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## ROLE OF THE DEPARTMENT OF COMMERCE IN ECONOMIC MOBILIZATION

20 May 1952

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Honorable Thomas W. S. Davis, Assistant Secretary of Commerce for Domestic Affairs, was born on 22 March 1910 in Warrenton, Virginia. He received his early education at Warrenton schools and later attended the United States Naval Academy, the University of Virginia, and the Washington (D. C.) College of Law which awarded him an LL.B. degree. After serving as an officer in the U. S. Navy, assigned as administrative assistant to the director, Naval Vessels and Aircraft Division, he was given a medical discharge after a year's service as he was receiving training for sea duty. He served for a year as secretary to the then Postmaster General James A. Farley and has worked for the National Democratic Committee for periods totaling eight years. Before he became Assistant Secretary of Commerce, he was associated with the United Air Lines where for part of his six years there he was a special assistant to the president. He was sworn in as Assistant Secretary of Commerce on 14 October 1949.

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## ROLE OF THE DEPARTMENT OF COMMERCE IN ECONOMIC MOBILIZATION

20 May 1952

DR. REICHLEY: This morning we turn our attention to another executive department of the Government having major responsibilities in the field of economic mobilization, that is, the Department of Commerce. This department has been in the center of the present mobilization effort due to the large share of the economic mobilization program which it directs and operates; a knowledge of its activities will be of material assistance to you in your present studies.

Our speaker is the Honorable Thomas W. S. Davis, who is Assistant Secretary of Commerce for Domestic Affairs. He served in World War II as a naval officer, and since that time has held important posts with the Postmaster General's Office and with the United Air Lines. He was appointed Assistant Secretary in 1949.

Mr. Secretary, it is an honor and a privilege to have you with us this morning and to welcome you back to the Industrial College.

Secretary Davis.

SECRETARY DAVIS: Since the very outset of mobilization for defense efforts, more fingers of responsibility for their successful promotion have been pointed at the Department of Commerce than at any other Federal agency. By the President and by the Congress, vital and indispensable duties have been heaped upon this Department and our 15 main offices and bureaus. These assignments to perform emergency functions, however, I am happy to tell you did not catch us unaware or unprepared.

Because of the carefully and definitely established role of the Department of Commerce in the Nation's economy--as enlarged and expanded and integrated during recent years--the basic machinery, plus trained personnel, was available and we were able to undertake all special mobilization functions with a minimum of delay. An over-all picture of the manner in which the Department is carrying out its various mobilization functions is contained in a special chart to be distributed among you. (Chart was not reproduced.)

This chart, which is being used as an outline for my remarks today, is designed also to be useful to you as ready reference material during your full-scale studies of the Department's industrial mobilization activities in particular.

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Before going into details it might be well to point out that the ability of the Department to go ahead so quickly and efficiently with its allotted tasks in the defense effort is the result of the broad extent of its statutory functions, which are in summary: to foster, promote, and develop the foreign and domestic commerce, manufacturing, shipping, and the transportation facilities of the United States.

In view of the fact that you already have had access to a transcript of my talk last year, I shall endeavor this morning to avoid repetition or duplication of facts and materials presented at that time.

Furthermore, I shall try to by-pass discussion of subjects already covered in your long and intensive studies. The units of the Department to be dealt with today will be confined--with some few exceptions--to those with direct delegations of defense authorities under the Defense Production Act and the Executive orders of the President.

The National Production Authority (NPA) was the only new major agency created within the Department of Commerce as a result of the Nation's mobilization for defense programs. And NPA was established and put into effective operation in record time by building on the available nucleus of commodity and industry divisions of the Office of Industry and Commerce and by utilizing the Department of Commerce Field Service, which was enlarged to encompass the field operations and activities of NPA.

Various facts of NPA's operations and policies, including those at field offices, will be taken up following general reviews of the activities of other offices and bureaus of the Department, as indicated.

Among the important units which increased mobilization for defense activities have brought into being are the Industry Evaluation Board to carry out the Secretary's responsibilities relative to security protection of economic resources and facilities, the National Shipping Authority (NSA) in the Maritime Administration, and the Office of Aviation Defense Requirements within the Civil Aeronautics Administration (CAA).

## Defense Air Transportation Administration

The most recent newcomer in this category is the Defense Air Transportation Administration (DATA) which is responsible for the mobilization of civil aviation resources and facilities. In this connection, it has authority to requisition and allocate

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commercial aircraft, administer war-risk insurance, and schedule the movement of traffic on civil air carriers and administer a system of priorities therefor. In other words, DATA is similar in purpose to the National Shipping Authority earlier established within the Maritime Administration to provide for the mobilization of maritime facilities.

The DATA's functions, as you will note, are largely of a "stand-by" nature to be exercised only if conditions become considerably worse than at present. In such an event, the actual operations likely will be performed by the large operating transportation agencies of the Department. In the meantime, DATA will remain a small organization serving a useful purpose as a planning and coordinating agency in assuring adequate and effective utilization of civilian air transportation facilities to meet the needs of national defense and of the domestic and foreign commerce.

In addition to DATA and NPA, direct defense authorities are being exercised by the CAA, the Maritime Administration, the Bureau of Public Roads, and the Office of International Trade (OIT). Activities in cooperation with defense agencies are being performed by the Bureau of Standards, the Coast and Geodetic Survey, the Patent Office, the Weather Bureau, and the Office of Industry and Commerce which includes the Departmental Field Service. Functioning in support of defense programs are the Census Bureau, the Office of Technical Services, the Office of Business Economics, and the Inland Waterways Corporation.

