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# NOMINATIONS—1970

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## HEARINGS

BEFORE THE

## COMMITTEE ON COMMERCE

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## UNITED STATES SENATE

### NINETY-FIRST CONGRESS

SECOND SESSION

ON

NOMINATIONS OF

JUNE 30, 1970

W. DONALD BREWER, TO BE AN INTERSTATE COMMERCE  
COMMISSIONER; CAPTAIN WILLIAM A. JENKINS AND  
CAPTAIN AUSTIN C. WAGNER, TO BE REAR ADMIRALS, U.S.  
COAST GUARD

JULY 16, 1970

DR. CLAY T. WHITEHEAD, TO BE DIRECTOR, OFFICE OF  
TELECOMMUNICATIONS POLICY

AUGUST 19, 1970

ROBERT McLELLAN, TO BE ASSISTANT SECRETARY OF  
COMMERCE

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# CONTENTS

## CHRONOLOGICAL LIST OF WITNESSES

JUNE 30, 1970

	Page
Brewer, Donald, statement by-----	7
Biographical sketch-----	1
Allott, Hon. Gordon, U.S. Senator from Colorado-----	2
Dominick, Hon. Peter H., U.S. Senator from Colorado-----	3
Bender, Adm. Chester R., Commandant, U.S. Coast Guard, relative to promotions of Capt. William A. Jenkins and Capt. Austin C. Wagner, to the rank of rear admiral-----	4
Biographical sketch of Captain Jenkins-----	5
Biographical sketch of Captain Wagner-----	7

JULY 16, 1970

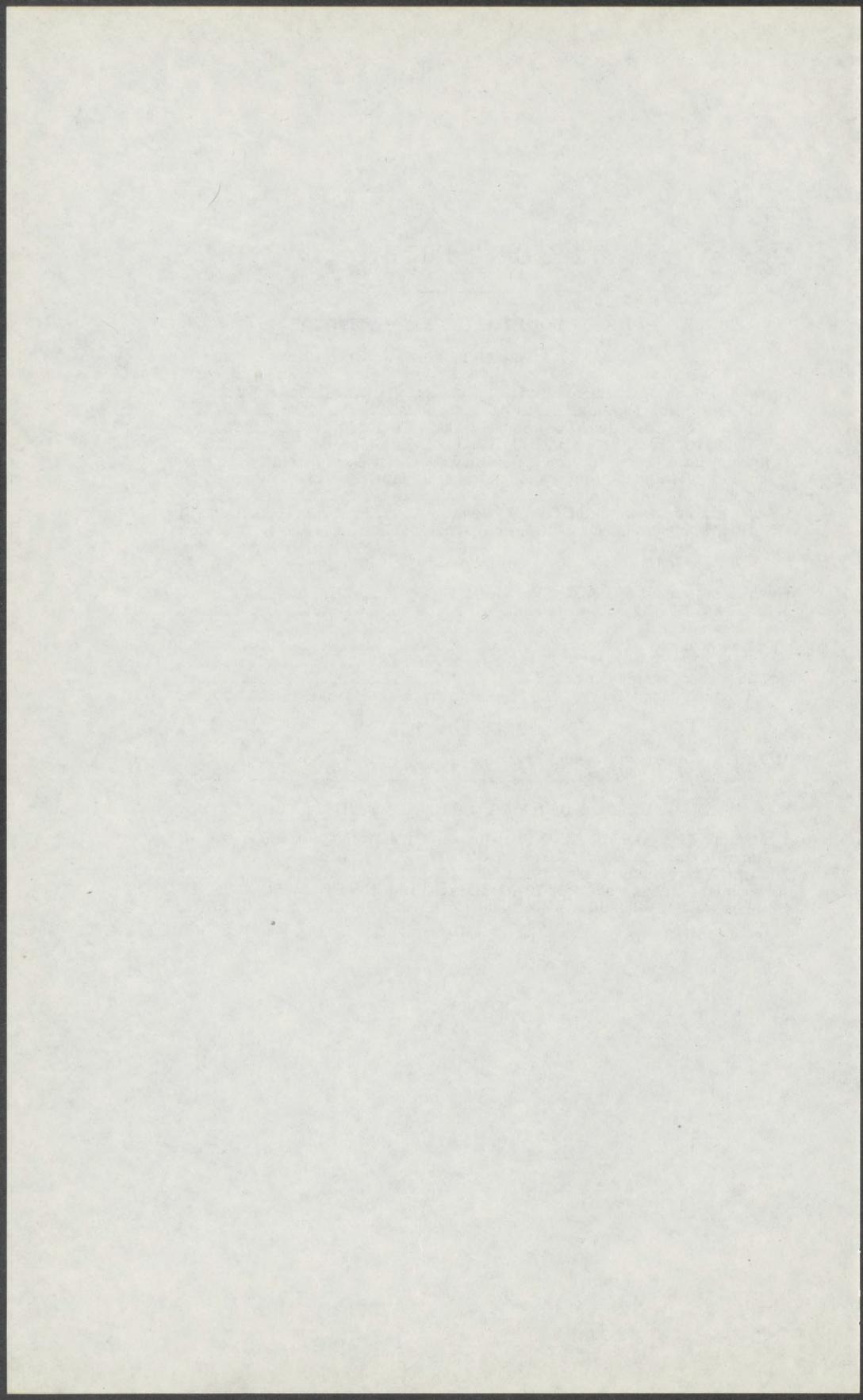
Opening statement by Senator Pastore-----	19
Whitehead, Dr. Clay T., statement by-----	29
Letter of July 16, 1970-----	32
Biographical sketch-----	33
Dole, Hon. Robert, U.S. Senator from Kansas-----	18
Prepared statement-----	19
Murphy, Hon. George, U.S. Senator from California-----	17

AUGUST 19, 1970

McLellan, Robert, statement by-----	36
Biographical sketch-----	35

### ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

Brotzman, Hon. Donald G., U.S. Representative from Colorado, letter of June 19, 1970-----	4
Duncan, Val, summary report-----	56
Reorganization Plan No. 1 of 1970, message from the President-----	21
Shipley, Carl L., Republican National Committee, letter of July 6, 1970--	19



**NOMINATION OF W. DONALD BREWER, OF COLORADO,  
TO BE AN INTERSTATE COMMERCE COMMISSIONER  
FOR A TERM OF 7 YEARS EXPIRING DECEMBER 31,  
1976, AND PROMOTIONS OF CAPT. WILLIAM A. JEN-  
KINS AND CAPT. AUSTIN C. WAGNER, U.S. COAST  
GUARD, TO THE RANK OF REAR ADMIRAL, U.S. COAST  
GUARD**

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TUESDAY, JUNE 30, 1970

U.S. SENATE,  
COMMITTEE ON COMMERCE,  
*Washington, D.C.*

The committee met at 9:35 a.m. in room 5110, New Senate Office Building, Hon. Vance Hartke presiding.

Present: Senators Hartke, Moss, Cotton, Pearson, Baker and Cook.

Senator HARTKE. Good morning, ladies and gentlemen. The hearing this morning is for the purpose of considering the nomination of W. Donald Brewer of Colorado to be an Interstate Commerce Commissioner, and also for the promotion of two captains, Capt. William A. Jenkins and Capt. Austin C. Wagner, of that wonderful organization, the U.S. Coast Guard to the rank of rear admiral. And I understand Commandant Chester Bender is here with them.

Senator COTTON. Mr. Chairman, could I suggest that since we have two Senators here to testify on behalf of Mr. Brewer we take his nomination up first and then take care of the Coast Guard promotions?

Senator HARTKE. All right. The biography of Mr. Brewer will be made a part of the record, and the financial statement will be received in the customary fashion.

(The biography follows:)

**BIOGRAPHICAL SKETCH OF WILLIAM DONALD BREWER**

William Donald Brewer has served as Deputy Administrator of the Small Business Administration from October 2, 1969, to the present. He had served as Acting Deputy Administrator of the agency since early August.

Prior to his SBA service, Mr. Brewer served as Federal cochairman of the Four Corners Regional Commission, an agency created to map and carry out long-range programs to stimulate economic growth in a 92-county area of Arizona, Colorado, New Mexico, and Utah. Mr. Brewer was appointed top Federal representative on the Commission by President Nixon on February 20, 1969, and was confirmed by the Senate on April 3.

He is a former Colorado businessman and a veteran of 29 years service with the Post Office Department, including 6 years as Regional Director of the Department's Denver office. He headed the Denver region which includes more than 1,400 post offices in the Four Corners States and Wyoming, from 1955 to 1961. He presently owns a real estate business in Denver.

From August 1961 to February 1963, Mr. Brewer was executive assistant to the president of Western Bancorporation of Los Angeles, a firm owning 26 banks.

Mr. Brewer served as President of the O.K. Tire and Rubber Co. of Littleton, Colo., from 1963 to 1968. The Littleton firm is a tire manufacturer with 1,000 franchised dealers and 18 retail outlets. In 1966 it was merged with Ashland Oil and Refining Co. of Ashland, Ky., and Mr. Brewer served as executive assistant to the chairman of the board of Ashland Oil.

He began his career with the Post Office Department in 1933 as a rural carrier in Kentucky; was a postal inspector from 1943 to 1953; and from 1953 to 1955 was decentralization officer, assisting the Post Master General in establishing the Department's 15 regional offices.

Prior to reentering Government service in 1969, Mr. Brewer served as director, Rose Manufacturing Co. of Denver, First National Bank of Englewood, Colo., Colorado State Bank, Denver, chairman of the board O.K. Tire Stores, Canada, Ltd., President, Arapahoe Advertising Agency, Littleton, Colo., assistant chairman of National Finance Committee Nixon for President, and executive chairman of Republican National Finance Committee. He has served as trustee of Ezra M. Bell Estate, president of Denver Federal Businessmen's Association, member of American Society of Public Administration, American Management Association, vice chairman, Money Credit Capital Committee of National Association of Manufacturers and is presently a trustee of Hiff School of Theology in Denver. Methodist, Mason, and Rotarian. Presently lay leader, trustee and member of the official board of Trinity Methodist Church in Denver. He is active in religious and civic affairs and has received numerous honors and commendations. He is listed in World Who's Who in Finance and Industry, Who's Who in Methodism, and Who's Who in the West.

Mr. Brewer was born in Lewis County, Ky., on March 19, 1912, and is married to the former Lena Catherine Hickerson of Wallingford, Ky. The Brewers make their home at 7121 Old Dominion Drive, McLean, Va., and also maintain a residence in Denver. They have one son, William D. Brewer, Jr., a resident of Denver, Colo.

Senator HARTKE. We are pleased to have Senators Dominick and Allott here to present the nominee.

#### STATEMENT OF HON. GORDON ALLOTT, U.S. SENATOR FROM COLORADO

Senator ALLOTT. Mr. Chairman and members of the committee: It is my pleasure to introduce on behalf of myself and Senator Dominick a longtime friend and resident of the State of Colorado, Mr. Donald Brewer, who is President Nixon's nominee to the Interstate Commerce Commission.

Mr. Brewer has served as Deputy Administrator of the Small Business Administration since October of last year. Prior to that Mr. Brewer served as Federal cochairman of the Four Corners Regional Commission, during which time he dealt in some depth with the transportation problems of a 92-county area of Arizona, Colorado, New Mexico and Utah.

Mr. Brewer comes to you well qualified for this position. He has had many responsible administrative positions, both within and without the Government. His experience in the Post Office for which he was a regional director in Denver from April 1955 to March 1961 has given him first-hand insight into transportation problems of all kinds involving airlines, railroads, trucks, and buses.

Further by way of background, from August 1961 until February 1963 Mr. Brewer served as executive assistant to the president of Western Bancorporation of Los Angeles, a corporation owning 27 banks. His unique insight into financial matters will make him a wel-

come addition to the Interstate Commerce Commission, which must rule upon many complex financial transactions.

From May 1963 until his appointment as Federal cochairman of the Four Corners Commission, Mr. Brewer was president of the O.K. Tire and Rubber Co. in Denver, Colo., a nationwide firm with a thousand franchised dealers throughout the country and 18 company owned retail outlets.

Mr. Brewer has also had extensive experience with various business and professional organizations. He is married and has one son, who resides in Denver.

I could hardly be more pleased with this nomination, knowing Don Brewer as I do, and having had an opportunity to observe firsthand his knowledge and his experience. I enthusiastically recommend his selection and confirmation as Commissioner of the Interstate Commerce Commission.

It is my honor, together with Senator Dominick, who has a statement also, to present him to this committee.

Senator HARTKE. Thank you. Senator Dominick?

#### STATEMENT OF HON. PETER H. DOMINICK, U.S. SENATOR FROM COLORADO

Senator DOMINICK. Mr. Chairman, Senator Cotton, distinguished members of the committee: It is a pleasure to be back with you, I might say. I have missed many of my companionships which I had on the Commerce Committee when I served on it before.

I have no prepared statement in addition to what Senator Allott already said. But I want to thoroughly endorse this nomination.

I had the pleasure of working with Mr. Brewer while he was Deputy Administrator of the Small Business Administration as a member of the Select Committee on Small Business. And I know that he had a great deal of imagination and initiative in trying to get the administrative matters of that agency more under control.

I also have known Mr. Brewer personally for many many years and can certainly testify as to his ability and his character. I have no hesitation in recommending him to you.

Senator HARTKE. Thank you, Senator.

Senator Baker, Senator Pearson, any questions?

Senator BAKER. No, Mr. Chairman, I have nothing, except this comment: I have known Mr. Brewer as Senator Dominick has, when he came before the Select Committee on Small Business and also before the Economic Development Subcommittee of the Public Works Committee where he has appeared many times. I am delighted to see you here in this capacity and facetiously I might point out that I introduced and I believe Senator Pearson and other members of this committee have cosponsored a proposal to authorize a commission to consider the abolishment of the ICC.

Senator PEARSON. I have no questions, Mr. Chairman.

Senator HARTKE. Senator Cotton?

Senator COTTON. Not at this time, except to say we appreciate both of the Colorado Senators getting up this morning, after so late a session last night and coming in to give us their recommendations for Mr. Brewer.

Senator ALLOTT. Thank you very much.

Senator HARTKE. Thank you for coming gentlemen. I also have a letter from Congressman Brotzman to insert in the record.

CONGRESS OF THE UNITED STATES,  
HOUSE OF REPRESENTATIVES,  
Washington, D.C., June 19, 1970.

HON. WARREN G. MAGNUSON,  
U.S. Senator,  
Washington, D.C.

DEAR SENATOR MAGNUSON: This is to advise you that I am acquainted with Mr. W. Donald Brewer who has recently been nominated for an appointment to the Interstate Commerce Commission by President Nixon.

It is my understanding that in the near future you will be holding hearings regarding his nomination.

I first knew Mr. Brewer as a member of the "Federal Family" in the Denver Metropolitan Area. At that time he was serving as Regional Director of the Post Office Department and I was the U.S. Attorney for the District of Colorado. From my observation, he was a dedicated, able public servant, combining innovation with pragmatism in the discharge of his duties.

At a later period I also had the opportunity to observe him in his capacity as president of the O.K. Tire and Rubber Company and as an outstanding and selfless community leader in the Denver Metropolitan Area. He gave immeasurably of his time to community activities and was highly regarded for his many contributions.

In short, I believe him to be an experienced and qualified public servant and believe he will do an excellent job as a member of the Interstate Commerce Commission.

If I can provide further information feel free to call on me.

Very truly yours,

DONALD G. BROTZMAN,  
Member of Congress.

Senator HARTKE. Now Mr. Brewer, if you would stand aside for a few moments, we will consider the Coast Guard nominations at this time.

Commandant Bender.

**STATEMENT OF ADM. CHESTER R. BENDER, COMMANDANT OF  
THE U.S. COAST GUARD, RELATIVE TO PROMOTIONS OF CAPT.  
WILLIAM A. JENKINS AND CAPT. AUSTIN C. WAGNER TO THE  
RANK OF REAR ADMIRAL**

Commandant BENDER. Mr. Chairman and members of the committee: I am Adm. Chester R. Bender, Commandant of the Coast Guard.

I welcome the opportunity to speak on behalf of Captain Wagner and Captain Jenkins, whose nominations to rear admiral are before you this morning.

One vacancy in our flag rank will occur as a result of an unexpected retirement, and as a result of our admiral officer recount as required by title 14, United States Code, we are authorized an additional flag billet. The number of flag officers, however, will remain the same through the recent retirement of Rear Admiral Murphy, who was an extra number.

Our total number of flag officers then will be 27, including one admiral, one vice admiral, and 25 rear admirals.

The biographies of Captain Wagner and Captain Jenkins have already been transmitted to you, so I will not review their careers in detail.

I would point out that both of these officers have served in a variety of assignments ashore and afloat throughout the Coast Guard and have great depth of administrative and operational expertise. Both are completing assignments in positions of great responsibility.

Captain Wagner is now under orders to report to Coast Guard Headquarters, where he will assume duties as chief, office of boating safety.

Captain Jenkins is presently in Cleveland, Ohio, preparing to assume duties as commander of the Ninth Coast Guard District. Captain Wagner is with me today, but Captain Jenkins is presently in the process of relieving the commander in the ninth district and we thought it not feasible to have him with us. We have earlier advised the committee in this regard.

I would like to speak a bit from personal experience concerning these two officers whom I have known for 20 to 25 years.

Captain Wagner served with me when I was superintendent of the Coast Guard Academy, when he was then commandant of cadets and I found him to be not only an able but very energetic and willing officer.

In the case of Captain Jenkins, he succeeded me after a brief interval 20 years ago as aide and pilot to the Commandant of the Coast Guard and I have continued to hear nothing but good reports on him throughout his career.

In recent years he has developed quite a reputation in the field of oil spill pollution control and prevention and has been given an award for this within the past several months.

I can very sincerely say both of these officers, in my opinion, well warrant your consideration for promotion to the grade of rear admiral.

Senator HARTKE. Thank you, Admiral.

Do you have a statement, captain?

Captain WAGNER. No, sir.

Senator HARTKE. Do you have any questions?

Senator COTTON. No questions.

Senator BAKER. No questions.

Senator PEARSON. No questions.

Senator HARTKE. Thank you, gentlemen.

(The biographies follow:)

#### BIOGRAPHICAL SKETCH OF CAPT. WILLIAM A. JENKINS, U.S. COAST GUARD

William A. Jenkins was born on November 2, 1917, at Kansas City, Mo., where he graduated from Central High School in 1936, and received an A.S. degree from Kansas City Junior College in 1938.

He was graduated from the U.S. Coast Guard Academy, New London, Conn., with a B.S. degree in engineering and with a commission of ensign on December 19, 1941, a few days after the bombing of Pearl Harbor.

During World War II, he first served as watch officer and deck officer on board the cutter *Onondaga* out of Seattle, Wash. In October 1942, he took charge of 83-foot patrol vessels operating on coastal convoy duty and submarine hunting out of the Coast Guard Station, Sandy Hook, N.J. From May to September of 1943 he was assigned to the ordnance and readiness section at the 3d Coast Guard District office in New York as training officer for the picket patrol forces.

Assigned next to flight training at the Naval Air Station in Memphis, Tenn., and Pensacola, Fla., he received his wings from the latter in January 1944. During his first tour of duty as aviator at the Coast Guard Air Station, San Francisco, he piloted aircraft on air-sea rescue missions, was in charge of flight crews engaged in racon calibrating and loran accuracy checks, and was

in charge of the station's air-sea rescue boats. In addition, he served as navigator and watch officer.

While next assigned at the Coast Guard Air Station, Brooklyn, N.Y., from June 1946 to October 1949, he served as assistant operations officer and acting flight commander. That was followed by a stint as executive officer, operations officer, and acting flight commander at the Coast Guard Air Detachment in Argentina, Newfoundland, which supplied the aircraft for the annual international ice patrol.

He next was stationed in Washington, D.C., as personal aide and pilot to the U.S. Coast Guard commandant from July 1950 to October 1954. At that time he was ordered to Hawaii where he first served as watch officer and operations officer as well as executive officer at the Coast Guard Air Detachment on Barber's Point until July 1956. He then served as chief, search and rescue division and as senior controller of the rescue coordination center at the 14th Coast Guard District office in Honolulu until August 1957.

While next stationed at the Coast Guard Academy for 4 years, Captain Jenkins served as head of the navigation and aviation department as well as assistant commandant of the cadets. In July 1961, he assumed command of the Coast Guard Air Detachment at San Juan, Puerto Rico, to which was added the duty of section commander, Greater Antilles section, in January 1963. In February of 1964, he was named commander of the Greater Antilles section, which includes command of the Coast Guard base and captain of the port office in San Juan and the role of search and rescue coordinator in that sector.

In August 1964, he returned to Washington to enroll at the National War College. After graduating in June 1965, he became chief, law enforcement division and program manager in the office of operations at headquarters. While in that post he became intensely involved in the pollution control problems. Some of his efforts in this respect included serving as chairman of an interagency oil spillage study group to explore means of coping with major oil pollution problems, sponsoring an investigation of sunken tankers as potential sources of pollution, representing the United States at international meetings of the North Sea countries on oil pollution contingency planning in Hamburg, Germany—1967 and 1968. He represented the Coast Guard on a study group panel which produced the major report called, "Oil Pollution—A Report to the President," and served as member of an interagency group which developed the current national multiagency oil and hazardous materials contingency plan. Captain Jenkins was cited for these and other achievements in that field when he was awarded the Coast Guard Commendation Medal in 1968.

He was presented a Gold Star in lieu of a Second Coast Guard Commendation Medal for meritorious achievement in the performance of duty while serving at headquarters as alternate department of transportation member of the committee on multiple use of the coastal zone of the National Council of Marine Resources and Engineering Development from August 1967 to June 1969.

Captain Jenkins served as deputy chief, office of operations at headquarters from June 1968 to June 1969, when he was transferred to Boston, Mass., to become Chief of Staff of the First Coast Guard District.

In addition to the first Coast Guard Commendation on Medal and the Gold Star in lieu of a Second Coast Guard Commendation Medal, Captain Jenkins has the following World War II campaign service medals and ribbons: American area, American defense, As'atic-Pacific, World War II victory. He also has a medal for the Cuban missile crisis.

Following is a resumé of his appointments in rank: Ensign, December 19, 1941; lieutenant (jg), October 2, 1942; lieutenant, May 25, 1943; lieutenant commander, October 23, 1945; commander, July 1, 1956; captain, July 1, 1963. Nominated for rank of rear admiral, June 5, 1970.

During his years as a cadet from August 1938 to December 1941—shortened from 4 years to 3 because of the war emergency, Captain Jenkins was associate editor of the cadet year book, "Tide Rips—Class of 1942."

