

RESTRICTED

PROBLEMS AND PLANS OF THE DEPARTMENT OF THE INTERIOR IN ECONOMIC MOBILIZATION

18 May 1953

1985

CONTENTS

	<u>Page</u>
INTRODUCTION--Rear Admiral W. McL. Hague, USN, Commandant, ICAF.....	1
SPEAKER--The Honorable Douglas McKay, Secretary of the Interior.....	1
GENERAL DISCUSSION.....	12

Publication No. L53-138

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

RESTRICTED

RESTRICTED

1986

The Honorable Douglas McKay, Secretary of the Interior, was born in Portland, Oregon, 24 June 1893. He was graduated from Oregon State College with a degree in agriculture. He served in World Wars I and II. Following World War I he became an automobile sales man in Portland and in 1927 established his own business in Salem, Oregon. For the past 25 years he has been a dealer for Chevrolet and Cadillac in Salem. With the exception of the time spent in Army service, he was a member of the Oregon State Senate from 1935 to 1949; Mayor of the city of Salem from 1933-1934; elected Governor in November 1948 and reelected for a four-year term in November 1950. Since then, he has been chairman of the Western Governors' Conference and served as a member of the Executive Board of the National Governors' Conference in 1951. Secretary McKay is a member of the VFW, the Disabled American Veterans, the Military Order of the Purple Heart, and other fraternal organizations. In 1935 he was named chairman of the Willamette River Basin Commission and served until he became Governor. In January 1953 he was appointed by President Eisenhower as Secretary of the Interior.

RESTRICTED

RESTRICTED

1987

PROBLEMS AND PLANS OF THE DEPARTMENT OF THE INTERIOR IN INDUSTRIAL MOBILIZATION

18 May 1953

ADMIRAL HAGUE: General Craig, members of the staff, faculty, and students of the National War College and the Industrial College of the Armed Forces: This week we undertake a comprehensive series of lectures dealing with all the departments of the Government which have an intimate part to play in economic mobilization. This morning we are honored by having the Secretary of the Interior, the Honorable Douglas McKay, to tell us about his department's problems in economic mobilization.

There is one striking fact, it seems to me, in terms of the Department of the Interior; that is, during the past decade or so our country has been transformed from one with a superabundance of natural resources into one with very definite shortages of many critical materials. As you all know the Department of the Interior is the custodian of all our resources; and the work of the Department of the Interior is of special significance to us in the military.

Gentlemen, it is a great pleasure to present to you the Secretary of the Interior, the Honorable Douglas McKay.

SECRETARY MCKAY: Admiral Hague and gentlemen, it is a pleasure for me to be here and talk to you about the problems and plans of the Department of the Interior in economic mobilization. I thank you, Admiral, for the opportunity of appearing here.

I sympathize strongly with the Admiral's remark about the Department of the Interior being the custodian of our natural resources; to me that is just what it is.

No other department of the Government is more important to the welfare of our people in future generations. Upon the Department of the Interior rests the responsibility of telling whether or not we have enough natural resources for the future and if there are adequate plans for conservation. And by "conservation" I don't mean locking up; that isn't what it means. To me conservation is the wise use of our natural resources.

I feel particularly honored in being asked to talk before such a highly selected and trained group. I understand that all of you are experienced military officers and high-level civilian public servants who are engaged in perfecting, generally, your training in matters relating to national security.

RESTRICTED

RESTRICTED

1988

I hardly need say that nothing is more important than our national security. Those of us who must make major decisions that vitally affect the future of our country must depend heavily on career men such as you for advice and assistance. We need all the wisdom you can develop here and subsequently bring to bear upon national security problems. You may be assured that we will appreciate your help.

National security involves many things. But fundamental to this security is industrial strength. Modern military strength cannot exist without it. The motto of the Industrial College, I am told, emphasizes the inseparability of industry and defense. And I believe it is very important that this key idea be clear in all our minds.

President Eisenhower recently emphasized this thought when he spoke of "the two logics": "military logic" and "economic logic." And then he went on to say: "If these two logical disciplines can be wedded"-- and he believes they can be--"it is then possible to create a situation of maximum military strength within our economic capacities."

My appreciation of the inseparability of military and economic affairs, in connection with national security, derives from my own varied personal experiences. As a front-line infantry officer in World War I, I can fully appreciate what it is like to be without needed munitions and yet know that somehow the great chain of essential activities, back to the mines, oil wells, and power stations, probably could have done more. In World War II, I served in the Services of Supply. Nobody can become acquainted with the tremendous output of industry that went into the success of that war without realizing that modern wars can be lost on the industrial front as well as on the battlefield. The vital role in wartime of natural resources industries--hydroelectric power, timber, metals production, and mining--is particularly evident to me as a westerner, a businessman, and former Governor of Oregon. And now as Secretary of the Interior I can see even more clearly the full significance of your motto, particularly as regards development of natural resources, because it is in this field that the Department of the Interior makes its important contributions to the Nation's security.

The Department's contribution to the defense program is related to the over-all responsibilities of the Office of Defense Mobilization (ODM). Interior's responsibilities are directed generally to the defense-supporting, industrial build-up, and cover the following areas: energy resources, including petroleum, natural gas, electric power, coal, and coke; the encouragement of exploration for new domestic sources of critical and strategic minerals and metals; and the maintenance of fishery production.