#### Civil Aeronautics Administration

In considering the part played by the CAA in the mobilization program, it should be borne in mind that CAA is an operating agency, as distinct from the Civil Aeronautics Board which is a regulatory agency. CAA, therefore, tends to deal primarily with operational rather than economic phases of civil aviation. Also, it seems well to remember here that CAA's facilities remain mobilized the year round and can be put into full use on a moment's notice. Specific examples of how CAA does and can function follow:

CAA now transmits to the Air Defense Command information on all planes entering areas designated as Air Defense Identification Zones. CAA obtains this information from flight plans and position reports which civil pilots are required to file.

A more comprehensive plan for security control of air traffic under conditions of military alert has been worked out between CAA and the Air Force. Following approval by the Secretaries of Commerce and Defense, the essentials of the plan will

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be made known to all elements of civil aviation, so that they can give the instantaneous cooperation that will be required under emergency conditions.

In effect before Korea, but of increased significance as the tempo of military operations steps up, are the committees for control of airspace organized in each CAA region, with a committee in Washington to handle matters which cannot be settled at regional level. These bodies coordinate such problems as the establishment of "danger areas," either for permanent installations such as anti-aircraft firing ranges, or for temporary maneuver areas, such as the huge chunk of Texas recently used for Operation Longhorn.

Since 1948 the system of Federal airways operated by CAA has been undergoing extensive modernization, along lines geared to common use by civil and military aviation. This 70,000-mile network of air navigation aids and traffic control facilities now helps move a heavy volume of military traffic; it will be even more vital in an emergency as a communications and control channel for mass movement of bombers. The Federal airways extend beyond continental United States, pointing strategic fingers into the Aleutians and the Pacific Islands chain. CAA facilities in the latter area have played an important part in the Korean airlift.

Civil aircraft and civil airmen would be essential cogs in all-out operation of our war machine. The CAA office most concerned with them is the Office of Aviation Safety. Its agents are approving safety aspects of the modifications now being made on 330 four-engine airliners, so that they can be available at a moment's notice for military support missions. This is, of course, only one phase of the Civil Reserve Air Fleet plan set up by the DATA of the Commerce Department. As for airmen, all those wishing to exercise the privileges of their CAA certificates now must have special Airman Identification Cards issued by CAA as a defense precaution.

Airways, aircraft, and airmen have been mentioned. What about airports? They enter mobilization planning in at least two ways. Some 300 civil airports serve as bases for military aircraft. Where problems have arisen as a result of joint use, actual or proposed, they have, in many cases, been referred to the Airport Use Panel of the Government's Air Coordinating Committee. It is my privilege to serve as Commerce representative on that committee and the CAA provides the staff services for its Airport Use Panel.

Also of interest in connection with airports is the Federal Aid Airport Program administered by the CAA. This program operates under directives to channel its funds--totaling some 180 million dollars to date--into projects which serve the mobilization effort.

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Two other CAA activities--one domestic, the other international--deserve mention. Domestically, CAA has been working closely with the General Aviation Division of our DATA and with the Federal Civil Defense Administration, on plans for maximum participation by general aviation (that is, all aviation other than air carrier) in post-M-day efforts. This would include disaster relief, training, patrols, and so on.

CAA's International Region has been helping other nations install American-type air navigation facilities, useful now in facilitating world-wide operations of United States airlines and of obvious value in the event of hostilities. In addition, it has arranged for the training in this country of civil aviation personnel from many nations.

Finally, there is the CAA Office of Aviation Defense Requirements which, under the Controlled Materials Plan (CMP), processes the claims of civil aviation for submission to the NPA.

## Bureau of Public Roads

The Bureau of Public Roads is in the midst of some of its busiest days with emphasis being placed on the necessity for replacing old and weak bridges and reconstructing worn-out sections of our main highway systems to make them adequate to meet defense requirements.

In addition, the Bureau of Public Roads is undertaking construction of access roads, certified as important to the national defense, to reach ore and timber, atomic energy installations, and military establishments. It is anticipated the total amount of access-road work that should be initiated prior to 30 June 1952 will cost not less than 75 million dollars.

There has been no conflict between military and civilian thought as to the kind of highway system the Nation needs. The workers, plants, and transport arteries that support our peacetime economy are the essential elements of war production.

If or when war comes, we must continue to feed, clothe, and house our population; feed materials and supplies into our plants and deliver the products where they are needed. The total demand for transport rises sharply and highway transport, because of its flexibility and ease of expansion, gets far more than its proportional share of increased tonnage and business travel.

In time of danger from foreign enemies, the Bureau of Public Roads has two responsibilities directly related to and supporting

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the efforts of the armed forces: (1) It must see that our highway system is kept in a condition such that needed transport can be supplied without undue delay, hazard, or cost and (2) it is the agency to which the armed forces turn for such new road construction as is needed in the development of new plants, military installations, new sources of raw materials.

International activities of the Bureau of Public Roads include those in the Western Hemisphere connected with construction work on a large defense highway in Alaska and on the Inter-American highway through Central America, as well as technical assistance for a number of South American countries.

Overseas, the Bureau of Public Roads is cooperating with Turkey, the Philippines, Ethiopia, and Liberia in their efforts to develop adequate highway systems. This work includes technical assistance, training, purchase of construction and maintenance equipment.

Also, this Bureau each year conducts an extensive training course for foreign engineers coming from all parts of the world.

## Maritime Administration

Next on the transportation list is the Federal Maritime Board and the Maritime Administration.