Captain Jenkins' wife is the former Frances Overin of Rockville Center, N.Y., a graduate of Mt. Holyoke College. They have two children, William O., born July 28, 1949, and Judith, March 13, 1951.

Added note: Nominated by the President June 5, 1970, for the permanent rank of rear admiral; awaiting confirmation of the Senate.

Under orders to become Commander, Ninth Coast Guard District, Cleveland, Ohio, effective July 1, 1970.

## BIOGRAPHICAL SKETCH OF CAPT. AUSTIN C. WAGNER, U.S. COAST GUARD

Born on May 24, 1919, in New York, Austin C. Wagner attended Mount Vernon High School, Mount Vernon, N.Y., Severna School, Severna Park, Md., and Lehigh University, Bethlehem, Pa.

He graduated from the U.S. Coast Guard Academy, New London, Conn., with a B.S. degree and a commission as ensign on December 19, 1941, shortly after the bombing of Pearl Harbor.

During World War II, he served his first assignment on board the Coast Guard combat cutter *Campbell* on North Atlantic convoy escort duty until June 1943, during which the cutter attacked four submarines and sank a fifth in February of 1943. During the remainder of the war he served first as executive officer and then as commanding officer of the destroyer escort U.S.S. *Rhodes* (DE-384) in the North Atlantic. He received a commendation ribbon for outstanding duty while commanding that vessel during the rescue of six survivors from oil and gasoline surface fires resulting from the collision between the tankers *Nasbulk* and *Saint Mihiel* on April 9, 1945.

Between August 1945 and August 1948, he served as adviser and instructor in the establishment of a Coast Guard for the Korean Government. During the following 2 years, he was director of the Coast Guard Auxiliary and recruiting officer in the Chicago area of the Ninth Coast Guard District. In September 1950, he became executive officer of the Coast Guard cutter *Deater*, a 311-foot ocean station patrol vessel operating out of Alameda, Calif.

From September 1951 to July 1955, he was stationed at the Coast Guard Academy as instructor of seamanship and navigation and as sailing coach. He next commanded the 311-foot cutter *Castle Rock* out of Boston, Mass., on ocean station patrol in the North Atlantic until August 1957. At that time he was reassigned to the first district office in Boston as director of auxiliary and as public information officer.

In July 1960, he was assigned to Coast Guard Headquarters, Washington, D.C., where he first served as assistant chief and then as chief, special services division, office of personnel, for 4 years. His duties in that post dealt with medals and awards, morale and discipline, survivors benefits, and personnel security among others.

Captain Wagner served his next tour of duty as commandant of the cadets at the Coast Guard Academy from July 1964 to July 1967. At that time he assumed his post as commanding officer of the Coast Guard Base, St. George, Staten Island, N.Y.

In June 1968, he became commanding officer, Coast Guard Base, Governors Island, N.Y.

Captain Wagner's World War II campaign service medals and ribbons include the following: American Defense; American Area; European-African-Middle Eastern Area (with three battle stars); Asiatic-Pacific; Navy Occupation for his Korean service, as well as the Navy Commendation Ribbon. He also has the National Defense Service Medal and Ribbon.

He was promoted in rank as follows: Cadet, August 5, 1938; ensign, December 19, 1941; lieutenant (jg.), October 1, 1942; lieutenant, May 15, 1943; lieutenant commander, October 3, 1945; commander, June 1, 1956; captain, July 1, 1963.

Captain Wagner was married on August 7, 1942, to the former Elaine C. Wagner (correct) of Delmar, N.Y., a graduate of the Connecticut College for Women. They have three sons, Keith (Feb. 16, 1944); Cort (Dec. 10, 1949); Craig (March 24, 1951).

Nominated for rank of rear admiral, June 5, 1970.

## STATEMENT OF DONALD BREWER

Senator HARTKE. Mr. Brewer, do you have a statement you would like to make this morning?

Mr. BREWER. Thank you Mr. Chairman. I believe not.

Senator HARTKE. Mr. Brewer, we are involved in a time in which the Interstate Commerce Commission is the subject of some discussion, especially in light of the recent events concerning the Penn Central Railroad and the potentials of what may happen to some of the other railroads.

Can you tell me why you think you can make a valuable contribution to the Government by virtue of service on the ICC?

Mr. BREWER. Yes, thank you Mr. Chairman. I am delighted to have this opportunity to appear before you and to answer your questions.

I believe and hope that my experience in Government, many years of which was dealing directly with transportation problems, 10 years as a postal inspector throughout the United States and Alaska, as an investigator, and as an administrator for many years, as regional director of the Post Office Department with 1,400 post offices, 18,000 employees in the Rocky Mountain area that was facing very many difficult problems in the transportation of mail, I have ridden many RPO's, talked to many railroad people, negotiated contracts with many star route carriers, buses, and other means of transportation.

Following that, in the financial area as president of a corporation I can see it from the shippers' viewpoint, I know the problems of the small shipper, I know some of the problems of trying to get your products moved and in my company we had a fleet of our own common carrier trucks, private carrier trucks, which seems to me to be some indication of understanding of their problems.

In the last year I have spent a considerable amount of time dealing with transportation problems, particularly in the Four Corners area. I was able to develop a comprehensive plan, a long-range comprehensive plan for the Four Corners Commission.

Among the top priorities of that Commission was development of better transportation system for the underdeveloped areas of the 92-county area.

Based upon that I think maybe I would be able, hopefully, to gather together the right kind of information and assess it and make a judgment from it.

Senator HARTKE. Mr. Brewer, have you made any special studies concerning the recent circumstances surrounding the ICC's hearings we had here concerning oversight?

Mr. BREWER. Yes, I have read the hearings you presided over, and I certainly have looked into it as carefully as I could in the time I have had.

Senator HARTKE. Have you come to any conclusions about what changes, suggestions, or proposals, if any, you might have for the Interstate Commerce Commission?

Mr. BREWER. Well, I think it would be probably a little presumptuous at this time to say I have come to any definite conclusions.

I have been trying to get an input, as much information as I could. I do believe in all sincerity you have made a valuable contribution in your hearings, from the consumer viewpoint, from the shipper viewpoint, from all viewpoints. I think we are in a crisis in transportation and I would hope that working with the other commissioners I would be able to make a contribution by finding solutions to some of these vexing problems.

Senator HARTKE. Have you studied the ICC staff study on conglomerates?

Mr. BREWER. No, I have not. I do have some views on conglomerates which I will later on try to use when I get on the Commission.

Senator HARTKE. What are some of those views?

Mr. BREWER. I think very careful studies have to be made as to whether conglomerates are good or bad, whether they solve anything or whether they don't. I am reminded, as just a background thought, of the Bank Holding Act of 1956, which was created when I was with Western Bancorporation and I have some feeling of whether or not a carrier company should have other interests.

I would want to find out whether there was disinvestment in the railroads, diverting funds into other areas. I don't know this. But these are some of the problems we have, some of the questions I would want to ask. I do not pose as being knowledgeable in this area at all, but I would want to ask those questions and try to get the answers.

Senator HARTKE. Have you read the Nader report on the ICC?

Mr. BREWER. The testimony. I have not read the report in detail, but I read the transcript of his testimony.

Senator HARTKE. Do you have any views as to whether or not there should be a public counsel for the ICC?

Mr. BREWER. The ombudsman type thing?

Senator HARTKE. Well, public counsel, call it what you will.

Mr. BREWER. Well, that is what we use. I don't have any strong views on that. I would like to find out a little bit more about it.

It is my impression that the ICC should be the advocate of the consumer first, and the shipper and of the carrier, keeping in mind all the philosophy of the national transportation policy, which seems to cover rather well and very broadly.

I cannot say at this point whether I have a strong opinion, I do not have, as to whether or not it should have a public counsel.

Senator HARTKE. This appointment is for 7 years, although the vacancy has been open since the first of January of this year, so that means probably a little less. But it is your intention to serve out the complete term?

Mr. BREWER. Yes, sir.

Senator HARTKE. I might remark that the same would apply to Mr. Whitman about the Federal Railroad Administration. I understand he is leaving very shortly.

Mr. BREWER. In view of Senator Baker's statement a few moments ago, I might not be able to serve out the 7 years.

Senator BAKER. Let me hasten to say to the witness that I was being partly facetious. I think as you probably know, that the bill I introduced was to authorize the creation of a commission to consider the feasibility of a consolidation of functions of the CAB, the Maritime Commission, and the ICC. I couldn't resist that jibe, because I have such an admiration for this witness, Mr. Chairman, having had him before other committees.

Senator HARTKE. Senator Cotton, do you have any questions?

Senator COTTON. Yes, I have a few questions, Mr. Chairman.

First may I say that I have gone into your record with some care Mr. Brewer, and had an interesting conversation with you. I am personally very much impressed by your background and capability.

Mr. BREWER. Thank you, Senator.

Senator COTTON. Now I assume you have filed with the committee, a list of your investments. As is our custom, that list will not be put into the record of this proceeding but will be retained in the files of the committee.

Mr. BREWER. Yes, sir.

Senator COTTON. That listing of course is open to the inspection of anyone desiring to do so. I have it here.

First, may I ask you if from your point of view you have any investments that might embarrass you or might be regarded as a possible conflict of interest in relation to your duties as an Interstate Commerce Commissioner?

Mr. BREWER. The answer to that is no at this time. I need to qualify that by saying I have looked into this very carefully and in my letter to the Chairman of May 22, 1970, I detailed all of my holdings.

In that I said I would sell Williams Bros. upon my confirmation and I will, because it is almost exclusively a pipeline company.

Senator COTTON. A what?

Mr. BREWER. Williams Bros., a small company in Oklahoma. I will sell that.

Senator COTTON. What did you say the nature of that company was?

Mr. BREWER. It is a pipeline company. It deals with oil pipelines as well as gas. I will sell that as I stated in my letter promptly upon confirmation.

The other one has to do with Ashland Oil and Refining Company of Ashland, Ky.

I have looked into that very carefully and I have discussed the matter with the General Counsel of the Interstate Commerce Commission as well as my own private counsel. And the answer is that there is not sufficient holdings here to have any great impact. In fact, the de minimus rule as articulated by the ICC General Counsel's office upholds this.

The shares of Ashland Oil are traded on the New York Stock Exchange, and as of September 30, 1968, there were 5,335 holders of shares of preferred stock, 47,992 holders of shares of common stock. Based on public information available to me, and upon examination of Moody's Industrial of July 1969, Ashland Oil, Inc. had on September 30, 1968, a total of 789,148 shares of \$2.40 cumulative convertible preferred stock outstanding of which I hold 2,733 shares and that would indicate that my holdings are very very low. In fact my total holdings of Ashland Oil would be .0001.

The company had outstanding as of September 30, 1968, 20,426,749 shares of common stock of which I hold 1,465 shares and this would again be very de minimus, far less than  $\frac{1}{10}$  of 1 percent. Accordingly describing my holdings in that company as minimal could be considered as an overstatement.

Examination of the statements of the Ashland Pipe Line Company, the pipeline subsidiary of Ashland Oil, Inc. for the year ended December 31, 1969, as submitted to the Interstate Commerce Commission, indicates that it had net assets of \$70,310,861. As to total net assets reported by Ashland Oil, Inc. on a consolidated balance sheet as of September 30, 1969, they were \$846,412,000. This would indicate the pipeline company contributes to the consolidate company approximately 8 percent of the total assets of all the companies. The parent company reported in a consolidated income account for the fiscal year ended September 30, 1969, net sales and revenues of \$1,151,499,000 and net income after taxes of \$52,343,000. The subsidiary reported for the

year ended December 31, 1969, operating revenues of \$14,326,709 and net income after taxes of \$4,628,375.

Accordingly it would appear that the subsidiary pipeline company contributes to the consolidate company approximately 1 percent of the revenues and 9 percent of the net income of all the companies.

So I am not aware of any other holdings that are subject to the Commission and I would disqualify myself immediately should Ashland Oil Company or any of its subsidiaries become involved in anything before the Commission.

The pipeline regulation, I am told by members of the Commission, is mostly evaluation. Since 1961 only nine pipeline rate adjustments have been protested amounting to 0.00037, so it is mostly evaluation. But the advice I have from the General Counsel of ICC, who talked about the de minimus rule, is there is no way I could benefit myself by casting any kind of a vote in the matter.

Senator COTTON. I don't like to go into these matters too deeply because I think unfair inferences may be drawn, but I gather from your answer that: First, a very, very minimal part of the Ashland Company's activities are regulated by the Commission?

Mr. BREWER. Yes.

Senator COTTON. Second, your stock ownership is a very minimal amount proportionately to the outstanding stock of the corporation?

Mr. BREWER. Right.

Senator COTTON. And, third, it would be your intention to disqualify yourself from participating in any case which the Commission might have under consideration involving a pipeline?

Mr. BREWER. Right.

Senator COTTON. I think that attitude is entirely commendable. However, I don't like to see the situation arise where we start having members of a commission in a position where they must disqualify themselves from participating in certain classes of cases. I am not thinking of your situation, because it would be so infrequently that you would have to do it. But a Commission could get into a situation where this or that Commissioner would have to disqualify himself from almost every decision, which could develop into a situation that would be administratively intolerable.

I also gather that although your holdings in Ashland are very minimal compared with the total amount of stock outstanding in the company, they are rather substantial compared with your other holdings?

Mr. BREWER. Precisely.

Senator COTTON. And if you had to dispose of that stock, it would be a great personal sacrifice.

Mr. BREWER. A very great sacrifice at this point.

Senator COOK. May I say, Mr. Chairman, along that line, that in all fairness to Mr. Brewer, we Kentuckians are kind of partial to Ashland Oil, a Kentucky-based corporation. I have no idea at what price Mr. Brewer bought his stock, but knowing the activities of the market, he could be in a position that if he were forced to dispose of it, it would mean a very substantial loss at this time.

Senator COTTON. I wasn't suggesting that he dispose of his holdings in Ashland. I am sure that if we need any assurance about the respectability of the company it has been furnished by the Senator from Kentucky.

I am not suggesting this, but if it were suggested by any member of the committee or anybody else, would you consider putting this particular block of stock in a so-called "blind trust"?

Mr. BREWER. Yes, I have considered that, and I would be amenable to doing that. In my letter to the chairman I stated if the committee has other thoughts, I would be glad to get them so I could follow their advice. I would put it in trust if considered necessary.

I would like you to consider again that my ownership in Ashland Oil is 0.0001. And I do know that I, to answer your question directly, would put it in a bond trust.

Senator COTTON. If the committee when it considers your nomination in executive session, or if any appreciable number of the committee, not necessarily the majority, were to feel that you ought to put that stock in a "blind trust," you would have no objection?

Mr. BREWER. That is correct.

Senator COTTON. I believe you have an admirable background and broad general experience, which, although perhaps not pointed particularly at transportation, must have caused you to have a good deal to do with transportation.

Mr. BREWER. Precisely.

Senator COTTON. I understand that during your years as postal inspector, that when the field service of the Post Office Department was reorganized, you were one of a very few persons called in from the field to handle that reorganization?

Mr. BREWER. That reorganization was a recommendation of the Hoover Commission. Prior to that time there had been a Penrose Overstreet Commission report dating back to 1908 which recommended the Post Office Department be decentralized to the field.

Prior to that time even purchase of lead pencils had to come into Washington. And Washington was getting bogged down completely with letters and communications.

Postmaster General Summerfield called in 10 postal inspectors from the field—

Senator COTTON. Out of how many?

Mr. BREWER. Out of a thousand, to set up the first region in Cincinnati, Ohio, comprising the States of Indiana, Kentucky, and Ohio.

We operated that region for 5 months, getting the bugs out of it, and from then on we put in one region a month until we got the entire 15.

I served as decentralization officer of the Post Office Department in charge of that program for a while, before I took over as regional director in Denver. I served as acting regional director in Boston, San Francisco, and Atlanta and Denver and in Memphis during the days when we were training the new people.

It was the largest reorganization ever undertaken in the Post Office Department until that time, and probably the largest reorganization ever taken in Government with the exception of the military.

As a result there were 15 regions created throughout the country, a whole new concept, and I think it worked rather well.

Senator COTTON. Thank you. Now let me say this—this is no reflection upon you in any way, shape, or manner, because I am impressed with your record, and I certainly expect to heartily support your con-

firmation. However, I am very much incensed at your nomination to the Interstate Commerce Commission.

Prior to the expiration of the term of Commissioner Tierney who you will be replacing on the Commission if confirmed, the Commission was composed of two members from Maryland, one from Kansas, one from Florida, one from West Virginia, one from Georgia, one from Ohio, one from Texas, one from Illinois, one from California, one from Kentucky. Since the death of Commissioner Wallace R. Burke in June of 1969 and the nomination and confirmation of Robert C. Gresham of Maryland to serve the balance of his unexpired term, for the first time in many years there is not a single member of the ICC from the northeastern part of this country. And yet the problems of transportation in the northeast section of this country are very acute.

You probably have read in the papers or heard something about the difficulties of the Penn Central Railroad. The New Haven Railroad has been a problem for many years as has the Boston & Maine. We also have a central situation with respect to the development of high-speed surface transportation within the northeast corridor.

I have been serving on this committee many years, and I think that probably the State I represent together with Vermont have the least air service of any locality in the United States. I realize that air service is not a matter for the Interstate Commerce Commission, but with all of the problems of population, traffic, and commuter transportation within the cities in the northeast corridor, it is absolutely inconceivable to me, that any President or any administration would continue to leave the Interstate Commerce Commission without a member from New England.

I served notice of my concern at the last nomination hearing of ICC.

In view of your record of Government service and of business service, however, and with the efficiency which you have displayed, I can hardly bring myself in justice to vote against your confirmation.

But, I have told representatives of the White House I thought in rather definite language, and I shall tell them again in more definite language that as ranking Republican member of this committee I do not intend to allow them to continue to ignore the need for an Interstate Commerce Commissioner from the Northeastern section of the United States—New England, New York, New Jersey, Pennsylvania, that whole section.

And after all of the years I have put in on this committee we have two representatives on this committee from New England, and I am sure that Mr. Prouty feels as I do—if my own administration isn't willing to show the section we represent just consideration, the next time that there is a vacancy, I can promise them that there will be opposition to it even if they nominate St. Peter!

I have said so before. I have said so in this hearing. I have said so in private conversations with representatives from the White House. Yet it has been completely ignored. I may say so on the floor of the Senate. If I do make a statement on the floor of the Senate prior to your confirmation, I hope you will understand that it is not a reflection on you personally.

I think you will be a very competent member of the ICC. However, if, as it appears, the administration has written off the Northeast en-

tirely in nominating persons to the ICC I am not going to submit to it without a loud, long protest from now on.

So if you should hear some grumbling from me, it is not a reflection on you personally. I am thoroughly satisfied that you are so competent and your experience is so comprehensive that one in good conscience must vote for you.

And, I am personally happy to support you. But, for reasons I have stated, I am most unhappy and I am going to get more unhappy as time goes on. Somebody is going to come up here from the White House some day and want me to do something. I may find it necessary to do just the opposite in order to get my point across.

That is all, Mr. Chairman. Thank you.

Senator HARTKE. Thank you, Senator Cotton. I might say he does have credentials that you didn't mention, he was the assistant chairman of the National Finance Committee for Nixon for President in 1968 and was executive chairman of the GOP's financial committee, and I would imagine that these are two elements you might take into consideration.

Senator COTTON. Those are two very praiseworthy activities. But on the other hand, I don't know whether it is remembered or not that New Hampshire was the first State to go for Mr. Nixon in the first presidential primary.

Senator HARTKE. In the snows of New Hampshire, is that right?

Senator COTTON. Well, it was in March. We still have snow in March up there, and it is not a cheerful month. I certainly am glad to approve such a fine supporter of the administration.

I am also a supporter of the administration, although there may be a limit to my support one of these days.

Senator HARTKE. The fiscal year ends June 30, that is a good cut-off date.

Senator Pearson?

Senator PEARSON. No questions.

Senator HARTKE. Senator Baker?

Senator BAKER. No questions.

Senator HARTKE. Senator Cook?

Senator COOK. I am almost afraid to, Mr. Chairman. I might say to the Senator from New Hampshire that St. Peter would be qualified if he came to the Commission by way of New England, I think he at least ought to leave that door open.

Senator COTTON. You know what we are going to get? The next two vacancies are going to be Democratic vacancies so we will get a New England Democrat. I like Democrats, but I don't like them too near home.

Senator COOK. I might say to the chairman that Mr. Brewer's qualifications of being assistant chairman of the National Finance Committee, Nixon for President, and being executive chairman of the Republican National Finance Committee, he did a fantastic job. I think the chairman is well aware of the finances of the last campaign.

Seriously, I think we should make a part of this record that relative to the holding in Ashland Oil and Ashland Oil Pipeline Co., the insignificant percentages that the pipeline company represents to Ashland. In its annual report for the year ending December 31, 1969, Ash-

land Pipe Line Co. contributed approximately 8 percent of the total assets of all the companies. Also, the subsidiary pipeline company contributes approximately 1 percent of the revenues and 9 percent of the net income.

Also, I think it important that Mr. Brewer's unequivocal statement to the chairman that he will not sit on any cases involving Ashland Oil be made a part of this record.

Add to this the fact that the ICC jurisdiction of oil pipeline activities constitutes less than 1 percent of all Commission activities, and we can see that the nominee's insignificant holdings will in no way affect his judgment as a Commissioner. I might say in all fairness that I doubt seriously with all of the discussion that may go on in the committee that the members of the committee will write all of their holdings down and submit them to the chairman.

I only say this in all fairness, because I think there may be a double standard in this regard. Also, I think it is to the benefit of the nominee that he be an investor in the things that make the free enterprise system of this Nation great, and as a matter of fact I think there would be some inhibiting value to an individual if he were not in some way connected with the free enterprise system in this country.

And in this regard, I see good judgment in his portfolio. When the day comes when nominees to commissions in this country have to dispose of their investment in what makes this country the great country it is, then I think we will be at a low ebb in our confirmation of such nominees.

