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DEFENSE PRODUCTION ACT

PROGRESS REPORT—NO. 45

GOVERNMENT
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HEARING

BEFORE THE

JOINT COMMITTEE ON DEFENSE PRODUCTION

CONGRESS OF THE UNITED STATES

EIGHTY-NINTH CONGRESS

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FIRST SESSION

ON

REVIEW OF INDUSTRIAL MOBILIZATION AND ADMINISTRATION OF PRIORITIES AND ALLOCATIONS BY DEPARTMENT OF COMMERCE

REVIEW OF EMERGENCY PREPAREDNESS PROGRAMS OF OFFICE OF EMERGENCY PLANNING

OCTOBER 4, 1965

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DEFENSE PRODUCTION ACT
REPORT NO. 42

DEFENSE PRODUCTION
COMMITTEE ON DEFENSE PRODUCTION
UNITED STATES
EIGHTY-NINTH CONGRESS

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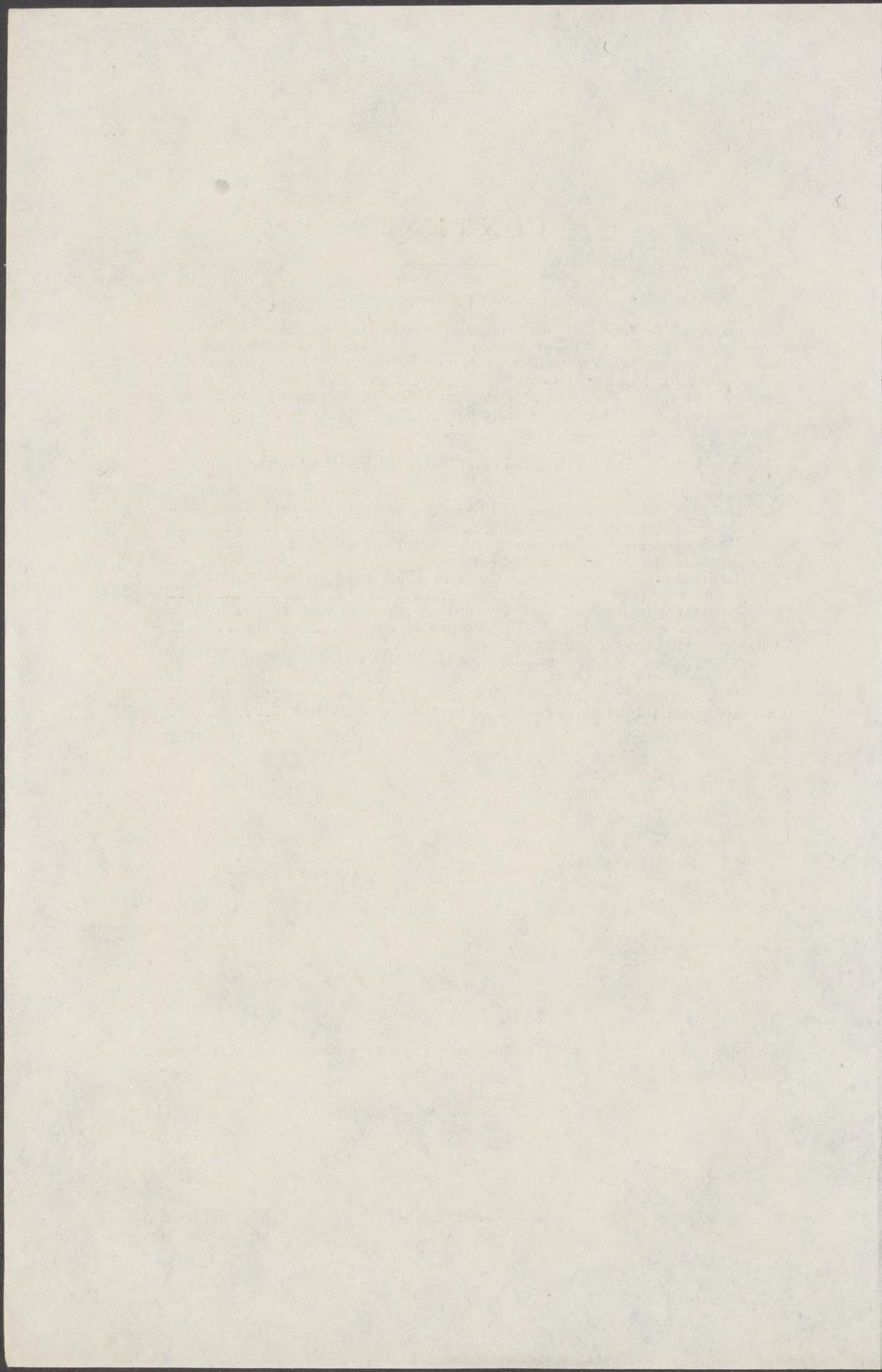
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DEFENSE PRODUCTION ACT

Progress Report—No. 45

MONDAY, OCTOBER 4, 1965

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON DEFENSE PRODUCTION,
Washington, D.C.

The joint committee met, pursuant to notice, at 10:05 a.m., in room S-126, U.S. Capitol Building, Senator A. Willis Robertson (chairman) presiding.

Present: Senator A. Willis Robertson, Representative Wright Patman (vice chairman), Senators Sparkman and Tower.

Also present: Harold J. Warren, clerk and counsel; George T. Ault, professional staff member; and C. Oral Lambert, Jr., professional staff member.

Chairman ROBERTSON. The meeting will please come to order.

The Joint Committee on Defense Production, as many of you know, has the responsibility of reviewing the execution and administration of programs authorized in the Defense Production Act. The purpose of the mobilization program is to achieve preparedness for any emergency which could arise. The Defense Production Act recognizes the need for the development of preparedness programs in order to reduce the time required for full mobilization.

The departments and agencies concerned have had recent experience in meeting emergency situations. This committee has received reports on any changes in requirements which have resulted from these emergencies. We have not encountered the problems that existed in earlier emergencies when the committee consulted with the departments and agencies frequently in an effort to find the means for solving problems and overcoming shortages. That is one reason, gentlemen, that we have not met very frequently in the last 2 or 3 years. Everything we thought was going along pretty well.

We have invited the Honorable John T. Connor, Secretary of Commerce, to meet with us today. We also invited Gov. Buford Ellington, Director, Office of Emergency Planning, but he is unable to attend. We are glad to have Secretary Connor meet with the committee to discuss the status of industrial mobilization, the operation of the defense materials system, and other matters which may be of mutual interest. We also are glad to have Mr. Frank Dryden, Deputy Director of the Office of Emergency Planning; and Mr. William N. Lawrence meet with us. Mr. Lawrence is Chief of the Stockpile and Requirements Division of the Office of Emergency Planning.

Our total mobilization effort is closely related to industrial production, and the Department of Commerce maintains day-to-day con-

tact with industry. Secretary Connor has had valuable experience in both management and government, and I am sure his observations will be of interest to us all.

Mr. Secretary, we are pleased to have you, and will you now proceed in your own way.

**STATEMENT OF JOHN T. CONNOR, SECRETARY OF COMMERCE;
ACCOMPANIED BY JAMES L. PARRIS, ASSISTANT GENERAL
COUNSEL; ANTHONY BERTSCH, ASSISTANT ADMINISTRATOR
FOR INDUSTRIAL MOBILIZATION; AND JAMES F. COLLINS,
DEPUTY ASSISTANT SECRETARY FOR DOMESTIC BUSINESS**

Secretary CONNOR. Thank you very much, Mr. Chairman.

I have some aids with me today, and if I may, I would like to introduce them.

Chairman ROBERTSON. Please do so.

Secretary CONNOR. Mr. James L. Parris is Assistant General Counsel of the Department of Commerce. Mr. Anthony A. Bertsch is Assistant Administrator for Industrial Mobilization, and Mr. James F. Collins, is Deputy Assistant Secretary for Domestic Business.

I have a short statement, and if I may, I would like to read it.

Chairman ROBERTSON. You may do so.

Secretary CONNOR. Mr. Chairman and members of the committee, I am glad to appear at the committee's invitation to discuss our industrial mobilization activities under the Defense Production Act.

The present system for defense priorities and allocations had its origin in World War II. The system was reactivated during the Korean war under the authority granted by Congress in the Defense Production Act. With the termination of the Korean conflict in 1953, the controlled materials plan, which, through the complete distribution control of steel, copper, and aluminum, had been the basic regulator of our wartime production system, was modified to eliminate controls directly affecting the civilian sector. This was done by the establishment of the Defense Materials System, which we called DMS, which consists of regulations providing for the allocation of steel, copper, and aluminum, and for the use of priorities exclusively for defense production, defense construction, and defense research and development programs.

The 1953 revision was designed to accomplish three basic objectives. These were, first, to eliminate controls over the civilian sector; second, to maintain a flexible system to insure the prompt fulfillment of current defense programs; and third, to provide a base upon which any necessary degree of expansion of controls for defense needs could readily be accomplished. These purposes were consistent with and in implementation of the 1953 amendments to the Defense Production Act, particularly section 101(b) which provides that no controls should be imposed upon general distribution of materials in the civilian market except upon an express Presidential finding of necessity.

In 1959 the DMS regulations were revised to simplify their administration, and the system of priorities and allocations has remained relatively unchanged since that time.

The basic principles of our priorities and allocations system have in recent months been reexamined in the light of our current military

and economic situation, and in my judgment our present system is adequate.

As a result of experience gained in the 1962 Cuban crisis, the Department of Defense expanded its use of the facilities of the General Services Administration in the procurement of common-use items. In order to facilitate this procurement, a delegation was issued to the Administrator of the General Services Administration authorizing the use of priorities in procurement for military and related defense programs. The use of this priorities authority was initially limited to a procurement level of \$300 million per year. This limit has been increased to \$350 million per year because of the current escalation in South Vietnam.

The impact of the current accelerated and increased military procurement early became evident in the expanded requirements for copper for ordnance items, primarily ammunition. Accordingly, we raised the military set-asides for copper-controlled materials to assure adequate availability for the expanded military needs. Increased materiel requirements for Vietnam also have had a noticeable effect upon our special assistance program for expediting defense deliveries.

Our gross national product is nearly double that of 1952 and I have no doubt that our economy can absorb without difficulty the additional defense expenditures currently provided for the Vietnam conflict.

There are situations in industry at the present time that require attention; for example, in the area of copper supplies. Some difficulty in prompt availability of copper can be expected to continue into the indefinite future even though increases in world copper production are expected over the next few years.

The textile industry, which has been operating at virtually 100 percent of capacity for some time, is also one in which increased military procurement can impose strains upon production for civilian use. The military establishment has most wisely, however, adjusted its specifications to permit the industry to meet stepped up military requirements with minimum impact on civilian production. The tight situation in cotton textiles has been the result of two factors: first, the attrition in domestic production capacity over the past several years, and second, the demand for cotton textiles that resulted from the combined effects of one-price-cotton legislation, increased consumer expenditures for soft goods, and a more orderly import trade. We consult frequently with the Department of Defense and industry on the matter of textile procurement and we have been assured by the textile industry that military needs can be met no matter how much they may be stepped up in the future. Meeting this obligation will be facilitated by industry-Government discussions and further adjustments in specifications.

In appraising our industrial mobilization readiness we must of course take into account inventories of Government-owned materials. Stocks of strategic and critical materials in excess of \$8 billion have been accumulated under the authority of the Strategic and Critical Materials Stock Piling Act, the Defense Production Act, and the Agricultural Trade Development and Assistance Act. If future developments require, the President has authority to direct a release of materials from the national stockpile for defense needs.

Quantities of most of the materials in the total Government inventories exceed the stockpile objectives for the materials. These

surpluses provide a reserve against increased demands. Material can be drawn at Presidential discretion from the Defense Production Act inventory. From this inventory we can readily obtain materials without impairing stockpile objectives. Major items available for distribution include 766,000 tons of aluminum, 18 million pounds of cobalt, 8 million pounds of columbite, 2 million tons of manganese ore, and 51 million pounds of tungsten ore. Moreover, Congress has already approved the disposal of surplus quantities of a number of materials of military significance from the national stockpile and the supplemental stockpile, such as antimony, chromite ore, cadmium, magnesium, nickel, rubber, tin, and vegetable tannins. Planned disposal programs for these materials can be modified upward with little delay.

Congress has wisely continued the authority which enables us to direct the flow of materials to meet the needs of national defense. It is the Government's policy to impose civilian industrial controls only if no other method of meeting defense needs is available to us. We will not except as a last resort move to a system of expanded controls similar to those necessary in past years, such as during the Korean emergency. We have a flexible and dynamic economy which permits a great degree of substitution and resourcefulness in meeting defense needs and civilian sector needs of 195 million people. As a matter of policy, we seek to avoid restricting the normal operation of our economy. At the same time we always stand ready to do what is necessary to meet our defense commitments at home and abroad.