About one month after the Maritime Administration assumed the functions of the former Maritime Commission, it became directly concerned with economic mobilization in connection with the Korean military effort, which demanded a large number of fast vessels to carry supplies and troops to the war zone. Some 150 vessels of the Victory cargo type were made available. A number of troop carriers were loaned directly to the Navy, but the cargo vessels, in line with the policy of the Department of encouraging private ownership and operation, were bareboat chartered to private American ship operators, who, in turn, time chartered the vessels to the Military Sea Transportation Service (MSTS). All these vessels were withdrawn from the Maritime Administration's National Defense Reserve Fleet.

A further group of 128 ships were sold just prior to 15 January 1951, when the authority to sell war-built vessels to United States operators terminated. Most of these were Liberty ships.

On 13 March 1951 the Secretary of Commerce announced establishment of an NSA with the Maritime Administration which in many respects resembles the War Shipping Administration organized during World War II.

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Late in 1950 the Economic Cooperation Administration and the General Services Administration (GSA), which is responsible for the defense stockpiling program, each encountered serious problems due to lack of shipping space resulting from sudden and unexpected demands on the world's merchant fleet. As a result the Federal Maritime Board authorized release of 32 Victory type vessels to help these agencies carry out their programs.

With the establishment of the NSA, the tonnage requirements for military and foreign aid shipments, which were continuing to rise, were met by the breakout from reserve of a large number of additional vessels. These were operated by experienced shipping lines under general agency agreements, similar to the process following during the last war. These vessels augmented and did not compete with private American shipping.

By 1 April 1952 there were 538 vessels in such operation under NSA. These were mostly Libertys, in addition to the Victory ships earlier put into use under bareboat charter, and arrangements were made for a transfer from bareboat charter status of the Victories to general agency operation under the NSA.

Up to 1 May 1952, the NSA fleet had carried a total of 13,545,574 tons, of which 10,090,783 tons were coal and 3,239,631 tons were grain under foreign aid programs. These shipments were to European, Mediterranean, and Southeastern Asia areas. A total of 221,741 tons of strategic material had been imported into this country.

The placement of these vessels into service brought the active United States merchant fleet up to a total of 2,004 ships on 1 April 1952, of which 1,275 were in private ownership. In March shipping requirements for foreign aid had dropped sharply and the NSA fleet had been immediately reduced. It is estimated that by the thirtieth of June there will be about 250 vessels under NSA, all of them engaged in the carriage of military cargoes.

During 1951, a government-sponsored shipbuilding program to construct the first of a fleet of speedy, new type dry cargo ships of a design keyed to modern needs was started by the Maritime Administration with the following results:

Private merchant shipbuilding yards in the United States on the first of May had a total of 117 vessels of 1,000 gross tons and over, under construction or on order. Ninety-nine of these are ocean-going and of them 39 are for government account.

The government program, proper, consists of 35 modern dry cargo vessels of the "Mariner" class, the SS United States (the

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largest passenger ship ever to be built in this country) and three troop transports for the MSTs. The remainder of the ocean-going vessels now being built are tankers for private account.

Three of the Mariner ships were launched by 1 May 1952. The first two were assigned for operation, upon completion, to private steamship companies under general agency agreements for the NSA. They will carry military cargoes for the MSTs. The superliner, the SS United States, which had a trial run last week, is due for delivery to her owners 21 June 1952 and will start commercial service on the third of July. As a military transport, she is capable of carrying upwards of 14,000 troops in safety, with speed and air-conditioned comfort.

There remains, however, the fact that passenger vessels suitable for troop transports are not being built in large numbers; so there is a continuing need for more tankers and ore carriers. Additional tanker construction has been encouraged by the issuance of certificates of necessity by the DPA for construction of 16 tankers up to the first of May. And, approval of the Maritime Administration has been given for the construction of 27 large tankers to be built in American yards for foreign flag operation.

Planning activities continued through the year for allied shipping efforts under the NATO program, with the Maritime Administration representing this country's interests.

## Office of International Trade

The most publicized function of the Office of International Trade is the granting—or denying—of licenses to export United States goods to foreign countries. This function covers two broad and for the most part distinct areas: materials in short supply and materials of strategic significance.

In the field of short supply, there are four basic problems:

1. Determining the minimum essential needs of friendly foreign countries.
2. Evaluating the contribution which export of scarce materials will make to the United States national interest.
3. Determining the extent to which the United States can afford to share its limited supplies of these items.
4. Making the distribution of export quotas in such a manner as to achieve the maximum results in advancing the mobilization of the free world and in supporting the economies of

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friendly foreign countries. At the same time, it is essential to preserve equity in dividing limited export allocations among United States exporters.

In the case of strategic goods, OIT not only prevents direct shipment to the Soviet bloc but also permits shipment to friendly countries only when there is no likelihood that these goods may be re-exported to the bloc.

In a time of mobilization, this direct control over exports constitutes our major tool for economic defense. But the granting of licenses is only a fraction of the entire job this office performs.

In the field of export control, full statistical information and accurate analyses of trade and related data are important at all times--and now more than ever. Such data, the gathering of which has been a long-time function of OIT, are essential in five ways:

1. In calculating the import requirements of friendly countries and neutrals--and hence in determining United States export allocations.
2. In revealing the resources available to unfriendly countries.
3. In demonstrating the strengths and weaknesses of friends and enemies alike.
4. In establishing new sources for strategic materials which are not longer available from traditional suppliers.
5. In providing guidance for the conduct of potential preclusive buying operations.