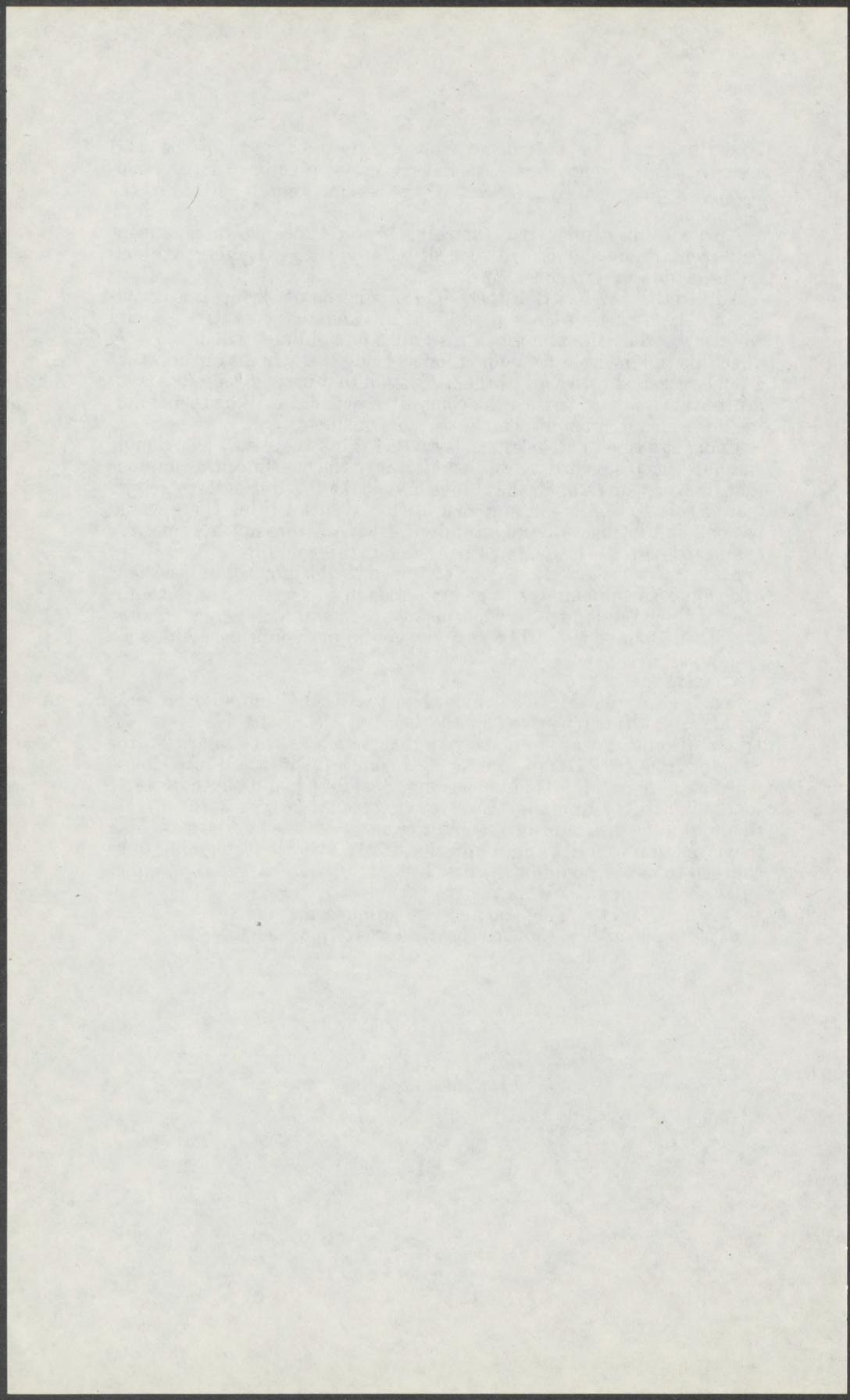
Thank you.

Senator CORRON. Mr. Chairman, I just noticed Commissioner Jackson from California seated in the back of the room. He is an old friend of mine. I want to make sure that he relates the remarks of the Senator from New Hampshire the next time he visits the White House.

Senator COOK. May I add one thing, Senator? I said a minute ago I was going to try to claim Mr. Brewer, because he was born in Kentucky, and the distinguished Senator from Tennessee said he was going to charge him to me. I might add that if Mr. Brewer were going to be charged to me, it would be the first thing that was charged to me since I have been a Member of the Senate.

Senator HARTKE. The hearings are adjourned.

(Thereupon at 10:30 a.m. the hearing was adjourned.)



**NOMINATION OF DR. CLAY T. WHITEHEAD TO BE  
DIRECTOR, OFFICE OF TELECOMMUNICATIONS  
POLICY**

**THURSDAY, JULY 16, 1970**

**U.S. SENATE,  
COMMITTEE ON COMMERCE,  
Washington, D.C.**

The committee met, pursuant to notice, at 10 a.m., in room 5110, New Senate Office Building, Hon. John O. Pastore, presiding.

Present: Senators Pastore and Pearson.

Senator PASTORE. The hour of 10 having arrived, we will commence this hearing.

We are very happy and honored indeed to have with us this morning the Presidential nominee for the Office of Telecommunications, Dr. Clay T. Whitehead, who is not only a distinguished Californian and Kansan, but also a distinguished American.

I am very happy that we have the senior Senator from California here to introduce our nominee.

**STATEMENT OF HON. GEORGE MURPHY, U.S. SENATOR FROM  
CALIFORNIA**

Senator MURPHY. Thank you very much, Mr. Chairman.

I am very pleased today to have the opportunity to introduce Dr. Whitehead to what I consider to be one of the most important areas of Government. I would like to say that the wonders of the State of California are well known. Sometimes I think we boast a little too often about them, about the great people and progress and scenery and all the other beauties which the Lord has endowed us with out there. Today I take great pride in presenting to you a young man who, early in life, heeded Horace Greeley's immortal words and went West to settle in California. We are very pleased that he did.

Although a native of the great State of Kansas, Tom Whitehead has lived most recently in California prior to his appointment to the White House staff in January 1969.

I believe that this young man typifies in so many ways the great young breed of talent that exists not only in California, but across this great country of ours. I know that the chairman will agree with me that too often these days we hear about some of those who create problems rather than those of the young breed who would not only continue the great legend of America, but would improve it and do a much better job.

He has proven himself greatly as Special Assistant to the President. Although he is only 31 years of age, he has already packed in three

decades a full and abundant career. He has accomplished more and attained greater recognition than many do in a full lifetime.

Following the 1968 election Mr. Whitehead served on the President-elect's Task Force on Budget Policies and assisted on transition matters. Since being a member of the White House staff his responsibilities have included the space, atomic energy, and other technically related programs, as well as maritime affairs, liaison with regulatory agencies, and several economic and organizational matters.

Mr. Whitehead was previously with the Bell Telephone Laboratories during his undergraduate studies as part of the MIT-Bell Laboratories cooperative program. Prior to obtaining his doctorate, he was a consultant at the Rand Corp., where he worked on arms control, air defense, and spacecraft engineering studies. After completing his Ph. D., he joined the Rand staff to plan and organize a policy research program on health services and other domestic policy areas.

He also has served as a consultant to the Bureau of the Budget.

Tom Whitehead was born on November 13, 1938, in Neodesha, Kans., and graduated from Cherokee County Community High School in Columbus, Kans. He received his B.S. and M.S. degrees in electrical engineering from the Massachusetts Institute of Technology, majoring in communications theory and systems engineering. He later received his Ph. D. in management, also from MIT, with concentration on policy analysis, economics, and research and development management. While at MIT, he taught courses in electronics and political science. He was elected to the engineering and scientific honorary societies Tau Beta Pi, Sigma Xi, and Beta Kappa Nu.

Mr. Whitehead served in the U.S. Army for 2 years, attaining the rank of captain, where he worked on Army chemical defenses and the possible threat to the United States from biological warfare.

Mr. Chairman, it is my special privilege to present to my esteemed colleagues an especially able young Californian and to recommend him for your favorable consideration.

I would only add one last thought—I believe we are very fortunate in having a man of Tom Whitehead's talent and ability and experience in Government today. He has an excellent background that recommends him well to be Director of the Office of Telecommunications Policy. His performance as a counselor to the President has given him great experience in Government, and I would recommend most highly that he be nominated for the Director of the Office of Telecommunications Policy.

Senator PASTORE. Thank you very much.

We will hear now from the junior Senator from Kansas.

#### STATEMENT OF HON. ROBERT DOLE, U.S. SENATOR FROM KANSAS

Senator DOLE. Well, I want to add to what has been related by the senior Senator from California. A combination of having been born in Kansas and then moving to California may mean something—mean we lost a good Kansan.

But in all seriousness Tom Whitehead is especially well qualified, as Senator Murphy has pointed out. I know something of his family since his sister is on my staff, and they are fine people, very capable.

I would like to file a statement, Mr. Chairman. But in any event, to express my confidence in Mr. Whitehead and his background, his competency, his potential and his ability.

Senator PASTORE. You may file your statement.  
(The statement follows:)

STATEMENT OF HON. ROBERT DOLE, U.S. SENATOR FROM KANSAS

Mr. Chairman, I wish to join my distinguished colleague from California in presenting Mr. Whitehead to the committee.

While California is his adopted State, Mr. Whitehead was born and raised in southeast Kansas, and his family still resides in Columbus, Kans. He graduated from Cherokee County Community High School and then left Kansas to continue his education at the Massachusetts Institute of Technology, where he compiled an outstanding record and received G.S. and M.S. degrees in electrical engineering, with specialization in communications theory and systems engineering, and took a Ph. D. degree in management.

His broad range of academic endeavor has been complimented by practical experience in several diverse fields and pursuits. He conducted research at the Bell Telephone laboratories while at MIT, he served as a consultant and full-time staff member at the Rand Corp., and most recently he has been a special assistant to President Nixon dealing with a wide variety of policy and technical matters.

I feel Mr. Whitehead's qualifications make him uniquely and thoroughly suited to serving as the director of the office of telecommunications policy, and I am pleased to present him on behalf of his native State of Kansas.

Senator PASTORE. We will hear from the senior Senator from Kansas.

Senator PEARSON. Mr. Chairman, I want to concur in the comments and observations by my colleague, Senator Dole, and also Senator Murphy. I haven't known Mr. Whitehead before, but his credentials are excellent, including his point of origin. I am tremendously impressed with his experience and qualifications. Senator Murphy is right, we are very fortunate to have before us a man of this caliber, who has dedicated himself to public service. I wish you well, Mr. Whitehead.

Senator PASTORE. We will include a letter from Mr. Shipley in the record.

(The letter follows:)

REPUBLICAN NATIONAL COMMITTEE,  
Washington, D.C., July 6, 1970.

HON. WARREN G. MAGNUSON,  
Chairman, Senate Commerce Committee,  
U.S. Senate, Washington, D.C.

DEAR SENATOR: I strongly recommend that your committee favorable report the nomination of Dr. Clay T. Whitehead of California to be Director of the Office of Telecommunications Policy.

I have known Dr. Whitehead to be a man of exceptional professional qualification with a broad background in the field of telecommunications. He would be able to serve the public interest in a fair and objective way.

Sincerely yours,

CARL L. SHIPLEY.

OPENING STATEMENT BY SENATOR PASTORE

Senator PASTORE. Now I have an opening statement here, it is a little longer than usual, and of course, the Senators don't have to remain if they don't want to. It is because, as Senator Murphy has brought out, this is one of the most important functions in our Government today, especially in connection with international relations, and because it is an

office that has been of intense interest to me as the chairman of this subcommittee and the entire membership of the committee, that I indulge today in a rather long statement. I think this needs to be said for the record.

Today the committee considers the nomination of Dr. Clay T. Whitehead to be Director, Office of Telecommunications Policy. Reorganization Plan No. 1 of 1970 abolished the Office of Assistant Director of the Office of Emergency Preparedness held by the Director of Telecommunications Management, and established in the Executive Office of the President the Office of Telecommunications Policy.

At this juncture I wish to insert in the record a copy of Reorganization Plan No. 1 of 1970, and the President's letter of transmittal to the Congress.

(The information follows:)

REORGANIZATION PLAN NO. 1 OF 1970

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MESSAGE

FROM

**THE PRESIDENT OF THE UNITED STATES**

TRANSMITTING

REORGANIZATION PLAN NO. 1 OF 1970



FEBRUARY 9, 1970.—The message and accompanying papers referred to the Committee on Government Operations and ordered to be printed

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U.S. GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1970

## LETTER OF TRANSMITTAL

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THE WHITE HOUSE, February 9, 1970.

*To the Congress of the United States:*

We live in a time when the technology of telecommunications is undergoing rapid change which will dramatically affect the whole of our society. It has long been recognized that the executive branch of the Federal government should be better equipped to deal with the issues which arise from telecommunications growth. As the largest single user of the nation's telecommunications facilities, the Federal government must also manage its internal communications operations in the most effective manner possible.

Accordingly, I am today transmitting to the Congress Reorganization Plan No. 1 of 1970, prepared in accordance with chapter 9 of title 5 of the United States Code.

That plan would establish a new Office of Telecommunications Policy in the Executive Office of the President. The new unit would be headed by a Director and a Deputy Director who would be appointed by the President with the advice and consent of the Senate. The existing office held by the Director of Telecommunications Management in the Office of Emergency Preparedness would be abolished.

In addition to the functions which are transferred to it by the reorganization plan, the new Office would perform certain other duties which I intend to assign to it by Executive order as soon as the reorganization plan takes effect. That order would delegate to the new Office essentially those functions which are now assigned to the Director of Telecommunications Management. The Office of Telecommunications Policy would be assisted in its research and analysis responsibilities by the agencies and departments of the Executive Branch including another new office, located in the Department of Commerce.

The new Office of Telecommunications Policy would play three essential roles:

1. It would serve as the President's principal adviser on telecommunications policy, helping to formulate government policies concerning a wide range of domestic and international telecommunications issues and helping to develop plans and programs which take full advantage of the nation's technological capabilities. The speed of economic and technological advance in our time means that new questions concerning communications are constantly arising, questions on which the government must be well informed and well advised. The new Office will enable the President and all government officials to share more fully in the experience, the insights, and the forecasts of government and non-government experts.

2. The Office of Telecommunications Policy would help formulate policies and coordinate operations for the Federal government's own vast communications systems. It would, for example, set guidelines for the various departments and agencies concerning their communications equipment and services. It would regularly review the ability of government communications systems to meet the security needs of the nation and to perform effectively in time of emergency. The Office would direct the assignment of those portions of the radio spectrum which are reserved for government use, carry out responsibilities conferred on the President by the Communications Satellite Act, advise State and local governments, and provide policy direction for the National Communications System.

3. Finally, the new Office would enable the executive branch to speak with a clearer voice and to act as a more effective partner in discussions of communications policy with both the Congress and the Federal Communications Commission. This action would take away none of the prerogatives or functions assigned to the Federal Communications Commission by the Congress. It is my hope, however, that the new Office and the Federal Communications Commission would cooperate in achieving certain reforms in telecommunications policy, especially in their procedures for allocating portions of the radio spectrum for government and civilian use. Our current procedures must be more flexible if they are to deal adequately with problems such as the worsening spectrum shortage.

Each reorganization included in the plan which accompanies this message is necessary to accomplish one or more of the purposes set forth in section 901(a) of title 5 of the United States Code. In particular, the plan is responsive to section 901(a)(1), "to promote the better execution of the laws, the more effective management of the executive branch and of its agencies and functions, and the expeditious administration of the public business;" and section 901(a)(3), "to increase the efficiency of the operations of the government to the fullest extent practicable."

The reorganizations provided for in this plan make necessary the appointment and compensation of new officers, as specified in sections 3(a) and 3(b) of the plan. The rates of compensation fixed for these officers are comparable to those fixed for other officers in the executive branch who have similar responsibilities.

This plan should result in the more efficient operation of the government. It is not practical, however, to itemize or aggregate the exact expenditure reductions which will result from this action.

The public interest requires that government policies concerning telecommunications be formulated with as much sophistication and vision as possible. This reorganization plan—and the executive order which would follow it—are necessary instruments if the government is to respond adequately to the challenges and opportunities presented by the rapid pace of change in communications. I urge that the Congress allow this plan to become effective so that these necessary reforms can be accomplished.

RICHARD NIXON.

## REORGANIZATION PLAN NO. 1 OF 1970

(Prepared by the President and transmitted to the Senate and the House of Representatives in Congress assembled, February 9, 1970, pursuant to the provisions of chapter 9 of title 5 of the United States Code)

### OFFICE OF TELECOMMUNICATIONS POLICY

**SECTION 1. *Transfer of functions.*** The functions relating to assigning frequencies to radio stations belonging to and operated by the United States, or to classes thereof, conferred upon the President by the provisions of section 305(a) of the Communications Act of 1934, 47 U.S.C. 305(a), are hereby transferred to the Director of the Office of Telecommunications Policy hereinafter provided for.

**SEC. 2. *Establishment of Office.*** There is hereby established in the Executive Office of the President the Office of Telecommunications Policy, hereinafter referred to as the Office.

**SEC. 3. *Director and deputy.*** (a) There shall be at the head of the Office the Director of the Office of Telecommunications Policy, hereinafter referred to as the Director. The Director shall be appointed by the President by and with the advice and consent of the Senate and shall be compensated at the rate now or hereafter provided for Level III of the Executive Schedule Pay Rates (5 U.S.C. 5314).

(b) There shall be in the Office a Deputy Director of the Office of Telecommunications Policy who shall be appointed by the President by and with the advice and consent of the Senate and shall be compensated at the rate now or hereafter provided for Level IV of the Executive Schedule Pay Rates (5 U.S.C. 5315). The Deputy Director shall perform such functions as the Director may from time to time prescribe and, unless the President shall designate another person to so act, shall act as Director during the absence or disability of the Director or in the event of vacancy in the office of Director.

(c) No person shall while holding office as Director or Deputy Director engage in any other business, vocation, or employment.

**SEC. 4. *Performance of functions of Director.*** (a) The Director may appoint employees necessary for the work of the Office under the classified civil service and fix their compensation in accordance with the classification laws.

(b) The Director may from time to time make such provisions as he shall deem appropriate authorizing the performance of any function transferred to him hereunder by any other officer, or by any organizational entity or employee, of the Office.

**SEC. 5. *Abolition of office.*** That office of Assistant Director of the Office of Emergency Preparedness held by the Director of Telecommunications Management under Executive Order No. 10995 of February 16, 1962, as amended, is abolished. The Director of the

Office of Emergency Preparedness shall make such provisions as he may deem to be necessary with respect to winding up any outstanding affairs of the office abolished by the foregoing provisions of this section:

SEC. 6. *Incidental transfers.* (a) So much of the personnel, property, records, and unexpended balances of appropriations, allocations, and other funds employed, held, or used by, or available or to be made available to, the Office of Emergency Preparedness in connection with functions affected by the provisions of this reorganization plan as the Director of the Bureau of the Budget shall determine shall be transferred to the Office of Telecommunications Policy at such time or times as he shall direct.

(b) Such further measures and dispositions as the Director of the Bureau of the Budget shall deem to be necessary in order to effectuate the transfers provided for in subsection (a) of this section shall be carried out in such manner as he shall direct and by such agencies as he shall designate.

SEC. 7. *Interim Director.* The President may authorize any person who immediately prior to the effective date of this reorganization plan holds a position in the Executive Office of the President to act as Director of the Office of Telecommunications Policy until the office of Director is for the first time filled pursuant to the provisions of section 3 of this reorganization plan or by recess appointment, as the case may be. The President may authorize any person who serves in an acting capacity under the foregoing provisions of this section to receive the compensation attached to the office of Director. Such compensation, if authorized, shall be in lieu of, but not in addition to, other compensation from the United States to which such person may be entitled.

Senator PASTORE. It is apparent after carefully reading these documents that the Director of the Office of Telecommunications Policy has broad responsibilities. His office will, among other things, serve as the President's principal adviser on all telecommunications policy, and help coordinate and formulate Government policies concerning a wide range of domestic and international telecommunications issues; help formulate policies and coordinate operations for the Federal Government's own vast communications system; and enable the executive branch to act as a more effective partner in discussions of communications policy with both the Congress and the Federal Communications Commission.

For some years now, this committee has urged the Federal Communications Commission and other interested Government agencies to formulate an overall telecommunications policy. The rapid advance of communications technology including satellite communications, and the concomitant increase in the use of communication services have made the formulation of such a policy imperative if we are to achieve our goal of a nationwide, and worldwide wire and radio communication service with adequate facilities at reasonable charges.

In 1962, when Dr. Irving Stewart was nominated to be Assistant Director of the Office of Emergency Planning (Director of Telecommunications Management), he appeared before the committee and I asked him a number of questions relating to the need for the United States to develop a national policy and position for dealing with other nations in seeking international telecommunications agreements; our need to formulate policies and plans for guidance in reconciling the conflicting interests and needs of Government and private users of the spectrum space; and how the United States could develop policies and plans which would foster a sound and vigorous telecommunications industry in the face of new technical advances, changing needs, and economic developments.

Again in 1964 when James D. O'Connell, who was nominated to succeed Dr. Stewart, appeared before the committee I asked him these same questions and expressed the hope that he would submit a report on frequencies used by the Government, and exert his best efforts in developing an overall telecommunications policy.

On October 19, 1966, the Office of Telecommunications Management submitted to this committee a report on frequency management within the executive branch of the Government. That report contained an appeal for an immediate implementation of a major planning program for the future allocation and use of radio spectrum.

In June 1966, the Office of Telecommunications Management, the Federal Communications Commission, the Department of Defense, and the Department of Justice, in a study on international communications submitted to this committee concluded that the dynamic nature of the communications industry required that the FCC be given authority to take promptly such action as may be necessary to serve the national interest, meet the needs of public and the Government for efficient and economical communications service, and preserve the health of the industry. In order to achieve these objectives, it was recommended that the FCC, which has the power to change the communication industry's competitive conditions by authorizing new

services and prescribing new rates, should also have the power to authorize necessary changes in the industry's structure. However, the provisions of the antitrust laws and certain sections of the Communications Act of 1934, prohibited this kind of restructuring. Therefore, the study made legislative recommendations. Specific proposals to implement these recommendations, however, were never, never forthcoming.

On August 14, 1967, President Johnson appointed a task force of distinguished Government officials to make a comprehensive study of communications policy. In his message to Congress, the President stated that the United States must review its past activities in this field and formulate a national communications policy. Accordingly, the task force was charged with examining a number of major questions affecting this policy.

The report and recommendations of this task force were submitted to President Johnson, but administrations changed before it was released. Subsequently, it was released by the present administration.

On March 2, 1966, the FCC instituted a notice of inquiry into the establishment of domestic communication satellite facilities by non-Government entities. I have repeatedly urged the Commission not to procrastinate in reaching a decision on this matter because the American people in the long run would be the losers.

