

RESTRICTED

STOCKPILING PROGRAM

575

27 October 1950

CONTENTS

	<u>Page</u>
INTRODUCTION--Colonel Bruce D. Rindlaub, USA Member of the Faculty, ICAF.....	1
SPEAKER--Dr. John D. Morgan, Jr., National Security Resources Board.....	1
GENERAL DISCUSSION.....	11

Publication No. L51-43

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

RESTRICTED

RESTRICTED

570

Dr. John D. Morgan was born in Newark, New Jersey. He holds the B.S., M.S., Ph.D., and E.M. degrees in Mining Engineering from the Pennsylvania State College. He has written numerous technical articles, as well as a book about the economic mobilization of basic minerals: "The Domestic Mining Industry of the U. S. in World War II." He served as an officer with combat engineers in the Pacific theater during World War II. He is a Major in the Corps of Engineers, U. S. Army who has been active for the past two years in a civilian position as the National Security Resources Board observer on the Munitions Board's Interdepartmental Stockpile Committee. In addition he has been coordinating Resources Board activities in connection with stockpiling. He is a member of the American Institute of Mining and Metallurgical Engineers, Tau Beta Pi, Sigma Tau, and other technical societies.

RESTRICTED

RESTRICTED

577

STOCKPILING PROGRAM

27 October 1950

COLONEL RINDIAUB: Today we turn again to the study of natural resources. This morning's lecture will be on the subject of the "Stockpiling Program." That program is a method used by the United States in making up for some of its strategic and critical material shortages.

I think all of you are aware of the timeliness of this program and this presentation this morning. It has been a political "hot potato" for the last two or three months. Last year we had a lecture on this subject by a representative of the Munitions Board. You have a copy of that lecture in your rooms for your information. This morning we will have a lecture by a representative of the NSRB.

Dr. John D. Morgan, Jr., is an officer of the Corps of Engineers, who has been occupying a civilian position with the NSRB for the last two years. He is the best-qualified individual to give us the NSRB's view-point, since he is the man who has been representing the NSRB in all its stockpiling activities.

John, we are glad to have you with us this morning.

DR. MORGAN: General Holman and gentlemen: I am very glad to be here, because I know the interest of the military in stockpiling and in the fact that without a stockpile you won't be able to fight the type of war you would like to fight.

In definition I would like to say that when I use the term "we" I don't mean to refer to the National Security Resources Board alone, but I mean to include all the several agencies that are concerned with stockpiling. When I wish to refer to the Resources Board or the Munitions Board specifically, I will say so.

What is the mission of stockpiling? I can answer that by reading the preamble to Public Law 520, 79th Congress the Strategic and Critical Materials Stockpiling Act. In that act the Congress said: "The natural resources of the United States in certain strategic and critical materials being deficient or insufficiently developed to supply the industrial, military, and naval needs of the country for common defense, it is the policy of the Congress and the purpose and intent of this act to provide for the acquisition and retention of stocks of these materials and to encourage the conservation and development of sources of these materials

RESTRICTED

within the United States and thereby decrease and prevent wherever possible a dangerous and costly dependence of the United States upon foreign nations for supplies of these materials in times of national emergency."

Thus you can see that we are concerned with industrial, military and naval needs and that the stockpile is not intended purely to provide for the manufacture of military end items. The Congress wished to reduce and prevent where possible a dangerous and costly dependence on foreign countries; so we are concerned mainly with raw materials, either wholly or in large part of foreign origin, not manufactured end items.

Before World War II the Congress had recognized the need for stockpiling. In 1939 the 76th Congress passed Public Law 117. In those days they talked about a stockpile of 100 million dollars worth of material. Today we are talking about one of at least 6 billion dollars worth of material. Even though prices were more in their favor before World War II, it was a pretty small effort.

In addition, they didn't get the hundred million dollars worth of materials before World War II. They had some rubber, tin, quartz crystals, chromite, and a few odds and ends; but they never had very much. Accordingly, during World War II dangerous diversion of military activity and delay in the manufacture of military end items resulted. It was necessary to expand domestic production of some of these raw materials and to expand their production in foreign countries and to maintain supply lines open to those foreign countries. The required effort might very well have been used in winning the war directly instead of bringing in raw materials.

For example, in the case of bauxite, the ore of aluminum, in 1942 there were many special vessels designed for quick unloading that were sunk in the Caribbean. Vessels had to be built to replace them. They had to be convoyed by the Navy and covered by the Air Force. In addition, domestic production of bauxite had to be expanded. If there had been a prewar stockpile of sufficient size, the war would have been much easier to manage. In the postwar period Congress and the military--it was the Army and Navy Munitions Board at that time, before the Department of Defense was set up--were interested in a stockpiling program, thus Public Law 520 was passed in 1946, shortly after the end of the war.

