but this budget was not submitted by the present administration. Although I have been with GSA since it started, I was not in my present position before the end of January of this year. I think that if Mr. Moore, Mr. Boutin, Mr. Turpin and myself were to resubmit this budget we would not have it in the one package, which presently includes business services with congressional liaison. They have no relationship whatsoever except that they do come under my general supervision.

Senator SMITH. Then we can expect next year to have a different setup presented to us?

Mr. GRIFFIN. Absolutely, Senator. I think Mr. Turpin and Mr. Boutin will agree. We have discussed this many times.

COMPARISON OF ACTIVITIES

Senator SMITH. Would you tell the committee, or outline the division between the congressional relations operations of your office and the public information operations?

Mr. GRIFFIN. Actually, there is no real joining of them at all. Most of the congressional liaison consists of responses to incoming inquiries.

Knowing of your interest expressed at the last hearing, for some idea of the workload, we ran a tabulation of the number of incoming letters to our agency. We actually took over this Office in March and instituted some filing systems and so forth. We have received and answered 1,884 congressional inquiries from March 1 to June 23, the day that we finished the tabulation.

Secondly, I cannot enumerate the many telephonic congressional inquiries except where followup action is necessary because there would be no purpose in administratively maintaining such a record. It would be costly—

Senator SMITH. That you call congressional affairs, not public information?

Mr. GRIFFIN. Congressional affairs, absolutely.

Senator SMITH. Now when your office calls a congressional office to give information, that is still congressional affairs?

Mr. GRIFFIN. Yes, Senator.

Senator, as another example of the workload, if you would permit, from March 1 to June 23, we received and handled a total of 1,459 congressional telephone calls which required followup action. Appointments or meetings resulting from these incoming telephone calls, just in that brief period, totaled 87. This was all handled by these four or five people, including myself, with no assistance from the legislative program people, because the number of their meetings in connection with hearings, meetings with the Bureau of the Budget, meetings with staffs of the various committees and so forth would more than quadruple this figure I am sure.

PERSONNEL ON CONGRESSIONAL INFORMATION

Senator SMITH. Again for the record would you give the committee the number of people, overall number, having anything to do with congressional relations and public information together?

Mr. GRIFFIN. Together, Senator?

Senator SMITH. Yes.

Mr. GRIFFIN. A total of 16 positions in my office, congressional liaison activities, legislative activities, and public information.

Senator SMITH. And you do not draw from any other place? You handle your workload, complete workload, with that number?

Mr. GRIFFIN. Completely. And there is no use of public information people for congressional activities, or vice versa. They are completely segmented.

POLICY ON RELEASE OF INFORMATION

Senator SMITH. On the release of information, on the press releases—

Mr. GRIFFIN. Press releases?

Senator SMITH. Yes. Is it your policy to inform the newspapers first or the Members of Congress first?

Mr. GRIFFIN. We normally advise the Members of Congress first.

Senator SMITH. You say "normally." What do you mean by that? What would be the exceptions?

Mr. GRIFFIN. From my office we always notify the members of the delegations first. There are times when the very active members of the press go directly to operating people who are handling a particular problem, and they do get information which they publish. But when it is reported to my office for public release, which is the normal procedure, Senator, the members of the delegation are advised first.

Senator SMITH. In other words, you have no policy that everything has to go through your office, and when you speak of "your office," yeau mean both Congressional Relations and Public Information?

Mr. GRIFFIN. Yes, Senator.

Senator SMITH. Now, you have no policy that prohibits or prevents anyone in the Department in GSA giving out information of that kind that should come out officially through—

Mr. GRIFFIN. I have instituted no new policy myself, Senator. In fact, I have issued no memorandums, no directives, or regulations of any type. I inherited a policy, in which my predecessor and his assistants indoctrinated me when I assumed this office, which requires regional offices and segments of the central office to report significant developments in their area to my office for appropriate release. But at the present time there is no policy, no rule that I know of (and I am certain there are none on the books) which prohibits any member of our agency from talking to Members of the Congress, the Senate, the press, or anyone else. We have absolutely no gag rule and we do not contemplate the institution of one.

Senator SMITH. And there is not any assurance, if a Member of Congress calls your office where he expects to get this information when it is available, that he is going to get it, and that it may come out of some other office in the Department?

Mr. GRIFFIN. He is reasonably sure he will get it, Senator.

Senator SMITH. But he will get the information before it is given out from some other office?

ABSENCE OF GAG RULE

Mr. GRIFFIN. Well, Senator, in Washington I find that many civil servants like to talk to elected officials, and many of them have their favorite elected officials. While we discourage this, we have continued to follow the practice which the previous administration had instituted and which we find to be helpful and worthwhile. We would prefer not to have 200 or 300 press agents or congressional liaison people in GSA, and we discourage it to the best of our ability in keeping with the wishes of the Administrator and the Deputy Administrator. But we do not have a gag rule of any type.

INFORMING MEMBERS OF CONGRESS

Senator SMITH. Mr. Griffin, in some States there are divided delegations.

Mr. GRIFFIN. That is right.

Senator SMITH. Taking that into consideration, of course you cannot inform both the Senators and all of the Congressmen who are interested in a district matter at the same time. In what order do you inform them, politically, or by seniority, House Members of the district or the Senators?

Mr. GRIFFIN. Well, Senator, if they are very small contracts, or reasonably small contracts, normally we restrict the notification to the sitting Congressman with no concern for his party. If the sitting Congressman is a Republican he is notified; if the sitting Congressman is a Democrat he is notified. If it is a mixed delegation on the Senate side, we are following exactly the same policy of the previous administration of attempting to achieve simultaneous notifications to the extent that we can. Normally, we first call the Democrat, because someone does have to be called first.

Senator SMITH. And do you ever inform one without informing both of them of a matter?

Mr. GRIFFIN. No, Senator.

TIMING ON RELEASE OF INFORMATION

Senator SMITH. Do you have any policy as to the time of day when you give out the information?

Mr. GRIFFIN. We do have a policy, Senator. The only policy we do have is that within the ability of the people, and the facilities, to handle incoming phone calls, and everything else, we release the information as quickly as we can regardless of what time of day it reaches my office, because we have no way of knowing any other deadlines and we just do not have people to schedule it. I have no interest in scheduling releases. The only way we can handle it is to tell the Senator or Congressman as soon as we know so he will know as soon as we do.

Senator SMITH. Normally is that after 5 and 5:30?

Mr. GRIFFIN. No, Senator.

INFORMATION ON MAINE CONTRACTS

Senator SMITH. Mr. Chairman, I have some examples that I would like to put in which seem to be contrary to some of the information that we are getting, and I hope it is going to improve, and I would like to read them.

I have six questionable experiences within 17 days, three within 4 days. And these are all in 1961.

On June 6 I had no notice on GSA contracts given to Keyes Fibre & Forster Co. I read in the newspaper several days later.

June 7, late hour notice on the Augusta post office. And that has been a very controversial, very hot subject in Maine. I think the notice came to me very late. It was after 5:30.

June 9, the same situation on the Caribou, Maine, post office.

On June 16—going back to June 6, on those contracts, GSA contracts, I never did hear about it until I read it in the paper and it was given out by my junior colleague.