In 1967, the Commission informed the committee that it was withholding disposition of the domestic satellite question pending the comprehensive report of the Presidential Task Force on Communications Policy. The Commission finally announced that it was on the verge of resolving the issue in that proceeding early in 1969, but in July of that year the present administration requested the Commission to withhold its action until it had completed its own study of the matter. The administration's study and recommendations were submitted to the Commission 6 months later.

Then on March 20, 1970, the Commission issued a report and order and a notice of proposed rulemaking in the proceeding it initiated on March 2, 1966. Despite the fact that applications to establish and operate domestic communications satellite facilities may be submitted for the Commission consideration pursuant to that report and order, the Commission has stated that as yet it is unable to determine what type of domestic satellite program could best be developed.

Many authorities contend that we are no closer to a resolution of this issue than we were in 1966. Whether or not this is so, the fact remains that a domestic satellite system is still some time away and the American people are not receiving the full benefit of this dynamic technology.

Most recently, on June 10, 1970, the Commission instituted a notice of inquiry into the policy to be followed in future licensing of facilities for overseas communications. Heretofore, the Commission has licensed overseas communications facilities on an ad hoc basis.

I have purposely set out in some detail the history of this committee's attempts to urge the interested agencies of Government to adopt an overall communications policy because it is apparent to me that their failure to do so has contributed significantly to many of the problems and uncertainties that we now face in the field of communications.

Lack of such a policy has, for example, raised serious questions whether the Commission's present ad hoc licensing of overseas communications facilities is conducive to efficient planning by the carriers. There is uncertainty as to how overseas surface communications facilities and satellite facilities can best be integrated to form a balanced communications system. The using public suffers as a consequence, and government users have stressed that reliability of this service is vital in time of crisis.

Legitimate questions have been raised as to whether the present division of ownership of overseas surface record communication facilities continues to be in the public interest. Divided ownership has resulted in the construction and maintenance of expensive, duplication of communication facilities which increase operating costs and result in higher rates for the user.

Moreover, our Nation—I want to emphasize this—our Nation is in a relatively poor bargaining position on communications matters with foreign counterparts since we do not speak with a single voice. In this connection, I have repeatedly urged that this country not give away its birthright during the course of the current negotiations of the Plenipotentiary Conference on Definitive Arrangements for the International Telecommunications Satellite Consortium.

I have talked with Mr. Scranton on this; I have talked with Leonard Marks on this, and I am going to talk to Ambassador Washburn and to you on this.

And, finally, as I noted previously, we are not fully utilizing the benefits of satellite technology in view of our failure to formulate and implement a domestic satellite program.

Now, Dr. Whitehead, I think you are one of the most brilliant young person who has come to Government in a long- long time. I have had formal and informal talks with you. I think you know this business. I think you know your problems. And I think that you are one man that can do something about it provided that your recommendations receive the approbation and the attention of the President. You can make a thousand recommendations to the President, but unless these recommendations are studied and unless intense attention is given to them and a decision is made all your efforts will be a futile exercise.

General O'Connell never met the President once after he was sworn in in all the time that he was his communications adviser.

Now I know, Dr. Whitehead, all these issues are very complex and they are not going to be resolved overnight, and they are not going to be resolved by one agency.

Our spectrum today is a mass of confusion. We have attained primacy in communication satellites. We have primacy on the international level thus far, provided we don't negotiate away our birthright. We have not developed a domestic satellite system. This is going to be your job, and I repeat again, I don't know of any man who could do it better; and I want to welcome you here, I want to congratulate the President for appointing you.

As a matter of fact, I am the chairman of the Subcommittee on Independent Offices Funding, and when a request was made for the Electromagnetic Compatibility Facility I raised the question as to whether or not the new Director was familiar with it and how he felt

about it. As a matter of fact, the House knocked it out of the budget—\$906,000. My committee restored it in the budget. We are going to go to conference on it next week. I would like to have a little memorandum from you as to what you feel about it, how important you think it is, and how you are going to use it, and the immediacy for having the money now. I would like to have that when I go to conference next week.

What attitude the House is going to take I don't know. I think they decided the question is a matter for legislation. I think the Budget Bureau was consulted and they said they didn't think that was necessary, it could be done under the funding process.

Be that as it may, I am going to take it back for further consultation to the conferees of the House, hopefully that we can do something about it. But I would like to be fortified with a memorandum from you.

Now here you are, Dr. Whitehead, you have been in the White House for some time advising the President in this important area. You have listened to my very long statement, and I regret that I had to indulge your patience so much. I would like to have your comments.

#### STATEMENT OF DR. CLAY T. WHITEHEAD

Dr. WHITEHEAD. Thank you very much, sir. I think that we in the White House can agree with most of the objectives that you set forward in your statement. We feel very concerned, as you do, about the importance of this area, about the impact on the industry and on our society and our broader economy of the results of not having a telecommunications policy.

I am not sure that even a person who lived up to some of the kind words I have heard here this morning could do this job justice. I have been very impressed by the complexities of the problems. But I am hopeful that we can make some progress.

This is an extremely dynamic and innovative field. It is extremely broad in its impact, as I just mentioned. We will certainly do everything we can to come up with a telecommunications policy.

I think it is important to realize, though, as I am sure you do, that in such a fast-moving field, in a field with such a broad impact, that it is not feasible to sit down and come up with a piece of paper that says this is our policy. What we will be trying to do, therefore, is to spend as much time developing a policy process that can respond to the changes in the economy, in the industry, and society, so that we can deal with the issues as they arise, so that the Government can take a sensible position, and so that the industry can then go forward and make available to the public the benefits that we have all been talking about.

I recognize particularly your concern about the international communications area. I think that is extremely important. I think the impact of international communications will grow, grow at an extremely rapid rate. It is already important to us in this country. It concerns how we talk to other people of the world, how they perceive us, how we perceive them. It is certainly a very important thing in these times.

We will do everything we can to see that that area develops in a cooperative spirit with other nations, but making certain that the United States' interests are well represented.

Finally, I would like to comment on your concern about the spectrum. We think this is an extremely important area. There are tremendous sums of money invested in this country based on certain spectrum allocations. That cannot be changed lightly. But we must have a sensible spectrum allocation plan and policy. We must see to it that the spectrum is used efficiently and effectively and is used for those things that are most valuable to the country.

There are a number of people who speak of the spectrum crisis. I don't share the opinion that we have reached a crisis in this country. We have reached a point, though, of serious concern. We have to find new ways of allocating spectrum, or we in fact will have a true crisis on our hands.

As you know, Mr. Chairman, there was considerable talk when you were considering this reorganization that we should merge the spectrum management of the Federal Government and the FCC spectrum management for civilian use. We considered that possibility and decided it was not necessary, that a cooperative spirit between the FCC and the executive branch along with new techniques, new procedures, would be not only adequate, but would for some time be the best procedure.

The President has said that the purpose of this reorganization is to make the executive branch a better partner in the policy dialog with the Congress, the FCC, the industry, and the public. That is the goal I seek for myself and for the office, and I am hopeful that we can make some decisions, make some changes that will be constructive and fulfill the objectives you have set forth.

Senator PASTORE. I want you to know, Mr. Whitehead, if you ever feel that you need the help of this committee, whether it be a matter of consultation or legislative help, that you are going to find us very willing and very obliging.

And you speak about partnership—my experience in Government has been that once an agency takes hold of something they are very reluctant to give it up, and I would hope that at some point someone in the White House will be strong enough to speak to the Defense Department to determine at what point all that they have preempted should remain preempted. After all, in the case of an emergency they can preempt the whole spectrum—you know that. Why they have to keep it in abeyance in the meantime in a growing economy, in the most progressive country in the world, merely on the ground that there may be an eventual need for this is something that has disturbed me for a long, long time.

Now if they need this and they can prove it, I say all well and good. But if they are just holding it in reserve because they have it and they don't want to let it go, there has got to be somebody strong enough to say "look here, we have the economy of this country to develop, too."

Now you have submitted your financial statement. You have no financial interest in any corporation, business enterprise, or nonprofit or educational institution. You have no creditors excepting small indebtedness to run your home, and you have no financial interest in real property.

Dr. WHITEHEAD. Working your way through school is an expensive process.

Senator PASTORE. There is no question about your conflict of interest. There is none. And I want to congratulate you again.

Mr. Pearson.

Senator PEARSON. Mr. Chairman, I think you have covered most of the territory I wanted to cover. Perhaps I will ask Dr. Whitehead to comment somewhat further on the position of the reorganization plan which provides that the Secretary of Commerce will provide support for your office. I take it you will also have your own staff; is that right?

Dr. WHITEHEAD. That is correct.

Senator PEARSON. And the Commerce Department will have a staff of their own, too. Do you know the extent, nature, and size of those staff arrangements?

Dr. WHITEHEAD. That hasn't been worked out yet, Senator. It will be somewhat larger than the OTP staff, which is envisioned to grow to something like 30 professional positions in this fiscal year. There is some question as to how much of the Commerce Department's current activities in the radio area, communications area, should be transferred into the new organization, and that will have to be worked out.

Senator PEARSON. I also recall that the President in sending up his reorganization plan said that this executive office would not take away any of the prerogatives and functions of the FCC. I take it this comes within the partnership concept which you have articulated in connection with performance of your duties and responsibilities.

Dr. WHITEHEAD. That's right, sir.

Senator PEARSON. I would like to make one final observation. Lines of authority and responsibility get pretty fuzzy sometimes, and I would hope that this arrangement would not pull apart the effort to develop a unified telecommunications policy by vesting the development of such a policy in conflicting agencies and staffs with adverse responsibilities. As the chairman has pointed out everything we do in Government now involves so many different departments.

So let me just close, Mr. Chairman, by also indicating that Senator Baker had to go to the Public Works Committee hearing at which Secretary Volpe is testifying. He wanted me to note the unavailability of his absence, congratulate you, and indicate to you his support for your confirmation.

Senator PASTORE. In the Federal Communications Bar Journal there was a critical article on Reorganization Plan No. 1, and it said certain of the tasks assigned to your office threatened improper political encroachment upon the independence of regulatory responsibility. I am going to ask that this article be placed in the record by reference.<sup>1</sup>

Are you ready to comment on that, Mr. Whitehead?

Dr. WHITEHEAD. I recall reading the article to which you refer, Senator, and I recognize the problems and sensitivities that are reflected there. We do not feel it is a matter of concern so long as we are aware of that area.

<sup>1</sup> "Presidential Assault on Telecommunications," Spienack, Edwin B., Federal Communications Bar Journal, vol. XXIII, 1969.

Senator PASTORE. Now another question; would you like to comment on this matter of the electromagnetic capability facility or would you prefer to put a memorandum in the record?

Dr. WHITEHEAD. I think it might be preferable to put a memorandum in the record.

(The following was subsequently received for the record:)

THE WHITE HOUSE,  
Washington, July 16, 1970.

HON. JOHN O. PASTORE,  
Chairman, Subcommittee on Communications,  
Committee on Appropriations,  
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In response to your request during this morning's hearing. I am submitting my views on the \$906,000 for improved electromagnetic compatibility analysis capabilities included in the President's fiscal year 1971 budget recommendations. Now that Reorganization Plan No. 1 of 1970 has gone into effect and I have been nominated to be Director of the new Office of Telecommunications Policy, I have been reviewing the administration's budget recommendations in this area and the recent actions by the House and Senate. As this matter goes to conference, I am pleased to have this opportunity to submit my views for the record.

Your opening statement at this morning's hearings stated very clearly and accurately the importance of better spectrum management. We may not have an immediate spectrum crisis, but the rapid and dynamic growth of telecommunications in this country is placing accelerating demands on spectrum resources. Although not all of our available spectrum resources are being fully utilized, existing allocations have resulted in artificial shortages that impose economic penalties and make impossible the introduction of some new services. Our existing frequency management machinery is increasingly hard pressed to deal with the expansion of spectrum demands. I regard the improved coordination of spectrum allocation as one of the most important areas of telecommunications policy. We must begin now to improve these techniques or there actually will be a spectrum crisis in the not too distant future.

I recognize, as does the Congress, that the development of a comprehensive data base and analytic capability will require the expenditure of Federal funds, and that those expenditures must be justified in terms of the tangible benefits this activity will produce. A very direct benefit will be more flexible and responsive use of our existing spectrum resources. Improved management of spectrum use and allocations also will encourage better planning by system designers both in Government and in industry. Both of these steps are essential to a more efficient use of the spectrum, making spectrum resources available to accommodate both existing needs and the demand for new services that are developing for the future.

With respect to this electromagnetic compatibility analysis effort, it is not our intention to establish any new facility or organization which would require legislative authorization. Rather, we intend to develop the necessary analytic techniques, data base, and processing capabilities to provide the information necessary for the Office of Telecommunications Policy to achieve more efficient use of the spectrum.

I wish to emphasize that we still consider the full funding of \$3.3 million is vitally important to the development of an effective telecommunications policy program during the forthcoming year. The electromagnetic compatibility functions referred to above would, in large measure, be carried out through the Department of Commerce under OTP guidance. The \$906,000 appropriation request is the essential first step to get started in this area.

Sincerely,

CLAY T. WHITEHEAD,  
Special Assistant to the President.

Senator PASTORE. Are there any further questions?

We have a biographical sketch. We will put that in the record.

(The biographical sketch follows:)

## CLAY THOMAS WHITEHEAD

Clay T. Whitehead was born on November 13, 1938, in Neodesha, Kans., and graduated from Cherokee County Community High School in Columbus, Kans. He received his B.S. and M.S. degrees in electrical engineering from the Massachusetts Institute of Technology, majoring in communications theory and systems engineering. He later received his Ph. D. in management, also from M.I.T., with concentration on policy analysis, economics, and research and development management. While at M.I.T., he taught courses in electronics and political science. He was elected to the engineering and science honorary societies—Tau Beta Pi, Sigma Xi, and Eta Kappa Nu.

Mr. Whitehead served in the U.S. Army for 2 years, attaining the rank of captain, where he worked on Army chemical defenses and the threat to the United States from biological warfare.

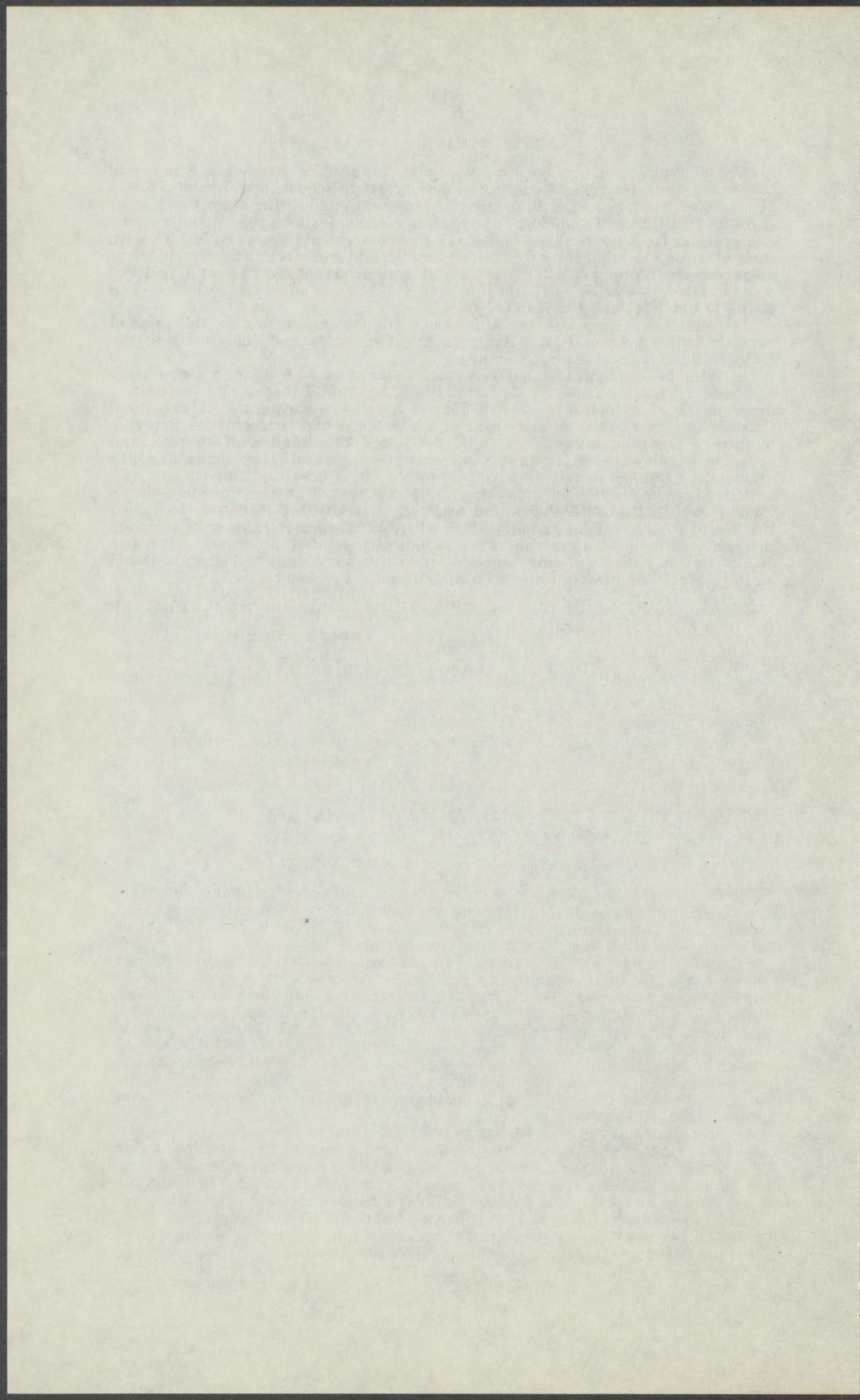
Mr. Whitehead was at the Bell Telephone Laboratories for about a year during his undergraduate studies as a part of the M.I.T.-Bell Laboratories cooperative program. Prior to obtaining his doctorate, he was a consultant at the Rand Corp., where he worked on arms control, air defense, and spacecraft engineering studies. After completing his Ph. D., he joined the Rand staff to plan and organize a policy research program on health services and other domestic policy areas. He has also served as a consultant to the Bureau of the Budget.

Following the election in 1968, Mr. Whitehead served on the President-elect's Task Force on Budget Policies and assisted on transition matters. He joined the White House staff in January 1969, where his responsibilities have included the space, atomic energy, and other technically related programs; maritime affairs, liaison with regulatory agencies; and several economic and organizational matters. Mr. Whitehead is a Special Assistant to the President.

Senator PASTORE. Is there anyone in this room who desires to speak for or against this nomination?

There being none, we will adjourn.

(Whereupon, at 10:35 a.m., the committee adjourned.)



## NOMINATION OF ROBERT McLELLAN, TO BE ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AND INTERNATIONAL BUSINESS

WEDNESDAY, AUGUST 19, 1970

U.S. SENATE,  
COMMITTEE ON COMMERCE,  
*Washington, D.C.*

The committee met, pursuant to notice, in room 5110, New Senate Office Building, at 9:45 a.m., Hon. Vance Hartke, presiding.

Present: Senators Hartke, Hart, Long, Cotton, Prouty, Pearson, and Baker.

Senator HARTKE. Good morning.

This morning we have before us the nomination of Robert McLellan to be Assistant Secretary of Commerce for Domestic and International Business. Mr. McLellan has had extensive experience in international business before coming with the Government last year as Deputy Assistant Secretary for Business Development. At the present time he is serving as Acting Assistant Secretary in the post for which he has been nominated.

We are pleased to have you with us. We will put your biographical statement in the hearing record. Your financial statement will not appear in the record, but in accordance with committee practice it will be kept in the files, available for inspection.

(The biography follows:)

### BIOGRAPHICAL SKETCH OF ROBERT McLELLAN

Robert McLellan was appointed Deputy Assistant Secretary of Commerce for Business Development on May 1, 1969, and administered the oath of office by Secretary of Commerce Maurice H. Stans on June 9. He is now the Acting Assistant Secretary for Domestic and International Business.

Mr. McLellan was born in Nebraska in 1923 and attended grammar and high schools there. In 1941 he moved to California. After a tour of duty with the Army Air Corps during World War II, he attended San Jose State College, graduating with a Bachelor of Science Degree in Engineering (with honors). Subsequently, he attended graduate school at Santa Clara University and the Graduate School of Business at Stanford University.

In 1949, Mr. McLellan joined the Export Department of FMC Corporation as a Sales Engineer subsequently holding positions of Sales Manager and General Manager of the Machinery Export Department of FMC International before being appointed a Vice President in 1960.

Mr. McLellan has traveled extensively in his foreign business activities. He has visited most of the areas of the world, including several trips to the U.S.S.R. He is active in international trade activities and is a former member of several San Francisco Bay Area world trade organizations. He is a past Trustee of the World Affairs Council of San Francisco and a former member of the Regional Export Expansion Council, the Western International Trade Group, the World Trade Club of San Francisco and the University Club of San Jose. He is a member of the Executive Committee of the Agri-business Council.

Late in 1969, Mr. McLellan served as Chairman of the regional conferences of U.S. Economic/Commercial Officers in Tehran and Rome, and in January led a delegation of business and government executives to examine U.S. commercial opportunities in selected countries of Africa. In April and May, he accompanied Secretary Stans on a six nation tour of Latin America as part of President Nixon's program to strengthen relationships between Latin America and the United States.

Mr. McLellan, his wife Helen and their four children formerly lived in Saratoga, California but now reside in Washington, D.C.

Senator HARTKE. Senator Murphy apologizes that he cannot be here, but he supports the nomination. Senator Cranston has registered no objection to the nomination.

Good morning, sir.

#### STATEMENT OF ROBERT McLELLAN

Mr. McLELLAN. Good morning, Mr. Chairman.

Senator HARTKE. You may proceed. Do you have a statement?

Mr. McLELLAN. I really have nothing further to say, Mr. Chairman, beyond the biographical sketch which you have and the financial statement which I have submitted.

I would add that I am pleased to have the chance to be here and to meet you gentlemen, and to say that I look forward to the opportunity of serving as Assistant Secretary of Commerce for Domestic and International Business.

If there are any questions, I certainly would be pleased to try to answer them.

Senator HARTKE. Since this is an administration recommendation, Senator Cotton, I will defer to you, sir.

Senator COTTON. That is very kind of you, Mr. Chairman.

Mr. McLELLAN. I note here that you have of course filed with the committee, not for the record, but to be on file for whoever desires to look at it, your financial statement. And I note that as far as your security holdings are concerned, yours and Mrs. McLellan's consist of a substantial number of shares of FMC Corp. common stock. What is FMC?