The stockpiling picture is very complicated, since it depends on decisions made in many other fields. For example, what are the military requirements? What are certain foreign sources of materials going to do in a war? What can we count on from domestic production? What is going to be the status of manpower in a war--will we have universal service or will the mines have to bid for labor against the shipyards and others? Consequently, all the answers in stockpiling are not very

easy to arrive at. We have to check with the agencies that are concerned with these problems and get their advice. There are about 10 or 15 agencies doing something concerning stockpiling.

Chart 1, page 19.--I would like to describe how we determine the stockpile objectives. A stockpile objective is determined by estimating a requirement for a material and then comparing it to the supplies that will be available in wartime. If the supplies are less than the requirement, the deficit that results is generally the stockpile objective. It looks very simple on this chart, but the problem is not so simple when you get into it. The provision of materials sufficient for a five-year total war has been approved as the basis for our planning, thus five years is the biggest single multiplier in our equation.

The requirements that we consider are the military requirements of our own country, and of our allies--if we expect to provide the end items for allied use, as was done in the Lend-Lease program during World War II. Then we consider the war-supporting requirements, such as generators, freight cars, locomotives, telephones, and all the other items in the civilian economy that are necessary to make the military end items.

Lastly, we consider the requirements for essential civilian use. In fighting a war in so far as practicable we must preserve the American way of living and doing business, and that means a relatively high standard of living for the American people in war. If we don't build up minimum stockpile objectives in advance of war we may have to cut seriously the civilian economy in war, but at least we are not going to plan it that way, because if we reduce the average American to a level equal to or lower than his enemy why should he fight.

To get into a little more detail regarding all the 70-odd materials that we stockpile, let us consider the problem of the estimation of military requirements. I am sure you are particularly interested in that problem. In your other lectures people from the services will talk to you about requirements problems in the Air Force, the Army, and in the Navy, and you will learn of many of the difficulties encountered therein.

For some programs the estimation of requirements is relatively simple. For example, consider the jet engine airplane. Let us say that the Air Force and the Navy want 10,000 of a certain type of jet engine airplane, and that each airplane requires five engines--two in the plane, one in repair, and two in stock. That is 50,000 engines. Each one requires, let us say just for the purpose of argument, two pounds of columbite, thus the requirement is 100,000 pounds of columbite. Some requirements can actually be computed that simply, presupposing that it is known how many planes will be required in a five-year war and what type of planes. When you come to some of the other materials and end items, the problem of determining requirements is much more difficult.

How do we calculate the war-supporting requirements? If, for example, there is a definite Maritime Commission program for building merchant vessels to support the war effort, each vessel of known design requires certain materials. How much steel will be required to make the vessel, and how much manganese, chrome, nickel, and other materials to make the steel? Those quantities can be identified and set forth.

What are essential civilian requirements? Consider, for example, spare parts for automobiles and tires for workers over a five-year war period with speeds limited to 35 miles an hour to conserve rubber and gas. Actually, however, military, war-supporting, and essential civilian requirements, except in very few instances, are based upon total World War II experience extrapolated forward up or down in accordance with known trends. For almost all the 70 materials it is impossible to determine all requirements program by program.

Much of the difficulty in determining requirements can be traced to the military, because a JCS strategic plan probably covers only two years instead of five years. So when that plan is carried forward from the second year to the third, fourth, and fifth years all sorts of unknowns are introduced.

Moreover, the translation of that strategic plan by the services into military end items requires the previous resolution of most inter-service differences. Are you going to fight the war exclusively with sea power or airplanes, or ground divisions, or in what combinations of all three?

The Munitions Board analyzes and consolidates all the military requirements. Next comes the estimation of raw material supplies in a five-year war. Two types are considered: domestic production and imports. In the case of the 70 stockpile items, about 80 percent of the dollar value is represented by metals and minerals. In addition there are some drugs, such as hyacine, emetine, quinine, quinidine, and there are a few agricultural products, such as sisal and Manila, coconut oil, and castor oil. But, by and large, metals and minerals are the big items in the stockpile program.

For domestic production data we get information from the Geological Survey and the Bureau of Mines on ore reserves and mine capacity. These agencies know whether supplies will be limited by smelter or refinery capacity or whether the smelter capacity is more than adequate to handle the maximum production of concentrates.

Next comes the question of imports. What imports can we count on in a five-year war, remembering the wishes of the Congress that we must reduce and eliminate where possible a dangerous and costly dependence on foreign sources? The Congress said, "Eliminate where possible."

Well, what is possible? An then it referred to "a dangerous and costly dependence." What is a dangerous one? What is costly? All of that has to be determined by the people working on stockpiling.

Just for the purpose of illustration let us consider supplies of copper in "X" country. We expect to be able to get to "X" country in wartime. The Joint Chiefs of Staff give us data on probable shipping losses in the Caribbean, the South Atlantic, the South Pacific, the Panama Canal, and wherever materials must move.