On June 16 a letter of mine was answered 15 days after I had written, and that was 9 days after the constituent was informed by GSA.

On June 19 it took 63 days to answer my letter, 11 days after I read it in the newspaper, given out by someone else.

On June 23, it took 35 days to answer my letter and again 15 days after the newspaper story which I read.

And I think those are very glaring examples. You have a heavy workload, and if you are not asking for enough people to take care of what you are trying to do, or claiming to do, then you should ask for more people. And those are all instances in this month, as you will notice.

Mr. GRIFFIN. Senator, to the best of my knowledge, we have only issued three notifications to members of the Maine delegation. These involve the Augusta site which you mentioned, the Portland, Maine, A. & E. award on April 20, and Caribou, Maine, on June 9.

Mr. Lewis of your office called it to the attention of a girl in my office. He questioned her as to when Senator Muskie was notified and she said it was her understanding he had been notified approximately an hour before that. This comes about as a result of a new clerk failing to appreciate the importance of notifications, particularly in States where there are mixed delegations. She had gone home without completing her telephone calls, but my secretary noticed it had been left on her desk and immediately made the call. That was an administrative error because of a new employee, and I regret the inconvenience that it caused.

Senator SMITH. You would not say it was regular to wait an hour between the two calls?

Mr. GRIFFIN. Absolutely not.

Senator SMITH. Especially when the second call was made after 5:30 and after the Administrator had left. I tried to reach him and could not reach him. So apparently the notices go out even after—

NOTIFICATION OF CONTRACTS

Mr. RIFFIN. In this case only. I admit our error. But these are the only ones. The case that you mentioned involving other contracts that you read in the newspapers; were those supply type contracts?

Senator SMITH. I have them. I won't take the time of the committee to go into the details, but I will be glad to go into the details with you.

Mr. GRIFFIN. I would be happy to visit with you, and explain it. Senator, it is not our intention to schedule our releases 1 hour, one-half hour, or anything else. We try to make them as simultaneously as we can.

Senator SMITH. I don't seem to be getting most of the notices. If it is your policy to do this, I will accept it, and find some other way. Yet, I think there should not be word sent out as to setting up one policy, and then follow another. That I do resent, and resent very much.

Mr. GRIFFIN. Senator, that is not happening. I want to make one observation, if I may, and I do not want to take up a lot of time here.

But in all of the incoming telephone calls, in all of the letters which are directed to us, we do not in any way look to see the party label, the chairmanship that the person holds or anything else. We attempt, to the best of our ability, to provide comprehensive, frank, forthright answers that the Senators or Congressmen may request, and I think that you will find that all of our replies and all of our services are rendered in that fashion. Our personnel are certainly instructed that way.

We have no desire to be any sort of a political outpost at all for any group. This is not our desire.

DELAY IN CORRESPONDENCE

Senator SMITH. Mr. Griffin, wouldn't you say 63 days was quite a long time to answer, especially when it was 11 days after the newspaper story came out?

Mr. GRIFFIN. I would have to check that, Senator.

Senator SMITH. I have the correspondence.

Mr. GRIFFIN. May I check and discuss it with you, Senator?

Senator SMITH. I would be very happy to.

Mr. GRIFFIN. I would be very happy to because I am sure the delay was in our services developing the information which was required, I will be happy to bring the file to your office, and I am certain we will be able to determine the reason for the delay.

RELEASES TO PRESS

Senator SMITH. My question is as to why you can give the information to the press, to someone else, and then 11 days or more write the letter which I have here telling me the story? Someone must think that we are very stupid up here, or do not know what is going on, or our constituents do not.

Mr. GRIFFIN. Senator, as far as formal press releases from my office are concerned—except for the submission of prospectuses on new projects—to the best of my knowledge there have been press releases or newspaper information issued on only three matters in the State of Maine, since April 20. I am sure this record is complete.

The only ones in addition to this would be the submission of a prospectus for a new border station up in Houlton, Maine, and maybe one other which I cannot recall at the moment. But I do not have any other cases where we would have issued press releases.

Senator SMITH. If I had time I am sure I could give them to you. I do not have time to read all of the papers.

But I do, Mr. Chairman, resent having to read the newspapers from the State of Maine to know the answers to my questions sent down by letter. It just does not seem to make sense.

Mr. GRIFFIN. I agree.

Senator SMITH. And especially if you are asking for funds for this kind of thing. And if the setup is not right, it would seem to me that you should be asking for funds sufficient to make it right. I have no feeling on this partisan matter because I know how it works both ways.

However, I do have feeling when there is so much discrepancy between the two. If your policy is to give to the party of administration first notice, just let me know.

Then on the other hand, when a girl calls the office at 4:48 and says that they have given the junior Member the information an hour before, and more than that and worse than that, when my office is called at 5:30, a time normally when most people have left the office.

Mr. GRIFFIN. That was a mistake, Senator.

Senator SMITH. We are over on the floor many times. Of course there is no possibility of getting the letter out that night to the constituent asking for it.

Do you continue to use those forms down there?

Mr. GRIFFIN. Yes, we do.

LETTER ON PAINT STRIPPERS

Senator SMITH. I would like to read into the record one more letter:

DEAR SENATOR SMITH: We have your letter of June 1, 1961, concerning correspondence from Mr. Harold B. Currier of the Ti-rol Products Co. on the subject of paint strippers. On June 7, 1961, our contracting officer advised Mr. Currier by letter, a copy of which is enclosed, concerning the procedure to follow in supplying products to the Government. The decision as to whether Ti-rol should be asked to demonstrate these strippers will be made after we have received a reply to the above-mentioned letter. Of course we will be glad to discuss the details of this letter with Mr. Currier at any time.

You wrote him on June 7 and wrote me on June 16 in answer to my letter of June 1. Wouldn't you have thought it would have been a courtesy to have sent me a copy of the letter, or had someone call me and say you are writing Mr. Currier directly?

Mr. GRIFFIN. I could not personally review the quantities we receive of all incoming mail, concerning stories on matters relating to the Defense Material Service, Transportation Utility Service, Public Buildings Service, Federal Supply Service, as well as personnel matters.

They are distributed to the Services for the formulation of a reply. We are doing the best we can to speed up the service to Members of the Congress. When we are handling something like 1,800 letters in a 2½-month period, it is impossible for us to be knowledgeable about all of the physical matters, the contracting matters and so forth.

And you probably recognize it is a great deal easier for a contracting officer to mail a letter, without the knowledge of a congressional letter. He can send that out the same day.

Senator SMITH. But I sent the letter to you. I sent Mr. Currier's letter to your office asking for a report. I am not complaining because heaven knows I am glad to have Mr. Currier get the answer as quickly as you can get it to him. All I can say, Mr. Griffin, is that when it takes 63 days to get an answer to a letter under this so-called New Frontier administration, the communication systems in the Daniel Boone-Lewis and Clark days of the Old Frontier seemed fast in comparison.

DIFFICULTIES WITH DIVIDED DELEGATION

Senator MAGNUSON. Well I know this is a difficult job for anyone down there. As I said before, for 8 years I read in the papers about things happening in Seattle.

Senator SMITH. You did not have a divided delegation.