In handling these responsibilities specialized organizations have been necessary and in some cases continue to be necessary. For this reason the Department has five defense administrations to carry out its

RESTRICTED

RESTRICTED

1989

role in this field. They are: the Petroleum Administration for Defense (PAD) the Defense Solid Fuels Administration (DSFA), the Defense Minerals Exploration Administration (DMEA), and, until 30 June 1953, the Defense Electric Power Administration (DEPA), and the Defense Fisheries Administration (DFA).

Private industry, of course, largely shoulders the responsibility for resource development; and the functions of these administrations are aimed primarily at expediting private development or encouraging private development beyond the point which prudent business judgment would ordinarily dictate, but is required in the interests of national security.

Specific functions of these administrations, except the DMEA, are:

First, the recommendation to the ODM of goals for expansion of industry's productive capacity. These goals are calculated on the basis of projected military, Atomic Energy Commission, defense-supporting and essential civilian requirements, as well as the potential ability to expand the industry concerned.

Second, in order to assist industry in meeting expansion goals, Interior's various defense administrations have the responsibility for making recommendations to the ODM as to the necessity for financial incentives, such as accelerated tax amortization and government loans, or government-guaranteed loans.

Third, our defense agencies also have responsibility for the administration of the various control and conservation orders applying to their respective areas. Within the over-all limitations established by the ODM, they have been responsible for the allocation of scarce materials and equipment, and, to the extent necessary, for expediting these supplies to remove bottlenecks in the expansion program.

The DMEA, through loans to mining companies, repayable under certain conditions if discoveries are made, encourages private investment in minerals exploration activities.

During World War II the mobilization functions in the same resource areas, except electric power, were lodged in Interior. These are the same resource fields where many of the Department's regular program activities are centered. This arrangement is mutually beneficial in that the defense administrations can frequently draw upon the skills and resources of the regular program activities, and these in turn profit from the experiences of the defense agencies. Moreover, policy coordination between defense and regular activities is facilitated.

Apart from their contributions to the work of the defense administrations, the regular activities themselves of the Department make

RESTRICTED

RESTRICTED

1990

important contributions to national security. These contributions include: (1) metallurgical and fuel research and the production of helium by the Bureau of Mines; (2) direct minerals exploration activities by the Geological Survey and the Bureau of Mines and the production of topographic and geologic maps by the Geological Survey; (3) the operation of the Alaska Railroad and the construction of roads and public works in Alaska, as well as other territories, by the Office of Territories; (4) the building of hydroelectric projects and the transmission of electric power by the Department's public power agencies; (5) the construction of irrigation projects to increase food supply by the Bureau of Reclamation and the Bureau of Indian Affairs; and (6) the administration of our public domain under appropriate conservation policies while enabling private economic development of mineral, timber, and land resources.

Not only does Interior make these regular contributions at home, but through its cooperation with the Mutual Security Agency and the Technical Cooperation Administration, particularly through the provision of skilled technical personnel, the Department assists other nations of the free world to increase their strength through development of their natural resources.

These more indirect contributions to national security will go forward to the maximum extent consistent with sound national economic and fiscal policies upon which our security also depends.

With respect to the resources of direct concern to Interior in the defense program, great progress has been made in development since the invasion of Korea. I believe it would be helpful if I summarized this progress, as well as the current status and outlook for this development.

The Nation's capacity for petroleum refining has grown from 6.8 million barrels per day at the time of the Korean outbreak to over 7.7 million per day. During the same period, production of crude oil and gas liquids has increased from 5.9 to a peak, several months ago, of 7.1 million barrels per day. Other segments of the industry--storage, transportation, and distribution--have expanded at roughly comparable rates. Also, natural gas pipelines have been greatly extended.

The petroleum industry is today in a position where it can meet the country's immediate partial mobilization needs, although its capacity to produce certain products must be pressed to the limit to keep up with growing demands. The most acute supply problem with which the PAD is now concerned is aviation gasoline.

In 1947 domestic production of aviation gasoline (100 octane and above) was only 17.8 million barrels. In spite of the fact that production last year rose to 65.1 million barrels, supplies, even when augmented by higher-than-normal-cost products, have been barely sufficient

RESTRICTED

RESTRICTED

1991

to meet growing military and civilian needs. The PAD has materially aided industry in expanding its aviation gasoline capacity and making possible more efficient utilization of existing capacity. Nevertheless, more production capacity is still needed to meet the demands which military estimates indicate will continue to mount for several years. Recently the program for alkylate plant construction was stepped up in a target set by the ODM.

One major difficulty confronts the petroleum industry and the Government in increasing alkylation facilities (the specialized refinery installations needed for aviation gasoline production) to the level required to meet full mobilization requirements. This difficulty stems from the fact that facilities, beyond those presently building or definitely planned, would be needed only in event of war. Thus refiners have little economic incentive to build them. Another deterrent is the likelihood that in time, perhaps a decade, the shift from piston to jet engines among military aircraft will have wiped out a substantial portion of the increased requirements which may prevail in the intervening years.