The question is, What is going to happen in "X" country in the war? Are the enemy agents going to pull all the miners out on strike so that we are not going to be able to get copper? Are they going to blow up the railroads that come down from high mountain areas to the sea coast? Are they going to blow up the piers and knock out certain key power plants? Is the "X" country government going to be hostile to the United States and possibly put on export controls and prohibit the copper from being shipped? Those questions are answered by certain strategic assumptions for stockpiling.

Our assumptions are checked with the Joint Chiefs of Staff so far as the war plan is concerned, to see if our figures are consistent with that plan. Then we go to the State Department and the Central Intelligence Agency and anybody else who has any information, such as the Economic Cooperation Administration which is engaged in working with the economy of many foreign countries. We try to arrive at some logical discount for this foreign supply that we can defend before the Budget, before Congress, and before our own conscience. Thus we get a figure for imports as a factor in wartime supply. Then we add the imports and the domestic production together and that is our total supply. Data must be correlated. Take again copper for an example. We can relate copper data to brass for ammunition. Brass is 70 percent copper and 30 percent zinc. We should be able to tie copper and zinc figures together.

Next I would like to describe some of the different agencies that work with us in making stockpile determinations. Public Law 520 states that the responsibility for fixing stockpile objectives is that of the Secretaries of War, Navy, and Interior. Interior was included since Interior is primarily responsible for the metals and minerals, and Congress knew that the stockpile would consist mainly of metals and minerals. Congress mentioned War and Navy because they were the two military secretaries then existing. Congress specified that the agency for carrying out stockpiling would be the Army and Navy Munitions Board. Since 1946 when the Stockpile Act was passed we now have the Department of Defense. The Secretary of the Air Force has been added, and we now have the Munitions Board, with all three services represented. The Munitions Board is the central staff agency responsible for the whole stockpiling program.

So many additional agencies were concerned with stockpiling that in 1948 it was obvious to the National Security Resources Board, which had been formed in late 1947, that something ought to be done to define more clearly the responsibilities of all concerned. The Administrative Management Division of the Bureau of the Budget made a very fine administrative study on who was doing what, and why, and what they should be doing. That study (NSRB Document 99) was approved by the President on 5 January 1949 and issued as a directive to every agency concerned. It has been followed closely ever since. At the present time, with the Defense Production Act and many new agencies springing up, such as the NPA and the Minerals Agency in the Department of the Interior, some modification undoubtedly will be necessary as to who is doing what. But here is the way it stands at the present time: The Munitions Board is the central staff agency. It determines the objectives and the purchase programs.

The Emergency Procurement Service (of the General Services Administration) does the purchasing. It procures the material in accordance with directives issued by the Munitions Board. The Munitions Board tells the Emergency Procurement Service how much to buy each year and gives it a rough idea of how much it ought to pay for the material. The Emergency Procurement Service representatives go to individual producers or importers and attempts to buy what the Munitions Board shopping list tells them to buy. They buy the items, inspect them to see that they meet the specifications which are established, and store them. Some few commodities, like coconut oil, rubber, and fibers, require rotation. They sell material that is beginning to spoil and buy some more.

Stockpile materials are stored mainly on Army and Navy reservations. We have an agreement with the General Service Administration whereby the Army, the Navy, and the Air Force are reimbursed for the warehouse space that is used. Most of the ores and some of the metals can be piled out in the open; so it is just a matter of having sufficient acreage to dump them on. Some of the materials require warehousing. It is preferable to keep rubber, for example, at a certain temperature. Some few of the precious things, like platinum or the industrial diamonds, are stored in the vaults of a bank. In addition there is some commercial storage. We don't have storage tanks for some of the coconut oil and other vegetable oils; so we have to lease tanks.

Under the National Security Act the National Security Resources Board is responsible for advising the President on all phases of mobilization, including the maintenance of adequate reserves of strategic and critical materials in the country.

The Resources Board, as you know, is composed of the Secretaries of all the Departments--the Postoffice and the Attorney General do not have representatives on the NSRB. With the change in the law that just went through recently, the Resources Board is advisory to the Chairman, Mr. Symington. While, of course, Mr. Symington tells the NSRB members everything that he is doing and checks with them on details, since the change in the law a few months ago, it isn't necessary that each of the seven secretaries approve every action of the Resources Board. Of course, unanimous approval is highly desirable.

The National Security Council, the Council of Economic Advisers, and the Bureau of the Budget have occasion to review the stockpile program. The Council of Economic Advisers is concerned with the impact on the national economy if we buy too much raw material and force up the price. The National Security Council obviously must know the status of the stockpile and its relation to other national security programs. For example, if we get into tight supplies of materials, is it more important to make a military end item today and let it become obsolete in a few years; or is it more important to stockpile the raw material today in order to be able to make the military end item the day the war begins and have the latest style items as of that day? The NSRB is also interested in that sort of consideration.

Under Public Law 520 the Department of the Interior, in addition to having a specific responsibility, which I mentioned, is also responsible, together with Agriculture, for stimulating conservation activities that will conserve strategic and critical materials and develop new supplies.