Senator MAGNUSON. Oh, yes. A Republican in Congress would announce the projects.

Senator SMITH. I have no objection. I think you owe the district something. In our State we feel the Congressmen ought to take care of their own districts as far as possible.

Mr. GRIFFIN. Senator, I think we really try to expedite them as much as we possibly can. It is a question many times where we have to go to the region for information, the Public Building Service has to develop information which only the regional office can provide.

Senator MAGNUSON. Now for instance, taking my position here, I happen to know maybe a little more about what you are doing and what is coming up by virtue of the appropriations. So I would have my office, maybe, pester you down there every day as to what is going on in this thing, what is happening, and say call back. And sometimes I might get it quickly, whereas if I wrote you a letter you may have to go out in the field or something like that, and some things take longer than others.

Mr. GRIFFIN. That is right.

Senator MAGNUSON. But I think sometimes some of us get information that it looks like we are getting ahead of time, but it is because we are on top of it.

Mr. GRIFFIN. Also, Senator, it is almost impossible to knock down an aggressive staff member in the office on the Hill being on top of a significant development that is going to take place in his area, and being almost as informed on it as the members of GSA because he knows the person in the building who is handling it and he is calling him four or five times a day.

Senator MAGNUSON. He calls him direct?

Mr. GRIFFIN. That is right, sir. And I bow to the wishes of the committee, but I would prefer to work with no instructions that they cannot talk to these people. I think that would be a very bad precedent because we would then be in the position of controlling news, which I certainly have no desire to do.

Senator SMITH. I just think, Mr. Griffin, if you are going to do a job down there, let's do it well and set up—

Mr. GRIFFIN. I agree, Senator.

Senator SMITH. A policy and followthrough on it. And if you are not going to do it, then I suggest a cut in the appropriations and put it where it can be done. This has occurred in department after department where you had this congressional relations and public information and public affairs, and it is a very, very bad system, Mr. Chairman. We have seen it in other departments, and this is certainly one of the worst examples of it.

Senator MONRONEY. It happens, I can say, in the Federal Aviation Agency. I read in the chamber of commerce publication an announcement by the district engineer of a half million grant to the Oklahoma City Airport. I still find, although my son happens to be in the congressional relations department of the Post Office, that the Republican holdover in Wichita, Kans., in the regional office, is still announcing all the post office construction. I keep fussing about it but I have not been able to get all these ducks in a row. I mean, it is really tough.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

Senator SMITH. Of course, Mr. Chairman, you speak of a divided delegation. Yours was divided between the Senate and the House. You did not have it in the Senate.

Senator MAGNUSON. Well, the way the Defense Department does it with Senator Jackson and myself, where it is not divided, because he happens to be on the Armed Services Committee and is, you know, conversant with these things, they will call his office and tell his office to notify me. And, of course, it happens we have a good liaison and that works out fine. But I can see Senator Smith would have here problems, where you may not have that quick liaison.

ANNOUNCEMENT OF CONTRACT

Senator SMITH. Mr. Chairman, I would like to read into the record one more item appearing in the Waterville Morning Sentinel, Tuesday, June 6, 1961. The headlines are "Keys Fibre and Forster Co. Get GSA Contracts."

Senator Edmund S. Muskie, Democrat, of Maine, was advised Monday by the General Services Administration that it has awarded several contracts for packing materials in Maine. Companies receiving the awards were Keys Fibre Co., of Waterville, and Forster Manufacturing Co., of Farmington.

These contracts were awarded to out-of-State firms for products that will be manufactured by the Keys Fibre Co. in Waterville. They include S. Friedman & Sons, Washington, D.C., \$177,374; the G & K Paper Co., Berkeley, Calif., \$66,828; and the Line Paper Co., Forth Worth, Tex., \$77,007.

The Forster Manufacturing Co. of Farmington and Wilton will receive contracts totaling \$144,983. The materials will be manufactured in Wilton and packaged in Farmington.

The Keys Fibre Co. order is primarily for products from the Sho-Pak and Chinnet Divisions. They include meatpacking trays and disposable cups and plates.

The meat trays are for both frozen and fresh meat packaging.

Other than that I have never had any information.

POLICY ON ANNOUNCING FEDERAL SUPPLY CONTRACTS

Mr. GRIFFIN. Senator, that was not issued from my office because we do not issue releases concerning Federal supply contracts. The item you prefer to concerns this type of contract. We have looked into the possibility of announcing these contracts but it has not been a practice in GSA to announce Federal supply contracts. The only announcements that can be effective to the Senators or Congressmen, in my opinion, are the type of contracts such as repair and improvement contracts, public building design contracts, construction contracts, and so forth, because the award is made in the office. On Federal supply contracts when public opening of bids take place, 200 or 300 people attend them. Staff members of Senators are talking about new products, new items to contracting officers all the time.

We do not want to announce awards of Federal supply contracts prematurely for the simple reason that there could be mistakes in bids, there could be challenges by other bidders in the group.

Commissioner Bean of our Federal supply service is very apprehensive about our doing this sort of announcing to the Congress, and we do not do it. The only exceptions that I know of concerns two or three major motor vehicle purchases.

Senator SMITH. What is major to one State is minor in another. This \$144,983 in this little community meant the difference between

closing up shop and going on. And if you are giving all of those details to someone, or someone is giving them to me, then your office is a misnomer if you are not giving the information.

Mr. GRIFFIN. We are providing information all the time, Senator.

Senator SMITH. Mr. Chairman, I think we better scrutinize these requests for appropriations very carefully and find out whether we are getting what we think we are getting, or whether it is just a front.

SOME ANNOUNCEMENTS FROM FIELD

Senator MAGNUSON. Some of these are let out in the field.

Mr. GRIFFIN. That is right, Senator.

Senator SMITH. It seems to me that something is very wrong with the whole system.

Senator MAGNUSON. But some of them might be let out in the field.

Senator SMITH. This was not. This was given out by General Services Administration out of Washington—so it says. Now you would think I would have gotten some word someplace, wouldn't you?

Thank you very much, Mr. Griffin?

Senator MAGNUSON. Now Senator Allott has a few general questions here.

Senator ALLOTT. These are under specific matters—

Senator MAGNUSON. I understand, Mr. Griffin, you will look at these matters for Senator Smith?

Mr. GRIFFIN. Absolutely.

Senator SMITH. Just a moment. I would be glad to have them look into this for me, but I was thinking more especially of the overall system, Mr. Chairman, because I think many people are being troubled by this.

Mr. GRIFFIN. Of course you do realize, Senator, on your previous case concerning Mr. Currier, it is undoubtedly true that Mr. Currier wrote to GSA, at least simultaneously with his letter to you, and just wrote to you in an attempt to accelerate disposition.

Senator SMITH. He wrote me because he could not get any answer out of GSA.

Mr. GRIFFIN. It is a question of who was handling the two pieces of correspondence.

Senator SMITH. I have finished.

AUTOMATIC-DATA-PROCESSING MACHINES

Senator ALLOTT. This is a matter that I am presenting at the request of Senator Saltonstall. I have here a short memorandum which I will put into the record, the gist of which is that more than \$250 million is spent annually for the rental of data-processing equipment and that the spirit of competitive procurement is being violated in that virtually 100 percent of the rental of \$100 million annually for punchcard equipment is paid by the Government to a single supplier.