Mr. McLELLAN. FMC used to stand for Food Machinery and Chemical Corp. I was an employee for FMC Corp. for some 25 years before I left to join Government in June of 1969.

Senator COTTON. I noted that, but I did not know what FMC meant, if anything.

Mr. McLELLAN. It does not stand for anything now, just FMC.

Senator COTTON. You mean it has become a horrible conglomerate or something?

Mr. McLELLAN. I would not characterize it as a horrible conglomerate, but it is a large, diversified corporation.

Senator COTTON. I understand.

Now, just as a matter of form I have to ask you—there is absolutely no implication in the question—if you are aware of any possibility that your holdings in FMC Corp. could in any way be construed as being in conflict of interest in the discharge of your duties in the Department?

Mr. McLELLAN. Senator Cotton, I do not see how in any way my holdings of FMC Corp. common stock could represent a conflict of interest in the discharge of my duties.

Senator COTTON. Then, this corporation is not one that is likely to have contractual relations with the Government?

Mr. McLELLAN. It may have contractual arrangements; they have some defense contracts, for example. I was never in that part of the business and I am not now concerned with that part of the Government. The only place where there is a conceivable possibility that I can think of would be in the export control area where I am responsible for the administration of the Export Control Act of 1969 and it is conceivable FMC Corp. could be applying for licenses.

What I did when I entered Government a year ago was to issue a statement through the office of our General Counsel to our operating units advising them that I did want not to be involved in any cases coming before the Department that related to FMC Corp. That instruction still stands. I would disqualify myself from involvement in any matter relating to FMC Corp.

I might add that to the best of my knowledge there has been no case in the past year, not that I would know of it necessarily, but I have not even heard of it.

Senator COTTON. You realize that I want to protect you as well as the committee.

Mr. McLELLAN. I understand that, sir.

Senator COTTON. That is the sole purpose of my questioning.

I suppose it is conceivable that the general attitude of the Commerce Department with regard to our export-import trade could, in some measure, influence the value and the income of your investment with the corporation.

Mr. McLELLAN. It is not conceivable that I could do anything that would be particularly beneficial to FMC Corp.

Senator COTTON. You have 2,060 shares. How many outstanding shares are there? Do you know?

Mr. McLELLAN. I think it is about 28 million, but I could be low on that. I might add at the present market value, that does not represent very much.

Senator COTTON. In other words, any possible financial benefit that might increase the value of your shares because of some policies of the Government would be infinitesimal compared with the outstanding shares?

Mr. McLELLAN. Indeed it would, sir.

Senator COTTON. And should any such situation arise where some decision of the Commerce Department might be made that would effect the value of your investment, would you be willing immediately to place such investment in some kind of a trust or under some arrangement so that you would have no control over it whatsoever?

Mr. McLELLAN. Yes; I would be willing to do so if it ever became that significant.

Senator COTTON. I note that your only other investment is 10 shares of National Biscuit Corp. common stock.

Mr. McLELLAN. I might mention the reason we have that is because my son was eating so many of their cookies, we thought we ought to get a return on the investment.

Senator COTTON. In summary then, you are aware of no interests that either you or members of your family have that are at all likely to constitute any conflict of interest in the performance of your duties?

Mr. McLELLAN. No, sir. I can state unequivocally and totally that we have no circumstances that would create a conflict of interest in the discharge of my responsibilities.

Senator COTTON. And, you state your counsel has advised you that these investments would not violate any rule, and would not in any way constitute conflict of interest?

Mr. McLELLAN. Yes, he has advised me on those investments.

Senator COTTON. Your counsel is undoubtedly familiar with the practice of all other officials that this or any other committee of Congress has recommended for confirmation, concerning the matter of blind trusts or disposing of investments that could conceivably cause conflict of interest?

Mr. McLELLAN. Yes, sir; he is aware and I have discussed this with him, and he has made the statement as represented in my letter to the committee.

Senator COTTON. Just one other subject now. I guess I could be perhaps be charged with being a fanatic about this subject. I offered an amendment to the tax bill some months ago that was adopted by the Senate but which was opposed at that time very vigorously by Secretary Stans and the Commerce Department. That amendment represents my own very deep-seated attitude about our foreign trade. I have believed for a long time in free trade. I want to see an unrestricted two-way street of free trade between this country and other countries.

If American enterprise and ingenuity and resourcefulness cannot on even terms meet competition in the open marketplace of the world, then that is just our fault and it is too bad. But of course every single country—and I am not making this as a statement since it already has been made by Secretary Stans—with whom we do business in some form or other has restrictions on American exports.

In the old days when I participated with others in asking for some kind of restraint on textiles and shoes importations, they used to tell us that you cannot do that, look at our balance of trade with Japan, and look at all of the automobiles we send to Japan.

Now, Japan will not let us send an automobile and every time I go down the street I am infuriated when I see a Toyota. You cannot send a camera to Japan. I was in Spain a few years ago and the commercial attaché of the American Embassy told me at that time that the Spanish people wanted to buy American electrical and household appliances. However, they could not to any great extent because the government would grant import licenses only to a very few importers and then only in very nominal quantities. So the market was practically shut to us.

Now, the amendment I offered simply authorized the President—it did not direct him, but simply authorized him—in cases where American exports to other countries are restricted or barred, and he found the flow of imports from that country was endangering our industry and destroying American jobs, to impose such restrictions he saw fit. It further provided that he shall, not may, upon the removal of restrictions against our exports, immediately remove our restrictions against their imports.

Do you consider that an unreasonable attitude? What is your opinion?

Mr. McLELLAN. I appreciate the opportunity to comment on this, Senator. I have been in international business, as you know from my biography, for some 20 years. I have been privileged to see some of the changes take place in this world in the trade area.

Coming out of World War II we had the economic strength in this country, and the economic prominence. It was incumbent upon us, because of our strong economic trade, strong balance of payments position, to do what we could to share that strength with the rest of the world. We have come to the point in time now where a good deal of our technology, a good deal of our assets in the form of gold, a good deal of our economic strength have been shared with Europe and Japan particularly; hence, we have a different situation today than we have had. The world has continued to become continuously more competitive over the period of time that I have been involved in international trade.

We find ourselves at a point in time today where we have to make some very careful, but I would say rather incisive, judgments on some of the problems we face. I think we are past the point of generalizing in terms of free trade or protectionism. There is no room for protectionism in the world as we see it, and as you mentioned, Secretary Stans often says there is no such thing as free trade. Maybe Hong Kong and Curacao would be two exceptions, but they are not really that significant.

Our situation today is, as I say, one of having to make more incisive judgments on these problems. As a nation managing our foreign economic affairs, we must recognize that we too are looking at competitors today. We can no longer afford our previous condescending attitude toward our economic relationships. We must deal with our competitors on some kind of a quid pro quo basis.

Of course, I argue with the people that I meet from overseas that this is just as important to them as it is to us, because if we do not protect the strength of this economy, then we are really letting them down, because the U.S. economy is the backbone of the world economy. And if we let this economy suffer from not taking a strong competitive position in these problems, ultimately that suffering will transfer itself to the rest of the world, and they too will suffer.

So this a very common problem and I think in the world's interest we have to be a little more pragmatic about some of our trade problems than we have been in the past.

Senator Corrox. I don't know how much of a conversion has been made of Secretary Stans for whom I have the profoundest respect, as everyone who knows him does, but I argued with him once in an informal conference in this room about the persistent policy of the Department of Commerce to concentrate on one commodity.

For example, it was said we are going to try to negotiate agreements on textiles. Nothing else was to be included. Then, when that commodity was disposed of satisfactorily, they would move on to another.

I told him it was a good deal like leaving the henhouse door open while you chase the white pullet and let all of the rest of the hens escape. Then it is too late to do anything about it.

Frankly, in my section of the country, except in the field of man-made fibers, as far as cotton and woolen goods are concerned, anything done about textiles is a postmortem. They are dead and you are just examining the body.

This isn't true I realize in the South and some other sections. Now shoes are going the same way that textiles went. Electronics and electrical components are going the same way. And we have been sitting by while the Department of Commerce and the administration—I don't just blame the Department of Commerce—works on one commodity at a time.

There is a bill pending now in the House which I understand the administration wants to restrict to textiles, or at the most to textiles and shoes. Certainly, it is a step in the right direction. However, I frankly would prefer to see a policy not leveled at this commodity or that commodity or this country or that country, but rather a policy of recognizing restrictions on our exports and imposing temporary counterrestrictions when it becomes necessary on imports from that country until their restrictions and barriers are removed.

You can't have your cake and eat it too. We are either in favor of trade barriers or we are against them. I like the positive approach that we are against them, except when others raise them against us.

Now, I realize that you have to be guarded in your declarations before this committee, because you owe loyalty to the head of the Department, and your chief in the White House.

But am I justified in gathering from your replies that you are not one of what I call the "softies" in this matter of dealing with foreign trade? I am putting it very frankly. That would stand a yes or no answer, wouldn't it?

Mr. McLELLAN. I am not exactly sure of the connotation you give the word "softy." I have never thought of myself as one, I don't believe I am in this area.

Senator COTTON. I didn't say a general softy. I just said in international trade.

Mr. McLELLAN. I submit, Senator, that I have been in this trade business long enough, I think, to know what the facts are. I claim to have been almost every place in the world outside of Red China and most places many times. I think my experience is probably much deeper in this area than anybody that has been in this job before.

And I would submit that I am a realist in these things, and I have the interests of the people of the United States of America as my prime point of service. I do not think I would characterize myself as a softy on trade matters.

Senator COTTON. Whose place are you taking?

Mr. McLELLAN. Kenneth N. Davis, Jr., was my predecessor.

Senator COTTON. My impression was that his philosophy in this area was similar to mine, but that he wasn't very tactful in expressing it. Does your philosophy on this matter resemble his?

Mr. McLELLAN. My philosophy wouldn't be very far from Ken's. Ken as you know is an extremely brilliant, dedicated, and dynamic person. I don't think my philosophy would be too far from his. I would want to emphasize that my method of dealing with trade matters would be quite different, I suspect, than his.

Senator COTTON. I understand. This is not reflection on him. I admired his ability and certainly agreed with his philosophy.

Mr. McLELLAN. I might add that Mr. Davis did have a very incisive mind.

Senator COTTON. Yes, indeed, he did and does. He isn't dead, he has gone on to other fields.

Is your family here this morning?

Mr. McLELLAN. Yes, sir.

Senator COTTON. Would you introduce them to us?

Mr. McLELLAN. This is Mrs. McLellan; my daughter, Margaret; my daughter, Katherine, and my son, Bill.

Senator COTTON. Nice to have you here. We appreciate your interest and welcome you.

Thank you, Mr. Chairman.

Senator HARTKE. Senator Hart, do you have any questions?

Senator HART. I came to state simply that all I have heard about you, Mr. McLellan, is great, and I hope you have a very pleasant and satisfying experience.

Mr. McLELLAN. Thank you, Senator Hart. I appreciate that.

Senator HARTKE. Senator Pearson.

Senator PEARSON. Mr. McLellan, because you have been Deputy Assistant Secretary of Commerce for Business Development, because you were born in Nebraska, because you have some interest in agribusiness, let me ask you this: I have been interested for a long time and have introduced legislation which I think other Senators here this morning cosponsored, to do something about the migration from the countryside, rural areas, and small towns, into the great cities.

It was ironic, I think, that the great distress in the hardcore and inner cities, the ghetto riots, first attracted our attention to the interrelationship between rural problems, big city problems, and migration from rural areas into the cities—migration first of the unskilled who come in, as a means of taking the first step up the ladder of economic opportunity, only to slide back into the ghettos and onto the welfare rolls.

The other part of that migration is that the bright young talented educated kids from rural areas go into the cities because there aren't any social or economic opportunities in the countryside. So I introduced rural job development legislation, and the Rural Community Bank Credit Corporation, Rural Highways Acts.

Now, the Department of Agriculture has a department concerned with this subject, but it is in my humble opinion a rather weak department. At the hearings on one of the bills I mentioned, the Department of Agriculture simply didn't have any position on this particular problem.

The President of the United States mentioned it in his last State of the Union address, referring to population balance. He appointed an outstanding committee, that wrote a good report, but I don't know what is going to happen to the report. So without really sarcasm or cynicism, I still think this is a pretty serious problem and I think we can help the cities and the countryside if we can get something done in providing economic opportunities so that the young people, if they so choose, can stay in the country.

But I have a sense of frustration; the President seems to want to move in this area, but the Department of Agriculture does not. Over in your Agency and Department, are you at all concerned with this, not as an individual, I am sure you are concerned as an individual but

are you concerned with it as a matter coming within the jurisdiction of the job you are supposed to do?

Mr. McLELLAN. Not directly in. However, I would like to make a couple of comments if I may. We are terribly concerned about the pollution problem and the Department of Commerce is quite involved in the pollution problem, and its relationship to industry.

As we look at the urban crisis, we must look to the crunch of people in the urban areas, and that relationship not just to pollution but all the other urban problems. When you look forward to the next 30 years, the Census Bureau, which is also in Commerce, tells us that we will have something close to another 80 to 100 million people in this country. The equivalent of 400 cities, of 250,000 population each will have to be absorbed in this country in the next 30 or 40 years.

Senator PEARSON. Where will they live?

Mr. McLELLAN. The point is they will have to be in rural America; there cannot be more in the urban areas. We have to obtain a greater distribution of population throughout the country. The social problem as we see it is going to have to be relieved through economic development processes that are going to create the means of economic activity in the rural areas that will be necessary to keep that population dispersed.

So we have some serious problems here. We are concerned about it. Secretary Stans, as you know, has been personally involved in this.

Senator PEARSON. As a matter of fact, I forgot to say so but Secretary Stans is one of the few people in the administration who has endorsed the idea of a tax credit concept to deal with this problem.

Mr. McLELLAN. Right. To be a little more specific, in my areas of the Department, the domestic and international business areas, our relationship to this tends to be an indirect one.

But I would mention in another area of the Department, the Economic Development Administration, under the direction of Assistant Secretary Podesta, commerce has a direct relationship. There it does administer funds for economic development purposes.

Senator PEARSON. Let me ask you one more question in the foreign trade field. As you know, we build a great number of airplanes in Wichita, Kans., probably 70 percent of the private airplanes: Lear jets, Cessna, Beechcraft. I mention that because on a number of occasions those American airplane companies have had opportunities and orders to sell aircraft, not military aircraft, but to sell aircraft to South Africa and some other countries.

The Secretary of Commerce seems amenable to this, but the Secretary of State says he can't approve such sales, because of certain protocols and agreements made in the U.N. I can understand that, except as a result all of those sales have been going to the United Kingdom of Great Britain, France, and Italy.

We are having a very difficult time trying to explain to constituents—this is related to the thrust of Senator Scott's questions—why it is that the Secretary of Commerce, the Commerce Department, can approve an international transaction, and have it vetoed by the Department of State and then have member nations of the U.N., signatories to the same protocols, make the sales to South Africa.

Now, I really didn't ask you a question, I made a complaint.

Mr. McLELLAN. I might just respond by saying I am aware of the situation; I am aware of the problem.

Senator PEARSON. The sales have been made now, the Italian, French, and British aircraft have already been purchased by these countries.

Mr. McLELLAN. I might just comment that we feel—Secretary Stans feels—that it is our responsibility to represent U.S. industry and I assure you we will do our best to do that.

We don't always get our way in these things, by any means, because there are other responsibilities other departments have to live with. And, of course, our task is to be sure the industry viewpoint is understood and is presented in the administrative process.

Senator PEARSON. I understand.

It is a continuing problem for us, and a very difficult matter to explain.

I thank the chairman.

Senator COTTON. I just want to observe, Mr. Chairman, if you will permit me, that the critical questions have all come from this side of the committee.

With their usual courtesy, the chairman and the Senator from Michigan have left it for us. I should like to add that my questions about your stockholdings, and about our foreign trade policy, have been to establish a record. I think it is our duty to do so by examining these several areas.

But, I join the Senator from Michigan in saying that I will vote for your confirmation and join him in wishing for you a very successful tenure of office.

Mr. McLELLAN. Thank you very much, sir.

Senator HARTKE. Senator Hart?

Senator HART. Mr. Chairman, this is not intended to give the balance that you suggested didn't apply here, but I note and am reminded from your biography that you served for a period as general manager of the machinery export department of FMC. Now, a matter that Senator Cotton has concerned himself with and also Senator Magnuson, is the apparent lack on the part of the United States of aggressive export trade promotion.

We understand that the State Department has its trade counsels or commercial officers in the field. What is the correct term?

Mr. McLELLAN. I believe commercial attachés.

Senator HART. Yes. But we see other nations with their Ministry of Trade zeroing in with aggressive promotions. Based on your own experience, do you have any suggestions to make as to how this country, not just because of the balance-of-payments problem, but for our general economic health, could more aggressively pursue export business?

Mr. McLELLAN. Yes, I do, Senator Hart. And again based upon my observation of our operations here in the last 20 years, I have developed a number of opinions. To put this in another perspective, the Department of Commerce had its own trade attachés until 1939, back in the thirties when we had to work pretty hard to get foreign business. Then with World War II and the period that followed, those attachés, along with the agricultural attachés were both incorporated into the Foreign Service. The agricultural attachés returned to the Department of Agriculture I think in 1948 or 1949. The commercial attachés, how-

ever, remained within the Foreign Service. So as to organizational arrangements today they are in the Foreign Service of the State Department. Today we have economic-commercial officers around the world in the embassies who handle this commercial work for American business firms in support of American business firms' efforts abroad.

In the Department of Commerce we have the Bureau of International Commerce, under my jurisdiction, and in that area we do have promotional offices. The Office of International Trade Promotion is responsible for the operation of some seven trade centers we now have around the world. That office operates some 60 trade shows a year. It sends missions abroad and otherwise generally supports export promotion.

As you know we are exporting just about 4 percent of our GNP. If we could just get a half percent more of our GNP into exports we wouldn't have a balance-of-payments problem.

Senator HART. Would you say that again?

Mr. McLELLAN. We are exporting approximately 4 percent of our gross national product now, in rough numbers, a trillion dollars GNP. We export \$40 billion of U.S. merchandise. If we could get that up, say a half percentage point or another \$5 billion roughly, around 45 billion in total exports, we would have a very substantial trade surplus.

As a function of GNP, that percentage is not that much. But believe me, it is awfully hard to take that step. The situation is that so many American firms have not been involved in export business; many of them are small companies and they have not been able to afford it.

So we have quite an effort underway now within our Department, working with the Small Business Administration, and with 42 regional export expansion councils we have organized around the country, to try to get more firms involved in the export business.

There is a great deal of effort already underway. But I just call your attention to the fact that Japan alone, for example, is spending about \$25 million a year on trade promotion  $7\frac{1}{2}$  times the GNP ratio of U.S. trade promotion expenditures.

So it gives you an idea of the order of magnitude of our involvements against the Japanese, for example.

As to what we do, how we go forward on this, this has been a subject of considerable discussion with Secretary Stans. I should add Secretary Rogers is also very much interested in this; both he and Secretary Stans have had discussions on some steps that could be taken to improve our Government efforts abroad to support the American business firms to do a better job in international trade.

We think there are some progressive steps that can be taken. To comment further at this point would be speculative. But I would like to say we are aware of the problem, concerned about it, and are making our best effort to do what we can to improve our posture.

Senator HART. Thank you. I would then ask the ultimate question whether you think it would be desirable to return to the pattern prior to 1939.

Mr. McLELLAN. It would be speculative on my part to comment on that. There are arguments on both sides of the coin, as you can appreciate. The business community, incidentally, has been very much

interested in this problem. I have followed it as a businessman since 1957. We have had various discussions.

As you know this distinguished committee on occasion has become involved in the matter. There are arguments for organizational changes, there are certainly arguments against it. And our position today is one of Secretary Stans and Secretary Rogers' addressing themselves to the question in the hope of finding the best answer on how this can be handled.

Senator HART. Thank you.

Thank you, Mr. Chairman.

Senator HARTKE. Senator Prouty, do you have any questions?

Senator PROUTY. I have no questions.

Senator HART. Senator Long?

Senator LONG. Mr. McLellan, you are going over there as a new man and I hope you can install a few new ideas. That is one of the things we hope for when a new man goes into a Department, that he will take some new ideas with him. And we hope that the new broom will sweep clean.

One thing that has disturbed me very much and I think it is a very bad thing in connection with our trade policies, is that the Department of States and perhaps your Department, I am not sure whether they are making Commerce do it or whether Commerce is doing it on its own motion, gives us some very, very misleading—I think it would be even fair to call them fraudulent—figures on balance of trade. We have protested about them but we still keep running into the same thing.

For example, do you think that we improve our trade position when we give away \$700 million worth of grain to India? Has that done anything to help our trade, our balance of trade?

Mr. McLELLAN. Probably not, unless you are going to get paid for it.

Senator LONG. Now we keep having people tell us that we must do more of what we are doing because we have a favorable balance of trade to protect. And they say well, in other areas we have an unfavorable balance of payments, but that we have perhaps a billion dollars favorable balance of trade.

Now when you look at that so-called favorable balance, you look at the pluses that they are adding up, and there is \$700 million of wheat we gave away to India.

Now as far as we are concerned, if that is the export market we are trying to protect, this Nation would be—in terms of dollars, in terms of trade—just as well off if we just took the ship load of wheat just outside of the 3-mile limit, or better yet to where it is good and deep as they did with the nerve gas, and sink it.

Because if nothing comes to this country in payment, that \$700 million ought to be listed and all of the other agricultural giveaways ought to be listed as an agricultural disposal program where we are giving it away and hoping it benefits some hungry people around the world.

But anybody that puts that down as a plus item overlooks the fact that there are a thousand other places we could give it away. As far as our balance of trade is concerned, it would be just as well if we burned the stuff or fed it to the fish.

Isn't that correct?

Mr. McLELLAN. Yes, sir. The trade figures, the merchandise figures, do include these Public Law 480 shipments you are talking about and these do not in reality have a direct impact on the balance-of-payments situation.

Senator LONG. Now let me get to another point. If you are talking about our balance of trade, what we made or lost, everybody else around the world so far as I can determine keeps their trade figures in terms which include the cost of getting it here. It is the same as if I buy an automobile, they might have a price for Detroit, but that is not the price I am paying, I am paying the price it costs to deliver the automobile here or to Baton Rouge. I am not paying the f.o.b. Detroit price.

Now, the only argument that can be produced for not including the ocean freight is that is not how we keep our tariff collection figures. But that is totally irrelevant to the balance of trade, whether we collect a tariff or do not collect it does not prove that we did or did not have a favorable balance of trade. And so it would seem to me that we ought to present figures that have the ocean freight cranked into them. Does that seem fair to you?