The Commodity Credit Corporation can exchange its surplus agricultural commodities (that it has on hand from the price support program) for strategic and critical materials. Thus far little has been done in that field.

The Commerce Department, through the use of export controls, can channel desirable United States exports to foreign countries in exchange for strategic materials for our stockpile. A few years ago, when steel was under allocation the Departments of Commerce and State made a deal with the Indian government whereby we guaranteed delivery of a certain amount of steel, and they in return expedited the movement of manganese on the Indian railroads and through the Indian ports to the United States.

The State Department and the Economic Cooperation Administration are also concerned with stockpiling. State provides general information on world-wide relations with foreign countries. The Economic Cooperation Administration has specific responsibilities in purchasing materials for the stockpile--so far they have bought about 60 million dollars worth--and to develop foreign sources of supply.

Now, to tie all these agencies together, we have a big network of committees. At the first level we have the interagency commodity committees, with a representative from every one of the agencies concerned with a commodity. In the case of copper we have the Interagency Copper and Copper-base Alloys Committee, with members from the Army, Navy, Air Force, Commerce, Interior, and State. Any other agency having an interest in copper is welcome to be at their meetings.

The Munitions Board also has industry advisory committees. In most instances the industry advisory committees parallel the interagency commodity committees, so there is a Munitions Board Copper and Copper-base Alloys Industry Advisory Committee.

Then, pulling the whole thing together, we have the Interdepartmental Stockpile Committee, which is chairmanned by the chairman of the Munitions Board. The first chairman was Mr. Carpenter who was followed by Mr. Howard and by Mr. Seybold. In the Munitions Board stockpiling is sufficiently important to have its chairman head this committee.

On the Interdepartmental Stockpile Committee the following are members: Munitions Board, Interior, Commerce, Agriculture, State, ECA, and General Services Administration. The following are observers: Army, Navy, Air, Atomic Energy Commission, Budget Bureau, Resources Board, and Research and Development Board. When we have a meeting, there are usually about 30 people in the room, all cleared for "secret" information.

In Congress, which is concerned with this program, the House and Senate Armed Services Committees have subcommittees on stockpiling. The one in the Senate is headed by Senator Hunt and the one in the House is headed by Congressman Durham. In addition, the Public Lands Committee, which is concerned with metals and minerals, is interested in the stockpile. Recently, the Preparedness Subcommittees of the House and Senate (under Linden Johnson, for example, in the Senate,) have also become interested in stockpiling.

Chart 2, page 20.--I will now describe briefly the current status of the stockpile. We started in 1946 and today have materials on hand worth 1.6 billion dollars. These are 30 June 1950 prices, though the data are roughly as of September. The September prices would be 15 percent higher than the 30 June prices, due to the inflation in the prices of basic commodities resulting from the Korean War. But for purposes of this chart all data are on the same basis--30 June prices.

The 1.6 billion dollars worth of materials on hand were not all purchased in the postwar period. Materials worth 700 million dollars, or nearly half, came from transfers of surplus property left over from World War II. So in the period from 1946 to 27 November 1950, this vast organization has managed to buy about 900 million dollars worth.

Adding up the total tonnage on hand (which, of course, isn't too meaningful because you are adding manganese ore in tons and diamonds in carats) shows that we have slightly over 9 million tons. That would be 900 standard shiploads or about half of one year's total United States imports of dry cargo.

Financed, in other words covered by current appropriations, is another 1.7 billion dollars worth. Most of that is under contract, some for delivery in the coming year, some for delivery several years away. But with the tight situation in materials, and the fact that the contracts do not have a clause providing a penalty for nondelivery, and the fact that the military services now have a priority rating in the form of a defense order (and the stockpile does not), unless stockpiling is given some priority or control assistance, we probably never will get much of that 1.7 billion dollars worth.

As of September the official Munitions Board total stockpile objective was about 4.3 billion dollars. That leaves unfinanced one billion dollars worth. But we are engaged in a review of objectives, which in terms of the then-existing prices, led me on this chart to estimate that what we really would like to have is a stockpile of about 6 billion dollars worth. Since this chart was made up, that number has been firmed up, and it comes out to be about 6.7 billion dollars. So you can see, if we consider the on hand and the financed that we are going to have quite a way to go before we reach the minimum objectives for the stockpile.

Why isn't the status better? Very briefly, it isn't better for a variety of reasons. The main one is the world-wide shortage of these strategic and critical materials in the postwar period. We have been desirous in this country of maintaining a high level of the civilian economy. We have been desirous of avoiding unnecessary inflation in the postwar period. Much of the surplus stocks of metals and minerals in the hands of the Government was sold at the end of World War II to private industry so they could make automobiles, television sets, and all the other things that people want.