Up to this point I have directed my comments primarily to the current situation in industrial mobilization. However, planning in the industrial mobilization field is directed toward preparations to meet the needs of two general kinds of contingencies. The first of these is the limited conflict or emergency such as Korea and Vietnam. A major war of the immensity of World War II is also comprehended within this pattern, since it did not involve direct attack upon our mainland. The other contingency for which planning and preparation is required is an attack in force, presumably nuclear, upon the continental United States.

It is not incorrect to say that we have lived with the lesser hazard since 1950. Our priorities and allocations program, as presently in operation, is designed to deal with national defense requirements under this lesser degree of emergency, whatever its scale may be. By relatively modest changes in our procedures, under present laws we can provide support for any degree of military escalation short of a total effort.

Our planning for the contingency of nuclear war proceeds along different lines. It is necessary to make assumptions of severe losses of life and property, destruction of communications, and general devastation which may require decentralization of survival efforts and resource management because of temporary failure of centralized Federal capability. Although our emergency planning recognizes the principle of Federal responsibility for resource management, it nevertheless is built around the need for a decentralized capability under nuclear attack conditions. Operational authority would be delegated to regional and field offices of our Business and Defense Services Administration, whose staffs would be augmented by our executive reserve complement. This group of businessmen, recruited under

authority of the Defense Production Act Amendments of 1955, forms an invaluable nucleus for the emergency agencies of Government which would be required for total mobilization. As will appear from our annual report, which should be in your hands shortly, the total strength of the Department of Commerce executive reservist complement is currently in the neighborhood of 1,800, of which almost 1,400 are in our BDSA unit. The delegation of operational authority would be accomplished in an attack situation by the automatic activation of BDSA Emergency Delegation No. 1, which has been published in the Federal Register. This emergency delegation also establishes a line of succession for field officials.

Planning for a nuclear attack upon this country involves evaluation and use of all our residual resources including the inventory of qualified personnel and economic resources at the disposal of State and local authorities. The Office of Emergency Planning has developed programs for coordinated Federal-State efforts in the fields of management of production, transportation, and other critical areas of need in the event of a nuclear emergency. The Department of Commerce has participated actively in the development of State emergency production and transportation programs. We have consistently emphasized the importance of State-Federal cooperative action in our Executive Reserve training programs.

An integral and essential part of our priorities and allocations program, although not a formal part of the system, is our set of standby emergency regulations. These five regulations would be promulgated if, but only if, a massive nuclear attack upon the United States were to occur. They are designed to provide maximum support to the emergency production and distribution of essential survival items and the operation of essential services such as transportation, communications, shelter, health, government, and the like.

Thank you for this opportunity to report to this committee on our activities under the Defense Production Act.

Chairman ROBERTSON. Mr. Secretary, on behalf of the committee, I wish to thank you for a fine statement. It was clear, it was comprehensive, without being unnecessarily long.

You have stated that you thought the present system is adequate. I assume that you were then referring primarily to your authority to purchase, your authority to evaluate present and future needs, your allocation and priorities.

Secretary CONNOR. Yes, sir; that is correct.

Chairman ROBERTSON. I recently saw a statement from the General Services Administration that the market value of our stockpile is \$524 million higher than it was a year ago. You have seen that statement?

Secretary CONNOR. Well, the market prices have gone up; that is the approximate increase.

Chairman ROBERTSON. That is not because you bought \$524 million more but the value of it has gone up.

Secretary CONNOR. Yes, sir; that is correct.

Chairman ROBERTSON. That is what we call creeping inflation; is it not?

Secretary CONNOR. Well, the prices of some of these—

Chairman ROBERTSON. \$524 million on what the Government owns in the stockpile indicates there is a little movement in price.

Secretary CONNOR. Yes, sir; there has been on some of these extractable materials because there has been short supply, and this has resulted in a demand-supply condition in the market and because of some of the conditions prices have perked up.

Chairman ROBERTSON. Those of us who are supposedly ultra-conservative, but think we are just looking at the situation in a fair appraisal, have been a little uneasy about the current budget, which will probably be \$107 billion of authorization in the current budget, and that does not include any real contribution to the war in South Vietnam. We have nothing in there, for instance, to pay for all ammunition. You, of course, know that every pound of bomb we drop costs a dollar, that is without even sending it over there. So when we put on one of these heavy raids and drop a million pounds and wind up killing one guerrilla, it is right expensive. We have got to pay for that.

But you say that since our GNP has doubled since 1952 we do not need to worry about what the Vietnam war is going to cost us.

Secretary CONNOR. Well, Mr. Chairman, I have tried to differentiate between the military expenditure level that is currently in effect, but I think that it is clear that if there is a great acceleration of that military expenditure level after the first of the year, then we will have to look hard again, because any great acceleration of expenditures in connection with the Vietnamese situation will impose some strain on some of these critical materials.

It would be clear that in order to meet the defense requirements, then the use of these critically short materials would have to be better organized in the civilian sector.

Chairman ROBERTSON. Well, I think that those of us who serve on the Defense Subcommittee of the Appropriations Committee realize that the situation goes a little beyond stepping up from what it is now because we do not have in our current budget enough funds to carry on what we are now doing. We have the maintenance, we have all of that ammunition, as I say. We have to replace everything that gets chewed up. We have to replace these helicopters. From the standpoint of materials you are convinced we are in a good position?

Secretary CONNOR. We are in a good position, Mr. Chairman, but there are these shortages, and if there is a continuation of the present level, as you stated, there will have to be replacement purchases sometime next year, and if there is any acceleration, this will mean some of these materials will be in short supply.

Chairman ROBERTSON. We, as I say, have not been meeting frequently because we agreed that you have a good system and we felt it was working, but I assume you are free to let me know any time that you want to appear before this committee and make recommendations about a program, authority, or change in the law.

Secretary CONNOR. Yes, sir; we understand that, and we agree with you up to the present time there has been no need for that. The system has been working well,

Chairman ROBERTSON. Last year, according to our colleague, Mr. Symington, the burning issue was how to get rid of this surplus material. That is not a burning issue now.

Secretary CONNOR. No, sir, there are certain types of aluminum not easy to dispose of, but perhaps they are not in as great demand as

was the case in the Korean war, but by and large the surplus situation is not inordinately large, and it may be that as the military requirements accelerate we can use them all to very good advantage in the whole defense program.

Chairman ROBERTSON. Just to keep the short memories of some people refreshed, I can refer to the fact that some years ago, when I was then serving as chairman, I got an agreement that the aluminum companies were not to bring in any more aluminum from Canada and put it to us at the high price, and that just saved the taxpayers \$90 million. I just wish to keep the record straight.

Secretary CONNOR. I think the record is very clear on that, Mr. Chairman.

Chairman ROBERTSON. All right. We still have a little more aluminum than we need.

Secretary CONNOR. Yes, sir. At the present time, but it is not an excessively large supply, and unless the defense requirements do shoot up, we think an orderly procedure of disposal can handle the surplus without too much disruption of the civilian market.

Chairman ROBERTSON. Now, you referred to what the President can release from the Defense Production Act inventory, and substantial sums of some very valuable metals. Is some of the aluminum in that, or is that in the national stockpile?

Secretary CONNOR. It is in both at the present time.

Chairman ROBERTSON. So without disturbing the market too much the President could ease the aluminum situation merely upon Executive order releasing material in the Defense Production Act inventory?

Secretary CONNOR. Yes, sir.

Chairman ROBERTSON. As to the disposal of the national stockpile, since we are fighting a ground war in southeast Asia, and we do not know how long it will last, we might anticipate, as you say, not only using up what had previously been called surpluses in the national stockpile but might have to go out and buy some more material.

Secretary CONNOR. Mr. Chairman, as you know, if it is needed in the national defense effort the President can release it for that purpose, but otherwise he has to come back to Congress.

Chairman ROBERTSON. My point was that the ground war which chews up a lot of material could necessitate our buying some more material for the stockpile.

Secretary CONNOR. It is quite possible that that may be necessary for some of the materials; yes, sir.

Chairman ROBERTSON. Well, this is a public meeting, and I am not going to give anybody notice of what we might need because they might up the price on us.

As the situation now stands, we are in a safe position from the standpoint of having enough to do for what we see needs to be done?

Secretary CONNOR. Yes, sir, we think we are comfortable at the moment. But as yet we do not know what the Department of Defense requirements are going to be after the first of the year, and when we know those, we should take another hard look at the situation and consult with the members of this committee.

Chairman ROBERTSON. I can tell you now, you are going to get a big order for something; I do not know what it is going to be, but it is going to be plenty. Some people estimate it may be up to \$10 billion. I have been saying conservatively \$3 billion to \$5 billion

above what is in this \$49 billion bill that we passed recently. So just what that would require in the way of materials, I do not know, but there is going to be a lot of something because they are chewing it up fast over there.

The Chair recognizes the distinguished vice chairman of this committee, Hon. Wright Patman.

Vice Chairman PATMAN. Thank you very much. You have covered the points pretty well that I would like to know about, but I would like to elaborate on one or two and ask some questions.

You estimate the total value of the entire stockpile now at about \$8 billion.

Secretary CONNOR. Yes, sir.

Vice Chairman PATMAN. Now, that increase of \$500 million then would be about 7 percent or 6 percent of the stockpile?

Secretary CONNOR. Yes, sir, it comes out about that.

Vice Chairman PATMAN. I just want to make the observation that I do not necessarily look upon that as inflationary. I look upon it as maybe necessary expansion. As our gross national product increases, we have to have expansions in other directions, and a 6 percent increase does not seem to be alarming to me.

Secretary CONNOR. As you know, Mr. Patman, many of these materials come to us from abroad, and there have been price movements on the world market in connection with some of them in the last year.

Vice Chairman PATMAN. Now, since aluminum is one of the major items, what is the cost of the aluminum that you have on hand now? What is it approximately?

Secretary CONNOR. Mr. Collins has that specific figure.

Mr. COLLINS. Somewhat over \$700 million, Mr. Patman.

Vice Chairman PATMAN. \$700 million, almost 7 percent of it. Has the price of that aluminum increased or decreased? How is it affected by this increase of \$500 million overall?

Mr. COLLINS. Judging from aluminum prices, which have increased by approximately a cent a pound in the last year and a half, it has increased, sir.

Vice Chairman PATMAN. Aluminum has gone up in proportion with other metals and products.

Mr. COLLINS. Yes, sir, it has.

Vice Chairman PATMAN. I will not ask any further questions at this time, but later on possibly I may.

Chairman ROBERTSON. The ranking Democrat of our Senate committee, the Honorable John Sparkman of Alabama.

Senator SPARKMAN. Thank you, Mr. Chairman. I shall ask just a few questions, be very brief in my questions.

I have looked over your statement. I am sorry I was not here in the beginning to hear your full statement, Mr. Secretary. On page 4 I notice you say major items available for distribution include certain items. Does that mean that that might be called surplus?

Secretary CONNOR. Yes, sir.

Senator SPARKMAN. In other words, that could be—

Secretary CONNOR. They have been declared surplus.

Senator SPARKMAN. Have been.

Secretary CONNOR. Yes.

Senator SPARKMAN. And is subject to disposal.

Secretary CONNOR. Yes, sir. In accordance with the procedures which, as you know, are done in an orderly way.

Senator SPARKMAN. Yes. That is all, Mr. Chairman.

Chairman ROBERTSON. Now, the senior minority member present, Senator Tower. His family was raised in the district of Hon. Wright Patman. He claims some credit, not as a Republican but being such a fine man. [Laughter.]

Senator TOWER. Thank you, Mr. Chairman.

You mentioned copper as a potential problem. What other potential supply problems do you anticipate in the event of a further acceleration of the war effort?

Secretary CONNOR. There are materials, in addition to copper, that are in a production situation that is close to capacity at the present time: zinc, and other materials are not quite as critically close to the line as copper, but they are right behind it.

Senator TOWER. Zinc is in that category?

Secretary CONNOR. Zinc is in that category, yes, sir.

Senator TOWER. Thank you, Mr. Secretary. Are there any others?

Secretary CONNOR. Molybdenum.

Senator TOWER. I cannot say that word.

Vice Chairman PATMAN. Mr. Chairman, may we have the privilege of submitting questions to Mr. Connor in writing and he can answer them when he looks over his transcript? Would that be satisfactory?

Chairman ROBERTSON. Oh, yes, they can do that, and the privilege will be extended to all members of the committee. I might think of something myself.

Vice Chairman PATMAN. I reserve that right, Mr. Chairman.

Chairman ROBERTSON. I would like to ask the Secretary this question: Can you tell us about the progress your Industry Evaluation Board has made in identifying products, services and facilities that are of exceptional importance to industrial mobilization?

Secretary CONNOR. Mr. Bertsch has worked with that, and I think he is the appropriate official to do that, Mr. Chairman.