Mr. McLELLAN. It does.

I just want to acknowledge your general proposition here that our trade and balance-of-payments figures are often difficult to understand. And the quality is not always what it ought to be. I subscribe to your proposition, Senator Long.

I might mention that having learned of your interest and other peoples' interests in this question, I discussed this with Assistant Secretary Passer who is my associate, Assistant Secretary for Economic Affairs, and he is responsible for the Office of Business Economics—the Bureau of the Census, that do the statistical tabulating reporting.

We are going to see if we cannot come up with a clearer method, a little more accurate method, if you please, of presenting these balance of payment and balance-of-trade figures.

As a business man, I have to say oftentimes I have had to read halfway through the newspaper article before I was sure whether I was looking at payments or trade figures. I was always confused. I could not quite get that story straight. It is complex, as you know, and therefore, a little difficult to present. But we think we can do a better job than we have done.

Senator LONG. Let me get to the third point. The balance of trade ought to reflect tourist trade, tourist dollars are every bit as much of a dollar as what we use to pay for a shirt. Isn't that correct?

Mr. McLELLAN. In terms of balance of payments, it certainly is.

Senator LONG. In terms of balance of trade it is. That is trade.

Mr. McLELLAN. It is a service in lieu of products.

Senator LONG. Someone tried to contend that the State Department thinks we have a favorable balance of trade because we are shipping them tourists and they are shipping us textiles. But we are losing on both ends. Our dollars go out in either event. Here is why it is so important as I see it: A number of the Japanese Parliament comes to pay a goodwill visit; he is trying to help his country on the trade problem.

One reason I mention this is that this man was a former Ambassador to the Soviet Union, a very learned, well educated man, who knows what is going on.

He has the impression from reading the New York Times that in trying to save some American industry over here we are being entirely provincial, are trying to start a trade war, and are being unfair in trading with Japan, because he is reading publications put out by our State Department and our Commerce Department. And he showed me an editorial in the New York Times—and as far as foreign governments are concerned, that is the only newspaper in America, that is the only one they ever see—that says that we had a favorable balance of trade. And he, for the life of him, cannot understand why we are putting quotas on things. I had to explain to that man that those figures are totally wrong.

How can one of our negotiators sit down with a man of that caliber and convince him that they have to make trading concessions to us because we are going broke when our own publications put out by the President's own appointees, by the Government of the United States, our own official figures say we have a favorable balance of trade. They simply say, "What are you complaining about? You have a favorable balance."

I do not see how you as a negotiator can get those people to concede much to you when you are presenting them figures that say that you are a billion dollars in the black, and the truth is you are \$5 billion in the red.

Mr. McLELLAN. True.

Senator LONG. Doesn't it seem to you we would be a lot better off if we presented figures that show what our disastrous situation is rather than figures that show a rosy picture which does not exist?

Mr. McLELLAN. Yes; sir, your point is understood and it is well taken.

Senator LONG. I would think that when a Secretary of Commerce or Secretary of Treasury or Secretary of State comes up and testifies before this committee or the Finance Committee that everything is great, we have a favorable balance of trade, that those foreign governments would pick that up and confront that same American Cabinet officer or his representative in negotiations by saying you cannot make me think that you have a desperate situation over there, here is your own Secretary of Commerce's statement or your own Secretary of State's statement that everything is wonderful, you have a \$5 billion surplus or a billion dollar surplus. The truth is that what we have is really a big deficit.

Can you tell me in terms of short-term credit how much these foreign governments hold and how much gold we have we can call our own right now?

Mr. McLELLAN. I cannot. I could not give all of the excruciating details of the balance of payments. Our gold bullion reserves are around \$11 billion, but I would not want to give you a figure here of what the foreign call on that would be. In the second quarter, on an official settlement basis announced yesterday there is another \$1.7 billion deficit on the balance of payments. I think that would bring us, if I am right, to a deficit of something in excess of \$2 billion in the first half of the year.

I do not want to represent, Senator Long, in any way, shape or form that we think we have a good trade situation. I do not believe that. I certainly do not want to represent that our balance-of-payments situation is in good shape, because I think it is in very, very poor shape.

Senator LONG. My understanding is the calls on our gold, the short term calls on our gold, exceed by 4 to 1 the amount of gold we have.

Now, I would appreciate it if you would get the figures and see if that is correct.

(The following information was subsequently received for the record:)

*Relationship of U.S. reserves and foreign claims*

[In billions of dollars]

U.S. Reserves:	
Gold stocks-----	11. 889
SDR -----	. 957
Convertible currency-----	1. 132
IMF gold tranches-----	2. 350
Total reserves-----	<u>16. 328</u>
Foreign claims: Liquid liabilities to:	
Official institutions-----	15. 279
IMF -----	1. 010
Other foreigners-----	27. 421
Total -----	<u>43. 710</u>
Excess of claims over reserves-----	27. 382

Ratio of claims to reserves, 2.7 : 1.

Mr. McLELLAN. You are concerned, sir, with the foreign call, potential call on our present reserves?

Senator LONG. Yes. That I should live so long, but when I came to the Senate my recollection is we had a lot more in gold than they had a call on. In other words, we probably had 4 to 1 in gold what the other fellow could call for in payment. Now I think it is about 4 to 1 the other way around. Plus I see in the newspaper that the balance-of-payments picture has improved, but you read on down to the second column and you find that one reason it seems to have improved is that somebody persuaded Canada to buy some U.S. Government bonds. Well, they can sell them as easily as they can buy them, can't they?

Mr. McLELLAN. They certainly can.

Senator LONG. So it seems to me if you read the whole picture, you find that is just one more misleading fact. To make our own figures deceive our own people, someone persuaded Canada to buy U.S. bonds.

Also, another item was that we had persuaded the World Bank to let us have some special drawing rights. Now, that is just another way of saying we borrowed from somebody; isn't that about the size of it?

Mr. McLELLAN. Yes, it is general borrowing available to all members of the International Monetary Fund, so it becomes a reserve currency. The United States is borrowing this from the International Monetary Fund.

Senator LONG. What if I went out and reported that I had a good year, and the reason I had a good year was I went in debt by \$100,000, and I managed to borrow \$100,000 and then told people I broke even. I would not think that would be correct for me to say I had a good year, I made a profit, when the profit was money I borrowed. That would be just about like the Penn Central balance sheet that led up to bankruptcy after about 3 years of that kind of bookkeeping.

Mr. McLELLAN. There is one difference, and that is the economists—I am not an economist, therefore, I can discuss it—the economists argue the necessity for the IMF special drawing rights is to close the gap between the fact that \$11 million of gold reserve does not really represent the reserve assets of the United States in terms of this great country of ours, our natural resources, all of the general reserves. But since the world is on a gold standard, as it were, on international exchange, and because the supplies of gold are fairly limited in central banks, one way of extending the reserve capacity without actually having the actual gold is to do it through the IMF special drawing rights.

So I think there is an argument for it. That does not change what you said about the fact that you are borrowing it, and it is a secondary kind of answer to the real problem on the balance of payments. It is in lieu of, instead of what we ought to be doing on our trade and tourism and so on.

Senator LONG. It just seems to me this charge that the Nixon administration has schizophrenia on the subject of trade would not be nearly as well founded, in fact it wouldn't be founded at all, I would think, if your balance-of-trade figures were showing what other nation's balance-of-trade figures would show on the same transactions, and that is that you have an unfavorable balance.

If you have an unfavorable balance, you have to do something about it. Nations are not going to negotiate away their surpluses and their profits. They might negotiate a little of it away, but not the kind of deficit we have, when we are \$5 billion in the red. That is their profit.

The only way they are going to give that away voluntarily is when we are bankrupt, or we are in such sad shape that nobody will trust the dollar anymore. At that point they won't accept our currency. And by that point we would be out of gold that we could call our own anyway.

So they would then refuse to sell to us, which would achieve about the same purpose that we should be doing by a better route, and that is to either have more exports or less imports. We can't make the other fellow buy our exports, but we can control his imports.

So we would take those steps necessary in time rather than to take steps out of desperation later on. I will be talking to you on your superior, both on this committee and perhaps more so on the Finance Committee, as well as Senator Hartke and some of the others, because we don't think that anybody is serving this Nation's interests who paint a rosy picture where the situation is bad and needs correcting.

Mr. McLELLAN. I agree with you completely on this point.

Senator LONG. Thank you very much.

Senator HARTKE. Senator Baker?

Senator BAKER. Thank you, Mr. Chairman. I have no questions.

Senator HARTKE. In regard to the balance of payments, you are working on a new plan. You intend to submit that modernization of reporting, and you are going to take into account the fact that there are certain items which really are cash transactions, certain items which are bookkeeping transactions and certain ones which fall into neither category, that are sort of a hybrid operation. Is that correct?

Mr. McLELLAN. Yes, Mr. Chairman. That is true. I just want to

qualify your statement by saying in my office, I will be working with Assistant Secretary Passer, who is in charge of economic affairs, to see if we can't devise a better method of reporting than we have now.

I have confidence we can do that.

Senator HARTKE. It is very difficult in my opinion to have any type of comprehensive long-range planning or even noncomprehensive short-range planning unless you have some factual material which is worth looking at.

Mr. McLELLAN. Yes, sir.

Senator HARTKE. Isn't it true that we have had a steadily deteriorating actual balance of trade in the United States in relation to foreign countries?

Mr. McLELLAN. I am not sure I understand your question.

Senator HARTKE. In other words, in 1964, we had a positive balance of trade in the neighborhood of \$7 billion.

Mr. McLELLAN. Yes; that is on the merchandise account.

Senator HARTKE. That is right. I am referring to what is ordinarily considered trade. Some of this is in the commercial field and in finance operations. I am talking about the actual balance of trade on the merchandise account and there has been a steady deterioration of that account.

Mr. McLELLAN. Yes, sir; there was until 1968. We had the low point, the total surplus of exports over imports account did drop from \$7 billion in 1964 to \$1,410 million surplus in 1968. The sum of exports over imports did come up to \$1,940 million in 1969. I want to emphasize that does include these Public Law 480 Senator Long talked about.

Senator HARTKE. If you take those out—

Mr. McLELLAN. We would just about break even in 1968.

Senator HARTKE. Not quite.

Mr. McLELLAN. Probably it would be slightly plus, I think, Mr. Chairman.

Senator HARTKE. I would be glad for you to submit that. In relation to Japan, the very sharp change of balance has occurred in Japan, isn't that true?

(The following information was subsequently received for the record:)

*1968 Trade Position*

[Millions of dollars]

Official exports	\$34, 636
Less military grants-in-aid	(-) 573
Less total Public Law 480	(-) 1, 178
Add Public Law 480 cash sales in foreign currencies	(+) 539
Total exports	<u>33, 424</u>
Imports	<u>33, 226</u>

COMMENTS

(1) There is a deficit of (\$341) if all Public Law 480 shipments are excluded; however, we did receive foreign currency cash for approximately half of our shipments (\$539) resulting in a favorable balance of \$198.

(2) Imports are reported f.o.b. and if they were reported c.i.f. we would in all probability have suffered a small unfavorable balance.

Mr. McLELLAN. We have a serious deficit of trade with Japan.

Senator HARTKE. And until 1965 we had a surplus with them?

Mr. McLELLAN. That is correct.

Senator HARTKE. What this means really is—

Senator LONG. Could I interrupt there for one point.

Senator HARTKE. Yes.

Senator LONG. If you are talking about balance of payments figures—

Senator HARTKE. We are talking about trade.

Senator LONG. Are you including the ocean freight in those figures you are quoting?

Mr. McLELLAN. Senator Long, for historical reference here, I am referring to the published figures on balance of trade and that would be on our basis the f.o.b., so there is distortion in that.

Senator LONG. Then they are wrong by definition as I see it, because they fail to include the freight, they put the giveaways on the plus side, as though you received billions of dollars for them, and they fail to include the tourist trade.

Mr. McLELLAN. But even on that basis, the chairman's point that we have swung from a plus to minus situation with Japan is certainly valid.

Senator LONG. I just wanted to be sure what figures we are talking about. Those are the figures that are not correct. Yes, I understand.

Senator HARTKE. Can you give us any timetable as to when you think you might come up with a reporting system which at least has some basis in fact?

Mr. McLELLAN. Mr. Chairman, all of the figures are true, but you have to understand them. Senator Long obviously does. We think we can improve the method. I wouldn't want to speculate or guarantee.

Senator HARTKE. Do you have a timetable for when you think you could submit it?

Mr. McLELLAN. No, sir, we do not.

Senator HARTKE. Could you provide for the record a timetable within this century?

Mr. McLELLAN. I would hope we will get a better reporting method by the end of this year. I would hope for that.

Senator LONG. If I might interject one more point, Senator Hartke, if they don't put them together that way, we will do it for them. I am talking about the Finance Committee will do it for them, because you agree that is how the figures should have been kept.

Senator HARTKE. Not only do I agree, but I believe there is a bigger problem here. The fact that the whole balance-of-payments concept is antiquated and is nothing more than simply shifting recession from one country to another.

Isn't that true?

Mr. McLELLAN. I wouldn't say that it is true, but I am sure there is a lot of truth in what you have said.

I think the economists can argue that theory and a lot of them would make the point that exchange rate reevaluations make the differences and that these are not necessarily recession caused.

Senator HARTKE. So this really ties back not to the simple problem of definition and reporting and then trying to act upon that, but really calls for a complete reevaluation of our international system of exchange.

Mr. McLELLAN. Well, I think, Mr. Chairman, that our first step, and the one that Senator Long is expressing himself completely on, is that as a beginner we have to be sure we are all working with the same numbers and understand what they mean.

Senator HARTKE. Let's short circuit that. The fact remains that the United States is inextricably related to every other country; if we have a surplus, and they have a deficit, they are in trouble.

Mr. McLELLAN. You are on payments now?

Senator HARTKE. Yes, on the balance of payments. And whenever we correct our situation to make it easier for them to get out of their problems, or to avoid devaluing their currency, the net result is all we do is shift the recession and difficulty from one nation to another.

That is what led to this austerity diet we are trying to fumble through at the present time, and the difficulty is it produces 4½ million unemployed people here in the United States.

Mr. McLELLAN. When I was a small boy in Nebraska, Mr. Chairman, we recognized in marble games if one kid had all of the marbles there wasn't any more game.

Senator HARTKE. That is right. But, the net result of this is that it is saying to the United States we are going to continue to have an affluent society at the expense of putting about 5 percent of our people out of work continually. That is what it amounts to.

I am not asking you to agree, but it seems the Government is saying that those who are in society are going to live better, because we are going to make some live worse. I don't ask you to comment on that. I just hope you can straighten up this reporting system, that, at least, would be some help.

What do you think can be done in regard to exports, as far as the business community is concerned? Do you believe more can be done in this field?

Mr. McLELLAN. Yes, sir, I do, Mr. Chairman. I mentioned before we are spending relatively small amounts on, from the Government's point of view, export expansion. We think more can be done. We think more can be done to get more U.S. companies involved in export activities and we intend to continue that effort.

Senator HARTKE. Do you think we ought to have more foreign commercial officers?

Mr. McLELLAN. I think there is a good argument for more of them.

Senator HARTKE. You think that would be helpful?

Mr. McLELLAN. Yes, sir.

Senator HARTKE. Do you believe that promotion policies with respect to these foreign commercial service officers should be changed?

Mr. McLELLAN. Are you talking about sales promotion here?

Senator HARTKE. Yes.

Mr. McLELLAN. Or career promotions?

Senator HARTKE. I am talking about career promotions as a means of improving our sales promotion efforts.

Mr. McLELLAN. I see. Gentlemen, I do. And this again I think helps to put it into perspective for a moment. Coming out of World War II, when there was no pressure on us to go out and do our best job in selling American products, in fact it was the contrary, we had gold reserves, we had economic strength, and the governmental commercial

economic people really had no pressure on their services to go out and do much about it.

That has changed. We have come to this competitive point we talked out earlier in the hearing and there is a great need today for governmental support abroad of the American businessman trying to do more business overseas.

Senator HARTKE. Can you relate that to what other countries are doing in relation to their promotions with their officers?

Mr. McLELLAN. Yes; I can. Britain recently published the so-called Duncan Report, a three-man commission headed by a gentleman named Duncan, to improve the character of the British Foreign Service in terms of commercial developments.

In that report they are making the point that that has to be the No. 1 call on the British Foreign Service.

Senator HARTKE. Can you supply a copy of that Duncan Report for the committee?

Mr. McLELLAN. What I can do, Mr. Chairman, if not a copy, I can give you a summary of the report that I think would give you what you want.<sup>1</sup>

Senator HARTKE. We have a new government over there. Maybe they would be glad to share it with us.

Mr. McLELLAN. I think they would.

Senator HARTKE. What about import quotas generally? Are you in a position where you can express an opinion on this? Are you generally in favor or opposed to them?

Mr. McLELLAN. Mr. Chairman, I don't think you can be for or against quotas. I think you have to be for that which is in the best interest of the United States.

Senator HARTKE. That is a safe answer.

Mr. McLELLAN. Thank you very much.

Senator HART. Senator Hartke and I will try that out in the next couple of weeks.

Senator HARTKE. You are familiar with the 1962 Trade Act?

Mr. McLELLAN. Yes; sir, I am.

Senator HARTKE. Trade Expansion Act.

Mr. McLELLAN. Trade Expansion Act of 1962 is the present statute.

Senator HARTKE. It offered great hope and produced nothing except propaganda victories. But it has an adjustment assistance section of which I have been very critical, and it was, generally speaking, unused.

Mr. McLELLAN. That is right.

Senator HARTKE. Are we doing anything to change that?

Mr. McLELLAN. Yes; as a matter of fact we are, we think we are. Your reference to the historical fact is certainly correct.

You appreciate I am sure that the adjustment assistance portion of the bill provides for adjustment assistance on the one hand to labor that has been found injured by imports, and on the other hand it applies to adjustment assistance to companies that have been injured.

Until recently there had been no cases—maybe there was one case sometime back. But until recently there had been no cases, no findings of injury for adjustment assistance. In the past year there have been I think two cases of injury finding for labor—this would have been

<sup>1</sup> The summary appears on p. 56.

in 1969—and recently there have been I think three industry findings of injury, the barber chair industry, the glass industry I think and the piano industry, as I recall.

Once the Tariff Commission finds the industry has been injured, then the companies may apply for certification of injury. It is my responsibility to certify them as having been injured: That is after the industry finding by the Tariff Commission.

We, then, through an operating unit within my area of responsibility investigate the adjustment that this company can make reasonably to adjust away from the injury that they have experienced—a new area of the business; or new methods, more efficient ways of operating, what have you. We work with them to develop that.

And then we help them find funds to help them in their efforts. They can get funds for technical assistance; they can get funds from the Economic Development Administration, if it is part of the original problem. More often they will get funds from SBA, small business loans, to help them in their adjustment process.

We have the first company case just coming through now, that has gone the full route.

Senator HARTKE. Indiana is one of the biggest steel producing States in the Union. We are getting bigger every day. But there is this question of imports of steel which have been very sharp and rapid in proportion to domestic consumption.

The voluntary restrictions have been in effect now for a little over 2 years. What is your judgment as to what will occur with the extension of the voluntary agreement? Will it be extended? Should it be?

Mr. McLELLAN. My own view is that it has been a very effective device, and I am sure that the industry by and large does want to extend it. I think there may be a need for some corrections in that.

As you know, while it served the overall purpose of bringing down the total tonnages there have been some problems in it where it hasn't served the purpose on high-value low-weight products—

Senator HARTKE. The so-called mix.

Mr. McLELLAN. That is right, the mix is off somewhat. But with that qualification I think the agreement has been a good one. It would seem to me a continuation of it would be in the interest of the industry and the country.

Senator HARTKE. Sometime ago there was discussion concerning the imposing of controls on exports of scrap steel. Has anything been done on that lately?

Mr. McLELLAN. I am the person responsible for this action, so I can respond to that very readily. The steel scrap situation has become critical, going back over the last 2 years; we are exporting now at the rate of about 11 million tons of scrap a year, as against a 5-year average of 6.7 millions tons I think it is.

What happened really was that the price, the composite price on bundled scrap, had risen to a high of \$46 and some cents per ton in March of this year, but has fallen off appreciably now. We are down to about \$38 a ton.

So we have gotten a drop in the price which is roughly what you would have tried to get by applying controls in the first case. So as I see it at this point in time, the case for putting on controls doesn't really exist.

I think the key point here, Mr. Chairman, is that it is a very delicate price-demand situation. We must monitor it very carefully, because it is conceivable as steel consumption picks up in the third quarter, perhaps we might have a problem on our hands that could justify control action.

Senator HARTKE. What about coal?

Mr. McLELLAN. Coal is a very serious problem. This is presently being handled for the most part in the Energy Subcommittee of the New Domestic Council under the chairmanship of—that is the subcommittee is under the chairmanship of Dr. McCracken of the Council of Economic Advisers; the subcommittee is looking at the total energy situation, including coal.

From where I sit, coal is a problem, because we have something like 200 mines shut down on wildcat strikes. Our coal production is being severely curtailed and our coal stocks are very low, particularly of the high-grade metallurgical coal for the steel industry.

There is a big foreign market on this type of coal, and has been. Coal, both as a general fuel and more specifically as a metallurgical process resource, is a serious problem.

Senator HARTKE. Isn't there a possibility that our domestic steel mills may be closed because of unavailability of coal?

Mr. McLELLAN. I couldn't honestly answer that. I don't know.

Senator HARTKE. I wish you would check. I understand some of them are down to less than 3 weeks supply of coal.

Mr. McLELLAN. The reserves are very low. I am aware of that.

Senator HARTKE. And the exports continue to be very high.

Mr. McLELLAN. In fact we are not meeting the export market. There could be more shipped than there is now. So it is a production problem. Our interest is in doing what they can to protect the mines and to increase the production.

Senator HARTKE. What about walnut log export?

Mr. McLELLAN. You are aware of the short supply control problem. These are the hardest decisions we have to make.

Senator HARTKE. That is what you are there for.

Mr. McLELLAN. And the arguments on the walnut log question have been in abundance, very profound, somewhat confusing, on both sides. The problem is really that you have got two walnut log situations in the United States as you know.

In the Appalachian region by and large we have the wild walnut log growing. These logs, they tell me, by and large, go into the sawed walnut lumber business. This is in contrast to the walnut logs in the Midwest to go to the veneer market.