To help overcome these difficulties, the Department of Defense and the PAD have asked for, and recently obtained from the House Subcommittee on Military Appropriations, approval of modification of the previously existing contract plan for alkylation facilities. The modified plan permits use of funds which have already been appropriated to guarantee return of investment, to reimburse refiners for the building costs during construction. This procedure will relieve the refiner of having his own capital tied up in the facilities and will, it is believed, stimulate some of the required additional construction. It may be particularly useful as an aid to smaller refiners in expanding alkylation facilities. The over-all cost to the armed services will not be increased.

Presently the PAD has two control orders in effect which, it is estimated, result in the production of as much as 12,200 barrels per day of aviation gasoline, not otherwise available. If the authority for these orders is continued by Congress, we contemplate continuing them in effect so long as the shortage of aviation gasoline continues at its current critical level.

The main defense expansion problems faced by our DSFA relate to metallurgical coal and coke production. Metallurgical, or coking, coal capacity has been expanded about 9.9 million tons in the last two years, or 8 percent over the 1950 capacity level; this year it is expected to reach the goal of slightly more than 137 million tons originally established by the Defense Production Administration. As recently as 12 March 1953, however, the expansion goal for blast furnaces was increased by an additional 2 million tons of pig iron capacity, thus further increasing the expansion task remaining to be completed for the production of metallurgical coal and coke by 2.5 million tons and 1.8 million tons, respectively.

RESTRICTED

RESTRICTED

1992

The expansion of by-product coke capacity has presented more difficult problems than the coal supply for the ovens. Coke-making capacity must be provided not only to keep step with the expanded needs created by the steel program, but to replace overage ovens which are failing under the present high rate of operation. Of the 6.7 million tons of oven capacity expected to be constructed in 1953, almost half is needed to replace obsolete ovens. Although coke requirements of the steel industry will grow more rapidly this year than by-product coke-oven capacity, the beehive coke industry, which is capable of producing from 5 to 7 million tons per year, should temporarily be able to make up the difference in requirements. Much of this coke, however, is lower in quality and only regionally available. To assure the completion of the coke-oven expansion program, it may be necessary to make fuller use of existing types of financial incentives.

Except in the Territory of Alaska, types of coal other than metallurgical coal have presented few special problems of direct concern to the DSFA. Direct military use of coal in Alaska, however, will require an increase of nearly 90 percent over 1951 capacity. As mining in this area presents far more difficult operating problems than in other areas, and since the increased output is required almost exclusively for military use, it has been necessary to stimulate Alaskan coal production by offering incentives to coal producers in the form of defense loans and accelerated tax amortization. Programs for increased production have not yet been completed to meet the Alaskan coal expansion goal; a continuing effort will be required to stimulate production in this area.

Electric power generating capability of class I utilities, which amounted to 63 million kilowatts at the time of Korea, stood at more than 81 million kilowatts at the end of 1952. Largely due to materials shortages, however, the present capability is somewhat below that previously planned for this year; thus certain areas of the Nation suffered critical power shortages in 1951 and 1952. It is expected that the general easing of the materials situation, and expansion of power equipment manufacturing capacity, will permit substantial increases in completion of power facilities and enable us to meet our goal of 116 million kilowatts capability around 1955. Presently signs indicate that a capability of more than 123 million kilowatts may possibly be reached by 1956.

In the light of the generally favorable outlook in this area, I have recently ordered the abolition of the DEPA, as I have already indicated, on 1 July 1953. Of course, certain residual functions will continue to be performed within the Department.

As of the end of April, the DMEA had received 1,825 applications for assistance. Of these 482 have been approved, 1,087 have been withdrawn

RESTRICTED

or denied, and 256 are still pending. Exploration work done under certain of these contracts which have been executed has resulted in significant discoveries of a number of strategic minerals, including uranium, tungsten, beryl, mica, rutile, manganese, and monazite. The loans of the DMEA will henceforth be confined to exploration projects for minerals in most critically short supply.

Since there have been no general food shortages during the partial mobilization effort, the problems of the DFA have been largely those of maintaining a healthy industry and facilitating normal production. These problems have been solved by that agency's small staff through the exercise of claimant agency functions in obtaining, for the commercial fishing industry, the necessary material allotments and priorities to assure required production and processing materials and equipment and through advisory services to other defense agencies.

The accomplishments of Interior's defense administrations, and the industries to which they relate, do not stand alone in the effort to develop the Nation's industrial potential. Generally the Nation can now support a high level of defense production superimposed on an expanding and unrestricted civilian economy.

In the materials area generally, supplies have increased to the point where it has been possible to abandon the Controlled Materials Plan. Only a few highly critical materials remain under government allocation. Progress within this area has to a large extent made possible the recent substantial abandonment of economic controls and paved the way for our return to a free economy.

Now, with what I have said so far as background, what can be said to be our current and future problems and plans? These problems and plans relate to those activities which we consider essential for continuance in support of the current partial mobilization, as well as those which are concerned with full mobilization readiness.