Mr. BERTSCH. Mr. Chairman, the Industry Evaluation Board examines well over a hundred items each year, which are considered to be necessary in the event of war, whether it is nuclear war or conventional war, and the results of those studies are made available to the Department of Defense and many other agencies of Government for their planning, including, of course, the National Resource Evaluation Center of the Office of Emergency Planning.

We feel that these studies, which encompass the totality of production of particular items and the use of total facilities, are a large repository of information which is absolutely necessary in the event of emergency.

(The following additional information was supplied for the record:)

Currently, 750 manufactured products or product groups and some 4,000 plants, contributing to the production of these items, are identified by the Industry Evaluation Board as of exceptional importance to national defense.

Deletions and additions are made on a continuing basis through the issuance of analyses which provide a concise picture of industries or industry segments covering large numbers of individual products or product categories. These analyses include a listing of plant locations and their production capacities, and show how a subject item depends upon and enters into the chain of production.

Ten nonmanufacturing or service industries have also been studied. Of the facilities comprising these industries, more than 4,500 have been determined to be of exceptional importance to national defense.

In addition to being used by Government agencies having a need for them in connection with mobilization and postattack planning activities, IEB analyses are deposited at our national relocation site, eight regional relocation sites, and with the National Resource Evaluation Center for emergency use.

Chairman ROBERTSON. Recently the chairman of the Subcommittee on Military Construction and the Preparedness Subcommittee made a speech in the Senate in which he charged that we became involved in a rather extensive military operation in southeast Asia at a time when there were acute shortages that the armed services said nothing about before we got involved in that war.

He estimated that it would take about \$10 billion to bring all of the armed services fully up to date without any war. All that we got out of the armed services about the war in southeast Asia was that they want \$1,700 million put in there right now, and we put it into the supplemental. We put nothing in there in the regular bill. It is below the appropriation of 2 years ago; it was \$49 billion plus because they made some economies by closing down installations. They made some economies by firing a lot of civilians, and they made some economies by not keeping the equipment up to date. There is no question about that, it is a part of the true picture.

Have you any difficulty in getting from the Defense Department an adequate estimate of what they are going to need in the way of critical materials for the war they are fighting?

Secretary CONNOR. Mr. Chairman, we do have from them estimates, but we are on notice that these estimates may well be revised after the first of the year when their needs become clearer than they apparently are now.

Chairman ROBERTSON. Well, I can well imagine that you are not getting any better estimates than we are about military equipment, and I can cite to the members of this committee that we have been a little disappointed, we have been sort of kept in the dark. Apparently they do not know how many men they plan to send over there. One estimate may be 150,000, another estimate might go up to 300,000. Well that would make a difference. But you tell us that as far as you know now, it will be the 1st of January until you know about the critical materials that you are supposed to get.

Secretary CONNOR. We think it will be before the 1st of January, but it will be several weeks or even a month so far as we can tell; yes, sir.

Chairman ROBERTSON. Now, as to the increase of \$524 million, I did not say I was alarmed. I just said I knew about it, that is all. I just think everybody ought to know about a thing like that. Who thinks that you can in the period of the greatest prosperity spend \$10 or \$12 billion of borrowed money, and that is what we are going to do, and have no price increases. We have already got them before we go into the big deficit spending that is going to occur by adding a war. And it is not any brush war either, it is a big engagement, expensive, on top of an unprecedented expansion of domestic spending.

But there is a difference of opinion. I said I was not alarmed. I just wanted you to know that I recognize it.

Secretary CONNOR. In connection with that situation, Mr. Chairman, I think that I should point out that we are getting information from certain industries that there are some shortages of skilled workers showing up at the moment in certain industries. For example, in the metalworking equipment industry, the scientific equipment industry,

particularly with respect to measuring devices, and certain segments of the steel industry. Then there are some shortages of skilled people in certain geographical areas, with the New York State situation in skilled foundry workers being an example.

So this is something which has to be watched. We have reported this to the Office of Emergency Planning, and they, in turn, have kept the Department of Labor informed. It is something that may very well become more acute as our economy continues to grow, and particularly in certain sectors, if the military requirements, after the first of the year, become considerably larger.

Chairman ROBERTSON. You know that the Banking and Currency Committees have some responsibility for our gold supply because we still have a partial gold coverage. I notice that some Members of Congress think that the Federal Reserve ought not to be covered, but we still have 25-percent coverage, and industry was to cut down spending abroad, and banks were to cut down. The banks did cut down and did a very good job. At their meeting in Chicago today they will have a resolution to continue that program, but I read in the Wall Street Journal today that industry, which invested \$2.4 billion abroad last year, had invested \$2.2 billion in the first 6 months of this year. Now, that does not look like it is cutting down much.

Secretary CONNOR. Well, Mr. Chairman, industry in fact has cut down. What happened was that in the last 6 months of 1964 and in the first quarter of 1965 before our voluntary program went into effect, the rate of expenditure abroad for plant and equipment had gone sharply up, and this, of course, meant that the rate of dollar outflow was also going up sharply, because the two are related.

But as a result of this voluntary program, the corporations cooperating in our program reduced their expenditures abroad, particularly in Western Europe, where it counts the most, from the first quarter to the second quarter. They also managed to finance abroad some of the expenditures that were committed, and with which they went forward, to the tune of \$400 million, which was unprecedented, so that the dollar outflow has been moderated, very definitely, as a result of our program.

Now we did not have any specific objective with respect to the capital and direct investment program abroad. What we did was to ask the head of each corporation to look at his total dollar outflow and to come up with an even greater improvement, greater on the plus side than in 1964, and this has been done. So that it was the work of the business people as well as the bankers that resulted in the surplus during the second quarter. We have had definite cooperation in our program, sir.

Chairman ROBERTSON. Well, of course, I would not be so unfair as to hold you responsible for what happened before you came. I am sure great progress has been made under your administration, and we will be glad to hear what has been accomplished in the first 6 months of your administration.

Vice Chairman PATMAN. Does some of our currency not have more gold behind it than others. You take for instance our U.S. notes, they have 46 percent of our gold behind them. So I think we might give consideration to equalizing it sometime.

Chairman ROBERTSON. Yes, but we do not have enough gold to take care of that \$21 billion or \$23 billion of demand. That is

what bothers me. We think we are traveling hopefully with you, Mr. Secretary. Thank you for what you have done already, and when you come back again, I know you are going to report progress. You have not encountered any real enforcement problems have you?

Secretary CONNOR. No, sir; not in this defense production program, and we have had also good cooperation in the voluntary program in connection with the balance of payments.

Chairman ROBERTSON. We know how many people are waiting to see you, and we know how busy you are, so we are going to release you.

Secretary CONNOR. Thank you very much.

Chairman ROBERTSON. Gentlemen of the committee, we will now hear Mr. Frank Dryden, Deputy Director of the Office of Emergency Planning. Since Mr. Dryden was well known on Capitol Hill before assuming his present position, I am sure he needs no introduction. Mr. Dryden is accompanied by Mr. William N. Lawrence. In writing to Gov. Buford Ellington, Director of the Office of Emergency Planning, I stated that I would not attempt to outline all of the matters which may be of interest to the committee. I stated that I believed the committee would be interested in the status of stockpile objectives and studies, the extent to which materials in the Defense Production Act inventory may be required to meet stockpile objectives, disposal plans, the progress the Department of Defense has made in furnishing you with figures on military requirements for materials, the status of the preparedness programs as related to the present emergency situation, the status of standby preparedness measures, and the progress which has been achieved in arriving at assumptions for use in making decisions relating to nuclear war requirements.

We welcome you, Mr. Dryden. We will now hear from Mr. Dryden. You may proceed in your own way.

**STATEMENT OF FRANKLIN B. DRYDEN, DEPUTY DIRECTOR,
OFFICE OF EMERGENCY PLANNING, ACCOMPANIED BY WILLIAM
N. LAWRENCE, CHIEF, STOCKPILE AND REQUIREMENTS DIVI-
SION**

Mr. DRYDEN. Chairman Robertson and members of the committee, it is a pleasure to appear before you this morning to discuss our administration of the authorities contained in the Defense Production Act of 1950 as amended, which have been delegated to the Office of Emergency Planning.

Governor Ellington asked me to express his regret that he could not appear before you today, but he had a commitment out of town made many weeks ago.

I have with me today, from the Office of Emergency Planning, Mr. Eugene J. Quindlen, Director, Program Evaluation Office; Mr. Edward L. Keenan, Director, Resource Readiness Office; Mr. Robert R. Stokley, Director, Program Development Office; Mr. William N. Lawrence, Chief, Stockpile and Requirements Division, and Mr. Franklin M. Aaronson, Chief, Resources Management Division. I am also accompanied by Mr. George K. Casto, Assistant Commissioner, Defense Materials Service, General Services Administration, and Mr. Johnston Russell, Director, and Mr. David Saftlas, Deputy Director, of the Credit and Finance Division, General Services Administration.

I shall begin this morning with a statement of those OEP activities related to the current U.S. Government activities in connection with the current Vietnam situation.

ECONOMIC SURVEILLANCE COMMITTEE

Shortly following the President's decision to increase U.S. armed strength in southeast Asia, the Director appointed an Economic Surveillance Committee of specialists within OEP to survey, analyze and report to me both the broad and specific economic impact of the defense buildup. In so doing he formalized and intensified an activity in which OEP has been increasingly engaged for some time.

Specifically, he instructed the Surveillance Committee to anticipate—to foresee—economic bottlenecks that could inhibit or delay the meeting of defense production requirements. He also told them to submit a series of alternative action steps to correct any potential or actual obstacle to meeting our military production commitments.

As of this moment there are no serious obstacles in meeting present overall defense procurement requirements, nor any imminent need for comprehensive controls.

This is not to say that no specific production problems exist. They do. Nor is this meant to imply the economy is not beginning to show the impact of the buildup. It is.

Before discussing some of these general and specific, real and potential trouble spots with you, there are two important factors I would like to point up:

First, a great deal of the information on increased defense production and its impact was developed by other departments and agencies, especially the Department of Commerce, the Department of Labor, and the Department of the Interior, either under their own mobilization responsibilities or at our request.

Secondly, most problems to date have been handled within existing authorities and procedures.

Some specific production problems which have been identified by the committee are:

As you know, the copper situation concerns us. For the past year and a half, demand for copper has exceeded supply. This situation was evident early in 1964 when manufacturers began to accumulate larger than normal inventories in anticipation of work stoppages expected either domestically or abroad in mid-1964.

This put upward pressure on copper prices. Then 31 cents per pound and now sold at 36 cents per pound by the major producers and 60 cents by dealers and importers. (I will touch upon the copper price problem in more detail a little later.)

During this period, the Office of Emergency Planning released 120,000 short tons of copper to industry and the mint from the Defense Production Act inventory and, upon authorization of the Congress, from the excess inventory in the national stockpile. OEP also requested, and Congress has authorized, the release of an additional 110,000 tons of copper from the national stockpile to the mint for coinage. Despite these releases, copper supplies remain tight.

A situation similar to early 1964 now exists, with foreign focal points rather than domestic. Strikes are threatened at the largest mine in Chile, representing practically half of Chile's capacity, and

throughout Zambia. Together, these mines account for one-quarter of the free world supply of new copper—about 1 million short tons.

I might make a comment on that, Mr. Chairman. This was prepared about midweek of last week and since then we understand that this strike in Chile was settled on September 30. Therefore, we are without that problem but still have the problem in Zambia where its annual output is around 700,000 tons.

Chairman ROBERTSON. Good.

Mr. DRYDEN. On the consumption side of the ledger, there are other problems. There is a shortage of capacity for the production of extra fine gages of magnet wire. Orders are being taken subject to 8- to 12-month delivery.

Copper tubing is in short supply and threatens to become even tighter. While this shortage derives from housing and other construction, and the demand for air conditioning, it is, and will be, affected by recent and future activity in water desalination programs. It is estimated that each 100 million gallons of daily capacity established for water desalination will require 20 million pounds of copper or cupronickel tubing.

Recent ammunition requirements have created priority demands for copper. These requirements consume large quantities of copper, and tend to displace nonmilitary orders at the mills because all fabricating mills are required to accept the priority orders up to prescribed percentages of their capacity. Set-aside percentages may have to be increased soon.

A fourth problem derives from the current change of coinage to the cupronickel/copper laminate, which is 90-percent copper. Demand for copper for this purpose should present no problem for a period of 3 years because of the aforementioned release from the national stockpile. The new coins, however, will require either one or the other of two specialized types of copper for which productive capacity is limited.

We are watching this situation.