Upon OIT's analyses of trade between the western European countries and the Soviet bloc have depended not only our own security controls, but also much of the work of the Office of the Director of Mutual Security in carrying out responsibilities under the Mutual Defense Assistance Security Control Act--better known as the Battle Act. As you know, under the terms of the Battle Act no country receiving aid from the United States may export any amount of certain strategic commodities to the bloc, under penalty of instant termination of United States financial aid. Other commodities are under virtually identical strictures, although exceptions may be made when it is determined that the contribution which the exporting country is making to the over-all defense program is

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such as to make immediate termination of aid undesirable from the point of view of our own national interest. Still other commodities may be exported only within quantitative limits.

The most recent development in the field of strategic controls has been a multilateral arrangement under which the importing country agrees to police the onward movement of strategic materials and to refuse to allow transshipment of such materials to any destination in the Soviet bloc. Known as the Import Certificate and Delivery Verification System, this new program is already applicable to the major trading nations of the West and it is anticipated that it will shortly become applicable to many additional countries throughout the world.

It is perhaps unnecessary to state that the OIT maintains a complete embargo to the Soviet bloc on everything of strategic importance. A license is required for anything that goes to the bloc no matter how insignificant it may seem, and even nonstrategic items are licensed in very small volume. Nothing moves to China or North Korea. To illustrate the downward trend in the United States shipments to the Soviet bloc, in 1947 the United States was shipping more than 173 million dollars per quarter to the Soviet bloc, much of which was in highly strategic commodities. In the fourth quarter of 1951, we exported less than one-tenth of one percent of this amount, much of it in the form of prepaid gift parcels of food and clothing and none of it in the form of strategic materials.

OIT's controls are back-stopped by a top-level Advisory Committee on Export Programs, representing the military establishment, State, Interior, Agriculture, Mutual Security Administration, the Atomic Energy Commission, NSRB, NPA, and OIT. This group recommends to the Secretary of Commerce export control measures required in the interest of national security and the conservation of scarce materials, items to be controlled for export, licensing policies, and, where important policy considerations are present, action to be taken on particular licenses. Other interagency groups of technical commodity specialists assist in the determination of strategic ratings of controlled commodities.

## Activities in Support of Defense Programs

Let's move along now into the mobilization activities of some of the Department's other agencies--those performing special tasks in support of defense programs but without direct delegation of defense authorities. We might as well start with the Bureau of the Census which is in a class by itself and is being relied upon to provide a very special and indispensable part in mobilization planning and progress. Present, past, and future reports of that

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Bureau are absolutely essential in reckoning economic status and outlook. Furthermore, it is constantly undertaking special projects for other government agencies, urgently requiring definite statistics connected with mobilization efforts. Following are some examples:

To the NPA the Census Bureau supplies data on production and consumption of critical materials to establish and administer priorities and allocations programs.

For the Defense Production Authority it prepares regular tabulations and listings of applications for certificates of necessity.

For the armed forces its surveys include such things as occupational mobility and vulnerability of manufacturing facilities to air attack.

For the Federal Civil Defense Administration it compiles figures showing peak day and night populations for specified areas and has developed forms and instructions for surveying cities to determine the amount of usable shelter within existing buildings and the need for such shelter.

For business as a whole, it furnishes current monthly figures as to trends in sales and inventories of retail and wholesale trades in major kinds of business; as to employment, unemployment, and the distribution of it by geographical location and type of skill; as to activities of state and local government units and as to cotton ginning and production.

For the Maritime Administration and Army Engineers, it prepares special tabulations on the flow of cargoes on the oceans and on our rivers by cargo and individual vessel.

For and with the OIT of the Department of Commerce, it works closely in preparing information needed for the administration of export controls.

There are three other agencies within the Department engaged in defense-supporting programs. Along with those of the Census Bureau, their functions were discussed in considerable detail in last year's lecture text.

Since these details were originally presented, there has been little change in the scope or nature of such activities. So this morning I shall take time only to outline them as they are listed on the chart.

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Office of Technical Services--stimulates vital defense inventions through the National Inventors Council, provides technological assistance to firms engaged in defense production, and helps assure the security determination of technical information released for international usage.

Office of Business Economics--provides basic economic measures for analyzing the impact of the defense effort.

Inland Waterways Corporation--is a common carrier service transporting defense and defense-supporting goods.

## Activities in Cooperation with Defense Agencies

The Department of Commerce contains five separate agencies, engaged in activities in cooperation with defense agencies--without delegation of specific defense authority under either Executive orders or the Defense Production Act. And here again such activities were generally reviewed in the text of my lecture last year at the Industrial College. As a result I shall outline them only briefly today. They are as follows:

1. National Bureau of Standards--is essentially a laboratory conducting basic research in the physical sciences. More than three-fourths of all work performed by the Bureau is classified work for the Department of Defense on a reimbursable basis.
2. Coast and Geodetic Survey--has stepped up its normal activities to include strategic charting and mapping work required by the defense agencies.
3. Patent Office--works in collaboration with the defense agencies to screen and process patents of value to the defense effort, provides special handling to expedite and safeguard the processing of such patents, and establishes security protection over patents which would aid any enemy or potential enemy country.
4. Weather Bureau--in cooperation with military and Civil Defense agencies, provides meteorological services essential to all types of military operations and civilian defense programs within the United States, its territories, and possessions.
5. Office of Industry and Commerce Departmental Field Service--these units are operating principally in behalf of the NPA. Before going into the promised general discussion of progress and plans of the NPA, I shall insert at this point a special report prepared for this lecture on the responsibilities of the Department's field offices as they are being undertaken for NPA. Such details, I have been advised, would be of particular interest to you.

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These field offices are in effect local outposts of NPA. They are kept thoroughly informed on NPA policies, orders, directives, and regulations. Their chief function is to provide a local point of contact with the business public, trade organizations, the military and other claimant agencies on problems and procedures connected with NPA.