Then we were ordered by the Bureau of the Budget and the Congress to buy at market prices. If we want to get material in a tight market and we are buying at market prices, it is not easy to get a lot more. And, as I mentioned, at the present time, with the shortage of materials and the lack of priority authority for the stockpile, our task is very difficult.

Another reason for slow progress has been lack of funds. The Munitions Board has defended the stockpile budget requests pretty well. If the stockpile budget requests competed too much with what the military wanted for the military services before Korea, the Munitions

RESTRICTED

Board's primary responsibility is to the active military services, and they may have been reluctant to push stockpiling too hard if they saw that money would have been shaved off the Army, Navy, and the Air Force appropriations. But, other than that, I believe that the military representatives have done very well. In fact, in almost every instance they requested more money than was allowed by the Bureau of the Budget.

In almost every instance the Budget Bureau has generally allowed more to go up in the requests to the Hill than the Congress granted. For example, in 1949 it was clear that we were running out of money, and we requested a supplemental appropriation for fiscal year 1949. You all know that fiscal year 1949 ends on 30 June 1949. The money was not made available by the Congress until 23 June 1949 just a few days before the end of the fiscal year. Fortunately, the money carried over. There was a period of three or four months when we could have purchased more material but had no money to pay for it.

More recently the 1950 fiscal year regular appropriation was supposed to be on hand in June of last year. But it was held up until 29 October 1949--when four months of the then current fiscal year had passed--by the threat of a rider on the military appropriation bill to reduce the stockpile appropriation. The 1950 stockpile appropriation had already been passed; but the Congress, in its desire to save money, had decided to insert in the military appropriation bill this rider cutting the stockpile appropriation. The President specifically requested that they not do that to stockpiling but the rider was put on the military bill because Congress knew the President couldn't veto that bill at that time. The stockpile situation was not clear that year until four months of the fiscal year had gone by and the appropriation was firmed up. The cut finally was 100 million dollars.

For the 1951 fiscal year, we had asked before the Korean War started for a regular appropriation of 400 million dollars cash and 100 million dollars contract authority. The Congress after Korea allowed 365 million dollars cash and 125 million contract authority. So you see they cut off after the Korean War had started 35 million dollars of the cash which was intended for the purchase of materials in fiscal 1951.

Just recently the Congress passed and the President approved a supplemental appropriation for fiscal year 1951 which included 584 million dollars cash for the purchase of materials in the current year. We could buy a billion dollars worth of materials this year if the materials were available.

You are undoubtedly interested in what the Russians are doing in regard to stockpiling. If you have read Voznesensky's book "The Economy of the USSR During World War II," you saw that he gave great credit to

RESTRICTED

stockpiling in Russia as a factor in helping them win World War II. Voznesensky, Deputy Premier of the USSR and Chief of the State Planning Commission, points out there that not only did they stockpile for war, but he admits that their transportation system and their economy required stockpiling to provide for periods when transportation might break down, or other untoward influences operated. We know that at the present time they are stockpiling many materials, and placing great emphasis on natural rubber, tin, diamonds, and molybdenum; these are some of the few strategic materials in which the Russians are deficient in their orbit.

In conclusion, I would like to say that the stockpile, as we see it, is a very essential part of the total security program. If we don't have the minimum stockpile objectives and a war starts, we will have to cut down the civilian economy to such a point that there will be widespread discouragement and discontent, or the military will not be able to have all the desired materiel with which to fight the war, which, of course, means a longer war and more lives lost.

I believe that the military can help in the stockpile program in several important ways. The military people should be able to defend their requirements a little more convincingly. And, where it is obvious that the stockpile objectives will never be met for some few materials, such as in those cases where the military requirements are several times the world's known reserves of those materials, obviously the military representatives are just going to have to get busy through research and development to design materiel in some other way. Up to now the United States military planners have never had to worry very much about raw material considerations. They have built things in the best way out of the materials that they have wanted and this country could afford to do that. But there are some absolute shortages in materials now where they will not be able to design without reference to supplies. This problem is going to be increasingly important as the danger of war increases and the possibility of completing minimum stockpile objectives decrease.

Thank you, gentlemen. I shall be glad to answer any questions.

QUESTION: If I understood you correctly, you are endeavoring to finance the stockpile out of current operations; in other words, you are buying out of appropriations from year to year, and that causes one of your problems. We are not consuming that stockpile, as I understand it. In other words, it becomes a national resource. Has there been any consideration given to opening the gates at say, Fort Knox and swapping some of the gold for stockpile material?

DR. MORGAN: In terms of an all-out war I am sure the stockpile would be more useful than the gold. We have given consideration to that and have argued in defending the stockpile budgets that the stockpile is a

national asset that doesn't depreciate very much. In fact, with the inflation, if we sold the materials today, we would make money over the cost of acquisition for the Government.

We have said, "Why don't you put this budget on the basis of crediting the stockpile to the national wealth instead of listing it as an expenditure?" But they say, "How would you credit the national parks system, and how would you credit a battleship? Isn't a battleship worth something? Why don't you depreciate the battleship over 20 years?" When you get all through arguing, though you can make an awfully good case for the stockpile, the Budget Bureau and the Congress seem to like to keep books the way they are.