ALUMINUM LANDING MATS

Generally speaking, stepped-up military procurement for the Departments of the Air Force and the Navy has not as yet caused appreciable distribution problems or production scheduling, with the exception of production of aluminum landing mats for use in Vietnam. The problem encountered here was that large presses used in extruding the mats have been fully scheduled with rated orders, including some aircraft orders. With the sudden increases in landing mat requirements, it was necessary to ask four companies involved to submit their monthly order boards to the Department of Defense for recommendations concerning their order of importance. As soon as word is received from the Department of Defense, a rescheduling directive will be issued by BDSA so that defense orders can be rescheduled in order of urgency.

In order to ease this problem, the Department of Defense is changing the design of the mat for production on smaller presses. I am also happy to report that the Department of the Army is now procuring steel landing mats which do not present any production problems.

There are other production problems to be covered more extensively in the BDSA report to you. They include a possible shortage of pro-

duction facilities for four important defense related products—aluminum atomized powder, hexamine, sulfuric acid (40 percent oleum grade) and barbed wire. There are also hints of possible problems in grey iron foundries capacity and the production of heavy truck axles.

I can report that Hurricane Betsy had no serious national economic effects upon defense production facilities. Although the storm caused heavy damage to some petroleum facilities, it did not leave a regional or a national petroleum problem. In addition to large petroleum inventories (about 79 days' supply), a substantial surplus of production and refining capacity can readily make up most of the production lost in the storm.

But selective defense production problems exist, and increased production may gradually absorb much excess capacity.

But there is an important countervailing factor. Industry is adding significantly to its capacity this year. Spending for capital expansion for 1965 should be about \$50.9 billion, an increase of \$6 billion over 1964's record investment of \$44.9 billion.

This rapid expansion of capital plant and equipment should help cushion the impact of increased defense production requirements. It should also help ease upward pressures on the price structure.

MANPOWER

With respect to defense production manpower, the Economic Surveillance Committee has investigated a reported shortage of skilled foundry workers developing in New York State. We are presently probing this problem with the Department of Labor and other sources.

Because of the general shortage of skilled manpower, the Selective Service System is continuing its program of granting liberal draft deferments to apprentices employed in critical occupations. Included in this list are a number of machine tool skills.

We are presently investigating reports of general shortages of skills in certain geographic areas. We want to learn particularly if shortages of defense production skills are developing in areas of general labor shortage as defined by the Department of Labor (1.5 percent or less of total labor force unemployed in a particular area).

The total manpower picture is good. It appears that the defense buildup will add only fractionally to total employment. But in areas of heavy defense production, the already short supply of skilled manpower may get serious.

PRICES

So far, prices have remained fairly stable. There is no evidence of inflation. However, we are beginning to feel the impact of the buildup in a few selected areas. If the current strong demand for both labor and goods should increase markedly, the economy may experience inflationary pressures.

I mentioned earlier the increase in the price of copper. Any further tightening in supplies of this metal due to incipient labor troubles or due to pressure from the Chilean Government could set the stage for higher producer prices. But copper companies are hesitant to raise their prices further because they would give added impetus to the inroads of competitive substitutes, both metallic and nonmetallic.

The copper price situation is far from satisfactory. Because of copper's important role in defense production, we are keeping an especially close watch on the situation.

In addition to copper and some other metals, there has been a scattering of price increases for industrial items including sulfuric acid components, acetic acid, paperboard, electrical capacitors and conductors, machine tools, heating oil, and leather. In the retail price area there have been increases in the price of shoes, refined sugar, paper products, clothing, and, of course, some farm products.

There have been, however, numerous compensating factors. For instance, wholesale prices in contrast to the fifties have been extremely stable. The sharp increases in the prices of farm products and processed food, which caused a significant rise in the wholesale price index in the past year or so, have recently flattened out. The factors that caused the movement, namely an undersupply of cattle, hogs, fruits, and vegetables, have been or are being corrected.

DEFENSE MATERIALS SYSTEM

When the Korean emergency ended, a basic question faced Congress; namely, should the U.S. Government retain the basic structure of the controlled materials plan (CMP) used during World War II and the Korean war as a preparedness measure. Your committee decided the system should be retained, but to limit the use of priorities and allocations to Defense and Atomic Energy Commission orders and subsequently to National Aeronautics and Space Administration orders. Events have fully justified the wisdom of this committee.

The name of the modified controlled materials plan was changed to the defense materials system. During the 12 years of operation, the DMS has proven its worth. With the advent of the cold war and its varied degrees of escalation, the DMS has provided for every urgent defense need. Even in periods of relative calm, special urgent orders, such as those carrying DX ratings for the missile and space programs, have been delivered on schedule.

As the Vietnam situation became intensified and our commitments became heavier, the use of priority ratings has become absolutely vital to delivery of end items. We believe that the defense materials system and priorities and allocation authorities currently in effect under the Defense Production Act are sufficiently flexible to meet substantially increased military demands upon industry. The rules and procedures for the allocation of the controlled materials are set forth in DMS regulation 1, and those for the establishment and use of priorities under the defense materials system are included in BDSA regulation 2. These are supported by several M orders which establish special rules in the placing, accepting, and scheduling of rated orders to minimize disruption to normal distribution of controlled materials and certain critical components (such as electronics) and end items (such as construction machinery). A review of the impact of the currently approved \$1.7 billion increase to the Department of Defense recently approved by the Congress did not reveal any serious production problems. There have been some dislocations in current production schedules due largely to the expediting of deliveries by DOD. But the problems are temporary and are being resolved.

We feel that the flexibility provided under the present DMS will allow us to take care of a substantial increase in defense spending without disrupting the civilian economy.

In the event we find that military orders are causing severe dislocations of the civilian economy, you may rest assured we will seek the advice of this committee before any controls are imposed on the economy.

Before leaving this subject, I would be remiss if I did not mention the exceptionally fine handling that BDSA has provided for the priorities and allocations authorities of the Defense Production Act.

OFFICE OF DEFENSE RESOURCES

Over the past few years, the Office of Emergency Planning has felt that the Government lacks a clearly defined system for the central management of resources under emergency conditions, including nuclear attack. Such a system would clearly be necessary to any effective mobilization of the Nation's economic resources to support even a fairly large-scale conventional war effort, as it was in the past.

OEP has developed a concept for an Office of Defense Resources to be activated in an emergency by the President. It has been approved by President Johnson, and he has directed that it be implemented.

Essentially ODR is a standby system and organizational structure to insure that, in an emergency, resources are used with maximum effectiveness. Under this system ODR would provide the central resource management for which there is no peacetime counterpart.

The ODR will operate, on behalf of the President, at the apex of a Government-wide resources management structure, in which the Federal agencies would be responsible for carrying out their assigned responsibilities. It would review claims for resources and estimated resource availability, and advise the President with respect to feasible courses of action.

OEP attaches a high priority to the development of the ODR and recently has intensified efforts to speed the establishment of a standby capability. The President could also activate ODR in a limited war to carry out central resource management functions. OEP is now reviewing authorities and policies in effect since the Korean emergency and determining what additional measures and readiness actions would be required to support a limited war mobilization under the ODR concept.

With respect to a nuclear war situation, several factors make a standby system important if not critical.

1. In previous emergencies there was time after declaration of war to develop the necessary resource control mechanisms. Our allies fought holding actions while we mobilized. This will not be the case in a nuclear attack. The ODR must be ready to function immediately.

2. In previous emergencies the economy was intact. It could accommodate all demands and tolerate waste and delays. In the postnuclear attack, conditions will be different. We must not only avoid waste of resources and delays in postattack operations, but also remedy any potential unacceptable deficiencies identified in preemergency analysis.

Changed conditions as cited above, plus recent technological advances in data handling, have made it both necessary and feasible to develop emergency operational plans and procedures to cope with the situation.

STATUS OF STANDBY PREPAREDNESS MEASURES

In March, Director Ellington approved the 1965 issue of "Guidance for Nonmilitary Planning." This guidance was prepared by a Presidentially established committee and is classified. It treats the full spectrum of emergencies, both declared and undeclared, which may face us over the next decade. Without minimizing the problem of coping with general (nuclear) war, it calls attention to the variety of demands that may be placed upon civil emergency preparedness by international tension and limited war.

I mention this new guidance because it further underscores the requirement that emergency preparedness develop and have in being a full range of standby measures, including proposed legislation as well as executive branch orders.

A primary step is the recent issuance by OEP of the "Digest of Federal Executive Branch Nonmilitary Emergency Measures." This is a classified document. If the committee desires more information, it can be made available in an executive session. It contains a wide variety of emergency action measures from which national decision-makers could select those nonmilitary responses appropriate to the specific emergency. Some actions, of course, would be required only in a general war with nuclear attack on this country. Others could become necessary at some stage of escalation short of general war. Many of the possible responses are already authorized by existing statutes such as the Defense Production Act of 1950, as amended, or the Federal Civil Defense Act of 1950. Others require special authorization either by legislation, if Congress is in session, or by Presidential order if not. In the latter case, legislative authorization would be sought as soon as the Congress could be convened. Many of the standby implementing documents, including drafts of proposed legislation, are complete. Some, including procedures for establishing the Office of Defense Resources, are in an advanced stage of preparation. Reviews and revision of standby documents to assure current application is a continuing process.

In further preparation for the operations of ODR, as approved by the President June 30, 1964, a series of subordinate implementing documents are being developed. Just this month, the Director of the Office of Emergency Planning issued "The Manual for Regional Emergency Operations—Office of Defense Resources." This unclassified document covers the mission and concept of operations of ODR at regional level.

Finally, on the status of emergency measures, I call attention to the copy of the "Code of Emergency Federal Regulations" issued July 1, 1965, by the National Archives and Records Service of the General Services Administration. This issue contains orders and regulations of the Department of the Treasury, the Post Office Department, the Civil Service Commission, the Federal Reserve System, the Housing and Home Finance Agency, the Interstate Commerce Commission, the Federal Home Loan Bank Board, and the Railroad Retirement Board. As the unclassified emergency orders

and regulations of other agencies are completed, they will be similarly published.

ASSUMPTIONS

We feel that we have made considerable progress in developing the necessary assumptions for use in civil emergency preparedness.

In addition to the previously mentioned "Guidance for Non-military Planning," we have found it necessary to develop numerous additional assumptions.

These have been developed in cooperation with the most experienced and knowledgeable people in Government in the area involved.

For example, assumptions relative to postattack levels of medical care have been made in cooperation with representatives of the Department of Health, Education, and Welfare and the Public Health Service; those for levels of food consumption with the Department of Agriculture; those for petroleum requirements with the Department of the Interior, et cetera.

We have received good cooperation from most of the agencies involved. One major difficulty has been in establishing assumptions regarding the potential postattack levels of military operations.

MILITARY REQUIREMENTS FROM DEPARTMENT OF DEFENSE

Because of their importance to national security, we must obtain from the Department of Defense estimates of the materials necessary to support current defense programs and defense supporting programs.

The current requirements are essential to the operation of the defense materials system, and the Department furnishes us each quarter with its requirements for controlled materials for each of the four succeeding quarters. We then allot to the Department of Defense materials in support of the approved military programs.

In the past, no difficulties have arisen regarding the submission of these requirements. Presently, however, the revisions that have been necessary in the military procurement and production programs have resulted in substantial changes in the requirements for materials, especially for aluminum and copper.

Individuals in OEP, BDSA, and DOD have established close working relationship on activities relating to the defense materials system and, as a result, rapid changes in allotments of materials to DOD have been made to cover these requirements, and will be made in the future.

We have also requested considerable additional information from the Department of Defense in order that we might judge the impact of stepped-up procurement for Vietnam on the national economy. This has been somewhat slow in arriving, but it is expected during the week.

We also look ahead at future military programs to insure that sufficient materials will be available when needed. For example, we have analyzed the future supply requirements situation on materials used in missile fuels, such as hydrazine, oxygen, and hydrogen, and have recently completed a comprehensive supply requirements study of titanium. This metal is becoming increasingly tight because of many new military applications. However, we feel that new additions to sponge capacity now under construction will soon relieve

this scarcity. In all these studies, DOD has been most cooperative in furnishing us statements of military requirements.

For our emergency planning activities, our greatest need for requirements data relates to stockpile programs, and to meet this need we must have statements of military requirements, both for a conventional and for a nuclear war.

Our long experience in setting stockpile objectives for a conventional war has resulted in well-tested and coordinated procedures. Because of this experience, we have encountered very little trouble in obtaining military requirements for nonnuclear war.

In the case of our planning for nuclear war, efforts to obtain statements of DOD requirements have not been so successful. In spite of repeated requests, starting late in 1963, we have been unable to date to obtain an official list of military requirements. DOD did, however, furnish us in February 1965 with its best estimates of the dollar value of potential postattack production programs for various categories of items and the value of construction programs that would be needed to support military forces, but limited their use to the development of techniques for evaluating nuclear war supply requirements. Subsequently, in May 1965, after we had advised DOD of the urgent need to develop nuclear war stockpile objectives, the Department of Defense informed us that it had no objection to the use of these unofficial data in developing nuclear war stockpile objectives.

