

THE ROLE OF THE DEPARTMENT OF THE INTERIOR IN
ECONOMIC MOBILIZATION

8 April 1955

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Washington, D. C.

The Honorable Douglas McKay, Secretary of the Interior, was born in Portland, Oregon, on 24 June 1893, and graduated from Oregon State College with a degree in agriculture. He served in both World Wars I and II. Following World War I he became an automobile salesman 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 1935-49; Mayor of the city of Salem from 1933-34; 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.

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ADMIRAL HAGUE: Our distinguished speaker this morning, the Honorable Douglas McKay, Secretary of the Interior, needs no introduction. However, for this particular audience I think it is probably worth while to underscore the fact that the Secretary served in the Army in both World Wars I and II; he is a member of the Veterans of Foreign Wars, the Disabled American Veterans, and the Order of the Purple Heart.

Mr. Secretary, it is a great honor and pleasure to present you to the two colleges.

SECRETARY MCKAY: Mr. Chairman, ladies, and gentlemen: It is a pleasure to be here. This is a lecture on an important subject, but it is a little dry. But this is one of the "must" lectures; so, with your indulgence, I will proceed.

It seems that the subject which I am to discuss with you today, "The Role of the Department of the Interior in Economic Mobilization," is a hardy perennial. It has blossomed here each spring for three years, including this one, as successive groups of students in your colleges have studied it. I am pleased with the attention it has received, and I am honored to be here again.

I should say at the outset that the range of defense mobilization functions assigned to the Department of the Interior has changed very little in the two years since I first spoke here. The setting of world conditions and the degree of progress toward achievement of mobilization base goals are different. Accordingly, certain functions have been stressed more, and others less, than in the past.

Generally, the shift in emphasis in all delegate agencies of the Office of Defense Mobilization (ODM) has been toward the planning of readiness measures and the selective treatment of gaps in the mobilization base. There has been a decided shift away from the no-longer-needed operation of controls on a broad scale, although the Defense Materials System (DMS)--quite properly--is maintained as a materials-control device in low gear. These changes in conditions

and emphasis are reflected in Interior's work on defense mobilization assignments. One new, rather large assignment with respect to minerals mobilization has come to us during the last year. I will tell you about that later in my talk.

Again this year, as I did last year, I point out that for more than a century the work of the Department of the Interior has been concerned with the conservation and development of this Nation's basic resources of land, water, minerals, and forests. It is mainly from these resources that the American people have drawn, and will continue to draw, their strength in time of peace or war.

Inherent in the world situation as it exists is the possibility that the United States, despite its striving for peace, may become involved in armed conflict. The scale of such a conflict might be either limited or extensive. The hostilities might not involve an enemy attack upon the United States, but in the atomic age such an attack is possible. I am advised that the assumptions furnished in the study assigned to your group include these alternative situations.

The various possibilities of armed conflict in the future and the need for preparedness in defense-supporting industries form the background for the defense mobilization activities of the Department of the Interior. The assigned functions which I shall discuss this morning are in addition to certain defense-related activities of our regular bureaus which I described last year and which I shall not cover again today.

Interior has been delegated responsibilities under the Defense Production Act of 1950, as amended, and other acts and Executive orders. These responsibilities are outlined in Defense Mobilization Order I-13--Assignment of Defense Mobilization Responsibilities to the United States Department of the Interior. I shall not attempt to trace for you the chain through which we are charged with each of these responsibilities.

The defense mobilization order issued by the Director of the ODM states: "The Secretary of the Interior will be responsible for the development of preparedness measures relating to the industries assigned to him. . . . These industries include (1) solid fuels; (2) petroleum and gas, including pipelines; (3) electric power; (4) metals and minerals for assigned aspects of production and processing, . . . and for the encouragement of exploration, development and mining;

and (5) fisheries' commodities or products as assigned by the Secretary of Agriculture."

The order then enumerates 12 specific areas of responsibility, with certain exceptions, in each of the foregoing fields.

I should like now to discuss each of these points and relate them to the fields of our responsibility, pointing out our problems, our accomplishments, and what still remains to be accomplished.

Before beginning this discussion, a brief outline of the mobilization organization of the Department may be helpful. During the Korean situation, defense administrations were established under Interior to carry out the mobilization responsibilities for our industrial areas. All of these have been abolished with the exception of the Defense Minerals Exploration Administration (DMEA).

In the area of petroleum and gas, we have now our Office of Oil and Gas under the Assistant Secretary for Mineral Resources.