Now there are a series of questions on the second page. I suppose the best way to do this would be to read these things. I do not believe you are prepared to answer these forthwith.

Mr. BOUTIN. No; we are not, Senator. Mr. Turpin perhaps can give you just a quick rundown.

Senator ALLOTT. I am not interested in a quick rundown at this time because these are specific questions and I would like to have

supplied for Senator Saltonstall the specific answers to these questions for the record, Mr. Boutin.

Mr. BOUTIN. Fine, we will be glad to.

Senator ALLOTT. For instance, it asks what the total annual rental is, and other questions of that type that I am not sure you could answer here. If you feel you can, I will ask the questions now.

Mr. TURPIN. Senator, we will have to supply for the record answers to those questions.

Senator ALLOTT. All right, if you will do that.

Mr. Chairman, I ask that the memorandum which states the substance of the situation and the specific questions be submitted, which I submit on behalf of Senator Saltonstall, and the questions be answered.

Mr. BOUTIN. We will be very happy to.
(The information referred to follows:)

MEMORANDUM

To: Senator Leverett Saltonstall

Subject: Procurement of data-processing equipment by the Federal Government

Examination of data-processing equipment use and procurement by the executive branch of the Federal Government reveals that:

1. More than \$250 million is spent annually for the rental of this equipment. Of this \$100 million is for conventional punched card equipment and more than \$150 million is for digital computers. Most of this expenditure is by the Department of Defense.

2. Data-processing equipment and methods in some agencies of the executive branch are outmoded, inefficient, and costly because most of this equipment is obtained from a single supplier and the innovations of other suppliers have not been considered.

3. The spirit and in many cases the letter of competitive procurement are being violated. Virtually, 100 percent of the rental of \$100 million annually for punched card equipment is paid by the Government to a single supplier. Furthermore, in case of the Department of Defense's rental of computers for "business" applications, 77 percent goes to the same supplier. The drift is in the direction of the same dominance in relation to the new equipment as in relation to the old, because its acquisition is called replacement and is buried in the budgeting process.

4. Remedial action should be taken by the Government to achieve:

(a) Competitive conditions in Government procurement of data-processing equipment, in line with Government antimonopoly policy.

(b) Multiple or alternative sources of supply, in accordance with the national defense policy.

(c) Great savings to the Government, possibly totaling millions of dollars a year by upgrading obsolete punch card equipment.

1. Use of punched card equipment:

(a) What is the total annual rental of the punched card equipment used by your agency?

(b) How long have the present punched card installations been in operation?

(c) Have manufacturers (other than the manufacturer of your present equipment) ever been called upon to present their analysis of how they could improve on your present installation?

2. Use of electronic data-processing equipment:

(a) What is the annual rental cost of your present electronic data-processing equipment or, if purchased outright, the purchase cost?

(b) How long has your present electronic data-processing equipment been in operation?

(c) In selecting the electronic data-processing equipment which you now have in place or on order, which manufacturers were requested to furnish written proposals?

(d) If written proposals were not solicited, on what basis of fact was the selection made?

Answers to the foregoing questions as they relate to General Services Administration are as follows:

1. Use of punchcard equipment (EAM):

(a) The annual rental of punchcard equipment (EAM) to be used by GSA in fiscal year 1962 is \$647,660.

(b) Installation dates of ADP equipment: See following schedule.

(c) At the time rental of EAM equipment was considered by GSA, in early 1952, only two manufacturers, IBM and Remington Rand, manufactured punchcard equipment in this country. IBM equipment was selected because of the systems modification flexibility it provided; i.e., the customer's staff could change the IBM machine processing by plugboard rewiring, whereas a system change on the Remington Rand equipment required it to be returned to the manufacturer.

Other manufacturers have not been called upon to present their analysis of how they could improve our present EAM installations, because preliminary planning was initiated as early as 1956 to convert EAM operations to electronic digital computers to take advantage of the faster, more accurate data processors.

2. Use of electronic data processing equipment (EDP):

(a) The annual rental of EDP equipment to be used by GSA in fiscal year 1962 is \$428,340.

(b) Installation dates of EDP equipment: See following schedule.

(c) In selecting IBM-305 (RAMAC) equipment, no manufacturers were requested to furnish written proposals.

In selecting the RCA-501 computer, systems specifications were distributed to 20 manufacturers of electronic data processing equipment—7 responded; 2 subsequently withdrew their proposals. The remaining five proposals were evaluated by the National Bureau of Standards. Selection was made by GSA based on the National Bureau of Standards' recommendation that the RCA equipment best suited our needs, all pertinent factors (including cost) considered.

(d) Selection of IBM-305 (RAMAC) was made following a canvass of available equipment by GSA staff. This canvass showed that competitive equipment, providing the data processing capacity required, rented in excess of RAMAC.

Installation dates of data-processing equipment by GSA

Region	EAM	EDP	
		IBM-305	RCA-501
1.....	April 1956.....		June 1961.
2.....	December 1952.....		
3.....	July 1949.....		
4.....	April 1952.....	November 1959.....	
5.....	April 1956.....		
6.....	September 1952.....	November 1958.....	
7.....	April 1956.....	January 1960.....	
8.....	March 1956.....	September 1960.....	
9.....	May 1953.....	May 1960.....	
10.....	March 1956.....		

GSA FUNCTION ON RENTING MACHINES

Senator MAGNUSON. We have had the other agencies up here and they have all asked for a certain amount of money to evaluate installation of this processing. Now is it my understanding that GSA rents the machines for the other agencies?

Mr. TURPIN. No, sir.

Mr. Chairman, there are schedule contracts made by GSA with equipment manufacturers against which other agencies place orders for the purchase or rent of machines.

Senator MAGNUSON. But they pay for them out of their appropriation?

Mr. TURPIN. Yes, sir.

Senator MAGNUSON. You might be the agent to get the machine and make the contract?

Mr. TURPIN. We would be the agency that would make the contract, and they pay for it out of their own appropriation.

Senator MAGNUSON. I see. Because most of them this year I noticed in their justifications had some mention of the evaluation and the possibility of buying them, or getting into the data processing in their agencies.

All right, we thank you all very much. As far as the chairman knows, the hearings on independent offices are closed for this fiscal year and we will leave the record open until Friday afternoon because Mr. Cooper has to get this evaluated for us. We plan to mark the bill up a week from Monday, because we will not have many around here next week, which will be about July 10, and hope to be able to get it up on the floor within that week and maybe have a conference in that week so you will know where you are, depending on the conditions on the floor.

Thank you very much, gentlemen.

(The following information and correspondence were later received:)

[To follow schedules on p. 394].