We are currently incorporating DOD estimates into our supply requirements study for nuclear war and reconstruction that will be completed by the end of this year. This study will provide data which will be used in the development and establishment of nuclear war stockpile objectives.

STOCKPILES OF STRATEGIC AND CRITICAL MATERIALS

During fiscal year 1964, OEP reviewed, with the assistance of its cooperating agencies, the objectives of all 76 materials in the national stockpile. This review indicated increases in the objectives of 35 materials, 32 were decreased and 6 remained unchanged. Three new materials—quinine, thorium, and titanium sponge—were added to the national stockpile list, and three others—hyoscine, silk noils, and raw silk—were removed from the list. Sixteen materials were in deficit positions. Five of the deficits will be covered by excess inventories of other materials. The deficits for 10 materials are expected to be filled by barter for surplus agricultural commodities. One material, jewel bearings, will continue as a cash procurement item. These bearings are produced in the Government-owned facility at Rolla, N. Dak.

During fiscal year 1965, materials on the list of strategic and critical materials for stockpiling were increased to 77, with the addition of silver. In June 1965, OEP established for the first time a stockpile objective of 165 million fine troy ounces of silver to cover the needs for a conventional war emergency. Supply requirements analyses of silver had been carried on by OEP since 1962. However, the 1965 supply requirements study indicated that emergency military and essential industrial requirements had increased to a greater extent than the normal availability of silver and that the potential deficiency of silver in an emergency was greater than previous studies had shown. The drain on the Treasury reserve had grown, and the deficiency was

sufficiently large to indicate that the establishment of a stockpile objective was the only reasonable way to insure the availability of silver to meet essential military and industrial needs in a wartime emergency. A portion of the remaining Treasury stocks will be held aside to meet this objective.

As of the end of fiscal year 1965, materials of stockpile grade held in all Government inventories approximately equaled or exceeded the objective for 63 of the 77 stockpile materials. It should be noted that of the total DPA inventory of \$901,977,700 at market value, only \$42,154,000 is counted against stockpile objectives.

DPA inventory within stockpile objective as of June 30, 1965

[Stockpile grade]

Material	Unit	Quantity	Market value (thousands)
Mica, muscovite film, 1st and 2d quality.....	Pound.....	102,681	\$1,232
Rutile.....	Short dry ton.....	17,385	1,808
Tantalum.....	Pound.....	1,470,808	19,321
Titanium.....	Short ton.....	11,479	29,793
Total.....			42,154

¹ Acquisition cost.

OEP has in preparation the guidelines and criteria for another review of conventional war stockpile objectives for all materials. It is planned that a new projection of the gross national product, broken down by major economic sectors, for fiscal years 1968, 1969, and 1970, plus other necessary instructions, will be issued later this year to all departments and agencies working with OEP in the supply-requirements studies.

Excellent progress has been made on the supply-requirements study for nuclear war and reconstruction. This study, which we expect to complete by the end of this calendar year, will provide an economic model, expressed in dollars, of the postattack economy which will be used to establish stockpile objectives.

Following the completion of the study, major attention will be devoted to the development of nuclear war stockpile objectives for all strategic and critical materials. It is hoped to complete the development of nuclear war stockpile objectives by June 30, 1966.

DISPOSAL PROGRAM

The Interdepartmental Disposal Committee (IDC), established by the OEP Director in October 1963, has continued its activities with respect to long-range programing for the disposal of surplus materials in Government inventories. During the program development stage, appropriate consultations are held with industry and foreign governments to obtain their views and the benefit of their advice.

As of June 30, 1965, a total of 51 long-range disposal programs had been considered since the inception of the committee. Of the 51 long-range disposal programs, 47 involve materials in the national stockpile in excess of stockpile needs and for which there are objectives. The remaining four programs cover two materials for which there are no stockpile objectives and two nonspecification materials for which

there are stockpile objectives. OEP has authorized the release of four materials from the DPA inventory, which does not require congressional approval (subspecification metallurgical grade manganese, DPA nickel, DPA tungsten, and DPA copper).

Disposal of excess strategic and critical materials was significantly increased during the past fiscal year, reflecting OEP's accelerated disposal program. Disposal sales for fiscal year 1965 from the national and supplemental stockpiles and the DPA inventory amounted to \$423.5 million, representing a new record high for disposals in any previous fiscal year. The previous record high for a single fiscal year occurred in fiscal year 1964 when disposals amounted to \$167.1 million. During July-December 1964, disposal sales amounted to approximately \$201.1 million while disposal sales during January-June 1965 totaled \$222.4 million, of which \$196.9 million were from the national stockpile and approximately \$25.5 million from the DPA inventory. Total sales commitments of \$222.4 million were approximately \$43.1 million in excess of the acquisition cost of \$179.3 million. Careful attention has been given to avoid possible disruptive effects in the economy resulting from large disposals with the result that fiscal year 1965 disposals were accomplished without adversely affecting market conditions.

As of June 30, 1965, cumulative sales commitments of surplus materials negotiated by GSA totaled over \$1.1 billion at sales value, of which \$746.4 million were from the national and supplemental stockpiles, \$390 million from the DPA inventory, and \$10.6 million from the Federal Facilities Corporation (tin).

OTHER DEFENSE PRODUCTION ACT ACTIVITY

A. Machine tool pool order program

The machine tool pool, or trigger, order program, which is carried out under authority contained in the Defense Production Act, provides the means whereby the machine tool industry can, on advice of the General Services Administration, initiate production immediately during an emergency period of tools that would be needed by defense contractors and their subcontractors.

These standby contracts are reviewed periodically and modified so that the specific tools that would be ordered are those that are currently being produced by each manufacturer that has signed such a contract. During fiscal year 1965, 20 contracts were reviewed by OEP, BDSA, and GSA and modified by GSA.

As of the August 31, 1965, year there were 80 contracts in existence covering 12,551 machine tools with a value of \$232.9 million.

The Government's liability, if these contracts were placed into effect during an emergency period, is limited to acceptance and payment for any machine tools that would not be required by private contractors.

We are, in cooperation with the BDSA, watching closely the growth in the output of numerically, or computer controlled machine tools, in order to determine whether such tools should be included among those covered by these trigger orders.

B. Jewel bearings facility

The modernization of the Government-owned jewel bearing facility, the Turtle Mountain plant at Rolla, N. Dak., is well underway.

The new building is under construction and should be completed by the end of this year. The new production equipment being procured from Switzerland is on contract and its delivery to the plant is being arranged for by the GSA.

Modernization will increase the capacity of the facility and improve our capabilities to meet the need for these critical component during an emergency period. It will also result in lower unit costs on current production thereby saving both stockpile and Defense Department funds.

BORROWING AUTHORITY FUND

Title III of the Defense Production Act permits three methods of financing the expansion of productive capacity and supply. Under section 301, a number of procurement agencies have been authorized by the President to guarantee the financing of production against losses. These agencies continue to provide credit through the Federal Reserve System banks. Each agency reports directly to the committee on this activity. I, therefore, confine this report to activities under sections 302, 303, and 304 of the act which are under the direct supervision of the Office of Emergency Planning.

Sections 302 and 303 of the Defense Production Act authorize loans to, and purchases from, private enterprises for materials and services in support of the national defense. Loans and purchases are financed from a \$2.1 billion revolving fund. The two restrictions originally stipulated in the employment of this fund were that total borrowings at one time could not exceed \$2.1 billion and that the probable ultimate net cost of transactions after liquidation of all assets could not exceed \$2.1 billion.

New loans and purchases under the 1950 act have been curtailed since 1958. Since that time the major activities have been those of (1) canceling as many contracts as possible to reduce program obligations, (2) receiving the materials and administering the contracts remaining in force, and (3) allocating the funds remaining available for such other purposes as custodial, administrative, and interest expenses.

Throughout the term of the Defense Production Act, since 1950 to date, the gross transactions entered into have amounted to over \$8 billion. The losses realized to date are about \$900 million. About \$600 million of these realized losses represent interest expenses on the funds borrowed from the Treasury.

The DPA inventory of materials presently amounts to about \$1 billion and \$380 million acquisition value.

On June 30, 1965, the three agencies which were active in the procurement of materials owed \$2,056,088,000 to the Treasury. There is a remaining borrowing authority available to OEP of only \$44 million.

Based on the foregoing data the financial status of the Defense Production Act program is quite obvious. With only about \$1.3 billion in assets, the outstanding notes to the Treasury are not going to be repaid for three reasons: (1) a considerable value of that part of the Defense Production Act materials inventory which meets and exceeds stockpile specifications is going to be retained against stockpile objectives; (2) the subspecification grade material in the Defense

Production Act inventory is not likely to provide dollar recovery at acquisition value levels; and (3) there is a continuing accrual of interest expense against current notes of about \$70 million per year.

Although there was a gross availability of about \$43 million in borrowing authority available on June 30, 1965, the actual amount which might be considered unencumbered was about \$20 million. This amount is far below the amount of \$100 million which the Congress authorized for future Presidential use for emergency purchases, including contingent liabilities, in the June 30, 1964, extension of the Defense Production Act (Public Law 88-343). This may be insufficient to meet national security requirements in the event of emergencies similar to that for which the original legislation was enacted.

NATIONAL DEFENSE EXECUTIVE RESERVE

Throughout the past year the Executive Reserve program has undergone extensive review. Questionnaires were sent out to all members of the OEP unit of the Reserve resulting in updated information on the members of the Reserve and resignations of 15 members from our Reserve unit.

On June 17, 1965, a west coast regional meeting for all members of the Reserve in that area of the country was held. The reservists were briefed on the Vietnam situation by an expert from the Department of State and on the status of emergency preparedness by the Deputy Director of OEP. This was the first regional conference of all units of the Reserve. The primary purpose of having this conference was to make a determination as to whether or not such regional conferences should be held on a regular basis.

On October 25 and 26, 1965, a national conference will be held in Washington for all Reserve units. This will be a 2-day conference. The first day's program will begin at 2 p.m. on October 25 and will consist of four national policy briefings for the entire Reserve. The second day will be devoted to separate meetings by the 11 respective departments and agencies with units of the Executive Reserve. The conference will conclude with a banquet of the entire Reserve and ranking Government officials on Tuesday evening, October 26.

At the conclusion of the conference, OEP will recommend to all units of the Executive Reserve that one regional conference be held during the next 18 months and that a national conference be held in 1968.

As general guideposts for the future, I see four areas of activity which should be pursued in our Executive Reserve program. They are: geography, age, specialization, and use.

1. In the matter of geography, we must seek, find, and enroll more executive reservists with a regional affiliation to field staffs of the Federal Establishment. This serves a dual purpose: First, it gives us a decentralized capability which could well be a decisive factor in coping with the problems of a massive assault on our country. Second, it goes hand in hand with our recent efforts to develop a State and local capability in the emergency planning field. This is an effort launched about 3 years ago under the formidable title of "The Comprehensive Program for the Survival of Government and Management Resources." Under this program, the States, and subsequently their political subdivisions, have been urged to develop the machinery and plans to fend for themselves until Federal direction,

used in prior conventional wars, can be reestablished. To date, 46 States are participating in this program and more than 500 task forces comprising over 5,000 people from the public and private sector have been enlisted in this effort.

I might add, Mr. Chairman, that the week before last Governor Ellington and I went down to Richmond and appeared before Governor Harrison's task forces in this regard, and they have a wonderful program.

Rapid development of regional Reserve contingents can facilitate this State and local enterprise. Reservists could well be members of task groups in their own States. Most of all, the reservist would become a bridge joining State and local planning to counterpart efforts at the Federal level.

2. In the matter of age, young careerists should be encouraged to enlist in the Executive Reserve to provide continuity and to introduce fresh ideas and new approaches consistent with the latest industrial developments. A quick rundown of our Executive Reserve rosters shows a disproportionate number of reservists whose service dates back to Korea and World War II—men and women who, in many instances, staffed the emergency agencies in those years. There is no substitute for experience, but these reservists have themselves expressed some misgivings that an infusion of new blood has not been sufficiently encouraged to provide the leadership for the future. Now this thought may cause people in my bracket to shudder at the fleeting passage of years, but we must think about tomorrow. There is another aspect to this question. Currently active reservists must be given the opportunity to pass on what they know to a new generation. We cannot rely solely on the knowledge acquired by upcoming careerists simply because it may be too modern, and too advanced. It is entirely conceivable that automated methods which dominate our industrial scene today might be ill suited to a post attack situation and techniques which are a throwback to an earlier period might well be needed. The only way the new can be fused with the old is to have them exist side by side, at least for a time. I know that persons subject to military call are usually not eligible for the Executive Reserve, but certainly we ought to be looking to the growing legion of young people whose potential executive status with industry would make them decided assets for the Reserve program.