Recently the Department was delegated new responsibilities in the minerals raw materials field. We have established an Office of Minerals Mobilization to carry out these new responsibilities. This office, which will also take over the solid fuels area, operates under the general supervision of the Assistant Secretary for Mineral Resources, as does the DMEA.

The electric power mobilization functions are under the general supervision of the Assistant Secretary for Water and Power Development.

The fisheries responsibilities are a part of the Fish and Wildlife Service under the Assistant Secretary for Public Land Management.

Thus we have small staff units carrying on our mobilization planning functions. Nearly every one of these areas has a planning or operational job in connection with each of the specific functions outlined in the Defense Mobilization Order to us.

The list of 12 functions in the order is prefaced by the statement: "The Secretary of the Interior shall. . ."

The first function set forth is:

"(1) Exercise as required, the priorities and allocations authority assigned to him by and pursuant to Executive Order 10480; (2) when designated, serve as allotting agency under the Defense Materials System; and (3) advise with respect to orders, regulations and directives as they may affect industries assigned to him."

Under this charge, when and if these powers were made operative by the President with respect to petroleum and petroleum products, gas, solid fuels, and electric power, I would have the responsibility to allocate them. The group of minerals mobilization functions assigned to Interior by ODM does not include the priorities and allocation power. Such powers with respect to all metals and minerals are vested in the Secretary of Commerce. It is very reasonable that they should be, because we supervise the exploration and the production at the mines and smelters; but, when materials come up the line to be fabricated into products, then it becomes the job of the Department of Commerce. In the field of fishery products, the authority to allocate remains in Agriculture.

We presently are allotting materials under the DMS for the construction of a group of plants to supply electric power to Atomic Energy Commission (AEC) installations. Whether we will be an allotting agency under DMS in the other fields in time of an emergency remains to be seen.

Under this responsibility we must also advise the Business and Defense Services Administration (BDSA) in the Department of Commerce as to the effect that the present materials allocation system has on the areas of our responsibility. If, for extreme example, BDSA should allocate all the aluminum wire and cable to present Department of Defense (DOD) and AEC programs, we would have to advise them as to the effect on the electric power expansion program, which, except for the AEC-related portion, presently receives no help.

The second function is:

"Develop, assemble and evaluate data as to the productive capacity and supplies of products, including both domestic and foreign sources, of the assigned industries under partial and full mobilization conditions."

This is one of the most important functions which we have to perform in the mobilization readiness program.

In the field of petroleum and gas, we have been called upon by the National Security Council, the ODM and the DOD to make several highly classified studies on the ability of the industry to meet the requirements of an all-out mobilization.

Such studies can be meaningful only if they are sound and practical. The only way to be sure that these studies and conclusions are sound and practical is to have active participation of qualified men in the industry in making them. In this we have had the wholehearted support of the petroleum and gas industries, operating through four industry groups appointed by Government and dealing with specific phases of the questions.

These groups are:

1. The National Petroleum Council, which, with its numerous committees and subcommittees, deals with broad petroleum and gas problems affecting the national economy and security. I might add that the petroleum industries have been very generous with their top-flight men. It is amazing to go to one of these meetings and see all the top officials of big-time oil companies sitting there. As long as they cooperate in that way, they are of great value to the Government.

2. The Military Petroleum Advisory Board which is made up of technical men drawn from the petroleum and gas industries. This group, with its panels, committees, and subcommittees, works on petroleum and gas problems which would be involved in time of war. This Board works jointly under the Office of Oil and Gas of the Department of the Interior and the Petroleum Logistics Division of the DOD.

3. The Foreign Petroleum Supply Committee, which, with its subcommittees, deals with foreign petroleum matters. It supplies detailed information on petroleum operations for every country in the free world; and prepares special reports, many of which are particularly for the DOD. The information supplied through this committee is unobtainable from any other source.

4. The Gas Industry Advisory Council, which provides advice and information on matters pertaining to natural gas which have significance in defense mobilization.

These industry groups provide a vast amount of information and advice which would be unobtainable in any other way. I cannot emphasize too much the cooperation we have received through these groups from the industry.

Here is an area where our regular bureaus and offices play a part in the mobilization planning picture. The Bureau of Mines and the Geological Survey collect much of the basic data on refining capacity, petroleum production, and reserves, and on potential reserves.

Similar studies have been conducted in the solid fuels area, again with the cooperation of all segments of the industry.

In the power field, working closely with the Federal Power Commission (FPC), we have developed studies on the power supply potential in time of an emergency.

The minerals mobilization responsibility is relatively new in Interior. Again, however, much of the basic information that is collected by the Bureau of Mines and Geological Survey is used in studies of minerals supply and national reserves.