GSA public buildings construction projects approved by congressional Public Works Committees during 87th Cong. under sec. 7(a) of the Public Buildings Act of 1959

[Dollars in thousands]

	Estimated cost			Date approved	
	Total	Improvement cost	Sites and expenses	House	Senate
California:					
Calexico, BPS.....	\$375	\$319	\$56	June 14-1961	June 26, 1961
Los Angeles-Long Beach Harbor area, CU.....	3,250	2,240	1,010	do	Do.
Florida:					
Jacksonville, FOB.....	9,573	7,815	1,758	do	Do.
Marianna, PO CT (CR).....	633	546	87	do	Do.
St. Petersburg, FOB.....	5,325	4,403	922	do	Do.
Georgia: Macon, PO FOB.....	4,334	3,532	802	Apr. 18, 1961	May 23, 1961
Idaho: Porthill, BS.....	152	128	24	June 14, 1961	June 26, 1961
Iowa: Des Moines, FOB.....	10,335	9,002	1,333	do	Aug. 16, 1960
Kentucky:					
Louisville, FOB.....	13,100	11,202	1,898	do	June 26, 1961
Louisville, PO CT CU (CR).....	1,209	1,095	114	do	Do.
Owensboro, PO CT (CR).....	337	295	42	do	Do.
Louisiana:					
New Orleans, PO CT (CR).....	3,872	3,629	243	do	Do.
New Orleans, FOB (CR).....	1,415	1,290	125	do	Do.
Maine: Houlton, BP sec. Hq.....	410	352	58	do	Do.
Michigan:					
Detroit, PO CT (CR).....	4,628	4,315	313	do	Do. ¹
Grand Rapids, PO CT (CR).....	831	737	94	do	Do.
Sault Ste. Marie, BS.....	312	270	42	do	Do.
Minnesota:					
Pigeon River, BS.....	351	310	41	do	Do.
St. Paul, CT FOB.....	11,673	10,120	1,553	do	Do.
Nebraska: Grand Island, PO CT (CR).....	364	322	42	do	Do.
New Hampshire: Concord, PO CT.....	4,036	3,520	516	do	June 26, 1960
North Carolina: Fayetteville, PO CT.....	2,690	2,235	455	do	Aug. 16, 1960
North Dakota: Grant Forks, PO CT (CR).....	370	325	45	do	June 26, 1961
Oklahoma: Oklahoma City, PO CT (CR).....	879	794	85	do	Do.
Pennsylvania:					
Harrisburg, CT FOB.....	7,470	7,005	465	do	Do.
Philadelphia, CT FOB.....	42,680	40,380	2,300	do	Do. ¹
Texas:					
Del Rio, BP sec. Hq.....	535	483	52	do	Do.
Del Rio, BS.....	342	300	42	do	Do.
Fort Worth, FOB.....	20,600	10,623	3,977	do	Aug. 16, 1961
Houston, PO CT (CR).....	1,518	1,393	125	do	June 26, 1961
Virginia: Charlottesville, HEW building.....	2,333	2,171	162	do	Do.
Washington: Spokane, CT FOB.....	8,694	7,212	1,482	do	Do.
District of Columbia: FOB No. 5.....	42,000	38,200	3,800	do	Do.
Total (33 projects).....	206,626	182,563	24,063		

¹ Senate committee approval of the 2 projects (Detroit, Mich., and Philadelphia, Pa.) will stand unless a demurrer is filed by a committee member on or before June 30, 1961.

NOTE.—Excluded from the foregoing is a project for an emergency operations center for OCDM in the area of Harvard, Mass., for which purpose \$2,500,000 is included in H.R. 7445 under the "Construction of facilities" appropriation of OCDM. The project was approved at a limit of cost of \$3,000,000 by the Senate Public Works Committee on June 26, 1961. Action by House committee still pending as of June 27, 1961.

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., June 22, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of the Independent Offices Appropriation Bill for 1962, U.S. Senate.

DEAR SENATOR MAGNUSON: In my letter of June 6, 1961, in response to your letter of June 2, 1961, I outlined the effects of the action taken by the Committee on Appropriations of the House on the several appropriations and funds of the Commission as provided in H.R. 7445, the independent offices appropriation bill, 1962. In that letter restoration of certain amounts was requested. I subsequently supported this restoration in hearings before your subcommittee on Monday, June 12, 1961.

During the hearings you made reference to language added by the House committee under the appropriation title, "Payment to Civil Service Retirement and Disability Fund." The language is found under that appropriation title, page 9, lines 9 through 16 of the bill, and reads as follows: "Provided, That the Civil Service Commission shall include annually, in its estimates to the Bureau of the Budget, estimates of the appropriations necessary to reimburse the civil service retirement and disability fund for the amounts paid out of the fund by reason of the enactment of Public Law 85-465, and the Bureau of the Budget shall submit annually to the Congress estimates of the appropriations necessary to reimburse the fund for such amounts."

The Commission has been studying the effects of this language and now requests that this language be deleted by your committee because:

(1) It represents substantive legislation in an appropriation bill;

(2) it proposes to deal with the financing of the annuity increases provided by Public Law 85-465 in a manner different from annuity increases enacted in other laws before the 85th Congress and is contrary to the policy of this administration that such annuities should be paid from the civil service retirement and disability trust fund on the same basis as other annuities are paid from that trust fund;

(3) it requires the Bureau of the Budget to submit estimates of appropriation to the Congress with the intention, according to the committee report, that these estimates become the basis for enactment of appropriations. This proviso would require the Bureau to submit such estimates even though it might be contrary to the President's policy that appropriations be made for this purpose; and

(4) there is pending before the Congress for consideration the results of a study made by the General Accounting Office, Bureau of the Budget, and the Civil Service Commission for the purpose of establishing a permanent program for the financing of the Government's contributions to the retirement fund.

The Commission would therefore appreciate action by your subcommittee to delete the proviso from the language of the appropriation bill.

By direction of the Commission.

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., June 9, 1961.

HOB. WARREN G. MAGNUSON,
Chairman, Subcommittee in Charge of the Independent Offices Appropriation Bill for 1962, U.S. Senate.

DEAR SENATOR MAGNUSON: The Commission submits herewith a proposed amendment to its budget request for the fiscal year 1962. The President and the Bureau of the Budget have authorized us to request the Senate to include additional funds to finance added workload for conducting postmaster examinations. This matter has been discussed with the chairman, Subcommittee on Independent Offices, Committee on Appropriations, House of Representatives, and he has no objection to our making this request of your subcommittee.

Enclosed are copies of justification material regarding the increased workloads resulting from the revision of qualifications for postmaster positions. The improvement and strengthening of the qualification standards caused the cancellation of lists of eligibles on existing registers as well as the deferment of some new examinations. The additional workload expected to devolve upon the Commission is the announcement of 1,768 postmaster examinations with the accompanying tasks of rating applications, establishing registers, certifying eligibles, and answering inquiries. We have agreed with the Post Office Department to spread this work over a 2-year period. Accordingly, we request that the Commission's "Salaries and expenses" appropriation for 1962, now pending before the Senate, be amended to include \$226,000 additional to accomplish one-half of this work in fiscal year 1962. Funds to complete the balance of the workload will be included in the Commission's budget request for 1963.

The favorable consideration of your committee to this request will be appreciated.

By direction of the Commission.

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

U.S. CIVIL SERVICE COMMISSION

The Congress, through the Civil Service Act and subsequent legislation including the Presidential Postmaster Act of 1938, has placed upon the Commission the responsibility for developing and operating a system of filling positions in the competitive civil service on the basis of merit and fitness. The objective of the Commission's recruiting and examining activity is to meet the employment needs with the best qualified citizens who are available for appointment.