Responsibilities of Field Offices in Carrying Out Defense Production Act

With the establishment of the National Production Authority within the Department of Commerce in September 1950, it was recognized that in carrying out its responsibilities NPA would require the services of an adequate and alert field organization. Secretary Sawyer directed that the Departmental Field Service of the Department of Commerce serve as the field organization of the NPA. This new agency was therefore in a position on the day it started business to rely upon a field staff located in 42 of the principal industrial and commercial centers throughout the United States. These offices had years of experience in dealing with the business public and the military agencies and had a number of people on their staffs who had War Production Board experience in World War II.

Steps were immediately taken to expand this field organization and by June 1951, 103 field offices were in operation with more than 1,300 people occupied on NPA exclusively. The director of the Field Service in Washington is responsible for the operation of the Field Service and he acts through 13 regional directors who are directly responsible administratively for all NPA activities within their respective regions, with district offices being responsible for carrying out the NPA program in the districts assigned to them.

The chief function of the field offices is to provide a local point of contact with the business public, trade organizations, the military, and other claimant agencies on NPA problems. Trained personnel thoroughly familiar with the various aspects of the NPA program are in a position to provide accurate and dependable information on all phases of NPA, including restrictions under the "M" orders, priorities, allocations, and the operation of the CMP.

With the establishment of the CMP, it was determined that to the greatest extent possible this function would be decentralized to the field to enable businessmen to operate under the plan through a local agency. Responsibility for processing CMP-4B applications and making CMP allotments was delegated to 25 field offices beginning with the fourth quarter of 1951. This decentralization is continuing and in the third quarter 1952 the field offices handled 35 percent of the total NPA intake on CMP-4B applications. This decentralization

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has worked to the mutual advantage of the NPA and the business public and has contributed to the smooth operation of the CMP program. The offices also maintain active liaison with the military establishments on CMP problems.

Another important field function is the execution of the NPA compliance program. This function has been decentralized to the regional level with compliance officers also located in certain of the more important district offices. CMP audits are made by the compliance units with periodic surveys of specific phases of the NPA program including compliance with "M" orders and inventory regulations.

The Field Service is responsible for the publication daily of the Consolidated Synopsis of Proposed Procurements and Contract Awards Information providing summaries on proposed procurements of the military and civilian agencies of the Government and announcements of contract awards. Close contact is maintained by the field offices with the various procurement agencies throughout the country and a very valuable service has been rendered to businessmen by bringing them into touch with the military agencies most likely to be interested in the facilities and products of specific manufacturers. In this field a joint program of the defense establishments and the Field Service was instituted to provide special assistance to those firms whose material allotments have been cut substantially. Clinics were set up in 17 cities to enable the affected manufacturers and the military establishments to determine prospects for increased use of facilities idled by curtailment in material allotments and to find new supply sources.

The field offices also act as the medium for gathering on a local basis information required by the industry divisions and other branches of the NPA in arriving at program determinations and policy decisions.

A very close point of contact locally between the NPA and the military agencies is accomplished through the Regional Defense Mobilization Committees on which the Commerce-NPA regional directors act as co-chairman. The chairman of AFRC is a member of this committee and problems of military production in regional areas are brought to the attention of the committee for appropriate action by the interested agencies.

An item of particular interest to the military is the work of the field offices in expediting materials and equipment. We have had considerable experience in this field and the revised expediting procedure for select military production items provides for a manufacturer producing for defense to utilize the facilities of the Commerce-NPA field offices in the solution of production problems arising from delayed deliveries or difficulties in placing orders for essential parts or components.

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These field offices are the local outposts of NPA. Every possible effort is made to keep them thoroughly informed on NPA policies, orders, directives, and regulations and their full utilization by the military is desirable and is encouraged.

One example of the value of field operations is shown by the results of Industry Assistance Clinics held at 17 Commerce Department-NPA field offices under the joint sponsorship of NPA and the Munitions Board. According to an announcement last Friday, 16 million dollars in prime contracts and subcontracts had been awarded to 106 small manufacturers as a result of such clinics held last January. The meetings were attended by 1,127 representatives of small firms out of 2,571 invited, it was announced, and contracts were let in each of the 17 cities where the clinics were held.

#### National Production Authority

During the months of your intensive study of industrial mobilization, I am advised, you have become thoroughly familiar with the directives, reports, and over-all operations of the NPA. Thus far, however, you have not had a lecture period devoted exclusively to discussions of that agency. As a result, it was suggested to me that a two-way approach to NPA's progress and problems might prove to be helpful and valuable to you at this time.

Therefore, in line with the general scope of your studies, I shall first review rather briefly some of NPA's operations since the time of its establishment. Secondly and most importantly, I shall attempt to summarize the reasons why the Department of Commerce is convinced that extension of NPA's existing authorities and all other emergency controls provisions of the Defense Production Act are vitally necessary to the success of defense mobilization programs.

NPA began operations with a nucleus of personnel transferred from the Bureau of Foreign and Domestic Commerce. Around this initial group an effective organization was developed with additional staff from other government agencies and from private industry. Latest available figures show its total number of employees is approximately 5,000.

NPA's first formal action was the promulgation of NPA Regulation 1, limiting inventories of materials in short supply to a practicable working minimum. This was followed by NPA Regulation 2, which established a broad system of priorities to assure the right of way for defense orders with a minimum disruption of production schedules and civilian supply. Three other

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regulations have been issued relating to: (1) an integrated United States-Canadian priorities program; (2) materials for maintenance, repair, and operations; and (3) procedures for appeals.