With respect to the first of these types of problems and plans, we have the problem of providing government financial incentives to the extent necessary to secure essential further resource development under partial mobilization conditions. Authority for granting these financial incentives is expected to be available in the coming fiscal year. We plan, however, to keep our policies and operations in this regard under close and continuous review, making certain that only clearly essential developments are aided.

We also have remaining problems associated with operating the few material allocation controls that are still in existence and with expediting construction of projects, and the equipment needed for their utilization, especially in connection with electric power, aviation gasoline,

RESTRICTED

1994

coke, and Alaskan coal facilities. But this activity also will be held to a minimum consistent with defense urgency of completion.

As a matter of fact when we build a hydroelectric plant, it takes five years from the time the appropriation is made and the first dollar is issued to the time when it is ready to go into operation; the laws of nature will not allow you to do it any faster. For instance, for one of the dams out in my country it took two and a half years just to pour the concrete, working twenty-four hours around the clock. So we estimate that it will ordinarily take two and a half years for that. Therefore, at the same time we have to start building the generators that will go into the dam. It takes five years to build them. Regardless of how much money you have, you can't do it any faster. You can't go out and order these generators, because they are all custom made. You can't buy them like you can buy automobiles. So you have a long lead time there in producing hydro. And the same thing is true of types other than hydro, such as steam. Therefore, instead of worrying about expanding this industry too fast, we are always faced with a potential power shortage.

Reliance will be placed, much more than in the past two years, upon private enterprise to take care of its own problems without government financial assistance, expediting help, regulation, and control. Free enterprise competition will be the great spur to advance.

That has been possible because we are quite caught up on many programs. For instance, when Korea happened all of a sudden in June 1950, it was necessary to put up some money to allow some people to build plants to develop metals. At the present time the situation has eased up and we don't have to do so much of that.

The much-reduced level of government participation in industrial affairs that appears possible and desirable under current conditions presents the Government with important organizational problems. Should the special defense organizations which have been functioning since soon after the invasion of Korea, and which would be needed again if full mobilization were forced upon us, be liquidated and any remaining functions absorbed by regular departmental agencies? Or should they be maintained, even though largely on paper, with legal authority, mobilization plans, and procedures intact and with full mobilization billets assigned in them to key industry people? These and other organizational problems will continue to face us.

But our most fundamental problem now, and in the months and years ahead, relates to our full mobilization industrial readiness functions in each of our resource areas. These involve not only priorities, allocations, conservation order planning, plant security planning, post-attack rehabilitation planning, in relation to civil defense plans, but

RESTRICTED

RESTRICTED

1995

also industrial mobilization base planning, on a comprehensive and systematic basis.

As the Director of Defense Mobilization mentioned to you, all agencies concerned with the defense program are now engaged in just such a full mobilization study under the leadership of the ODM. This is the first time, I am told, that this type of study has ever been attempted. As a result it may not accomplish in full, on the first try, what we hope from it. Nevertheless, it is the type of careful and intelligent staff work which military men understand and fully appreciate in strictly military affairs. It is now being applied to our whole economy on the basis of certain assumptions as to all-out war conditions.

From where we stand in the scheme of defense organization, the greatest possible usefulness of this study will be in indicating gaps in our present industrial capacity in terms of requirements for such capacity under full wartime conditions. Some expansion of capacity will no doubt continue to be possible during all-out war, particularly in the first year. The discovering of gaps, therefore, does not automatically lead to the conclusion that we should take steps now to provide the full capacity that would be required under all-out war conditions. But if we should leave too much to be done after an all-out war is upon us, the time when we might achieve maximum required production of military end items would be lengthened. Thus the time when we might mount a military offensive would also be lengthened. This we should obviously try to avoid. But this full mobilization readiness activity is no simple task, either in the study of the problem, or in the decisions as to when and how the results of the study should be executed.

As to the study, one might think offhand that analysis of required electric power capacity would be quite simple. The use of electric power is so pervasive in our economy, and interconnection of power-generating facilities is so widespread, that one might think that this industry, which generally has enough capacity to support maximum production levels under current partial mobilization levels, should have enough capacity to support an all-out war economy. But any study of the problem must answer these questions: Is the pattern of production during full mobilization more intensive in its use of power than the pattern under partial mobilization? Do tanks and other munitions, for example, use more power in their production than the automobiles and other durable goods which they would displace on our production lines? Is the regional pattern of power requirements the same under conditions of full mobilization as under partial mobilization? In other words, has the effort to decentralize war plants (which would be much more highly utilized under all-out war conditions than at present) created a need for abnormal reserves in particular areas?

You may say, why not ration civilian use of power in wartime to overcome any supply-requirements problems, and hence avoid any need for

RESTRICTED

RESTRICTED

1996

expansion of power-producing facilities? In the first place, experience here and abroad has shown that rationing of power is difficult indeed. It is much more difficult to undertake than, say, rationing of materials, food, gasoline, and so on. To secure your electricity you need only turn the switch and who but your consciences is there to stop you? In any case, industrial consumption of power is the big use, and the biggest industrial users of electric energy in wartime are just those industries which are most essential to keep in full operation. The use of materials controls, however, as a means of cutting down civilian production levels and enabling increases in military production levels, is in effect an electric power rationing scheme among industrial uses.