Our Branch of Commercial Fisheries collects, as a part of its normal function, the information we would need on production and processing capacity for fish and fishery products.

As you can see, we have a real and continuing job to do to provide the basic information essential to mobilization planning, particularly as it applies to these materials and products.

The third and fourth functions are:

"Recommend establishment or modification of expansion goals and develop and recommend expansion programs, including advice regarding probable financial incentives and aids, for overcoming shortages of capacity or supply under partial or full mobilization conditions.

"Analyze the problems involved in maintaining an adequate mobilization base and recommend necessary programs."

I shall cover these two functions together. They are closely related, since the maintenance of the mobilization base is dependent in large part on the setting of adequate, realistic expansion goals; success in attaining them with the help of financial incentives when

necessary; and the use of financial incentives in special cases to prevent loss of existing capacity which is a vital component of the mobilization base.

For instance, sometimes in these mines the price goes down to where they can't operate. So they close down, and the mines fill with water. It is a terrible task to rehabilitate them. On the other hand, in the anthracite regions up in Pennsylvania some of the mines, even when they are operating, take out 40 tons of water for every ton of coal. So you see why they are in bad shape competitively because of the excessive cost of mining that material. But that coal is very important to the mobilization base of this country, and the question becomes sometimes whether they should be helped in order to safeguard the country's future in times of emergency.

When mobilization needs have been established, and the available supply has been determined for the products or materials under our jurisdiction, it is our responsibility to direct ODM's attention to those discrepancies which exist and to recommend steps to be taken.

The setting of an expansion goal by ODM is the principal device for pointing up these deficiencies and establishing the amount needed to close the gap. The financial incentive program is the tool used to encourage industry to undertake the expansion of their facilities within the limits of the goals established.

I will review briefly the expansion programs within Interior's purview, first covering those in the field of petroleum and gas, including pipelines.

No formal expansion goal was ever established for drilling of oil and gas wells in the United States; however, in connection with allocation of controlled materials a drilling goal of 50,000 to 55,000 wells per year was determined to be necessary to maintain an adequate domestic crude oil productive capacity. In this drilling program, the effectiveness of the depletion allowance and Interior's allocation of oil country tubular goods could be measured by the rapid increase in the drilling rate; it was stepped up, year by year, from 44,516 wells in 1951 to 53,930 wells in 1954. This progress has resulted in an important increase in crude oil productive capacity, which by 1 January 1955, was approaching 8.5 million barrels per day.

Let me just say a word about this depletion allowance. There are some people who say that this depletion allowance of 27.5 percent off the top for the man who is drilling for oil is a crime. I can't agree with that. You know, drilling for oil is the greatest gamble in the world. In 10 holes you may get one producing hole and 9 dry holes; that is the average. Now, who is going to gamble with those odds without some blue chips? It is that simple.

We let them take a little depletion loss. This depletion loss provides for 27.5 percent off the top each year. That is what makes these fellows go out and gamble these millions of dollars. The Government hasn't the incentive to go out and drill wells. It can't drill wells. Private enterprise has to do that. And this is the thing that leads them on. I wouldn't put my money in them, although some of them get rich. I am too Scotch with what little money I have.

When I came into the Department of the Interior, there was a pile of papers that thick about drilling in Alaska. Oscar Chapman briefed me on them. He said, "I would sign this order except I am going out today and it wouldn't look good." So I signed it the next week, because I was assured that this had to be done. I was scared to death that somebody was going to ride me in the press or over the radio, as they usually do. But they didn't, because the people in this country approve of this practice.

Here was a bunch of old claims, old drilling leases, but all up to date. You couldn't transfer them. Nobody had struck oil. Somebody had to come along with 1.5 million or 2 million dollars and get them together, some 400 leases, and do some more drilling, under our supervision, and hope they would strike oil.

In that case the blue chips were a lease on one million acres. Now, when you speak of a million acres around here, that frightens people, but there is twice as much land in Alaska as there is in Texas. Most of it is no good unless it has oil under it. But, you know, there wasn't a squawk from anybody on that lease. I expected to be man-handled and hollered at about being "Give Away McKay," but nobody said a word.

As I said before, I wouldn't put one dollar of my money in that thing, because I am a poor gambler. But somebody had to gamble 2 million dollars.

But what if they had struck oil? Then they would have leases on a million acres of land. What of it? Swell. We have many million acres up there that belong to the Federal Government that we can lease.