The problem is in the higher quality midwestern log and the veneer market. Export controls to prohibit or control export of the logs—I might add there is a control on logs now, as you know, with no quotas; it is a surveillance device to monitor and get statistics on the total shipments. If you put a quota on logs, then you are denying the Appalachian farmer who relies on the export market for the shipment of his logs in lumber, and if you don't put a control on you face the problem that we are consuming 50 percent more than we can bring into production every year, which ultimately has an impact on the high quality veneer furniture economic chain. We have not made a decision on this yet.

Senator HARTKE. You will keep us advised.

Mr. McLELLAN. Yes, sir, we will.

Senator HARTKE. Senator Long?

Senator LONG. I would just like to say I think you have made a good witness, Mr. McLellan. I think you have responded very well to what we have asked you here today and I will enthusiastically vote for your confirmation.

Mr. McLELLAN. Thank you, Senator.

Senator HARTKE. Let me say to you I want to add my congratulations on your selection and say to you it looks very good. Thank you for your time this morning. You have some hard decisions to work on. That is why we have very competent men in these tough spots, to make the hard decisions.

Mr. McLELLAN. Thank you, Mr. Chairman. I appreciate that.

Senator HARTKE. We are glad you are there to help make them. Are there any other witnesses? If not we will adjourn.

(Whereupon, at 10:55 a.m., the subcommittee was adjourned.)

(A summary of the Duncan Report referred to by Senator Hartke follows:)

#### CHAPTER I.—THE ROLE OF OVERSEAS REPRESENTATION IN THE CONDUCT OF BRITISH FOREIGN POLICY

##### COSTS

Overseas representation absorbs a tiny proportion of British Government expenditure, almost exactly 1 per cent of the total—but it is a significant user of foreign exchange. The identifiable costs of overseas representation, as the Committee has understood the term (*i.e.*, including not only the operations of our representatives abroad but also those of the offices directly concerned with their work at home), amount to £105.8 million. The detailed composition of this figure is set out in Annex C. The broad item of "Support of External Policies" is shown in the Estimates 1968-69 (Comnd. 3583/1968) as costing £2,704 million; but the great bulk of this is spent on Defence and the next largest element in the total is Aid. Overseas representation comes third. However, the last does account for some 10 per cent (£50 million) of Government foreign exchange expenditure. Foreign Governments and international organisations are estimated to spend a roughly equivalent sum in foreign exchange to maintain their official representation in Britain.<sup>1</sup>

2. The conventional definition of expenditure on "Overseas Representation" covers the Diplomatic Service Vote (£47 million) plus the supporting costs borne on the votes of the Foreign and Commonwealth Office and other Government Departments. We came to the conclusion that this was too restrictive a definition; it would, for instance, exclude the Board of Trade's export promotion activity overseas. Our own view is that all activities financed out of public funds which are concerned with the conduct of British external relations, other than by the deployment of force (military means) or by means of financial subsidies to foreign Governments (aid), belong within the scope of the Committee's enquiry. The two exceptions noted in the last sentence cover most of the work done by the Ministry of Defence and the Ministry of Overseas Development, though not all of it. There is a representational function performed by the Defence Attachés and by officials in diplomatic Posts overseas whose business is the administration of British aid policies. The latter is a comparatively new task which involves over 50 officials in a whole-time capacity (and others part-time) and is to be distinguished from the work done by the much larger number of British technicians and advisers who are engaged on particular aid projects and technical assistance overseas. We think of external relations in this broad sense as including the communication of British views and ideas and the exertion of British

<sup>1</sup> All cost figures in this Report, unless otherwise stated, are from 1968-69 estimates. Future cost figures are at constant (1968) prices.

influence in overseas countries, where these activities are financed from public funds, as well as the acquisition of information abroad which will serve British interests. Thus our examination covers not only the staff of diplomatic missions, but also the British Council and the BBC external services, which are paid for separately by the Government rather than by the broadcast licence fee.

#### PRIORITIES OF POLICY

3. The focus of our concern has been on external policy issues and on the effectiveness of our overseas services as an instrument of British interests abroad. This marks the main difference between our investigation and that of the Plowden Committee which reported in 1964; the latter was chiefly concerned with problems of structure, especially with the major task of the merger of the Commonwealth and Foreign Services, and made a number of important recommendations which have led to improvements in efficiency. We were appointed at a moment when there had been a major shift in British foreign policy—the decision announced at the beginning of 1968 to withdraw our military forces from the area East of Suez. There had been other important, though less sudden changes of policy in the middle and late 1960s, notably the priority given to the renewed British bid for membership of the European Common Market and the greatly increased emphasis on the support of our commercial effort overseas prompted by the long-drawn-out series of balance of payments crises.

4. These events, as our terms of reference indicate, provided the occasion for our enquiry. We had to start by looking again at the traditional order of priorities and considering how far they were affected by the change of circumstances. Nothing that has happened could of course affect the first priority of external policy which is to maintain the security of this country, and our representation overseas will continue to have an important part to play in this. However, the balance of their work load should now reflect the clear precedence that belongs to the commercial objective in the day-to-day conduct of Britain's relations with other countries. There are other aims of policy, some of them of high importance, but they cannot be effectively pursued if the balance of payments is not put right. The Committee has therefore given special attention to the organisation of our commercial services and has considered how these might be reinforced to add vigour and direction to the export effort. The implication of this re-ordering of priorities is not that other major policy aims must invariably be sacrificed whenever they conflict with our commercial interests. It would be foolish, for instance, to suggest that in the midst of a crisis in Berlin which happened to coincide with a British Week in Germany the latter ought to be the chief preoccupation of the Ambassador and his staff. The question is rather how in ordinary circumstances the total diplomatic resource ought to be divided between the competing demands on it. We consider that to achieve a substantial and continuing surplus the design of British representation overseas and the distribution of its effort among its various tasks must reflect the towering importance of this aspect of policy.

5. Our concern with the balance of payments was also reflected in our immediate search for any economies that could reasonably be made in overseas representation, in the light of the changes in British external policy, without reducing its efficiency. Here our terms of reference presented certain problems of interpretation. On the one hand there was the urgent need for savings, particularly savings of foreign exchange; but on the other hand the most important policy changes that seemed to offer some promise of economies—the withdrawal of forces from east of Suez—would be completed only after another three years from the time when we were appointed. In the meanwhile there might be special circumstances connected with the act of withdrawing which could arguably increase rather than diminish the demands that would be made on our overseas representation in and around the area of the Indian Ocean. We do not say that this will necessarily prove to be the case; but the argument was put to us by several witnesses and we concluded that it was one which could only be answered by a case by case consideration of the political circumstances of individual countries, and of their possible military implications for Britain, at various points in time during the course of the withdrawal. We did not feel that this was a task which the Committee could undertake. It involves a series of tactical judgments which can best be made by people working inside the administration of government, rather than by an outside committee whose concern must necessarily be with the broader issues of strategy.

6. We also had it in mind that any recommendation for short-term economies which we might make would be most unlikely to produce quickly a significant net saving in the overall budgetary cost of conducting our external relations. There was almost bound to be a time lag. Whatever changes might be made in the deployment of British representation overseas, the Government's financial commitment to its employees, both regular officials and locally-engaged staff, would not suddenly cease. Arrangements would have to be made for early retirement pensions or other jobs would have to be found for these people to do. The Diplomatic Service in particular has to be treated as an organic entity; it consists of a corps of highly trained people who have committed themselves and their families to a way of life which demands high discipline. It is based on the assumption that there is a corresponding commitment on the Government side to their financial security. Indeed any changes which resulted in the grant of a number of early retirement pensions might well produce an increase in the total expenditure in the short term. This is not, of course an argument for delay in taking such decisions; where reductions in the establishment are needed, unambiguous action combined with fair compensation for those affected is what is best for all concerned. Our evidence is clear that this course would be welcomed by the Diplomatic Service, once anxieties about harsh or unfair treatment of individuals made redundant through no fault of their own were set at rest. We think it is important to stress that the morale of those who stay in the Service is intimately bound up with the treatment of those who go.

7. Apart from the financial consideration, there is the likelihood that any important change in the structure of our external representation, requiring emphasis on different skills or different kinds of training, could not take effect at once. It seemed to us that any proposals that we made to adapt the instrument of British external policy to changed circumstances ought therefore to be based on a reasonable prospect that the new circumstances would endure for some while. Allowing for this and for the time lag in the process of adaptation, we concluded that our recommendations should be so designed as to be relevant to the probable international environment in which British foreign policy would be operating in the mid-1970s. This has necessarily involved us in the business of prediction. We have tried to limit the range of such prediction to the minimum necessary for our task; but there is no means of avoiding it altogether. The would-be hardheaded person who refuses to make an explicit forecast is often, in effect, only making a series of assumptions based on the projection of the present, largely unchanged, into the future. The assumption of "no change" is the one which is surely going to be wrong; and as soon as that assumption is modified in an attempt to take intelligent account of the likely shift in some aspect of the situation, knowledge about the nature of an underlying trend is implied. That this assumption is implicit rather than explicit merely reduces the awareness of the fact that one is making a guess about the future.

8. We have had to face a further difficulty in our attempt to foresee the requirements of the 1970s. There is already public discussion of the timing and degree of the withdrawal of our armed forces from east of Suez and some divergence between the views of the two major political parties in Britain. Any Committee attempting to look ahead for a period of years, as we have done, cannot assume that any one administration will necessarily hold continuous office throughout the period under review. The withdrawal under the present programme may not be complete before the end of 1971. We have therefore felt compelled to consider whether our recommendations would be inconsistent with the possible retention for a longer period of some modest forces east of Suez (in addition to the Hong Kong garrison). We did not think, however, that such an eventuality would materially alter the general tenor of our proposals. It is possible that a change of British policy in this sense might be reflected in new requirements of political and defense representation. But the Committee felt that on balance any probable extra requirement would not be on such a scale as to invalidate the central argument of this Report, whatever localised adjustments in the deployment of our resources might be involved.

## CHANGED REQUIREMENTS OF REPRESENTATION

9. For the purposes of designing a system of representation for the mid-1970s, it seemed to us that overseas countries would be divided into two broad categories more sharply distinguished from one another than they are today. One is the category of advanced industrial countries with which we are likely to be increasingly involved to the point where none of us will be able to conduct our domestic policies efficiently without constant reference to each other. This group—to which we refer as the Area of Concentration of British diplomacy—will consist of about a dozen or so countries in Western Europe plus North America. There are also a few industrially advanced nations outside the European/North Atlantic area with whom British relations will be very close and important for different reasons. Examples are Australia and Japan. There is not the immediate prospect here of the mutual commitment in the day-to-day process of government that there is in Western Europe. But British representation in these countries will have far-reaching responsibilities. The other category of countries comprises the rest of the world. There will be important differences in the kind of representation that will be appropriate, depending on whether the country concerned is in the Soviet *bloc*, commercially important, politically hostile, economically underdeveloped and so on. But none of them is likely to impinge on the day-to-day conduct of British Government business in quite the way that we expect the countries of the first group to do.

10. What is distinctive about the countries in the Area of Concentration is that their social structure, ways of living, methods of conducting political and economic business are sufficiently similar to make it possible for them to conduct their external relations with one another in a style different from the traditional one. Because their domestic affairs are increasingly interrelated and impinge on each other at so many points, it is likely that the range of topics in the diplomacy of the future will be much wider with an emphasis on economic and social issues. These countries will also be even more closely enmeshed with one another commercially and in other fields of activity, *e.g.*, tourism, than they are today. The process of intermeshing will of course be greatly reinforced if Britain and other countries which are at present applicants for membership of the European Common Market, join it. But the argument about the underlying trend towards a new kind of diplomacy which is both more wide-ranging and more intensive is not dependent on any particular event. We think that there is a high probability that a considerably increased proportion of the world's trade will take place in the Area of Concentration and that an increasing number of policy decisions on commercial and broader economic issues will be taken in concert by these nations. There is likely to be a similar trend in the management of monetary and social questions. It is more difficult to foresee how far the development of multilateral diplomacy in international organisations like the European Economic Community, EFTA or even NATO will carry these countries towards the adoption of common external policies towards the rest of the world. But even if this process does not advance very far by the Mid-1970's, the demands made on British overseas representation in the Area of Concentration will still be heavy.

11. Thus the two central commitments of British foreign policy that have emerged clearly at the end of the period of decolonialism in the late 1960s, first the commitment to an increasingly integrated Western Europe on as wide a basis as possible, with the European Common Market as its core, and secondly the commitment to a North Atlantic Alliance under US leadership as the main instrument for the conduct of East-West relations, should be seen as involving something more than a geographical choice. They are also an expression of our growing commitment to a certain style of diplomacy. Without the latter neither the process of integration in Europe nor the maintenance in the years ahead of an effective multilateral alliance among nations of vastly differing military power would be feasible. But we do not view the New Diplomacy as being of necessity confined to a particular geographical region. We have already referred to Australia and Japan, where the appropriate diplomatic techniques seem likely to conform more and more to those which are coming into use in the European/North Atlantic area. In the Soviet *bloc* too, if and when the Soviet Union loosens its control over Eastern Europe, opportunities for the extension of the New Diplomacy will occur.

12. In order to remove any doubts on this score, we must emphasize that our view of the appropriateness of these advanced and intensive diplomatic tech-

niques in our dealings with a particular country does not rest on a judgment of its relative importance, either as a friend or enemy, in the overall framework of British external relations. What is significant about a country of this type is that our relationships with it involve us in contacts over a much wider range of government and society than has been usual in traditional diplomacy, and that these contacts are concerned with many topics which have in the past been conventionally regarded as belonging to the domestic affairs of sovereign states. The diplomatic techniques tend to be multilateral because of the complex and inter-connected character of the interests of the nations which engage in this kind of bargaining with one another. The changing methods of conducting such international business are foreshadowed today in organisations like the European Economic Community, EFTA and OECD. Finally, a condition for the conduct of effective multilateral diplomacy, much of it involving problems which are sensitive politically and technical in content, is the existence of a sophisticated apparatus of national government and of a fairly sophisticated open society behind it.

13. In purely geographical terms the significance of the historic shift in the focus of British foreign policy in the second half of the 1960s to the European/North Atlantic area needs to be interpreted with some care. There are issues outside Europe which will continue to matter to the nation. We shall continue to be concerned in the welfare of the Commonwealth and to be directly involved in the efforts of the new members to achieve economic take-off. There will also be the actual responsibility of government in a number of small Dependent Territories scattered around the world. Thus our interest in the countries bordering the Indian Ocean and the Persian Gulf as well as Africa will not cease in the 1970s—nor is it likely even that it will be reduced to the low level of priority that it has had in the Foreign Ministries of most continental European nations. The evidence suggests that the policies of these continental nations are still must influenced by the post-war ebb in the concern for extra-European affairs which was a widespread phenomenon in Western Europe, and it seems unlikely that this unconcern will prove permanent. Indeed, there has already been some revival of interest. Even the most Eurocentred governments are beginning to find it is necessary to take a close interest in what happens on Western Europe's eastern and southern flanks. It is not unreasonable to anticipate that the European nations will sooner or later, and hopefully in concert, return to a more active diplomacy in these regions and further afield.

It would therefore not be in Western Europe's long-term interest in Britain's considerable diplomatic expertise derived from long and profound experience of the problems of the African continent and the Indian Ocean area were now simply cast aside, perhaps prompted by a feeling that this rejection would in some sense make Britain more truly "European". Rather, Britain's connections with these distant places should be regarded as providing a valuable contribution to the instrument which it is hoped, Western Europe will feel that it needs in the long run to express its common interests in the African continent and the areas bordering the Indian Ocean. These areas contain a high proportion of the world's population; their capacity to produce is growing fast; and their capacity for engendering problems for the rest of the world is unlikely to diminish. What we are suggesting is not that Britain should take it upon herself to act in some sense as the trustee of Western Europe's interests. Our point is only that in looking ahead to the kind of diplomatic instrument which Britain as a European power will need in the mid-1970s, we should not be guided entirely by the evidence of unconcern with extra-European problems which has been characteristic of most continental European countries in recent years.

#### PROBLEMS OF INTERPRETATION

14. Our task has involved us in extensive discussion with a variety of witnesses in an effort to determine as precisely as possible the nature and relative importance of the long-term objectives of British external policy. This effort has been necessary because there are problems of interpretation and prediction here too. It would be disingenuous to give the impression that all those in authority whom we were able to question on this topic spoke with one voice and produced a uniform ordering of priorities. There was general agreement on certain major objectives. We have already mentioned three of them: the improvement of the balance of payments, the maintenance of the North Atlantic Alliance and the promotion of integration in Western Europe. Other broad aims on which

there is general agreement are the reduction of East-West tension, whenever circumstances in the Soviet *bloc* permit this without weakening the Atlantic Alliance; the sustaining of Commonwealth links in a form appropriate to contemporary requirements, including our relations with a number of small Dependent Territories for which the British Government will continue to be responsible; the improvement of economic conditions in the less developed countries; and the strengthening of international organizations in which an effective dialogue can take place on issues which cause conflicts between nations.

15. The problems arise, naturally enough, when these highly generalised aims are translated into specific objectives, especially those objectives which are related to a timetable. We found that sometimes ambiguities of British policy impeded the attempt to design a service which would efficiently perform its task in the most economical fashion. This was markedly so in the sphere of defence policy (see Chamber XI) where the aim of reducing the costs of representation overseas is made more difficult of fulfilment by the uncertainties of the stated objective of the Government to maintain "a general capability based in Europe (including the United Kingdom) which can be deployed overseas as, in our judgment, circumstances demand, including support of United Nations operations." This is capable of being interpreted in different ways. It is evident that after our withdrawal from east of Suez we shall exercise less physical power around the world than before and shall aim to avoid intervening militarily, particularly on our own, in situations outside Europe. This would imply that we shall need less of the detailed information which might be relevant to an armed conflict in an area in which our forces might have an active role to play. But on the other hand it has been argued that wherever there remains any possibility that our forces may have to intervene, full information is needed to judge the situation and to support any eventual operation. Until a military contingency is finally abandoned this backing for it in terms of information would still be needed. And in many cases this need therefore depends upon specific policy and military planning decisions not yet taken. Faced with arguments of this kind, we felt very keenly that it was not possible for a committee, charged as ours was to secure an improved cost-effectiveness in the conduct of foreign policy by clarifying objectives and determining the appropriate scale of resources to be allocated to achieving them, to proffer useful advice if there were ambiguities at the very centre of our policy decisions. We conclude that ambiguity of intention, even if this ambiguity has the effect of deterring aggression, cannot be had on the cheap.

#### THE COMMITTEE'S PROCEDURES

16. The working methods which we adopted were partly determined by the comparatively short time in which we were asked to complete our enquiry. We were not able to conduct research in depth into aspects of the problem of overseas representation which we felt deserve more systematic scrutiny than they have so far received. We instituted some limited enquiries of our own aimed at determining the orders of magnitude of certain items of cost, which we hoped we might relate in some broad fashion to the objectives of foreign policy. This would have been the first move in devising some measure of the cost-effectiveness of overseas representation. However, the basic data for an exercise of this kind could not be assembled in the time at our disposal. The feasibility of an overseas "output budget" is discussed in Annex D.

17. We did, however, carry out a preliminary investigation of the effectiveness of one particular aspect of overseas representation, viz. political reporting from Posts overseas. We used the case study method, because no material was available which would have allowed us to make a systematic analysis over the whole field, and employed the results to supplement the more impressionistic views that we formed of the content of political reporting. We regard the detailed investigation of political reports from four Posts conducted on our behalf by our Research Director as having chiefly an experimental value. The exercise seemed to yield promising results, and we think that it could usefully be carried further by the Foreign and Commonwealth Office.

18. Since we have no yardstick of achievement by which to measure the cost-effectiveness of the various parts of the foreign policy operation, we have had to rely on other indications for our judgment of the appropriate scale for the various activities concerned with overseas representation. We have had to judge not only the *relative* importance of each of these activities but also

whether the resources devoted to overseas representation in the *aggregate* were too much or too little. The guide which we used as a starting point for each of our investigations was to compare the scale of British activity with that of two other European countries, France and Germany, with economic resources comparable to our own. This device was, of course, no more than a preliminary benchmark. The scale of representation that would be appropriate for Britain in certain countries with which there is a long-standing and important political connection will naturally be very different from that of Germany for example. But in many other countries where there is no compelling national interest requiring Britain to be heavily represented, the comparison with what our neighbours are doing was useful. The principle that we adopted in our investigation was that special grounds of national interest had to be shown positively to exist in order to justify marked differences in the scale of our representation compared with Germany or France.

19. The evidence that we had about individual Posts indicated a general tendency for the British to be more generously staffed than the French or German, particularly at the junior levels. A comprehensive, though provisional analysis of expenditure provided by the Foreign and Commonwealth Office showed that excluding cultural activities—on which both Germany and France spent more, France considerably more, than Britain—British overseas representation costs more than either of the other two. It is very difficult to identify precisely where the differences occur and how far they correspond to variations in the scale or quality of the service which Britain's overseas representatives are expected to provide, compared with the French and German. The Foreign and Commonwealth Office analysis identified clearly two sectors of activity where the British effort was notably more elaborate; one was Information and the other was Administration. These are the subjects of further analysis in their later chapters of our Report.

20. Our main sources of evidence were Government Departments, public and private organisations, businesses and private individuals with academic, administrative and business experience. Much of our evidence was oral and given in the course of informal discussion with the members of the Committee. We found that by this type of procedure we were able to catch the nuances of the views held on the merits and demerits of British methods of overseas representation, which might not have come to so clear expression in a more formal question and answer session. We varied our arrangements as we found appropriate and used more systematic methods of examining witnesses in the investigation of certain key issues. All our evidence was given in confidence and none of it is being published.

21. From the start of our enquiry we encountered the difficulty that, while our terms of reference on a narrow interpretation cover only overseas staff and activities, the corresponding home establishment is integrally involved in any rational survey. Any attempt to exclude home staff and activities would have left us unable to deal with a number of fundamental questions implicit in our terms of reference, *e.g.*, the relative merits of basing a given officer in London or abroad, or the use made in London of information submitted by overseas Posts. We explained this dilemma to the Foreign Secretary in September 1968 and were encouraged by him to interpret our terms of reference widely enough to cover home establishments where these were relevant to overseas representation. We have not, in the time available, been able to examine home establishments in any detail. But we have felt it essential, in our consideration of the overseas end of the representational bridge, to take some account of the abutment at the home end as well.