Determination of the qualifications standards for the various positions is a key step in meeting these objectives. Periodic reviews to make sure that the experience and training requirements reflect the constantly changing advances in technology and business methods are necessary. The joint review of the postmaster standards is such a step. These standards had not been reviewed or revised since 1953.

The review of these standards was requested by the Postmaster General because, in reviewing the lists available to the Department in February 1961, he concluded that the existing experience and training requirements for these positions did not consistently furnish the caliber of persons needed to manage and operate modern postal establishments. As a result of the review, the Commission has modified these standards to increase the amount of experience required for these positions; to permit substitution of appropriate education for part of the required experience; and to revise the manner of determining an applicant's general reputation as to character and fitness and his ability to meet and deal with the public effectively.

As a result of the adoption of these standards, 2,180 vacancies in postmaster positions must be filled, over and above the number of Presidential postmaster examinations included in the original budget. The excess workload results from the examinations which were canceled as a result of the Commission-Post Office agreement and from the deferment of the announcement of new examinations in the latter part of fiscal year 1961.

Changes in procedures made as a part of the review, particularly with respect to the handling of noncompetitive examinations for the promotions of postal employees to postmaster positions, will permit the Commission to absorb 412 of these examinations with funds already budgeted. This leaves 1,768 cases for which funds are not now available. However, this amount of workload cannot be processed along with the regular workload of postmaster examinations in 1 fiscal year. By agreement with the Post Office Department, it will be spread over 2 fiscal years. Funds are therefore requested to process one-half of this additional workload in fiscal year 1962. Funds for the balance will be included in the budget for the fiscal year 1963.

An additional \$226,000 will be required in order to process 884 additional Presidential postmaster examinations. By object classification, this money will be applied as follows:

Object class	Number of positions	Funds required
11. Personnel compensation.....	30	\$208,000
12. Personnel benefits.....	0	15,700
24. Printing and reproduction.....	0	1,300
26. Supplies and materials.....	0	1,000
Total.....	30	226,000

PRESIDENTIAL POSTMASTER WORKLOAD

1. Examinations to be announced

(a) Original program.....	1,100
(b) Revised program.....	1,984
(c) Difference.....	884

2. Cost requirements by function

Function	Cost per unit	Original program		Revised program		Additional requirement	
		Units	Dollars	Units	Dollars	Units	Dollars
Conducting examinations.....	\$23.38	8,140	\$190,300	14,819	\$346,400	6,679	\$156,100
Establishing and maintaining register.....			7,400		12,600		5,200
Certifying eligibles.....	4.99	3,300	16,500	5,952	29,700	2,652	13,200
Answering inquiries.....	4.81	8,478	40,800	15,434	74,300	6,956	33,500

FEDERAL COMMUNICATIONS COMMISSION,
Washington, D.C., June 21, 1961.

HON. WARREN G. MAGNUSON,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: My attention has been called to the testimony of Dr. A. V. Astin, Director of the Bureau of Standards, at the June 19, 1961, hearing before the Senate subcommittee concerning the 1961-62 appropriation for the Department of Commerce. Dr. Astin was seeking reinstatement of an appropriation of \$750,000 for certain basic research activities in connection with space communications.

In this connection, your questions indicated that there might be some possible duplication of efforts as between the proposed projects of the Bureau of Standards and the planned activities of the Federal Communications Commission in the field of communications by means of space satellites.

Our testimony before the Appropriations Subcommittee, of which you are chairman, stated the Commission's objective in establishing a joint venture by private enterprise which would become the U.S. entity which ultimately would operate a satellite communications system. We stated that such a private entity would undertake research and development, in cooperation with the Government, to place in operation such a system. We also stated that the ultimate technical and economic feasibility of such a communications system had been accepted generally in the United States.

Additionally, we implied that it was essential that the United States be able to demonstrate to other nations that the technical parameters of the satellite communications system proposed by this country will be the most practicable. We advised that the frequency allocations and the technical parameters certainly would be the subject of negotiations at the forthcoming International Radio Conference in 1963, and that we required extra personnel to concentrate on the preparations and participation in this Conference.

As I understand the testimony of Dr. Astin, their research is designed to secure more precise knowledge of the basic natural properties of the upper atmosphere affecting the propagation of particular frequencies. In connection with its research and development projects contemplated to constantly improve communications equipment and techniques pertinent to space communications, private industry will continue to rely heavily on the basic research of the Bureau of Standards. I should also like to emphasize that this Commission utilizes the results of Bureau of Standards basic research in connection with its constant review of propagation characteristics and their relation to technical standards.

In my opinion, there would be no duplication of the research activities of the Bureau of Standards and those undertaken by private enterprise in developing a satellite communication system.

Sincerely yours,

T. A. M. CRAVEN, Commissioner.

FEDERAL HOUSING ADMINISTRATION,
Washington, D.C., June 27, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Independent Offices Appropriations Subcommittee,
U.S. Senate, Washington, D.C.

MY DEAR SENATOR MAGNUSON: Following our hearing before your appropriations subcommittee on Monday, June 19, you handed to me the enclosed letter, which you had received from Senator Thomas H. Kuchel, on the subject of our use of fee appraisal services as a means of reducing the heavy backlogs of work with which most of our field offices are confronted.

In providing the information requested, may I first say that the reports reaching Senator Kuchel are very probably correct in indicating that there are many instances in which "a desired impetus to local economy, as well as to the sale of large quantities of materials, has been denied because of uncertainty when construction can be financed" [under FHA commitments]. I have been trying most earnestly to have it recognized by all concerned that the tremendous backlogs of unprocessed applications for mortgage insurance in our field offices represent critical delays in construction starts and consequent construction employment, as well as in purchasing, production and employment in the building supply and equipment industries. Similarly our inability to process and promptly pay our tremendously increasing number of mortgage-insurance claims—and we have nearly a year of backlogged work in this activity—represents the prolonged tieup of many millions of dollars of private funds that otherwise could be at work in the economy. All of this is in addition to the basic fact that, in not being budgeted and staffed to handle our work promptly, we are failing to provide the level of service that home buyers are paying us to perform. Yet there is nothing further that we can do to remedy the situation without increased expense authorization in proportion to the rising volume of our workload and the increased burden upon our expense authorization resulting from the change in appropriation language that has required us to charge the cost of fee appraisals against that authorization.

We consider fee-appraisal services a vital resource to be used selectively and discriminately in avoiding or relieving acute backlogs and delays in the processing of mortgage-insurance applications during periods of peak loads in volume when other less expensive staffing resources (such as overtime and part-time employment) have been used to the limit of their availability or feasibility. Prior to the fiscal year 1961, we were not required to charge the cost of fees for such service against our expense limitation. Accordingly, in the exceptionally high-volume year of fiscal 1959, we had used a total of more than \$6,335,000 worth of such outside services. Under the Independent Offices Appropriation Act of 1961, however, we were required to charge all such fee costs against our expense limitation. Yet, this limitation was not increased above the budgeted amount to allow for the charges. As a result of this and other unanticipated expense requirements (including a several-100-percent increase in the level of our insurance claims and property-acquisition workloads, which are separate and distinct from our insurance-processing work), it has been necessary virtually to eliminate the use of fee services, except in our relatively minor certified agency program.