So far as purchasing from current funds is concerned, we get appropriations of two types: Cash and contract authority. The contract authority is intended to enable us to make long-term contracts; so that, for example, if a man has a mine in Bongo-Bongo or some other place, he can be given a four- or five-year contract with a floor price and a ceiling price or market price at the time of delivery, and be sufficiently assured of a profitable market that he will develop a new source.

We have tried wherever possible to make development contracts that will result in a net addition to supply, and preferably an addition in a place that will be strategically accessible to the United States in time of war. There is no point in building up mines near an enemy because we would probably lose them in a war.

QUESTION: On the contrary, isn't it possible that if you threw the stockpile on the market, you would depress commodity prices to an extent that you would take a loss? That is my first question. The second is: What is to prevent the Government in the future, if things quiet down, from using the large stockpile to further control prices and commodity markets?

DR. MORGAN: The answer to your first question is, yes. If we did throw it all on the market, we would depress the prices. That accounts for the reluctance of many domestic and foreign producers to mine out their deposits rapidly and put them in our stockpile.

Another problem is this: Suppose a foreign national has a mine in a country near an enemy. He doesn't know whether his country is going to be overrun by the enemy. If he mines his whole mine out in the next year or two and we give him dollars in exchange, he doesn't even get the dollar currency; but instead he gets his own country's local currency on which he must pay taxes. If the enemy comes in he is a capitalist and they probably liquidate him. If, on the other hand, he still has a mine with adequate ore reserves and his country is occupied, he says to

the enemy, "I am politically innocent. All I know about is my mine." They can probably use the material from his mine and he stays in business. There are times in this world when the commodity in the ground is worth more to the individual than the money in the bank. So there is reluctance to sell.

However, Congress has safeguarded the stockpile. It can't be sold without the authority of Congress--after notice six months in advance that gives everybody a chance to protest. We scrupulously have avoided selling anything, even if our recalculation of a minimum objective indicates that we have a little more on hand than we think is necessary. We always say that our stockpile objectives are minima and the more we have, the safer the country is.

QUESTION: Obviously there are many controversial factors that go into determining these stockpile objectives. Who makes the final determination as to any particular commodity as to what the objective is? Is that the Chairman of the Munitions Board? As a collateral question I would like to ask whether an attempt is made also to keep available resources from getting to potential enemies and whether that in itself becomes an additional factor in determining the stockpile objective.

DR. MORGAN: The final legal determination of stockpile objectives is the responsibility of the Munitions Board and the Secretary of the Interior. This determination, however, is reviewed in each instance by the National Security Resources Board. If the Munitions Board and the Department of the Interior do something we don't agree with, we either tell them on the spot or go to the President and get it squared away.

Needless to say, they cooperate very closely with us. It has never been necessary for us to go to the President for resolution of a stockpile problem. All the objectives that we are now using are approved by everybody in the Government.

So far as the need for preclusive buying is concerned, that was not a factor in setting stockpile objectives. However, with the increased tempo of the war effort, that may be necessary. As an individual I think it would be highly desirable to engage in preclusive buying of all these commodities for two reasons: One, to get them into our own stockpile; and, two, to keep them out of the hands of potential enemies. If there is an instance in which our minimum stockpile objective is fulfilled, I still think we ought to engage in preclusive buying and build up a little more, because we can always use a little more of the commodity; it will cause a potential enemy difficulty if his supplies are reduced.

QUESTION: In studying the law I have noticed several deficiencies in the current law, particularly the Buy American Act. What is the NSRB doing in its advisory capacity to the President to try to get these deficiencies in the law corrected?

DR. MORGAN: When you ask about the effects of the reference to the Buy American Act in the stockpile law, you are asking about a very involved problem. Briefly, the Buy American Act was passed in the height of the depression and it said that government purchases should give preference to commodities of American origin. Administratively, a limit was established whereby if the American bid was not greater than 25 percent above a foreign bid, we had to take the domestic bid. That is due to a subsequent interpretation of the act. It is not in the act itself.

This is the way the stockpile has worked up until the Korean War period: We did not pay a premium for commodities of American origin if they sold in competition with foreign commodities. If the American commodity sold at the same price as the foreign commodity, we bought the American commodity in every case.

It didn't make any difference in most circumstances. In the case of copper, the big copper companies simply certified that the copper coming to us was of American origin. They mined that much more in Chile and elsewhere and sold it to American industry. Industry doesn't care about the political origin of the copper. All it cares about is whether the copper meets specifications. So the Buy American Act wasn't of any great assistance to American industry.

On 10 August 1950 Dr. Steelman, Assistant to the President, informed the Chairman of the Munitions Board that the Munitions Board could now pay in excess of the 25 percent differential for commodities if by so doing a material contribution to national security was made.