Before our power experts can formulate a program for additional power capacity, if any, required under all-out war conditions which will fit into the over-all full mobilization readiness study, they must answer the questions I have indicated and more. But our petroleum experts are faced with an even more complex problem. Petroleum supply and requirements must be viewed as a problem covering the whole non-Communist world. Our position of leadership which we hold in this industry and the earth-circling logistical problems involved in petroleum supply requires this point of view. Our problem in petroleum is not just confined to our own territory, as in the case of electric power.

I cannot go into all the questions that must be answered before our industry experts in the PAD can complete the petroleum part of the full mobilization study. I will just indicate a few.

First, as regards supply, what crude producing areas of the world will be available to us during all-our war? This is a question that must be directed to military authorities, but our petroleum people must have some indication of the answer if they are to do their job. Likewise, questions relating to probable tanker sinking rates on various ocean routes, is a military question, as are other questions that involve enemy offensive capabilities.

Nonmilitary questions on the supply side involve estimates covering several years in advance of crude oil producibility in existing fields around the world under wartime conditions, as well as estimates of new well-drilling possibilities. Estimates of refinery capacity are required in terms of the product mix best suited to wartime needs. Estimates are required on the effect of changing our utilization of domestic petroleum and natural gas pipelines so as to minimize coastwise tanker usage. Also, the effect on coal requirements in relation to its probable supply must be studied if natural gas and fuel oil supply to our homes and factories must be curtailed.

On the requirements side of the picture the questions include: What is the required schedule of deliveries around the world of all types of

RESTRICTED

RESTRICTED

1997

petroleum products to our military forces, as well as to those of our allies? What is the level to which civilian consumption can be cut effectively, not only in the United States but in other countries, without interfering seriously with essential transportation or causing other difficult problems?

Only after these and many other detailed questions have been answered can our PAD contribute its estimate to the over-all full mobilization study of what size oil well drilling program, what refining capacity expansion, natural gas and petroleum pipeline expansion, and tanker replacement program will be required to be accomplished before, or will need to be accomplished during, all-out war.

When all this material, along with that pertaining to other areas in the defense program, is put together, some very tough problems will probably be indicated. These problems may require high-level decisions to take positive action which will have very real and important consequences to industry and to the national economy generally. The basic problem will be this: How much stand-by capacity, in what industries, should the Government encourage industry to build now, and thus enable maximum direct munitions production sooner than otherwise would be the case in an all-out war, which may, and we hope will, never come?

I am sure you gentlemen can see readily the great problem of balancing many considerations and interests in reaching such decisions. Obviously, the urgency of creating stand-by capacity increases or decreases as the probability of all-out war increases or decreases. Creation of facilities which have little or no immediate private use cannot be accomplished without government financial aid. In some cases, government ownership, as in World War II, might be required to secure it. Government budget considerations, therefore, enter in. Also, our basic philosophy of free enterprise, as the normal pattern of our industrial life, might have to be compromised. Even if the Government, in one way or the other, would "pick up the check," strong industry opposition might develop for fear this overcapacity, from a nonwar point of view, might be the cause of market dislocations.

We do not know yet what concrete steps, if any, will be required to fulfill our general policy of adequate full mobilization readiness prior to completion of our studies. But in deciding upon such steps this Administration, as has already been publicly indicated, will be guided by certain specific policies.

First, our over-all objective is to develop a mobilization plan that lies within our material and fiscal resources and yet generates the maximum striking power that those resources can support with due consideration of the needs and contributions of our allies.

RESTRICTED

RESTRICTED

1998

Second, the result we are trying to achieve is not an economy geared meticulously to the requirements of war production, which would be far too expensive. But, we are trying to achieve the development of a program which will provide us an industrial position, or plans for it, from which we could move rapidly to maximum rates of balanced output of war and war-supporting goods.

Third, adequate mobilization readiness for us is not a build-up to a maximum attainable strength by some theoretically set date; but is a matter, as the President has said, "of adequate protection to be projected as far into the future as the actions and apparent purposes of others may compel us."

Fourth, in those highly selected cases where we should expand capacity, that expansion will presumably be concentrated on providing long-lead-time, difficult-to-produce, and critical types of tools, equipment, instruments, materials, energy; and technically trained manpower.

Fifth, we must, as the President has said, "keep our people free and our economy solvent. We must not endanger the very things we seek to defend. We must not create a nation mighty in arms that is lacking in liberty and bankrupt in resources. Our armed strength must continue to rise from the vigor of a free people and a prosperous economy."

Gentlemen, it has often been said--and I thoroughly agree with it--that the future of this country depends more on the character of our people and their willingness to defend their liberty than it does upon anything else in this world.

COLONEL KLEFF: Secretary McKay is ready for your questions.

QUESTION: Mr. Secretary, from time to time during the past year reports have appeared in the newspapers to the effect that certain British firms have submitted the low bids on certain equipment to be used in hydroelectric developments in the Midwest or in the West. I don't know what the final answer is to this, but it seems to me that we will not get the contracts, from what I have read in the newspapers. I am wondering why. Do you know the answer?