To supplement and implement the basic priorities regulations, NPA has issued 84 material (M) orders which specify rules for placing, accepting, and scheduling defense orders, and which limit the amount of critical materials to be used for nondefense production. They apply to a number of basic materials, products, and services--a list of which probably is well known to you.

In order to meet increasing requirements of the defense program for the basic metals--steel, copper, and aluminum--CMP was placed in operation on 1 July 1951. In the first phase of the CMP program covering the third quarter of 1951 (July, August, and September), allotments of controlled materials were made only to producers in defense or defense-supporting industries. For the fourth quarter of 1951, CMP was extended to consumer durable goods, including household appliances and automobiles. This action brought all industries using controlled materials under CMP.

Conservation and salvage of materials are both fundamental objectives of the NPA. A special program was initiated in the summer of 1951 to increase the flow of iron and steel scrap to steel mills and foundries to supply the 32,500,000 gross tons of purchased scrap required to maintain the high rate of steel production during 1951.

Industry and agriculture cooperated in this effort to channel dormant scrap into defense uses. Scrap mobilization committees were formed in cities, in industries, and in agricultural organizations and a widespread scrap-salvaging program continues to be pushed throughout the Nation.

The NPA as an administrative body under the Department of Commerce discharges the stockpiling responsibilities assigned to the Department under the provisions of section 2 of the Strategic and Critical Materials Stockpile Act. These responsibilities require cooperation with other designated Federal agencies in determining which materials are strategic and critical, in determining the quality and quantities of such materials to be stockpiled, and in controlling of the distribution and use of such materials so as to provide adequate supplies to meet current military and civilian requirements and to permit the acquisition and retention of sufficient quantities in the national stockpile.

The actions by which NPA aids in reaching stockpile objectives are in the nature of: (1) restrictions on the distribution and use of materials to assure their availability for the stockpile

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in quantities established by decision of the Vital Materials Coordinating Committee of DPA; (2) issuance of control orders exempting certain materials from purchase limitations when purchased by the GSA and other Federal agencies for the stockpile; (3) prohibition of private importations, rubber and tin which are subject to purchase only by the General Services Administration and the Reconstruction Finance Corporation, respectively; and (4) in some cases, direct allocations made to the stockpile.

Other details concerning NPA's operations are contained in its report to the Joint Congressional Committee on Defense Production.

Since the filing of this report, covering a year's activities, the Small Defense Plants Administration (SDPA) has come into being and has begun active operations as a separate government agency. As a result and under Executive orders of the President, various small business operations of NPA have been transferred to SDPA. However, NPA's Office of Small Business continues to handle the following functions in behalf of small business:

1. A quarterly study of low-allotment firms.
2. Periodical reports showing the impact of the production program on small business.
3. Analyses of orders and regulations affecting small business.
4. Evaluation of the extent of representation of small firms on NPA industry advisory committees.
5. Prompt evaluation for the Defense Production Administration and the expediting of processing the applications for certificates of necessity for rapid tax amortization from small firms.
6. Operation as a focal point for consultation and co-operation with SDPA with respect to orders, regulations, and distribution policies and representation of that agency at proper levels within NPA.

In NPA's Office of Small Business, the Materials and Equipment Assistance Division is responsible for:

1. Direct spot assistance to obtain adjustments in base periods and adjustments in material allotments for small business.

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2. Expediting orders and delivery of equipment for small business firms engaged in defense work.

3. Staff work related to administering the Small Business Hardship Account under the advice of the Hardship Panel of NPA's Office of Small Business. This account is a pool of controlled materials which may be drawn upon to extend special assistance to small manufacturers who face a shutdown because of low allotments under the CMP system and an inability to obtain defense work.

4. Liaison with SDPA for handling spot assistance cases for materials.

Functions transferred to SDPA by President Truman include:

1. Assistance given small business on government procurement.
2. Furnishing of advice to small firms concerning approval and operation of small business production pools.
3. Classification of manufacturers according to size.
4. Economic studies of small business defense problems except those required to be made by NPA to determine the effect of any NPA actions.
5. Furnishing of advice and information on government financial assistance to small business.
6. Coordination of information, from many sources, of available productive capacity of small business.
7. Development and distribution of managerial aids except those for educational institutions.

This concludes a somewhat hurried and sketchy summary of NPA's operations and brings up the subject which at the moment is of paramount concern to each of us in this room and to the industrial economy of our Nation--the extension of emergency controls provisions as they now exist under the Defense Production Act. To the best of my ability, I shall now state the case--from the viewpoint of the Department of Commerce--in behalf of the extension of such controls.

Present and past experiences, we are convinced, demonstrate that the retention of controls over scarce materials is essential to winning the battle of production; also, that victory in the battle of production will remove the primary causes of inflation.

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The general attitude of the Department of Commerce with respect to controls can be further summarized, in part, as follows: General production and material controls should not be assumed or exercised by the Government under our free competitive system except in time of war or during a period of rapid build-up of our national defense to meet a serious threat to our security when shortages may impede defense production and cause a substantial interference with the essential civilian economy.

The Nation is now only partly through a program, as authorized by the Congress, which is designed to provide a rapid, orderly, and systematic build-up of our armed strength and the industrial mobilization base. The powers to grant priorities and to make allocations of materials and facilities, so that we can complete the program in the speediest and most orderly manner, will expire on the thirtieth of June--unless the Congress votes to extend the Defense Production Act by that date.

Without presuming to predict what Congress will decide to do about controls, I shall devote the next few minutes to stating why the Defense Production Act--without being weakened--should continue in effect for at least one more full year.