3. In the matter of specialization, we must broaden the professional competence found in the ranks of the Executive Reserve, particularly in the scientific and technical fields. And a rich infusion from the rising ranks of women executives would also be of immense value to the Reserve.

4. Finally, as to the uses to which the Executive Reserve should be put, I would like to see the program serve a more vigorous and active role in peacetime. About 9 years ago the Reserve was a small corps of 50 people. Today more than 3,300 reservists serve 11 Government departments and agencies. I think most of you share my conviction that we should be doing something more than training for an eventuality we all devoutly hope will never occur. Having invested so much energy and time, I think you will agree that the Reserve should not be inert and inactive in peacetime. One suggestion, which I hope you will examine, is to put elements of the Reserve to work when natural disaster strikes. As you know, we have just

gone through many months during which disasters have flowed one upon the other, ranging from earthquakes to storms, to fire and flood. One out of every seven Americans live in counties which suffered the debilitation and disorder of some natural disaster in the last year. Floods played havoc with the northwest coast last December and January, and we have since suffered floods and tornadoes throughout the Midwest. The Director of the Office of Emergency Planning administers the Federal disaster assistance program for the President. It seems to me there is a place in this massive enterprise for the voluntary help of the reservist which does not violate conflict of interest laws. In Minnesota, several months ago, the Small Business Administration used a group of retired executives to speed processing of applications for loans in that State. From all reports, it was an eminently successful program.

In brief, we hope to broaden the membership of the Executive Reserve and to expand the roles of individual reservists.

Gentlemen, this concludes my prepared statement. My associates and I will be happy to answer any questions you may have.

Chairman ROBERTSON. We want to thank you for a very splendid statement, very interesting, very comprehensive.

It is interesting to note that when we cut our objective from a 5-year war to an anticipated 3-year war the stockpile objective was cut almost in half.

Mr. DRYDEN. Yes, sir.

Chairman ROBERTSON. The original stockpile objective was what?

Mr. LAWRENCE. Five years.

Chairman ROBERTSON. I know, but in dollars.

Mr. LAWRENCE. In dollars. I do not know—

Chairman ROBERTSON. Well, you built it up to over \$8 billion. You must have been operating under your objective in doing that.

Mr. LAWRENCE. That is right. I do not have that figure, Senator Robertson. (See p. 33.)

Chairman ROBERTSON. You now have in the stockpile, at acquisition cost, \$8,181,121,800.

Mr. LAWRENCE. Yes.

Chairman ROBERTSON. That is the cost of it. The point that we talk about this paper profit of some \$524 million, I want to point out that the present value of all materials is less than cost.

Mr. LAWRENCE. Yes, sir.

Chairman ROBERTSON. So recently, for 2 years, you wanted to get rid of all past interest and not pay any more interest because your authorization, you thought, would be cut down too much by interest. But you have quit buying.

Mr. LAWRENCE. Yes.

Chairman ROBERTSON. But you have spent \$579,434,000 on interest.

Mr. LAWRENCE. That is right.

Chairman ROBERTSON. Then when Senator Symington was urging us to pass a new law and said we had taken such a loss, that he had found a billion-dollar loss—well our annual report has been showing a loss, Mr. Patman, and Senator Sparkman, since the passage of the

Defense Production Act of 1950—Mr. Clerk, give me that, our last annual report—well, June 30, 1964, \$1,408,530,000. That was our report. Now, in December you reported more loss than that. What did you report the loss to be in the December 31 report? I will give you the figures. You can correct them. \$1,478,838,000, that was your estimate of loss, so we are not dealing with something we have a big profit on, are we?

Mr. DRYDEN. No, Senator.

Chairman ROBERTSON. Do you have a problem now of getting rid of maybe a surplus of \$4 billion or does the war in South Vietnam give you the potentialities of a different picture?

Mr. DRYDEN. Well, Senator, there are two—I think—two parts to the answer in that. We have found that when we go before the Congress, and present an orderly program that does not disrupt industry or throw surpluses on the markets, we have had no problem getting legislation, especially this year.

With respect to Vietnam—

Chairman ROBERTSON. Let me give you the figures we recently got on the amount in the various stockpiles that make up this \$8 billion-plus. In the national stockpile is \$5,304,580,500; is that correct?

Mr. DRYDEN. Yes, sir.

Chairman ROBERTSON. In the supplemental stockpile, \$1,396,501,000; that checks?

Mr. DRYDEN. That is right.

Chairman ROBERTSON. In the Defense Production Act inventory, \$1,379,897,000.

Mr. DRYDEN. Yes, sir.

Chairman ROBERTSON. In the Commodity Credit Corporation inventory, \$10,132,300.

Now, you cannot dispose of the national stockpile except by congressional action; is that correct?

Mr. DRYDEN. Yes, sir; correct, sir.

Chairman ROBERTSON. And the congressional action requires that you must not sell below the current market price.

Mr. DRYDEN. Correct, sir.

Chairman ROBERTSON. Then the more inflation we have, the higher these prices go up, the more it freezes your stockpile; is that it?

Mr. LAWRENCE. I do not quite follow that one, Senator.

Chairman ROBERTSON. All right. You want to get rid of something. You cannot sell it below the market value. If the market value jumps every month, does that not make it tougher to get rid of it? If market value has increased over \$500 million on your total in 1 year, well you have not had the full effect of the steel strike, the automobile strike, and the others that are coming in wages.

Mr. DRYDEN. I would think in isolated instances this is true; yes, sir.

Chairman ROBERTSON. Suppose you put in the record how much it costs in personnel, how much it costs in storage; how much we are losing by deterioration; how much it costs in interest to carry the Defense Production Act inventory.

Mr. DRYDEN. Yes, sir.

(The information concerning the administrative and custodial expense of the Defense Production Act revolving fund follows:)

[In thousands of dollars]

	Fiscal year 1965 actual expense	Fiscal year 1966 estimate
Administrative expenses (salaries, etc., all GSA).....	739	715
Custodial (storage, etc., all GSA).....	1,000	949
Other program expense.....	913	893
Total.....	2,652	2,557

NOTE.—These figures do not include the annual interest payments to the Treasury Department which amounted to \$78,839,000 in fiscal year 1965 and are estimated to be \$79,072,000 in fiscal year 1966.

Chairman ROBERTSON. Because I do not suppose we will be tied up forever there in South Vietnam—I hope we will be very cautious before we get hooked that way again—some time, I assume, members of the committee, we would want to get rid of some of this material. I do not think we owe it to industry to keep it indefinitely.

Vice Chairman PATMAN. But with inflation, Mr. Chairman, would it not be easy to get rid of, because the prices would get higher—

Chairman ROBERTSON. Not if we have to sell at current market value. If we could sell it at what it cost us, yes.

Vice Chairman PATMAN. I thought that the requirement is that we cannot sell it below what we paid for it. If the price keeps going up—

Mr. DRYDEN. Market value, sir.

Vice Chairman PATMAN (continuing). Of course that makes it easier.

Senator SPARKMAN. Market value.

Chairman ROBERTSON. That is not the national stockpile, that is the Defense Production Act inventory. We must not sell it for less. Inflation helps that. But the big increase in market value, over \$500 million, is in the national stockpile.

The Chair recognizes the vice chairman, Mr. Patman.

Vice Chairman PATMAN. Do you borrow directly from the Treasury?

Mr. LAWRENCE. Yes.

Vice Chairman PATMAN. What rate do you pay?

Mr. LAWRENCE. 4¼ percent.

Vice Chairman PATMAN. Is that based upon the average interest rate between short and long term?

Mr. LAWRENCE. It is the average rate of comparable Government securities issued by the Treasury in the month preceding the DPA borrowings from the Treasury. DPA notes are generally 5-year term, so when our delegate agencies borrow, their notes carry the average rate the Treasury had to pay on its borrowings in the previous month for 5-year maturities.

Vice Chairman PATMAN. How long has it been since you commenced paying the average interest rate to the Treasury?

Mr. LAWRENCE. Since the inception of the fund.

Vice Chairman PATMAN. I want to invite the chairman's attention to the fact that when we passed a law requiring the average interest rate to be paid, short-term securities commenced going up immediately, and they have been going up ever since. That has increased interest rates in all cases like this to the Government. I think it has

been bad because it gives an incentive to those who had power to do it, to make short-term rates higher and higher, and they are now nearly as high as long-term rates, about 4 percent. This compels all agencies of the Government to pay a much higher interest rate because the average rate is required.

I will not ask any more questions now, Mr. Chairman.

Chairman ROBERTSON. Of course there is the viewpoint of the fellow who has dollars to be hired out, they will say the laborer is worthy of his hire, and if everything is going up, why should we freeze interest rates. But that is the other side of the coin.

The Senator from Alabama.

Senator SPARKMAN. Mr. Chairman, I want to ask questions about copper.

In the early part of your statement you discussed the copper situation, and I gather from what you say that is one of the worst situations prevailing.

Mr. DRYDEN. Yes, sir.

Senator SPARKMAN. Is it because of a shortage in production of copper?

Mr. DRYDEN. Over the past several years, Senator, there have been a plague of strikes in the copper-producing areas, joined with a tremendously increased requirement for copper which have brought about the shortage.

In the spring we, I would say around March, we had great hopes of—based on studies by the Department of Commerce—that this would have been alleviated by this time. It has not been. The copper shortage remains real and is with us, and at the present time we have authorized the release of all copper in the stockpile that we can, up to the conventional war objectives.

Senator SPARKMAN. We do produce copper in this country.

Mr. DRYDEN. Yes, sir.

Senator SPARKMAN. In other words, we are not wholly dependent on production from outside.

Mr. DRYDEN. No, sir.

Senator SPARKMAN. I notice this though, just a matter of curiosity. You listed manganese, you or Mr. Connor, as being disposable. Why would we be wanting to dispose of manganese since we are wholly dependent upon other countries for that?

Chairman ROBERTSON. Because we bought too much of it.

Senator SPARKMAN. That is true if you figure it on a shortage base period, but it just seems to me that the thing which we are holding—

Chairman ROBERTSON. We are not through buying yet. We have a lot of low grade we have got to bring up to stockpile requirements, is that not true?

Mr. LAWRENCE. Senator, we have authorized the sale of all of our subspecification manganese. We have some manganese we bought on the domestic purchase programs in which the percentage of manganese in the ore is so low that it is not even good wisdom to try to upgrade it.

Vice Chairman PATMAN. Will you yield for one question?

Have you discovered a way to beneficiate manganese?

Mr. LAWRENCE. Yes, sir; we have, through certain research that was done under DPA funds. We have three methods, I think, that

are good, but they still cannot go below a certain level of manganese content to be economical. If they get too low like some of the stuff we have out in Montana which has got only 25 percent, we might just as well leave it there.

Chairman ROBERTSON. You had a 5-year supply of it, did you not?

Mr. LAWRENCE. Yes, sir.

Senator SPARKMAN. How are you going to dispose of that if it is not any good?

Mr. LAWRENCE. This is a good question, Senator. We do not know.

Chairman ROBERTSON. It was just a subsidy to these low-cost producers.

Senator SPARKMAN. I mean are we going to hold it forever?

Mr. LAWRENCE. We have others though that closely approximate the 46, 48 percent specification grade, and this we are finding very easy to sell at the present time at good prices.

Senator SPARKMAN. Do I understand correctly you cannot blend the two, cannot mix the two?

Mr. LAWRENCE. You can, but if you take 25 percent then you have got to find something in the neighborhood of 60, 65 percent in order to blend it and bring it up.

Senator SPARKMAN. In order to bring it up, blend it.

Mr. LAWRENCE. And that 65 percent is very expensive and it would be easier just to go ahead and sell the lower grades at the best prices we can get rather than to blend it and bring up the other.

Chairman ROBERTSON. They can wash it in places in India and pick it up at 50 and 60 percent.

Mr. LAWRENCE. Yes, sir.

Senator SPARKMAN. I was interested in your statement on executive reserves. You said you have how many now?

Mr. DRYDEN. 3,300.

Senator SPARKMAN. Is it your intention to build that up still more?

Mr. DRYDEN. We hope to have it up to 5,000 as a maximum, Senator Sparkman.

Senator SPARKMAN. Do you have anything for them to do to keep their interest up?

Mr. DRYDEN. Yes, sir. The regional conferences that we hold, we feel generate interest. They all recognize—and we recognize—that most of these reserves have a day-to-day job that they can hardly break loose from. We occasionally, though, along with BDSA which has the greatest number, call the reservists in, either to the regions or into Washington, to do special work that they are equipped to handle, that is of great help to us, not having maybe that particular know-how, and this also keeps their interest alive in our program.

We feel like at the present time it has been enlivened considerably the last year.

Senator SPARKMAN. How do you recruit those? Do you go out looking for them, or do they come in asking you, or what?