SECRETARY MCKAY: Back in 1933 Congress put an act on the books called "Buy American." It is not there now. Under that Buy American plan we were supposed to take American goods rather than foreign-made goods. But in the regulations which were made pursuant to the act, it was provided that if the foreign-made goods were 25 percent cheaper than ours, then you could buy them; otherwise not. That was not the law; that was the regulations of those departments--the Department of the Interior and others.

RESTRICTED

RESTRICTED

1999

So when these generating units were figured out, they were a little cheaper than the American. However, when Charlie Wilson got right down and analyzed the bids, he found that there was a smaller percentage of copper and some other things, some substitutions.

But the basic reason is this: If we are going to change our philosophy to trade, not aid, then Congress will have to change the law.

QUESTION: Mr. Secretary, will you comment on the probable form of contractual arrangement that will be used for nuclear power when it becomes available for commercial use?

SECRETARY MCKAY: I haven't the faintest idea. That is not the Department of the Interior. I will just give you my own view, personally. It doesn't amount to anything--just my own idea.

I believe that private enterprise will probably be given a license in some way by the Government. The Government owns this property; so it can't give it away. But it is usually a laboratory affair. They go so far and then they have to turn it over to industry to develop further. I presume we can work out a deal whereby industry could be licensed in case the Government wants to stop. Maybe that is just a foolish idea.

QUESTION: It is often pointed out that the United States uses a far greater amount of petroleum than its share of the petroleum reserves underground, and that this situation presents a danger in the long run if war should come. Will you discuss the present reserves or potential reserves, the United States petroleum stocks, and the possible use of petroleum from other parts of the world?

SECRETARY MCKAY: I am not an expert. You know, I just came to Washington on 4 January 1953. I didn't get sworn in until the twenty-first, I have put in 22 years selling things that use petroleum.

I think this: You just can't reach down in the ground and turn a spigot on the oil reserves. Somebody has to take a chance and risk some money. I just signed a contract with Tidal Enterprises on a million acres in Alaska. Some of my Republican friends say I have been led down a blind alley. I don't think so.

The fact is, these little companies get together and file claims. They are going to spend millions of their own money. I certainly wouldn't want to take that kind of gamble without some kind of checks on paper. So we can get Tidal Enterprises to go out and explore, because the Government can't do it.

The same thing is done with the submerged land. I believe that most of this oil lies outside the country limits, so that the question

RESTRICTED

RESTRICTED

2000

of state rights doesn't come in. I think most of it is just target exploration because they are uncertain of who is going to own the wells.

Another thing--some people say that because of these imports, exploration in this country has been retarded. There is a very delicate balance there, which you must handle carefully. We must have this residual oil from Venezuela, this crude oil, and so on. But you run into all kinds of complications. The oil people are trying to limit the amount of oil imported to 10 percent or 5 percent or something like that. Anyway, I am opposed to it personally. But, you see, we must develop imports abroad, because we have no way to get along without them. In time of war we are just out of luck without some imports.

So I don't like to see regulations put on industry. I think such limitations are wrong. On the other hand, the companies themselves can't get together and cut down, probably because of the Sherman Antitrust Act. So you have to be careful. If you shut off the Venezuelan oil, you may not be able to get it when you need it.

Our trade is a two-way street. So you have to look a little differently at the picture from what we did a few years ago, from what we did when we had the Buy American Act. Somewhere between free trade and high tariffs will be found the answer. Nobody knows what it is.

There shouldn't be regulations on petroleum, because these fellows go out and spend millions for exploration, particularly if they are in a high-income-tax bracket. Sometimes they can get recoupment. Sometimes they have difficulty. But companies other than the oil companies have gone out and made a little money. I heard about one in the Middle West that hit a gusher, and now they are having tax problems.

We have to take a little gamble on it. I don't think anybody has the exact answer.

QUESTION: It is my understanding that you recently made a decision to permit the Idaho Power Company to build three dams on the Snake River instead of a publicly financed dam as proposed by the Bureau of Reclamation. Would you be willing to discuss the basis for that decision?

SECRETARY MCKAY: I would be delighted. That is a highly controversial issue.

I have seen that site. I have been up the Snake River through Hell's Canyon. Very few people have made that trip. Although it is a navigable stream, it is a very difficult stream to navigate south of Lewiston. I had no intimation then that I was going to be a member of the Cabinet. I was a happy automobile salesman.

RESTRICTED

RESTRICTED

2001

From 20 to 50 miles south of Lewiston it is a most spectacular river. Some people say it is deeper than the Grand Canyon. I flew over it in a plane. The river and canyon in some places were no wider than this room, and in other places 1,000 feet wide. This plane came down the canyon like that (indicating) and then circled around. When it got here, I said to the pilot--as a matter of fact, I was scared--I said, "How is the plane?" He said, "This is a 27 Travelaire." I said, "General, I am a sucker. No Republican Governor of Oregon has ever lived through his second term. I am really taking a chance flying through this crack."

Well, anyway, to get back to your question: First of all, I do not authorize the building of the dams. That is the Federal Power Commission's prerogative. You see, heretofore the Department of the Interior has appeared against these projects. The Federal Power Commission is the only one that has the authority to say yes or no to an application. So all I did was to step aside as objector and allow members of the Federal Power Commission to make up their minds and pass upon whether the dam should be built by the Government or the power company. At all times all the facilities of the Department of the Interior are available to them, naturally.