QUESTION: Referring to that chart on the determination of requirements, would you give us an approximate percentage breakdown of the requirements between those three claimants? On the other side of the chart, what is the approximate increase in price of an import item that is put in the stockpile, when we will eventually use it as compared to the cost of getting that material in war.

DR. MORGAN: So far as a breakdown between the three claimants--military, war-supporting, and essential civilian--I couldn't give you any figure that would cover all 70 commodities, because it varies widely from commodity to commodity. In the cases of cobalt and columbite for example, the military demand is almost 100 percent of the total. In the case of manganese, which goes into steel, the military may use 20 or 30 percent of the steel, and the rest may go into war-supporting essential civilian requirements.

As to your second question, if you consider that we put the item in the stockpile at the peacetime market price--suppose that manganese cost us 45 dollars a ton to put into the stockpile--if you figure the wartime cost of getting manganese from foreign countries when military convoying will be required to bring it into this country, and you have to use precious manpower and all that sort of thing to unload it and handle it, manganese would undoubtedly cost many times more a ton for delivery into this country in wartime.

QUESTION: Can you tell us on what percentage of the commodities that you are engaged in buying you have already reached your objective? Or is that classified information?

DR. MORGAN: The figure is not classified. It is contained in the "Munitions Board's Stockpile Report to the Congress--23 July 1950." You can look it up in the nonclassified report.

By and large the items on hand for which objectives are complete are relatively insignificant compared to the big ones, like rubber, copper, zinc, tin, aluminum, manganese, nickel--which are not complete. The over-all percentage fulfillment for the 70 commodities, based on an objective of 4 billion dollars, is around 40 percent complete.

QUESTION: Do you use the money coming from the sale of commodities out of your stockpile, such as those that have to be rotated, for the purchase of new supplies; or do you have to depend upon newly appropriated money? Second, are we using scrap from the military services, such as aluminum from scrapped planes and so forth, to add to the stockpile?

DR. MORGAN: The answer to both questions is yes. When a stockpile item is rotated, as when we sell rubber that is in danger of deteriorating, the money from the sale goes to the General Services Administration to buy new rubber. Naturally, we have to add a little money to it, because in general the price of the deteriorating material is less than the market price of the new high-quality product that must be purchased as a replacement.

So far as scrap is concerned, there are quantities of brass from the demilitarization of obsolete ammunition which is going into the stockpile and being held in the form of brass. If it is going to be used as cartridge brass, there is no need to separate it back into copper and zinc and then remelt them in time of war to make brass. The brass is credited toward the copper and zinc objectives.

QUESTION: I have a double question. First, assuming full availability from abroad, and assuming you get all the money you want from Congress, how long would it take you to get the other 60 percent that

you need, which you say is close to 7 billion dollars? Second, and related to that, a good deal of stuff for the stockpile has to come from abroad, and in due course the foreign countries are going to be getting a little bit reluctant to sell to us. Have any of them shown any signs of reluctance up to now?

DR. MORGAN: I am going to add one more assumption to your two. You assumed all the money we need and you assumed full availability from abroad. If you are willing to add the assumption of fairly drastic domestic controls on nonessential use of those commodities, we might be able to complete almost all stockpile objectives by 1955. Without that one, domestic controls on nonessential use--we never will complete most of the stockpile.

Then, as to foreign countries being reluctant, they are reluctant, as I explained, in the case of the individual not wanting all his money today, but wanting a steady going business. But, if we are to be again the "arsenal of democracy," and if we are guaranteeing to defend foreign nations and to provide the weapons and the ammunition necessary to do that, I think that any reluctance on their part to give us strategic and critical materials, if we are willing to pay for them, is unjustifiable.

Under the ECA bilaterals and under the North Atlantic Treaty agreements, all the countries receiving our aid have signed bilateral agreements with the United States among the provisions of which is that they will facilitate the transfer of strategic and critical materials to the United States for stockpiling and other purposes.

QUESTION: Perhaps you won't want to answer this, but to what extent is the stockpile being used as an instrument of foreign policy? We don't have a mercury industry in the United States any more since about a year ago. Mercury now comes mainly from Spain and Italy.

DR. MORGAN: As you well know, the Stockpile Act has not been used solely to subsidize the domestic producers of strategic and critical materials. Most strategic and critical materials are so classed because they are primarily of foreign origin. Moreover, the purchase of foreign raw materials can greatly help in closing the troublesome "dollar gap." We want foreign countries to earn more dollars; the only way they can earn more dollars is by selling us materials.

From the strictly nationalistic viewpoint, if we deplete the other fellow's resources and build up our own reserves, we will be better off in an all-out war with an enemy than if we deplete our own resources and leave foreign materials to fall into enemy hands.

QUESTION: What is the tie-in between the plans, controls, and allocations of materials under the Defense Production Act of 1950?