It is my understanding that the Veterans' Administration, in its home loan guarantee program, uses fee-appraisal services and can do so without limit, since it is not required to charge their cost against its budget appropriation. That seems to be the essential difference between their situation and ours. In both programs—the VA and the FHA—the home buyer ultimately pays the fee, but we are required by law to treat it as an operating expense under our annual budget limitation.

Our budget request for fiscal year 1962, as amended in our appeal to your committee from the recent House cut, provides for the use of as much as \$2 million for this purpose (\$2,800,000, including the amount attributable to the certified agency program). If the requested restoration is approved, this should be adequate for the volume of business contemplated in the estimate (which, of course, does not allow for the effect of the pending housing bill).

I trust that this will satisfactorily answer Senator Kuchel's question. However, if further information is desired, we shall be happy to oblige. Will you please express to him our gratitude for his interest in the matter.

Sincerely yours,

NEAL J. HARDY, *Commissioner.*

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
May 8, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Independent Offices Appropriations Subcommittee,
U.S. Senate, Washington, D.C.

DEAR MAGGIE: From several sources in California, I have received repeated complaints about the delay in processing applications with the Federal Housing Administration because of the large backlog of cases which has accumulated through personnel shortages.

There have been many instances, I am told, where a desired impetus to local economy, as well as to the sale of large quantities of materials, has been denied because of uncertainty when construction can be financed. I have just been told that in one area the restrictions upon payment to outside appraisers hired on a per diem basis have seriously slowed down homebuilding activities, with delays in processing applications running 60 to 90 days.

I wish to bring to your attention the comment of a leading member of the real estate industry in one California city, who takes the view that use of hired fee appraisers is the most economical means of reducing the FHA backlog. In a recent letter he made this comment:

"The VA loan program is a good example of fee appraisal service where a backlog never existed with the appraisers, but where fee appraisers have always been available for work day in and day out through the years in sufficient numbers to carry the appraisal load at no cost to the Government."

In anticipation of the hearings on the 1962 budget estimates for the FHA, I believe it might be helpful if the subcommittee staff obtained information regarding the Veterans' Administration procedures and experiences, so that we might compare results with the situation involving the FHA.

With kind regards.

Sincerely yours,

THOMAS H. KUCHEL, *U.S. Senator.*

SEATTLE, WASH., June 22, 1961.

HON. WARREN G. MAGNUSON,
Senate, Washington, D.C.:

We are hopeful H.R. 7445, independent offices appropriation bill containing FHA budget with \$5 million additional funds over previous fiscal year will clear in sufficient time to afford continued and uninterrupted FHA services, on local level. Your ever-constant efforts in behalf of building industry economy in this relation greatly appreciated.

ARCHIE IVERSON,
President,
C. F. DALLY,
Chairman.

(For the FHA Committee Home Builders Association of Greater Seattle.)

U.S. SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
June 22, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Subcommittee on Independent Offices Appropriations,
U.S. Senate, Washington, D. C.

DEAR MAGGIE: You will recall our discussion regarding the Montpelier, Vt., Federal Building when we rode up together from downtown.

As long as I can remember the present building has been considered obsolete and inadequate, and why the capital city of Vermont should have to wait so long to get a new building, I have never been able to understand.

The architects' plans are now expected to be completed by October 23, and November 1 at the latest. I have been told that if funds are appropriated that construction can be started in the spring. In a State like Vermont this is the best time.

The amount needed is \$1,324,000, and I will appreciate the inclusion of this amount in the current independent offices appropriations bill.

Best regards.

Sincerely yours,

GEORGE D. AIKEN.

HOUSE OF REPRESENTATIVES,
Washington, D.C., June 26, 1961.

Hon. WARREN G. MAGNUSON,
Chairman, Subcommittee on Independent Offices,
Senate Committee on Appropriations, Washington, D.C.

DEAR SENATOR: It is my understanding that your subcommittee will shortly be considering appropriations for the public buildings which have been authorized by the Congress.

I would like to call your attention to one such authorization which contemplates the construction of a courthouse and Federal office building for court and other Federal agency use in St. Paul, Minn.

In his prospectus the General Services Administrator points out the estimated cost of site and design, etc., at \$1,553,000.

I respectfully urge your subcommittee to include this amount in your recommendations so that the Government may proceed with this project as rapidly as possible.

I believe this project is urgently needed for the following reasons:

1. The Present U.S. courthouse was constructed in 1900, and is functionally obsolete.

2. The building is inefficient to maintain and operate.

3. A new building would permit consolidation in one location of more than a score of Federal agencies.

4. Many of these agencies now operate in rented space which costs about \$154,000 per annum.

5. The survey made by the Government has determined that (a) the needs for space of the Federal Government in this area cannot be satisfied by utilization of existing suitable property now owned by the Government, and (b) suitable rental space is not available at a price commensurate with that to be afforded by the proposed new building.

If I can be of any further assistance in helping the subcommittee report this project favorably, you may rest assured I will be happy to do so.

Sincerely yours,

JOSEPH E. KARTH.

NEWMARK & Co.,
New York, N.Y., June 22, 1961.

Hon. CARL HAYDEN,
Chairman, Appropriations Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR HAYDEN: It has been brought to our attention that the Federal Government plans to construct a Post Office and Federal Office Building in the city of Austin, Tex.

At the present time, with the overabundance of space in this city, and the fact that the State is in the process of a construction program for State office buildings, this building is unnecessary.

Our firm represents a group of small investors who own and operate the Lawich Building in Austin, which is completely occupied by the Federal Government at a rental of \$2.88 per square foot. The building was built in April 1954 and the services rendered to the Government are as follows: Elevator service; full cleaning service; heating; air conditioning; repairs; and free electric current.

When the Federal Office Building is completed, our building, as well as other buildings in Austin, will be vacated and the drain on the economy there will be severe, as the Federal Government does not pay taxes to the city whereas we, as private investors, do pay taxes to the city of Austin, as well as to the State of Texas. In my judgment, the Federal Government cannot under any circumstances compete with our building in rental value, unless you take into account the fact that the Government does not pay any real estate taxes.

Furthermore, our building was built from specifications supplied to us by the Federal Government, so that there is no doubt that the requirements of the Government have been taken care of. There was also a provision made for the possibility of building two additional floors on the building, if and when the Government needed this expansion. Up to the present time there has been no need for this expansion; however, we have been in contact with the Government and advised them that we would be only too happy to take care of their additional requirements if need be.

The city of Austin does not need a Federal Building at this time, and in fact in my opinion the construction of this type of building would be just a waste of

taxpayers' money. This money should be spent in other areas of the country that are in desperate need of this type of construction. I feel that all a new Federal Office Building can do at this time is cause economic chaos to a city that doesn't need overbuilding now or certainly within the next 10 years.

Our office has never been one to write letters such as this, however, we feel so strongly about this that we thought it best to bring the matter to your attention, and anything you might do to help us in this situation will certainly be appreciated.