Of course, this has been cited as a symbol of the battle between public ownership and private ownership. It should not be. It should be decided upon the facts in the case. One commentator said, "McKay has just given away the last power site that Idaho had." That fellow just doesn't know what he is talking about.

If he had been down in Hell's Canyon, he would realize that. Here is Hell's Canyon (indicating). This is Coeur d'Alene Lake, 93 miles north. Here is the Ox Bow site, about the middle of the lake. There are three dams going in.

The Hell's Canyon government dam will cost 360 million dollars for the dam, and then 150 million dollars for the power. Then there will be some additional facilities. All in all, it will cost about 800 million dollars at this site at the dam.

And then, in order to get all the power potential of this dam--it doesn't all come from Hell's Canyon proper. Some of it comes from the stored water, which is beneficial to the dams down the river, as you can readily see. That isn't the only storage dam on the river. This dam here is equally as good, but not quite so large. This here is the best dam on the river, but you can't build it because of the fishery proposition at the moment. When they develop their fishery facilities, that dam can be built. Then on down the river there will be more dams. So it is not the last dam that there is on the river.

RESTRICTED

Now, the Idaho Power's proposal is one million eight, its new proposal, storage down the river; and also flood control. The project is not just for power generation. It is almost four to one storage capacity. If it were the last dam on the river, I would be opposed to it; but it is not the last one. I don't believe I will live to see the full development of the river. Only 40 percent of the potential hydroelectric on the Columbia River has been developed now. So I have not given away the last dam.

There isn't enough money in the Treasury--the taxpayers and the rest of the money--to do the entire job, particularly the hydroelectric job, in America. We desperately need the assistance of private enterprise and municipalities and other public agencies. It should be a cooperative job on the part of everybody to do this power job. We need a combination of private enterprise and the Federal Government and the municipalities. The Federal Government should not be in a position to dictate how people should live or what should be done. We should secure cooperation. That is the President's program--cooperation between private enterprise and the Government.

You can argue until doomsday about the merits of Hell's Canyon and other dams, and some people won't listen, because they have made up their minds in advance. They have not decided on the facts; they have just decided on emotion. I don't waste time arguing with such people.

There are two things that are really pernicious. One is the statement that I have destroyed the opportunities for the farmers to get cheap fertilizer in eastern Idaho; that is not so. It is 400 miles from Hell's Canyon to eastern Idaho. That is a terrific distance to build a line.

There is a dam, the Hungry Horse Dam at Kalispell, which is only 200 miles away. I say, "Why don't you take that line down those 200 miles?" It is no use. But I have just taken a little survey and I know the answers.

The other thing is this talk about irrigation. There isn't one drop of water in Hell's Canyon that goes to irrigate one piece of soil, not one bit of it. They are subsidizing Mountain Homes District with the profits from the construction of the power.

COLONEL CAVE: Mr. Secretary, in your remarks you touched on the need for the Government to advance money for stand-by capacity and that kind of thing because we can look forward to a petroleum deficit in the event of an all-out war and the apparent practicability of meeting it with some of the synthetic products. Would you comment upon the policy in supporting this synthetic research and the activities from the standpoint of capacity? It seems to me that I have read, seen, or heard that this program has been cut back.

RESTRICTED

2003

SECRETARY MCKAY: Yes. On the Louisiana, Missouri, project, which is a synthetic fuel project for the making of gasoline out of coal, the Government has put in, I think it is, around 60 million dollars. Work has gone just as far as it can in this laboratory process. It can be done, but the cost is excessive. You can produce petroleum from shale much cheaper. Shale is down now to within two or three cents of the price of natural petroleum.

This experiment, in order for it to do anybody any good from here on out, has to be done by industry. That is what the geologists and the planners in the department tell me. I don't know what will become of this experimental equipment. I suppose the equipment will be turned back to the Army, the Army will turn it over to surplus property, and it will be disposed of. Private enterprise will probably have to carry any further experiments on from here.

I have recommended to Congress that this experiment be closed out, because it has served its purpose. From now on somebody will have to build a pilot plant. How much of it will be synthetic and how much shale I don't know. Everybody wants shale petroleum.

QUESTION: Mr. Secretary, the recent plan for more and more utilization of petroleum on the railroads, in Diesels and so forth, has, I think, decreased the demand for coal. What is that general situation now?

SECRETARY MCKAY: The worst competitor of coal is natural gas. If you look at the actual records you will see that natural gas has hurt the coal business more than anything else. The next come things like Diesels. Then comes the change in Industrial home heating, the changing over of a great many of the modern burners to fuel oil instead of coal.

You remember how people used to say that the automobile would put the stable out of business. I still have a horse. I would rather ride a horse than an automobile. I sell automobiles, but I have a horse to ride. I make my living out of automobiles.

In this industrial change through which we are going, somebody is going to be unfortunate. The coal people holler so much about petroleum. It is gas that hurts them most. Gas lines have been built as far as Massachusetts. They are putting gas burners all through the Northwest. But it is getting almost prohibitive. Nobody puts in gas burners in houses any more, because they can stop at crude oil and save that terrific expense of making the gas out of the crude oil. But when you are putting burners in farmhouses, natural gas is the cheapest of all fuels at the present time.