Mr. DRYDEN. Well, it is a combination. We have great interest on the part of industry as to the activities of OEP, as you can well imagine, with all of these various activities that we have responsibility for. Many times executives of these industries will come in and in the discussion of the BDSA they will become interested in the reserve, and we will send them applications to fill out which we evaluate and pick some up that way. Many are recommended to us.

Senator SPARKMAN. Well, thank you very much. I think it has been a very interesting and very helpful presentation.

Vice Chairman PATMAN. Mr. Chairman, in the world supply of manganese, what percentage of it is behind the Iron Curtain countries—is in the Iron Curtain countries?

Mr. LAWRENCE. I will have to supply it for the record.

VOICE FROM AUDIENCE. Iron Curtain countries supply about 12 percent of the world's supply of manganese.

Vice Chairman PATMAN. In Russia and other countries.

VOICE FROM AUDIENCE. Yes, sir.

(NOTE.—The Office of Emergency Planning subsequently advised the committee that 56.2 percent of the world's supply of metallurgical manganese is produced in Iron Curtain countries.)

Chairman ROBERTSON. That is encouraging to me. I thought it was much more than that. We do not know when the war in South Vietnam may end, but it would be very gratifying if it would shortly end and we would have a satisfactory peace treaty. If that would happen, will you come to us and tell us, "We have got more in the stockpile than we need to carry and we want to lay some plans before you. We want to think out loud. We want your advice as to how we can dispose of \$3 or \$4 billion worth of metals without breaking the market," nobody wants to break the market.

Now, when I went to college when I was 16, I ran out of money when I was 18, and I started borrowing money to finish my college education, and I paid 6 percent compound interest. I have not liked compound interest since that time. [Laughter.]

We started making loans when Mr. Patman and I first came up here to the REA's at 2 percent, and Mr. Patman does not like 4- and 4½-percent money, and we want to quit paying that kind of money, but we have to get rid of some materials so you can pay the principal back.

I do not like compound 6 percent, and he does not like 4.15 or 4.25 or what it is now.

Mr. DRYDEN. Mr. Chairman, I would like to say—

Vice Chairman PATMAN. You see, nearly all the 4¼-percent bonds have gone below par, and we are selling at the rate of about 4.35.

Chairman ROBERTSON. Nearly 4.40-percent yield.

Vice Chairman PATMAN. Much more than the statutory rate for long-term bonds. We are reaching a crisis, so that we are going to have to do something about it.

Chairman ROBERTSON. But the point is if we can ever get on a peace basis again, we want to do something to cut down on this \$8 billion inventory to, say, \$4 billion.

Mr. DRYDEN. Yes, sir.

Chairman ROBERTSON. And it means a good deal to our economy and savings of administration, storage, and so forth. We want your help on it.

Do I understand that what you have said today is the official position?

Mr. DRYDEN. Yes, sir.

Chairman ROBERTSON. We are going to give all members the privilege of submitting questions; and the answers, they will be your official position.

Mr. DRYDEN. Yes, sir.

Chairman ROBERTSON. And they may be included in this record.
(See pp. 34 and 37.)

Chairman ROBERTSON. Any further questions?

(No response.)

Chairman ROBERTSON. I want to thank the members of the committee for attending, and I want to thank you, Mr. Dryden.

Subject to the call of the chairman, we will stand adjourned.

(Whereupon, at 11:55 a.m., the committee recessed, to reconvene subject to the call of the Chair.)

APPENDIX

REDUCTION IN STOCKPILE OBJECTIVES IN 1958

Information relating to the reduction in stockpile objectives in 1958 was extracted from page 66 of the Eighth Annual Report of the Joint Committee on Defense Production. The information is as follows:

On June 30, 1958, the Director of ODM announced general policy changes for the stockpile of strategic and critical materials. He stated that the strategic stockpile shall take account of the potentiality of limited war and general war and shall assume rapid mobilization in the event of an emergency. He stated also that all stockpile objectives shall be adequate for limited or general war, whichever shows the larger supply-requirement deficit to be met by stockpiling, and that all objectives shall be limited to meeting estimated shortages for a 3-year emergency period. The new objectives consist of (1) a "basic objective" which assumes reliance of sources of supply factored to reflect estimated supply risks and (2) a "maximum objective" which includes an additional allowance to take into account the complete discounting of sources of supply beyond North America and comparably accessible areas. Based on the latest military requirements, ODM established new interim objectives for each stockpile material on June 30, 1958. The new objectives are substantially lower than previous objectives and, for many critical materials, represent over a 50 percent reduction in stockpile requirements. The following table shows a comparison between the interim objectives and those prevailing before the change. Figures shown are based on market prices as of June 30, 1958.

Stockpile objectives

	In effect Mar. 31, 1958		June 30, 1958
Procurement priority	\$2,906,781,200	} Basic	\$2,907,441,000
Minimum increment	2,443,175,900		
Long-term increment	3,156,734,100		
Total objectives	8,506,691,200		4,395,744,000

ESTIMATES OF LOSSES ON DPA PROGRAMS REPORTED TO CONGRESS IN PAST YEARS

The following information on reports covering estimated losses in past years was extracted from page 33 of the 14th Annual Report of the Joint Committee on Defense Production:

It was known at the time of the passage of the Defense Production Act of 1950 that the utilization of these incentives could result in losses to the Government. The Defense Production Act, as amended in 1951, provided for the submission of reports by the President to the Congress covering losses on transactions. The act later provided that semiannual reports be substituted for quarterly reports (Defense Production Act Amendments of 1960).

The quarterly reports submitted in response to this section indicated as early as the end of the fiscal year 1953 that there would be a probable ultimate net cost (loss) of \$614,144,000 on the total transactions consummated to that time by the General Services Administration, including materials purchases. The probable

ultimate net cost (loss) for GSA was \$1,003,456,000 at the end of the fiscal year 1954. In the 10 years which followed, to June 30, 1964, the probable ultimate net cost had increased from \$1,003,456,000 to \$1,408,530,000. Since interest is paid on funds borrowed from the Treasury, the interest expense accounts for a high percentage of the total increase in estimated losses. The borrowing authority report (June 30, 1964) sets forth interest expense of the General Services Administration under Defense Production Act programs for the period from December 29, 1950, to June 30, 1966, in the amount of \$545,762,000.

The borrowing authority reports to the Congress have set forth anticipated losses from year to year. These anticipated losses were designated as the probable ultimate net cost to the Government. The anticipated cumulative losses of the Defense Production Act programs of the General Services Administration, which includes materials and other programs handled by GSA after the passage of the Defense Production Act in September 1950, were reported as follows:

To Sept. 30, 1951.....	\$55, 308, 000
To June 30, 1952.....	384, 433, 000
To June 30, 1953.....	614, 144, 000
To June 30, 1954.....	1, 003, 456, 000
To June 30, 1955.....	752, 435, 000
To June 30, 1956.....	665, 890, 000
To June 30, 1957.....	811, 590, 000
To June 30, 1958.....	1, 071, 903, 000
To June 30, 1959.....	1, 111, 934, 000
To June 30, 1960.....	1, 137, 691, 000
To June 30, 1961.....	1, 168, 942, 000
To June 30, 1962.....	1, 260, 844, 000
To June 30, 1963.....	1, 364, 971, 000
To June 30, 1964.....	1, 408, 530, 000

The following answers were submitted by the Department of Commerce in response to questions submitted by the vice chairman subsequent to the hearing:

1. Question. Has the Defense Materials System served to expedite defense programs?

Answer. At the hearing the Secretary testified that one of the three basic objectives of the Defense Materials System was "* * * to maintain a flexible system to insure the prompt fulfillment of current defense programs * * *" (p. 2). He also referred to "* * * our special assistance program for expediting defense deliveries" (p. 3). Experience has shown that the use of defense priorities and special assistance provided by the Business and Defense Services Administration has substantially aided defense contractors in meeting their production and construction schedules, and has thereby expedited defense programs at all levels.

2. Question. Do you consider the continued operation of the Defense Materials System to be needed to expedite space and atomic energy programs?

Answer. Space and atomic energy programs are included within the scope of national defense programs. As the committee has been informed in our quarterly and annual reports, certain of these programs have been assigned superpriority under Presidential authority. As many of the requirements of space and atomic energy programs compete with those of other national security programs, the continued operations of DMS assures an orderly flow of materials and components to all such programs in accordance with national security needs.

3. Question. Have you encountered any enforcement problems in administering the Defense Materials System?

Answer. Several years ago because of an acute nickel shortage which resulted in improper use of priority ratings, it was necessary to take administrative and legal actions against numerous violators, with effective results. More recently, a cadmium shortage resulted in a number of violations which were successfully dealt with administratively. While no major enforcement problems have been encountered recently, the lack of an adequate enforcement staff suggests the possibility that some violations may have occurred without our knowledge. The incidence of violations may be expected to increase as a result of the accelerated military procurement program.

4. Question. Have there been any complaints from any segment of industry on the operation of the Defense Materials System?

Answer. There have been no complaints of substance from any segment of industry. However, there have been a few requests for adjustment or exception from specific provisions of the regulations.

5. Question. Have any industrial bottlenecks or shortages resulted from the current emergency situation?

Answer. The Secretary identified certain shortage and bottleneck areas including copper, textiles, zinc, molybdenum, and certain problems resulting from shortages of skilled workers. The latter include segments of the metalworking equipment industry, scientific equipment industry, steel and foundry operations. Additional industrial bottlenecks include heavy-duty truck axles, heavy press capacity for aluminum landing mats, malleable castings, gray iron castings, and barbed wire and fence posts. The situation is under constant scrutiny by us along with the Department of Defense and problem areas are brought to the attention of OEP as they appear. The emergency situation to date has not created industrial bottlenecks or shortages which meet the criteria stated in title I of the Defense Production Act for a Presidential finding needed before allocations may be made in the civilian economy. In his testimony Secretary Connor stated "It is the Government's policy to impose civilian industrial controls only if no other method of meeting defense needs is available to us" (p. 4).

6. Question. Has the rate of industrial production increased substantially in any specific areas as a result of the war in Vietnam?

Answer. Despite the normal lag between military operations and industrial activity, it is clear that the increasing national commitment in Vietnam is superimposing a significant war-supporting requirement upon an already high level of economic activity. Specific areas already experiencing this impact in recent months include:

- Ordnance and ammunition.
- Aircraft.
- Transportation equipment.
- Scientific and industrial instruments.
- Military footwear.
- Selected textiles.
- Bearings.
- Valves.
- Fluid power systems.

We will keep the committee informed as the dimensions of this impact become more clearly defined.

7. Question. Do you foresee any shortages in the civilian economy which would result after meeting military requirements from industrial production?

Answer. At the present level of military procurement, there are no significant shortages affecting the civilian economy, with the single exception of copper where mounting military requirements have aggravated the already existing tight supply situation. Whether further shortages will develop depends upon the rate and extent of increased military procurement. Since we have not yet received definitive estimates of military requirements, but expect them shortly, it is premature at this time to estimate the probability and extent of future shortages affecting the civilian economy.

8. Question. From your reviews of stockpile materials, do you foresee any problems which could result from shortages of specific materials?

Answer. In only a few cases would there be a concern regarding inability to complete the objectives because of a shortage or a tight supply in the respective materials. For example, the inventory of small diamond dies is seriously short (50 percent) of the objective, but this situation has been largely the result of domestic industry's difficulty in producing satisfactory dies for the Government. Currently, industry is obtaining its needs of the small sizes without apparent difficulty from Europe and in part from domestic industry. Attempts are being made to cover the deficit by barter of agricultural surpluses for foreign dies without impairing the market.

Palladium is 43 percent short of the objective and the supply has been tight. Although world production is increasing, it may take several years before the objective is achieved. The problem is eased somewhat by the availability of surplus platinum in the stockpile since platinum can replace palladium for certain uses.

Quinidine is 25 percent short of its objective and is in exceedingly tight supply. It is difficult to forecast when the situation will improve.

Jewel bearings are 31 percent short of the objective. It will take years before the deficit is covered primarily because orders are being placed domestically to support the single U.S. facility, not because of a short supply situation.

9. Question. Would you outline the results of your studies on survival items? Answer. Under the survival items program, the Business and Defense Services Administration has conducted 137 manufacturer surveys, 14 wholesale-retail surveys, and 2 water-sewerage utility surveys involving more than 20,000 establishments. These surveys disclosed the average material, component, and finished goods inventories and production capabilities of survival item manufacturers.

BDSA is continuously engaged in conducting surveys on a selected basis and in updating surveys which may be no longer current.

Survival items are the subject of many Industry Evaluation Board analyses and supply-requirements studies. The data developed from these surveys are stored at Federal relocation centers, in the computer data banks of the National Resource Evaluation Center, and in the industrial mobilization data centers of BDSA.