DR. MORGAN: There is a very close tie-in. The NPA at the present time, in deciding which control orders to issue and the degree of control, is fully informed of our desire to complete the stockpile objectives by a certain date. When NPA makes up the materials balance sheets, it gets from the Munitions Board the needs of the current military build-up under the appropriations now being requested and at the same time NPA gets the requirements for completing the stockpile. In setting up control orders NPA will undoubtedly try to channel material into the stockpile along with other security programs.

However, there are some instances in which the amount we would like to stockpile, plus the amount that the military need for current military use, come to 100 percent or more of the total national supply. In those instances there will have to be some adjustment made, because we can't ruin the whole national economy to get certain commodities stockpiled.

COLONEL RINDLAUB: Dr. Morgan, on behalf of the Commandant and the Industrial College I thank you for having made possible a very instructive and interesting discussion this morning.

(26 Jan 1951--350)S.

Chart 1

DETERMINATION OF STOCKPILE OBJECTIVES

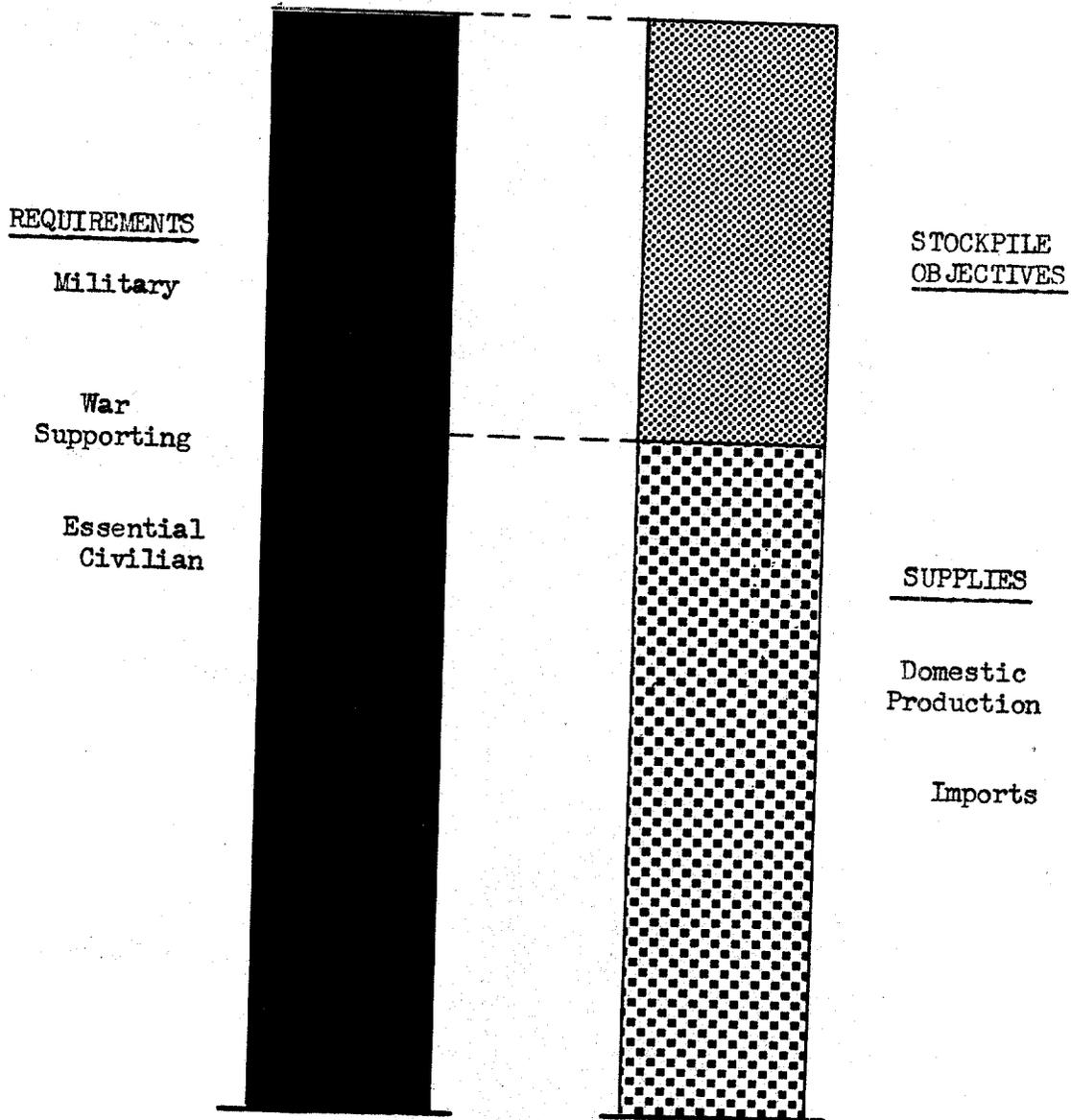


Chart 2

STOCKPILE STATUS

September 1950