#### THE WORK OF OVERSEAS REPRESENTATION

22. For the purposes of our investigation we have found it useful to distinguish various kinds of work involved in overseas representation under the following heads:

(a) The handling of intergovernmental relations. The essential function here is conducting intergovernmental dialogues formally, in set negotiations, or less formally through interviews and casual meetings. This is the basic and indispensable diplomatic function. The content of the relations involved, and the subject matter of the dialogues, can be very varied. They are by no means always political or politico-military. Increasingly often they are economic (including aid) or commercial. They can also be, *e.g.*, consular. The essential criterion is that one government is being enabled to communicate with another;

or with several others, since the relations and dialogues can be multilateral as well as bilateral.

(b) Advice on foreign policy. A very important aspect of the conduct of international relations is the reliance which the home government must place upon advice of a general or specific character which its representatives in the field are required to furnish, on their own initiative or in response to enquiry.

(c) Advising and helping British subjects, overseas or in an overseas context. This includes the bulk of export promotional work, where the British Government are, through their agents, advising and helping British businessmen in the export field. Most consular work also falls under this head; British subjects of all categories need to be provided overseas with certain forms of protection and official services. A particular form of help to British subjects arises in the context of aid administration, since British aid personnel (even when formally employed by overseas governments) usually rely on a degree of financial and/or administrative support from the British Government by whom they are recruited. For a country like Britain, official export promotion work will always be of major importance. In our present circumstances, when our entire international standing depends upon our establishing a firm basis for our economy, export promotion is bound to become an even more crucial part of overseas representational work.

(d) Reporting. As here distinguished, this excludes the sending of certain types of report which flow directly from the activities described above in sub-paragraphs (a) and (c); e.g., reports of the course of a negotiation or of action taken to help a British subject. By reporting as a separate activity we mean the preparation and sending of reports on matters of general or particular interest—whether political, economic or military—to the Foreign and Commonwealth Office and other official recipients in London or overseas. The material on which such reporting is based is usually available as “fall-out” from the activities at (a) and (c) above.

(e) Influencing overseas opinion. The direct influencing of overseas governments is of course part of (a) above. But the influencing of non-official opinion is a distinguishable activity, although related in the sense that even non-democratic governments are liable to be indirectly influenced by any changes wrought in public opinion among their subjects. The topics on which we may wish to influence public opinion can vary from a specific act of British policy, which we hoped to see rightly understood and perhaps supported, to the general reputation of British institutions, society and civilisation, which we hope to see highly regarded and perhaps imitated. Our main instruments for exercising this influence on public opinion are the external services of the BBC; the British Council; and the information staffs of our posts, known generally as the British Information Services, supported by the output of the COI in London.

(f) Processing potential travellers to Britain. Granting visas for temporary visitors, where required, is a familiar aspect of consular work. On the other hand, processing potential immigrants, in any numbers, is comparatively new type of work for Britain's representatives overseas, although it has long been familiar to those of, e.g., the United States. Recent legislation has tightened the controls we wish to exercise over immigration of all kinds, including from the main population-exporting countries of the Commonwealth. It is clearly necessary and right, in these circumstances, that the work of immigration officers at points of entry in Britain should be reinforced by work undertaken by our Posts in countries of origin. It seems likely that the demand for work of this kind will increase.

(g) Self-administration. There are broadly two types of work involved here: the provision of services for our overseas Posts, and the provision of welfare for their staff. The former covers communications, security arrangements and office equipment. The latter includes housing, travel arrangements, issue of pay, etc. The volume of both types of work is largely a function of staff numbers.

#### THE EFFECT OF OUR RECOMMENDATIONS

23. The following Chapters examine first the Diplomatic Service, as the principal instrument of overseas representation; secondly, the traditional categories of overseas work undertaken by civilian staff in Posts; thirdly, work undertaken by Service Attachés; and finally the special problems of accommodation. Our specific conclusions are set out at the end of each Chapter. As will be seen, our recommendations envisage that there should in due course be reductions of expenditure in many fields. The size of the information effort might be reduced by half (Chapter VIII), and the deployment of Service Attaché and Defense

Staffs by a third (Chapter XI). In the medium term the reorganisation of political work outside the Area of Concentration (Chapter IV) and in the longer term the rationalisation of estate management (Chapter XII) should also produce substantial savings.

Other economies would flow from reductions in overseas Security Guards (Chapter III); from administrative simplifications (Chapter III); from modifications in traditional consular services (Chapter IX); from the restructuring of Civilian Attachés' work (Chapter X); and from the construction of a modern Foreign and Commonwealth Office building in London (Chapter XII). Against these savings there would have to be set extra expenditure on certain short-term items, notably improved retirement compensation (Chapter II); and on certain continuing commitments, such as an increased export promotion effort (Chapter VI), the full implementation of the recommended manpower margin and increased training in the Diplomatic Service (Chapter II), a more enlightened use of international travel (Chapter III), more adequate provision of modern equipment (Chapter III), and the growth of immigration work (Chapter IX). It is impossible at this stage to forecast with any precision either the timing or the net financial effect of these changes. But we believe that they could be complete by the mid-1970s; and that the saving of total expenditure involved could by then be not less than 5 per cent (at constant prices) and perhaps of the order of 10 per cent.

## CHAPTER II.—THE STRUCTURE OF THE DIPLOMATIC SERVICE

### CONCLUSIONS

34. (a) The Plowden Report created the unified Diplomatic Service and created satisfactory conditions of service for it; these should be built upon for the future.

(b) The Diplomatic Service has achieved high standards of performance and maintaining these will be as important in the future as in the past; the Service's capacity for adapting itself rapidly to changing circumstances will be particularly needed.

(c) Quantitatively, however, the Service faces a period of contraction, due primarily to changing national requirements flowing from Britain's altered role in the world; this will create morale problems which should not be underrated.

(d) A reduction in the size of the Service will involve retiring a number of competent officers prematurely; they should be fairly compensated and this will serve the interests of long-term economy.

(e) The promotion system should allow the ablest members of the Diplomatic Service to be more quickly advanced than has latterly been the case.

(f) The Diplomatic Service should be allowed the full 10 per cent manpower margin recommended in the Plowden Report.

(g) In parallel with likely developments in the Home Civil Service following the Fulton Report, there should be freer temporary and permanent movement between the Diplomatic Service and other professions (including particularly the Home Civil Service); and there should be a merger between the Administrative and Executive Classes.

(h) The Diplomatic Service should consist neither of experts nor of amateurs but of "professional generalists"; its members' professionalism should include in addition to foreign languages a familiarity with the social sciences.

(i) The requirements of the Diplomatic Service today are more complex than in the past, and career planning should therefore avoid trying to give everyone a little experience of everything; the aim should be to encourage the acquisition of a relevant depth of knowledge on particular areas and subjects.

(j) The introduction of satisfactory superannuation arrangements for all local staff should be speeded up.

## CHAPTER III.—THE MANAGEMENT OF THE DIPLOMATIC SERVICE

### CONCLUSIONS

24. (a) The Diplomatic Service's formal separation from the Home Civil Service, with which it remains closely linked, is an administrative convenience given the differences in its conditions of life.

(b) We found evidence of over-administration in a Service whose management was in other respects generally good.

(c) Given the high cost of manpower, particularly when United Kingdom-based staff abroad is concerned, the Diplomatic Service could do more to modernise and mechanise its procedures.

(d) There should be more delegation of administrative authority from the Civil Service Department and the Foreign and Commonwealth Office to Missions overseas. The principle of accountable management should be the key to this.

(e) While recognising the importance of good security we consider that there is scope for saving in relation to present security procedures.

(f) The Diplomatic Service should, in the interests of overall efficiency and economy, be authorised to observe a less restricted and more imaginative policy as regards travel.

(g) For understandable reasons, Commonwealth Missions tended to be more heavily staffed than foreign ones. This situation has improved, but some Commonwealth Missions are still heavier than they need be.

(h) The Diplomatic Service Inspectorate is a valuable instrument for controlling the scale and cost of British representation overseas. But its structure and practice need to be modified in certain ways; its scope should be widened to cover all staff concerned with representation; and new high-level machinery is required to provide for "policy inspection", *i.e.*, to ensure that at the level of policy formulation there is adequate strategic thinking on organisational questions.

#### CHAPTER IV.—POLITICAL WORK

##### CONCLUSIONS

30. (a) In future our Missions abroad should be divided into "Comprehensive" Missions and "Selective" Missions. Comprehensive Missions would be maintained in the Area of Concentration, namely Western Europe and North America; in the Soviet *bloc* and China; and in certain other important countries in the Outer Area. Selective Missions would constitute the majority in the Outer Area. The changeover from Comprehensive to Selective Missions should in itself entail a reduction in present staff, although at the outset the streamlined organisation may cost only a little less than the existing one.

(b) The volume and range of intergovernmental business will grow in the Area of Concentration. Intergovernmental business will also grow on a multi-lateral basis involving international organisations.

(c) Comprehensive Missions should retain a full apparatus for diplomatic representation including staff for political work. Selective Missions, where political work and reporting will diminish to very small proportions, should be composed of a basic strength of three United Kingdom-based officers; any establishment beyond this basic strength would only be authorised for specific purposes.

(d) In the Area of Concentration a growing volume of business will be conducted on a direct government-to-government basis and by increased travel from this country. This process should obviate the necessity to increase the size of Missions in this area.

(e) The chancery should remain the central element in Comprehensive Missions but little more than the name would remain in most Selective Missions.

(f) Under a system of Comprehensive and Selective Missions, great flexibility will be essential including the ability to reinforce a Selective Mission if unexpected demands are placed upon it in times of crisis.

(g) A control system for political reporting should be instituted on the lines set out in Annex J.

(h) We expect the Foreign and Commonwealth Office to reduce progressively in size (a) in the light of the recent Foreign Office/Commonwealth Office merger, (b) as the institution of Selective Missions reduces the flow of political work and reporting, and (c) when a new building with up-to-date equipment is provided.

#### CHAPTER V.—COMMERCIAL POLICY AND ECONOMIC WORK

##### CONCLUSIONS

22. (a) Economic work and the conduct of commercial policy is a large part of the substance of political work.

(b) This field produces particularly striking examples of the "New Diplomacy"—the increasing regular contact at all levels between specialists from various countries in the complicated techniques of modern life and the switch to multilateral organisations of activities which would previously have been bilateral. The task of our overseas representatives is to adapt themselves to this process, to master a wider range of subjects, and to support experts from outside the Diplomatic Service in the work of international organisations. For this purpose they will need to be kept more fully informed than hitherto.

(c) Staffing policies should take into account the increasing importance of international organisations in the implementation of economic policy.

(d) In particular we recommend that the United Kingdom Delegation to EEC should be strengthened and a cadre of officers with a special knowledge of European economic affairs built up. The degree of career specialisation implied is acceptable and indeed desirable in this case.

(e) We consider economic work and the conduct of commercial policy as basically a generalist function. We expect that within an integrated service there will be an increasing resource of officers experienced in handling economic concepts. We recommend flexibility in deciding whether commercial policy and economic work should be handled along with political or commercial work in any particular Mission.

(f) We feel that the division of responsibility for commercial policy and economic work at home might be clarified, particularly between the Foreign and Commonwealth Office and the Board of Trade. We see the role of the Foreign and Commonwealth Office, whose particular expertise lies in dealing with other countries, as being one of co-ordination.

## CHAPTER VI.—AID ADMINISTRATION

### CONCLUSIONS

61. (a) In Britain's present economic situation commercial work is the most urgent task of our overseas representatives.

(b) Different areas impose different requirements; according to their aptitudes the careers of commercial officials should concentrate on either the area where new export opportunities are to be won by active effort in advanced industrial countries, or in areas where this effort depends more on the traditional intergovernmental diplomatic activity, and also on responsive work to the needs of exporters. We also recommend that the shift of Britain's export promotion resources to the former area should continue.

(c) The majority of Selective Posts should specialise in commercial work, and special attention will have to be paid to the quality of the commercial departments of Comprehensive Posts in growth markets.

(d) A survey conducted by the CBI has shown a wide use of the official services, but a need for more rapid communication and closer contact between the commercial service and exporters. There is an equal need for this between Posts and Departments at home.

(e) There should be greater selectivity in responsive work so as to enable more energy to be diverted to initiative work, especially in advanced industrial countries.

(f) We think that the study of other countries' systems of export promotion should be pursued, but we consider that the balance of advantage, given the urgency of the problem, is to build on the present system. In any case the unified Diplomatic Service should be preserved.

(g) Training programmes should be expanded, with more emphasis on techniques of management and market research.

(h) We recommended longer periods in Post, and greater specialisation in commercial work. We fully recognize that this will inevitably mean delay in spreading commercial experience throughout the Service.

(i) There should be more cross-fertilisation between industry and the Diplomatic Service.

(j) Locally-engaged staff are a valuable asset in British export promotion of which more use should be made.

(k) Subordinate Posts have an important potential for promoting British exports, and they should be more actively used, especially in growth markets like the United States.

(l) Facilities of rapid communication could be more extensively used. Greater use of telex will be necessary. The crucial point at which we believe the existing system can be improved in the rapid retrieval of data about the capability of British firms to respond to export opportunities. Computerisation at the centre is a most important aid to securing this.

(m) We suggest that full use of the overseas commercial service can only be made if the export promotion complex (the "Export Department") in the Board of Trade is enlarged, and the transfers between it and the Diplomatic Service made more frequent.

(n) We suggest that greater weight should be given to export promotion policy, as compared with intergovernmental commercial policy work not only in the structure of the Board of Trade, but also in that of the relevant inter-department Committees.

(o) Closer co-operation between Government and industry should continue to be encouraged by such joint activities as trade fairs, and by expanding the work of the Overseas Projects Group, particularly in the field of sending task forces overseas to deal with particular projects.

## CHAPTER VII.—INFORMATION AND CULTURAL WORK

### CONCLUSIONS

#### *General*

48. (a) Information services should project Britain as a trading partner with a great culture and democratic tradition, rather than as a world power of the first order.

(b) There should be less reliance on official publicity hand-outs, which should in future concentrate on export promotion, and more on BBC broadcasting and the serious British newspapers, for projecting Britain's news and views.

#### *British Information Services*

(c) In future, there should not be separate information sections in Missions. Most of the functions previously carried out will be centralised in the commercial sections, which should have a nucleus of experienced staff, mostly locally engaged, for this purpose. In certain Comprehensive Missions, however, there will be a need for a Press Attaché (not always full-time) to act as the Head of Mission's adviser on publicity matters, as well as being the main point of contact with local press and broadcasting media.

(d) The practice of distributing copies of the serious daily and weekly British newspapers free of charge to selected persons of influence should be extended.

(e) The Foreign and Commonwealth Office's News Department will play a most important role in establishing effective relations with the overseas press through their London representatives, and it should be given improved facilities for carrying this role out.

(f) The British Information Services office in New York should be reduced in size; and the future organisation of information work in the United States should be kept under review, in relation to the changing importance of other regional centres.

(g) The greatest possible use should continue to be made of locally engaged staff in carrying out the residual information work overseas.

(h) We hope that in the light of the above recommendations reductions of something like half the numbers of staff currently employed overseas on information work would become practicable.

#### *BBC external broadcasting services*

(i) The BBC has a unique world reputation. Its overseas broadcasts in the English language are highly effective for communicating British news and views, and should not be subjected to financial reductions.

(j) It is extremely important that the audibility of the BBC's overseas broadcasts should be improved. The BBC's current modernisation and improvement programme in this field should be speeded up, and any savings accruing from recommendation (k) below should be used to supplement the existing budget.

(k) Given existing financial limitations, we conclude that though foreign language broadcasts are useful (and we recommend a continuation of some of them) they should rank as a lower priority than English language broadcasts, and will therefore need to be reduced.

*British Council*

(l) The British Council plans an important role in overseas representation; it should not be subjected to financial reductions.

(m) There is now a strong case for shifting the balance of British Council activities towards Western Europe.

(n) The British Council libraries give excellent value. Efforts should be made to use them as a focus to provide a wider range of cultural activities. All the other library facilities, including film libraries, should be with the British Council.

(o) The proportion of British Council resources directed to cultural manifestations is rather low by comparison with the proportion taken up by English language and related activities, and we suggest a change in the balance of activities in favour of the former.

(p) The staffing of British Council offices overseas should reflect the increasing importance of science and technology; we welcome the indications that increased attention is being given to these subjects.

(q) Missions and British Council representatives will in future need to develop very close working relationships in matters of policy and operations; this is already the case in many countries. We are confident that this need not impair in any way the independent status of the British Council.

(r) There are useful financial savings to be made from fully integrating the British Council's administrative and supporting services overseas with those of missions.

(s) There should be a few high level appointments of persons of academic or cultural distinction for service with the British Council in certain capitals.

(t) There should be interchanges of British Council staff and academic personnel, and arrangements for the former to attend universities in this country between overseas appointments.

## CHAPTER IX.—CONSULAR WORK

## CONCLUSIONS

30. (a) The traditional consular functions of subordinate Posts must not be allowed to divert their energies from the more vital task of export promotion.

(b) To this end, traditional consular services should only be provided at a limited number of Posts.

(c) Steps should be taken to ease the work-load imposed by the growth of tourism; this would involve posts exercising, with Ministerial support, more discrimination in the amount of consular assistance they provide.

(d) A review of the scale, scope and method of payment for consular services should be considered.

(e) There should be wider use of Honorary Consulates as an economical means of dealing particularly with seasonal tourist needs.

(f) Shipping legislation now projected will, we hope, eliminate or at least drastically curtail the outmoded shipping work which is at present mandatory upon consular officers. This should be done as soon as possible.

(g) Immigration work is increasing, and some increases of staff abroad will be needed to cope with it.

(h) To reduce the cost of passport work, passports should be redesigned in a limp-cover form which can be mechanically prepared and processed.

(i) Passport work should not normally be handled at more than one centre in each overseas country, except for emergency cases which should be subject to a special surcharge.

(j) Passport work overseas should be financially self-supporting, which should be easier given the changes suggested in (h) and (i) above; in normal cases a uniform fee should be charged, which should if possible be the same as the United Kingdom fee.

## CHAPTER X.—CIVILIAN ATTACHES

## CONCLUSIONS

38. (a) We feel that the distinction between the "A" and "B" Establishments of the Foreign and Commonwealth Office is unhelpful and that all personnel should be included in a single establishment borne on the Diplomatic Service.

vote; this should help to prevent the retention of appointments merely because they are traditional outposts of a given home Department.

(b) We recommend that the marginal anomalies in the division between secondments to the Diplomatic Service and service abroad on Home Civil Service terms should be removed and that all officials on the staff of diplomatic Missions should be seconded to the Diplomatic Service. We also recommend that officials representing Britain and not on the staff of diplomatic Missions should where possible be placed on the staff, and seconded to the Diplomatic Service.

(c) We feel that the starting point in considering functions of overseas representation now carried out by Civilian Attachés should be the particular job specification; that the presumption should be that such specialisms, as the knowledge required to fill such posts becomes more generalist in character, will more appropriately be dealt with, after suitable training, by general service officers (not necessarily full-time); and that only where clear need is shown should secondment take place. This should not inhibit the use of appropriate titles for local purposes.

(d) We feel that in drawing up the job specifications full weight should be given to the increasing facility with which experts can travel from London at relatively low cost compared with the expense of maintaining a resident representative overseas.

(e) We examined the effect that these recommendations would have on the 10 different types of Attaché (two of them dealt with in Chapter XI). The clearest need for secondments is likely to remain in the scientific and defence research fields; there is also at present a need for them in the financial field; a closer look should be taken at the need for specialists on civil air and shipping matters; it seems to us that much of the work of Labour, Defence Sales, Agricultural, Industrial Development and Petroleum Attachés can now be performed by "generalist" officers.

(f) Given an adequate policy of training and secondments for general service officers we therefore expect that considerable savings can be effected in the field now covered by Civilian Attachés.

## CHAPTER XI.—SERVICE ATTACHÉS

### CONCLUSIONS

29. (a) Service Attachés will continue to be required for their present functions, but on a lesser scale than hitherto.

(b) More than one Service Attaché will still be needed in major capitals. One tri-Service Attaché should often be sufficient in capitals of medium importance, supplemented by multiple accreditation in less important capitals. Where appropriate, greater reliance should be placed upon visiting from the United Kingdom.

(c) The number of Service Attachés outside the European and North Atlantic area should be substantially reduced. After withdrawal from East of Suez, it should become possible to reduce the present world-wide establishment of 159 Service Attachés (excluding BDS Washington) by up to one-third.

(d) The special and close military relationship with the United States is an extremely valuable asset, but one which we think is unlikely to persist indefinitely in its present form. This relationship would not, in our view, be impaired by reducing the BDS Washington to three-quarters of its present size. There should be an annual "efficiency audit" to establish the usefulness of each post in the United States; and a further study should be made of methods of integrating the staffs and their supporting personnel into a single administrative organisation.

(e) Sales of defence equipment require team effort, in which the Service Attachés, the Defence Supply Attachés, other staff in Missions, and the Defence Sales Organisation in Whitehall all have their part to play. The tendency will be for more of this work to be carried out by visiting teams of experts based in this country, working in co-operation with the Missions concerned. Defence Supply Attaché Posts should only be created where such work would clearly occupy an official full-time; otherwise, the defence supply function should normally be carried out within the Mission's commercial section.

(f) Service Attachés should be selected from able officers at an early stage in their careers.

## CHAPTER XII.—ACCOMMODATION

## CONCLUSIONS

29. (a) Overseas representational requirements for office and residential accommodation will change more frequently than hitherto.

(b) Office accommodation is an important factor in the effectiveness of our Missions overseas. We must be prepared to spend money on providing modern and well-equipped buildings in the right locations.

(c) The scale of entertaining by the Diplomatic Service is not extravagant, and adequate accommodation must continue to be provided for the purpose. The forms and customs of entertaining are however changing, and in many places there will be less need for large establishments.

(d) Decisions on accommodation standards are urgently required. Guidelines, rather than strict definitions, should be issued. Discretion should be given to Heads of Mission.

(e) The proportion of owned to rented property is still far too small, with the result that considerable expenditure in foreign exchange is being wasted.

(f) A change in the present system is required in order to provide more flexible and commercially effective methods of administering overseas accommodation.

(g) To meet these requirements, we propose the setting up of a Crown corporation, to be known as the Overseas Diplomatic Estate Board; its function would be to own, administer and manage overseas diplomatic accommodation.

(h) The Foreign and Commonwealth Office building on the Downing Street/King Charles Street site should be rebuilt on modern lines as soon as possible, thus enabling the Foreign and Commonwealth Office to centralise its London staff (now housed in 17 buildings) and to make substantial savings of staff and money.

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