The relaxation of controls in many quarters and the complete lifting of controls on some materials, beginning as early as last fall, does not mean that shortages of all types of materials and equipment are ended and we can abandon all such controls. There has not been and there will not be any practice of "controlling for controls sake." These facts have been clearly demonstrated by the actions of both NPA and DPA through the development and putting into effect of a reasonable and equitable system of selective allocation and priority devices. Production and material controls are imposed only when shortages or special military urgencies require them, leaving many materials and industries completely uncontrolled.

Simultaneously with the adoption of new controls as needed, NPA has consistently ordered selective revocation or relaxation of existing controls in the light of changing conditions. A list of 25 specific examples of actions of the latter type, all of which were done without harming the defense effort, recently were submitted to the House Banking and Currency Committee and is available in materials being turned over to you.

On the other hand, specific controls have been imposed for the first time on several materials which have become critically scarce. Some examples of such materials are selenium, which is used in the manufacture of rectifiers needed in communications equipment of the armed forces and has important industrial uses; cryolite, which is essential in the production of aluminum; and

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crushing bort and diamond powder, used in diamond bonded grinding wheels which are highly important in the production of armor piercing shells, jet aircraft engines, tank equipment, and other defense items.

Each NPA industry division recently has been told to re-appraise the orders which it administers to determine whether the justification that existed for the order at the time it was issued still is valid in the light of present conditions. NPA's Policy Coordination Bureau, in cooperation with the industry divisions and appropriate staff offices, is responsible for a coordinated review of these orders. Some factors considered with reference to each order are:

1. How and to what degree are defense production and stockpiling activities promoted by the order?
2. How and to what degree does the order provide for necessary resources expansion such as the completion of the steel plant program?
3. To what extent does the maintenance of the order in the light of the supply-demand situation provide for an orderly and equitable distribution to civilian production and avoid a scramble?
4. Would a priorities system alone be sufficient to meet the objectives of the defense program without the order?
5. What risks would be involved in revocation or relaxation of the order?

At this point I would like to re-emphasize the basic fact that we are still a long way from completion of the mobilization program and then discuss briefly the progress we are making in necessary undertakings for our national security. The fifth Quarterly Report to the President from ODM, as you are aware, points out that what was first conceived as a three-year program of military production has now been extended to four years; that this year, 1952, is the year for acceleration of the military production program—with deliveries scheduled to climb to about 10 billion dollars a quarter by the end of December.

So now let's see how far along we have moved toward reaching this goal. A fairly good idea of our progress is contained in the following five items as excerpted from testimony presented, 5 May 1952, by Administrator Henry F. Fowler at a hearing before the Committee on Banking and Currency, House of Representatives.

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1. Deliveries in the first quarter of 1952 of military "hard goods"—planes, tanks and other weapons—reached 5.1 billion dollars, six times the rate of first quarter after the invasion of Korea. We are two-thirds of the way from the rate of mid-1950 to the peak rates that are scheduled for the military program as a whole. Many individual items must, of course, rise much faster—production of combat aircraft should increase during the year to 2.5 times last December's rate.

2. New and modern facilities and tools are coming into production to enable us to achieve these schedules. But the mobilization base—that is, the facilities necessary to enable us to expand military production quickly to high levels—must be completed and systematically maintained.

3. The program for an underlying expansion of basic resources, such as steel-making capacity, is moving along rapidly as plant after plant comes into operation. But the significant point is that we have only reached approximately the half-way point in this expansion program.

4. The Controlled Materials Plan has made it possible to effect an immediate and stringent diversion of the flow of the basic materials—steel, copper and aluminum from normal civilian uses into defense production—and to provide at the same time for an orderly allotment of the residue not necessary for defense to maintain a civilian economy with a minimum of hardships and operating with a maximum effectiveness.

5. Much progress has been made in building up the national stockpile of strategic and critical materials. The experience of the last war taught us that national security required advance provisions to meet raw materials needs. During the last year we have made significant progress in the accumulation of these materials. As of the end of the year, 5.7 billion dollars worth of materials were in the stockpile out of a total objective of 9.3 billion dollars. However, we are still far from sufficient in many areas which must be built up at some sacrifice to the civilian supply.

These accomplishments in the defense mobilization program show that certain phases of the materials problem have been mastered. However, two or three years of most strenuous effort lie ahead before we can achieve the kind of national security that is sought. We haven't yet achieved the mighty flow of guns, aircraft, and tanks which is required. Nor have we completed our mobilization base to a point where we can quickly expand military production to the peaks that would be necessary in the event of total war.

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Some significant measures have been taken in recent months to clear the road for the flow of components and equipment to military programs. I desire to cite a few of them to illustrate more pointedly and emphatically why the continuation of power to effect priorities and allocations is now required.

A recent major change in the priorities system, which became effective 31 March 1952, was the establishment of a preference in performance or delivery dates for DO rated orders bearing the program identifications A, B, C, E, or Z-2. These are the identification symbols of the major defense programs which are the military and the atomic energy programs and the machine-tool program. If a supplier cannot fill on schedule all of his DO rated orders, he must give preference over any other rated orders to orders bearing the identification symbols that I have mentioned.

In addition to modification of the priorities system, NPA has instituted a positive program to assure adequate flow of components which are essential to military production. Major elements of this program are explained in detail in Mr. Fowler's testimony before the House Committee and can be found in the supplementary materials accompanying the text of this lecture.

Meanwhile, your attention is called to the following two principal objectives now being sought by NPA in a special expediting procedure that has been worked out in cooperation with the Department of Defense: (1) to eliminate some of the steps in the military establishment through which requests for special assistance normally flow, thus reducing the time consumed in transmitting the request to NPA and (2) to emphasize the manufacturer's responsibility in initiating action to meet his production bottleneck problems and facilitate his obtaining quick assistance directly from NPA when needed.