Sincerely yours,

AARON GURAL, *Managing Partner.*

STATEMENT OF FRANCIS W. STOVER, DIRECTOR, NATIONAL LEGISLATIVE SERVICE,
VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. Chairman and members of the subcommittee, may I extend my deep appreciation in behalf of the 1,300,000 members of the Veterans of Foreign Wars of the United States for the privilege and opportunity to present our views concerning the appropriation for the Veterans' Administration for fiscal year 1962. The VFW has 8,500 local posts in every State in the Union, as well as overseas and foreign countries. Of all the legislation affecting veterans the annual appropriation must necessarily head the list.

The Veterans of Foreign Wars lends its support to this appropriation as approved by the House on June 7. So far as can be determined the obligated items are predicated on sound and adequate estimates and I will not dwell on any of these items, except to note that programs such as compensation, medical care, and pensions constitute some of the most cherished benefits of veterans, their dependents, surviving widows, children, and dependent parents.

The item for construction of hospitals and domiciliary facilities has been approved by the House at the recommended amount of \$75 million. The House committee reported this item \$5 million less than the amount recommended by the President and the VFW is proud of its participation and support of the so-called Teague amendment which restored the \$5 million by teller vote on the floor of the House. This item is mentioned only to indicate that it is the second step of the \$900 million, 12-year program to modernize and renovate the VA hospital system. Any reduction of the minimum \$75 million per year would set back this program to the detriment of hospital facilities throughout the Nation. The VFW is hopeful that this particular item will not be reduced this year or any of the remaining years for the projected life of this particular program.

In keeping with the construction program for VA hospital and domiciliary facilities is the item for medical care. It is noted that the House has approved \$27 million for medical research by the Veterans' Administration. Giant strides have been made in all fields of research, but I believe research in the medical field has made the most striking gains of all. Most of this research has been accomplished with the financial assistance of the Federal Government and the VFW has supported this most vital program. Any progress or discovery obtained as a result of this medical research not only will be of value in the treatment of veterans but will help all mankind. With its more than 170 VA hospitals and its average daily patient load of over 111,000 the Veterans' Administration lends itself most favorably to a research program. The VFW, therefore, endorses the medical research program with the sincere hope that the proportionately small amount of money appropriated for this purpose will yield dividends beyond our wildest expectations.

These, Mr. Chairman, constitute the major points which the VFW is presenting for the special attention of this subcommittee. This should not, however, be construed to indicate any less interest or importance in all the appropriation items for the programs and operations of the VA. It is respectfully urged, therefore, that this bill be favorably considered and reported at the earliest opportunity.

Again, may I extend the deepest thanks and appreciation of the Veterans of Foreign Wars for the privilege of expressing our views concerning this most vital and important legislation which directly affects the daily lives of so many millions of veterans and their dependents and survivors.

OFFICE OF CIVIL AND DEFENSE MOBILIZATION

AMERICAN MEDICAL ASSOCIATION,
Chicago, Ill., June 29, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Independent Offices Subcommittee, Committee on Appropriations,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: I am writing you in regard to the civil defense and defense mobilization portions of the independent offices appropriations bill which is now before your committee.

The American Medical Association is deeply concerned at the action of the House of Representatives in declining to appropriate the full amount requested in the President's budget for civil defense and defense mobilization activities. Specifically, we are concerned about (1) the reduction in funds for only 500 of the 1,000 civil defense emergency hospitals requested, (2) the reduction in funds for the emergency operation of Federal departments, including the Department of Health, Education, and Welfare, and (3) the disallowance of funds for provision of shelters in Federal buildings.

The American Medical Association has an abiding interest in and concern with the readiness of the civil population, and particularly of the medical profession and institutions of the country, to deal with the situations that would confront us in the event of nuclear war. We have, over the years, worked with the Public Health Service of the Department of Health, Education, and Welfare and the Office of Civil and Defense Mobilization (and its predecessor agencies) in developing the excellent plans, including the design of the civil defense emergency hospital. We have participated in the testing of the hospital. In addition to maintaining our council on national security with supporting staff, we are carrying on a continuous campaign of information and stimulation to our State and local constituent medical associations. For some years we have held regional meetings with the leaders of State medical societies and the State and Federal Government officials to sponsor and promote, as a professional responsibility, the development of medical preparedness for a national emergency.

We subscribe firmly to the principle that mobilization readiness is a responsibility of the citizens, institutions, and professions of this country as well as the Government, and we are continuing to put effort and funds into doing our part.

We are firmly convinced, however, that without effective leadership and expanded action by the Federal Government—which is, after all, constitutionally responsible for the national defense—progress by the nongovernmental community will continue to lag.

The Public Health Service of the Department of Health, Education, and Welfare has developed a potentially effective program under the delegation from the Office of Civil and Defense Mobilization, which the American Medical Association actively supported. Some planning and pilot testing has been done, and there is urgent need that the full amount of \$8,700,000 requested for the functions of Federal agencies be appropriated so that the Public Health Service can, with our collaboration and support, carry forward the health mobilization programs that have been projected.

Regarding supplies and equipment, the American Medical Association supported the appropriations with which the present stockpile of the 1932 emergency hospital was procured. No new procurement has been authorized since fiscal year 1957, but analysis of the effect of a "moderate" thermonuclear attack upon the United States indicated that (1) there would be a gross shortage of medical supplies, (2) it would be a matter of at least months before any effective production of medical supplies and equipment could be resumed. This requires that we expand our stockpile of emergency hospitals as a defense measure of the same order as the development and training of military reserves. We strongly urge that the 1,000 hospitals requested in the budget be authorized.

We are particularly dismayed at the continued refusal of the Federal Government to lead the way and set the example of implementation of the national shelter program. A few years ago, the association presented its views to the Military Subcommittee of the House Committee on Government Operations (Holifield's committee) in support of the national shelter program. The American Medical Association stated its conclusion as being that fallout shelter was a necessary element of our civil defense posture. We, again, strongly urge that

the funds requested for providing fallout shelter in existing and new Federal construction be appropriated.

Sincerely yours,

F. J. L. BLASINGAME, M.D.

CIVIL AERONAUTICS BOARD

(See p. 817)

LOS ANGELES AIRWAYS, INC.,
Los Angeles, Calif., June 30, 1961.

The CHIEF CLERK,
Independent Offices Subcommittee,
Senate Appropriations Committee,
New Senate Office Building,
Washington, D.C.

DEAR SIR: During the course of my testimony before the Senate Independent Offices Subcommittee on June 23, 1961, Senator Magnuson requested that the total amount of net subsidy received by Los Angeles Airways, Inc., since its inception be inserted into the record.

Accordingly, we respectfully submit the following figures:

1947-----	\$44,258	1955-----	\$756,828
1948-----	311,327	1956-----	857,159
1949-----	343,514	1957-----	898,463
1950-----	329,298	1958-----	891,545
1951-----	253,781	1959-----	884,977
1952-----	353,616	1960-----	1,001,959
1953-----	645,059		
1954-----	709,480	Total-----	8,281,264

It should be noted that this sum is exclusive of Federal income taxes and service mail pay computed at \$2.58 per ton-mile.

Sincerely yours,

C. M. BELINN, *President.*

CONCLUSION OF HEARINGS

(Whereupon, at 12:35 o'clock p.m., Tuesday, June 27, 1961, the hearings on independent offices appropriations were closed.)

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