10. Question. What are your views on achieving preparedness for nuclear war and reconstruction?

Answer. Preparedness for nuclear war and reconstruction requires cooperation among the Federal agencies, between the Federal establishments and the States, and with industry. The accomplishment of this purpose involves the development of central programing techniques, preparation of standby emergency measures such as standby emergency regulations, collection and storage of mobilization data, IEB and survival item studies, and the like. It also involves the development of the capability to coordinate and carry out emergency measures at the National and State levels with the utilization of the available data and human and material resources. This includes the recruitment and training of the National Defense Executive Reserve, the training of the national headquarters and field staffs of the responsible agencies, and the dissemination of Government emergency policies and programs to industry as well as the cooperation of industry in developing plans compatible with those of the Federal and State Governments. The adequacy of these preparedness measures must be assessed by exercises designed to test their effectiveness to meet varying contingencies under simulated conditions.

11. Question. Has industry made considerable progress in preserving records for emergency situations?

Answer. Information concerning the extent to which industry has made provisions for the preservation of records for emergency situations is incomplete. Three of the major industries, iron and steel, chemicals, and textiles, are cooperating with the Government in the preparation of model emergency plans for the use of the individual companies in those industries. In addition, a substantial number of individual companies have prepared emergency plans providing for the continuity of management, preservation of records, and similar matters. A number of these plans have been developed with the cooperation and assistance of this department; others have been prepared independently.

12. Question. Would you outline the industrial problems which we would most likely encounter in a new situation involving a stepped-up emergency?

Answer. On the basis of our analyses of the effects of various levels of increased military procurement in the industrial economy, there is a likelihood of a greater degree of shortage developing in such materials as molybdenum, magnesium, copper, and several others. To what extent these shortages should be met by drafts on Government inventories is a matter of policy which will be resolved as the situation arises. In addition, it appears that we may expect to encounter problems relating to shortages of specialized manpower such as that required in the machine tool, scientific instrument, and foundry industries. Delivery delays due to the limitation of production capacity would develop in electronic components, scientific and industrial instruments, aircraft components, machine tools, and in a variety of materials such as abrasives, antimony, titanium mill products, zinc, selected chemicals, and a number of textiles and clothing items.

13. Question. How many industries are now operating near capacity levels?

Answer. No doubt the committee is aware of the difficulties involved in assessing industrial capacities. Among the factors to be considered are number of work shifts, hours of operation per week, product mix, and the like. However, there are several industries in which it is known that near capacity levels have

been reached. The following industries in this category are operating at 90 percent or more of rated capacity:

- Primary aluminum.
- Titanium sponge.
- Copper refineries.
- Copper wire mills.
- Structural clay products.
- Fabricated structural steel.
- Paper.
- Paperboard.
- Glass containers.
- Automobiles, trucks, and parts.
- Textiles.
- Rubber.

14. Question. Are emergency orders and regulations being kept current for use in an emergency?

Answer. The Secretary in his testimony distinguished between the two general kinds of contingencies for which preparations have been made. The first of these is a limited type of conflict such as Korea or Vietnam; the other would be a major attack, presumably nuclear, upon the continental United States. He indicated that the defense materials system as presently in operation is designed to deal not only with existing conditions but with any degree of acceleration short of a total effort and that this could be accomplished by relatively modest changes in our existing procedures. To deal with specific problem areas of limited scope, prototype standby orders have been prepared and stored in relocation sites. In general, however, escalation short of a total effort would be dealt with by such mechanisms as increase in military set-asides and expanded use of special expediting assistance.

Preparations for the other major contingency, nuclear attack, include emergency orders one of which would automatically be triggered by such an attack. This order, BDSA emergency delegation No. 1, was described by the Secretary in his statement. Emergency regulations to support the production and distribution of survival items and the maintenance of essential services have been prepared and are being maintained on a current basis. These emergency regulations have been widely distributed to Government officials who would be called upon to exercise authority under them and to all members of the BDSA National Defense Executive Reserve.

15. Question. Do you agree with the procedures which are being followed in setting stockpile objectives?

Answer. Procedures for establishing stockpile objectives were reviewed in great detail by the President's Executive Stockpile Committee in 1962 and 1963. Minor changes were effected and with these improvements it is believed that they are entirely satisfactory. In addition, we anticipate working closely with OEP on selective review of stockpile items as the need for such reviews become necessary.

16. Question. Would you outline the progress which is being made in support of the mobilization effort of the various agencies and departments by the National Bureau of Standards?

Answer. The National Bureau of Standards has continued to support the other Government agencies in their mobilization efforts by materials research and testing, consultation, data compilations, calibration services, basic research and computer services. Last year approximately \$17 million (out of a total technical program of \$58 million) was devoted to programs for DOD, AEC, and NASA. About \$12.4 million are believed to be directly or indirectly in support of the mobilization efforts.

The following answers were submitted by the Office of Emergency Planning in response to questions submitted by the vice chairman subsequent to the hearing.

1. Question. Could you tell us something about the operation of the Resource Evaluation Center?

Answer. The National Resource Evaluation Center is an interagency activity administered by the Office of Emergency Planning. Its mission is to provide certain kinds of statistical and analytical support for emergency planning and

preparedness—not only in the Office of Emergency Planning, but also in other Federal executive departments and agencies. NREC does not try to perform any of the various kinds of analyses which a single department or agency can perform more efficiently and effectively for itself. Instead it focuses its attention on analytical tasks which can be performed more efficiently and effectively on a collective basis than on an individual agency basis. It utilizes a large computer in conducting these complex evaluations.

The analytical requirements which many agencies have in common and which NREC endeavors to meet include requirements for the following types of estimates.

1. Estimates of the postattack status of the population and resources of the United States after any hypothetical or actual attack on the United States.

2. Estimates of the hazards at particular places and the hazards facing particular classes of resources with consideration given to the whole spectrum of plausible attacks against the United States.

3. Estimates of requirements for various kinds of goods essential to civilian survival following any nuclear attack on the United States and estimates of the probable availability of supplies sufficient to meet such requirements in each area of the country during each of several time periods.

4. Estimates of production goals which should be established for each industry after any attack on the United States with due account being given to—

(a) National objectives and priorities.

(b) Levels of surviving resources (and especially the postattack imbalances).

(c) Industrial interdependencies.

5. Estimates of the magnitudes and timing of industrial shortages under conditions of hypothetical or actual limited war and the impacts of such shortages under planned or assumed defense production programs.

6. Estimates of the impacts of alternative public programs and assumptions on the strength and resilience of the economy as a mobilization base.

To meet these requirements for estimates, NREC has developed and is using a number of analytical systems, most of them designed to take advantage of the power and speed of electronic computers and the logic of modern techniques of integrated systems analysis.

Uses of these analytical systems require large masses of data. For these purposes, over 800,000 resource records and over 100,000 factor records were developed and are maintained by NREC with the support of many of the established statistical collection programs of Government. Also, NREC draws extensively upon the research programs of Government and private organizations. Although most of the procedures for developing these estimates have been completed, suitable procedures for preparing several of the estimates are still being formulated.

The NREC staff is supplied by approximately 25 Government departments and agencies. NREC maintains close working relationships with the National Civil Defense Computation Facility and the National Military Command System Support Center. Internationally, NREC collaborates closely with the Emergency Measures Organization of Canada and to a lesser extent with the British Home Office, the Emergency Preparedness Staff at NATO headquarters in Paris and the SHAPE Technical Center at the Hague.

2. Question. In making determinations for stockpile objectives, to what extent do you rely on other departments and agencies?

Answer. The Office of Emergency Planning places heavy reliance on other Government departments and agencies in determining objectives for materials in the national stockpile.

Requirements for materials are estimated for OEP by the Departments of Defense, State, Commerce, and, for certain agricultural materials, Agriculture. Supplies of materials are estimated by the Departments of Commerce and the Interior. These estimates are reviewed by commodity advisory committees whose members are technical experts drawn from Government agencies.

Finally, a proposed stockpile objective is reviewed by the Interdepartmental Materials Advisory Committee, which is chaired by OEP. Its members come from the following departments and agencies: Departments of State, Defense, the Interior, Agriculture, Commerce, and Labor, General Services Administration, Agency for International Development, and the National Aeronautics and Space Administration. In addition to the members, there are observers on this committee from the Atomic Energy Commission, the Bureau of the Budget, and the Small Business Administration.

3. Question. Could you describe the procedure which the Department of Defense follows in determining the military requirements for materials?

Answer. The Defense segment of the total mobilization requirement is computed by the military departments, first, in terms of the weapon systems and end

items needed to equip and support the prescribed level of forces for the types of missions to be performed. In computing these requirements, it identifies the quantity of weapons—ships, planes, missiles, tanks, guns, et cetera—and supporting components and parts, which are required for the emergency, and deduct the full quantities which are planned to be in the hands of its forces and in its depots at the outset of the emergency. The remainder then represents the quantities which must be produced after the beginning of the emergency, and for which adequate production capacity, including raw materials, must be available during the emergency. It is this remainder that is then translated by the Department of Defense into requirements for basic materials—such as plates, sheets, bars, et cetera—which requirements are forwarded to OEP for final translation into raw materials. It should be noted that only in a few instances does it actually state a requirement for stockpile materials in the same form as that which is stockpiled. Thus it is necessary for the civilian agencies, principally the Department of Commerce and the OEP, to convert the data it furnishes into terms of stockpile materials. Requirements for brass, for example, are converted into the equivalent need for copper and zinc; and requirements for steel are converted into the equivalent need for manganese, chromite, molybdenum, and nickel.

This is a complex and comprehensive planning process which requires the merging of facts and expert judgments from many sources of Government, and in which the Department of Defense is but one of the major contributors.

4. Question. To what extent does the Office of Emergency Planning conduct studies to determine whether new materials should be added to the stockpile list?

Answer. The Office of Emergency Planning attempts to keep under surveillance the mobilization supply-demand situation for all new materials as well as new uses of materials currently in the national stockpile. A formal reporting system whereby the Departments of Defense, Commerce, and the Interior set forth their ideas as to possible new uses for approximately 50 materials, including the exotic and high-temperature materials. This had to be abandoned early in 1965 because the Department of Defense stated it could not continue the report. Actually, little information was developed in these reports which led to the addition of materials to the stockpile. The bulk of the information furnished OEP concerned experimental uses of materials, and not actual production uses which provide the basis for firm requirements.

As reported in our testimony (p. 20), we added four materials to the stockpile during the last fiscal year because of new requirements or changed supply. They were quinine, thorium, titanium sponge, and silver.

5. Question. What steps are being taken to acquire silver for meeting the stockpile objective that was established recently?

Answer. None. The Treasury Department is holding aside a sufficient quantity of its inventory of silver to cover the stockpile objective.

6. Question. Does our disposal policy require that we sell materials in excess of conventional war requirements before the requirements for nuclear war and reconstruction are known?

Answer. The Executive Stockpile Committee set forth the policy "that the maximum objectives for conventional war should be used to determine the surplus of each material for which disposal plans should be developed."

It is believed that this is a conservative policy, because the surpluses of many materials are large, and the disposal program extends over a number of years.

The nuclear war stockpile objectives will be completed by June 30, 1966. In the event any nuclear war objective is larger than the conventional war, the surplus materials will be withdrawn immediately from the disposal program.

7. Question. Has any thought been given to exchanging materials in surplus supply for other materials in short supply?

Answer. We have given this question considerable attention over the past few years and have found no legal basis for taking such action. We are giving consideration to seeking this authority in the language of General Services Administration appropriation request for fiscal year 1967. Currently the language permits us to upgrade and rotate materials by payment in surplus materials, but not to exchange.

8. Question. Did we sustain a loss on the surplus materials which were sold in the last fiscal year, or did we make a profit?

Answer. According to the General Services Administration, we made a profit of over \$50 million on sales of approximately \$430 million.

9. Question. What progress has been made in the continuity of government program and in the passage of emergency legislation by the States?

Answer. The State continuity of government program consists of suggested legislation covering nine objectives. The objectives are listed below along with the number of States in which each has been approved.

<i>Objectives</i>	<i>States in which approved</i>
Constitutional amendment.....	33
Chief executive succession.....	39
Other executive succession.....	29
Legislative succession.....	24
Judicial succession.....	18
Local government succession enabling act.....	34
State government emergency relocation.....	36
Local government relocation enabling act.....	31
Records preservation and management.....	20

A survey of the States has just been completed to determine which of the objectives not yet achieved are necessary to assure adequate preparation for continuity of government and can be expected to be approved during legislative sessions of 1966 and 1967. It is intended that this program will be completed by the end of the 1967 State legislative sessions.

10. Question. Are there problems and bottlenecks which would be likely to occur in the event of stepped-up mobilization?

Answer. We cannot foresee at this time any specific areas of problems or bottlenecks which might result from stepped-up mobilization.

There are, however, a number of problem areas which we are giving close surveillance. If these became bottlenecks, we expect to consult with the Joint Committee on Defense Production immediately in order that the most equitable solutions may be found as rapidly as possible.