RESTRICTED

RESTRICTED

2004

COLONEL BARTLETT: Mr. Secretary, in approving applications for financial assistance, is consideration given to war plant dispersal?

SECRETARY McKAY: That comes under ODM. The thing we are trying to do, the policy of ODM--I sit in on it as one member--is to try to get away from the speculative character. You see when you are getting shot at, there is nothing you won't do. When we were first getting shot at in Korea, we did a lot of things because we thought we had a war. At least we thought so when it started. Now that we have caught up on some of this stuff, we are getting a little more critical in looking at it.

For instance, in the aluminum business we have three big companies--Alcoa, Remington, and Kaiser. The attitude of ODM at present time is that when an emergency comes, to go out and give the contract to them and leave it to them. Somebody says, "You can trust one of them to do it."

The Government's financial policy is to buy the products of these plants and pay the market prices for them. If a company goes out and builds a plant, the Government won't guarantee the price of aluminum. We will guarantee companies that we will take the product at the market price. So industry doesn't come in and ask for a guaranteed price. We assure them that they will get enough material. We let them buy enough. Then they get fast depreciation on our books. They can write it off in 5 years instead of 15 or 20.

So we are going to pull in a little bit on that, but not quite the way some people imagine. In time of war I am a firm believer in nobody making a profit out of war. In my business, anything I have they can take. They take my life, so why shouldn't they take my property in defense of this country?

The thing we are afraid of now is this: We have allowed some people to make a little too much money without any investment. The Government puts up the money and they get a pretty good profit. That doesn't answer the question, but it is the best I can do.

QUESTION: Would you discuss the St. Lawrence Seaway?

SECRETARY McKAY: We are out for it. I will tell you, there is a lot of misinformation put out about that. But the main thing is this: Canada is going to build it, whether we do or not. I think we ought to get in and build it, because it will enable us to bring in a new supply of iron ore. The Messabi Range is reaching the point where it is going to be expensive to mine. Here are all these ore furnaces down around the Great Lakes. The St. Lawrence Seaway is going to make it a lot easier to get the ore down to these mills. I think it should be done. In fact the Administration has so stated.

RESTRICTED

RESTRICTED

2005

That is going to open the door to a lot of arguments. People will say, "You talk about a 27-foot channel. How are you going to get a 35-foot ship through a 27-foot channel?" I don't know how. But I know this: You will never run any 35-foot ships through there. You are going to run barges to haul the ore.

One other thing--that ore is going down to the Thousand Islands; that is an inland route. On the St. Lawrence in time of war we don't have to worry about submarines. If the ore boats go down the other way, by way of the coast, and unload at Boston or New York, the submarines can get to them.

Of course there is opposition to this by the railroads. I think they are making a bad mistake, because transportation will move by the cheapest route. In time of war it will go down this way anyway. I don't believe the railroads will be hurt, because they will get that additional business. I think the additional business and the capacity for steel production will increase rail transportation. The whole economy will be better off to get that build-up. We are not going to put the railroads out of business. I don't think you will hurt them a bit.

QUESTION: Is there any future possibility of getting a better distribution of water throughout the country, so that there will not be too much water in some sections and not enough in others?

SECRETARY McKAY: They have some rain makers out in my country, but sometimes they get into trouble because the rain falls on the wheat and then shifts and falls on the fruit trees and that makes those people mad.

But that question is serious, because all over the world today air is number one, then comes water, and then comes food, as the requirements of man. Water is the most important natural resource we have.

Where I live we have about 50 inches of rainfall a year, and yet water is scarce. Fifty inches may sound like a lot, but down in Texas the people do a lot with six inches of rainfall. Of course they would do quite a bit without any.

While down at the King Ranch, during the latter part of June, I took a plane and went out to see the cattle. I flew out and looked over the ranch. The Texans hadn't had any rain since last September. I don't know whether they have had any since or not. But they have shifted from horses there, because horses cost too much to feed; they had trouble with them. It took 4 million dollars for feed. Those people, however, have a source of income because they have plenty of oil.

RESTRICTED

What surprises me about that country, the wire is all smooth. I hate barbed wire. I get out in the country where my grandfather used to farm 100 years ago; the Government in those days used to bet people 640 acres that they couldn't make a living. My grandparents died poor, but they surely had had fun; there was no rent and no taxes nor similar things. They really enjoyed themselves. They never had a dollar in their hands, but they didn't need any money. But today you can't farm like that. You have forage crops and field crops so you can pay your taxes. Everybody has to have an automobile, so everybody has to raise specialized crops.

Now, it is true that in parts of my home state there is no more rainfall than in Texas, because everyone knows that it rains on the fourth of July and then doesn't rain any more until the first of September. We have some supplemental irrigation. But in that country you can't tell the farmer that it is good. So water is our number one resource, because without water soil is no good.

COLONEL KLEFF: I think that is a good answer to stop on. Thank you, Secretary McKay.

SECRETARY MCKAY: I have enjoyed being here. Thank you very much.

(6 June 1953--250)S/rrb