Other arguments to establish the need for controls, such as I may have overlooked or failed to mention, are readily available to you in Mr. Fowler's formal testimony or in the notes you took during the course of Mr. Fleischmann's lecture in this room last week. Therefore, I shall conclude with one or two thoughts concerning the general aims and purposes of the Department of Commerce.

In the midst of striving for full preparedness against any possible military or industrial emergency, contingency or upheaval, our Department has vast economic responsibilities. We are endeavoring to meet and handle our responsibilities through promoting the closest coordinated efficiency by perfecting timesaving and results-producing teamwork among both our own offices and bureaus and those working with us--who include representatives of not only the Federal Government but of private industry.

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Finally, I ask you to remember that we at the Department of Commerce shall never lose sight of one of the primary reasons for the existence of our Department. And that primary reason is to help private industry in the promotion of its productivity and profitable well-being. We have and we seek no dictatorial controls over private industry. Such controls as those now in our hands, those which are the results of these times of emergency, we intend and expect to administer for the protection and benefit of all the legitimate interests of our Nation.

QUESTION: When we visited Sparrows Point some months ago, they were building some tankers. I was quite surprised to see that, while they had increased the size of the tankers, they had gone back to this one-engine, single-screw, 15-knot ship. I was wondering why that change from the previous policy of high-speed tankers, when the thinking during the war was that a high-speed tanker would affect the speed of the service squadron, as well as the fueling at sea.

SECRETARY DAVIS: I would like to know the answer to that myself. I shall ask Mr. Mooney, of the Maritime Administration, who is a member of your student body, to answer that for us.

MR. MOONEY: Those tankers that we saw being built at Sparrows Point weren't naval tankers. They were being built for a private account. They were being built to meet the company's economic requirements so far as speed is concerned.

On the single engine room business, I was completely baffled when I saw the design characteristics of the new Navy fleet oilers that they are proposing to build. They are fast, about 22 knots; but they have a single engine room. If the Navy can build one engine room, I don't see how anybody could possibly expect a competitor oil line to go to that additional construction and operating expense.

QUESTION: Could you explain what means you have for determining whether materials that are shipped into Hong Kong actually get into the hands of the Communists or not?

SECRETARY DAVIS: There are various means of determining that. There is the Central Intelligence Agency and we have the assistance of foreign governments. It is a difficult problem. However, as indicated earlier in discussing OIT, we are getting considerable information from a number of different sources. The military services themselves provide us with very valuable information in that connection. So we are getting from dependable sources both commercial and military intelligence relating to the disposition of the materials.

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QUESTION: I have always had a difficult time seeing how NPA could operate under the Department of Commerce when its activities are so closely tied in with those of ECA and ODM. It seems to me that to have a policy-making body in the Department of Commerce might be inconsistent. I wonder if you would comment on that problem.

SECRETARY DAVIS: Yes. I would be glad to comment on it.

It has always been a friendly controversy as to whether or not there should have been the separation of the policy-making function of DPA from NPA. But that is beside the point. The reason it has worked so well is because the people who have been at the head of those two agencies, and those who were in the lower echelons, realized the absolute necessity of making it work. It is because of that cooperation and mutual understanding of each other's problems that the arrangement has worked.

It is probably not the best administration in the world, but it seems to have worked very effectively up to this point. Whether it will continue to work that way if we get into a more difficult control situation, I don't know. But I think the reason why it has worked has been the desire of the people operating those two functions to make it work.

QUESTION: It is my understanding that the procedure has been for the National Shipping Administration to turn over ships to individual shipping companies, who in turn charter-hired them to MSTs. It seems to me that this created an opportunity for the making of unearned profits. I have never been able to understand it. Perhaps you could enlighten me.

SECRETARY DAVIS: I don't know that I can answer that question. It is not because I shouldn't give you the information, but because I don't have it in detail. Again I will call on Mr. Mooney.

MR. MOONEY: Initially it started because the Maritime Administration did not have general agency operating authority. It did not have the right to go out and operate ships for the Maritime Administration's account. However, the Ships Sales Act of 1946, which contained the authority for us to charter-hire ships to private companies, was in existence. So we used that initially and put forward our requests for the creation of the NSA with operating authority.

There was a little time lag in between. I think it was March of the following year before we got the operating authority. As soon as we got it, we entered into negotiation with the Navy Department to convert its general agency ships, which would then be allocated to MSTs operation and control.

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QUESTION: Could you tell us whether there is any planning going on in the Department about reconversion and economic demobilization?

SECRETARY DAVIS: There is planning going on all the time.

From the standpoint of controls, as I mentioned here, there is something that we have to take into consideration that is sometimes overlooked. On the basis of what we believe we are faced with at the present time, we are going to be required to maintain the capacity that will make us capable of meeting any contingency, which means the stepping up of military production and the maintenance of civilian activities, and maintaining a proper balance between them.

Now, while we may get into a period where a greater degree of control will become necessary, we may also get into a period where there will be no necessity for any controls. I believe we must have controls that we would be able to impose at the first flash out of the box, because you folks in the military tell me that we are not going to have the time to go through the long process of developing control measures before we will need them. So, to answer that question specifically is a little difficult, because at this time I don't know exactly what you mean by "reconversion."

COLONEL BARNES: Secretary Davis, you have certainly sustained the reputation of the Department of Commerce for service today. That this lecture was painstakingly prepared is obvious. It was jammed full of facts that will be very helpful as reference study. On behalf of all of us I thank you.

(28 July 1950--450)S/VJM

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