Look what happened down on the Gulf of Mexico when they started this case of the tidelands, so-called. It is not tideland; it is submerged land. The Supreme Court said that the state's historical boundaries showed this to be our property. That has always been the case, ever since the time that the country was started as a colony. It has always been ours--at least we always thought it was, as it started as our property.

In this lease of land we had 5 percent of the Gulf offshore land. This land lies under 75 to 125 feet of water. Nobody ever drilled under water that deep before. They think they can. I believe they can.

They paid into the Federal Treasury on 12 October 1954 about 141 million dollars, in a bonus, if you please, just for the privilege of going down and spending that money. Then if they strike oil, we get one-sixth of it in the Treasury instead of one-eighth, as is customary in wildcat drilling.

I just wanted to explain a couple of these things, because sometimes people forget that it takes a lot of courage to spend a million bucks in building these platforms. I have been on these platforms and I know they have to build them 50 or 60 feet above the water, so if a hurricane comes along, it will not smash them to pieces. They work four shifts of 10 hours each and then go home. It is seven miles out there. Just imagine spending a million bucks so you can start to drill, and then having to pay Uncle a bonus too, before you can start doing this. And they had to drill offset wells and finish them on each platform.

I got off my subject, but I just wanted to point out some of the things in the petroleum industry. I think it requires men of courage and the gambling instinct to make possible the petroleum reserves that we need vitally in time of peace and much more vitally in time of war.

Interior's responsibilities with respect to petroleum transportation are limited to pipelines. However, it has supplied the Defense Transport Administration (DTA) and the Maritime Administration with information and advice to assist those agencies in recommending expansion goals for tank cars, barges, tank trucks, and tankers.

For pipelines, which were Interior's particular concern, an expansion goal was established for 26,950 miles of new lines to be constructed by 1 January 1956. The date for completion of this goal has been extended to 1 January 1957. Progress toward that goal has been quite satisfactory. Certificates of necessity for accelerated tax amortization now provide for 21,000 miles of this total, with additional expansion still under way. During the calendar year 1953 over 7,300 miles of crude oil and products pipelines were completed, and during 1954 over 5,300 miles.

For storage of crude oil and products, an expansion program was established for the capacity to reach 1.36 billion barrels by 1 January 1956. The present outlook is that 1.2 billion of capacity will be available by 1 January 1956, falling about 12 percent short of the established goal. However, additional construction is still under way, and the indicated deficit will probably be considerably less. The target date for reaching the goal was recently extended for one year.

It was determined that the refining capacity in the United States should be expanded to 8.1 million barrels per day by 1 January 1954; to 8.75 million barrels per day, 1 January 1956; and to 9 million barrels per day, 1 January 1957. Reported capacity on 1 January 1955 was 8.38 million barrels. Additional expansion under way indicates that the total goal for 1 January 1956 will probably be met. It is too early to forecast progress toward the goal by 1 January 1957; but we expect that it will be attained.

The Interior Department completed a survey of the refining capacity in the free world nations outside the United States. The survey indicated that refining capacity abroad will increase by the end of 1955 to a point 40 percent greater than it was at the end of 1951.

The goal established for natural gas liquids was 1.28 million barrels per day by 1 January 1956. These liquids include natural gasoline and liquefied petroleum gasses such as butane and propane. Present indications are that the expansion under way will reach 1.14 million barrels per day, just a shade under the goal.

The rapid increase in the availability of natural gas and greatly increasing demands for it have resulted in a large increase in transmission and distribution facilities. An expansion goal was established for 53,100 miles of new line under 16 inches in diameter and 22,580

miles of lines of 16-inch or larger to be completed during the years 1953, 1954, and 1955, a total of 75,680 miles in three years. There were 21,090 miles of pipelines (all sizes) constructed by gas-utility companies during the calendar year 1953. Data for 1954 are not yet available.

I turn now to electric power. The electric power expansion goal, as revised and issued in August 1952, called for the addition by the end of 1955 of 41 million kilowatts of generating capability to the 75 million kilowatts of capability existing in class I utility systems at the end of 1951. Thus attainment of the goal would bring capability to 116 million kilowatts by the close of 1955. The goal also covered 1 million kilowatts for certain defense-related projects in 1956, but no target was set for the total of generating capability to be installed in 1956.

At the end of 1954, the total capability of class I utility systems had reached 103.5 million kilowatts. Presently scheduled additions indicate that a capability of 116 million kilowatts, under average water conditions, will be attained by the end of this year, as planned by the goal.

The outlook for margins of generating capability over peak loads has improved greatly. Considering scheduled additions and a presently estimated lower percentage increase in loads than was previously forecast, these margins under average water conditions are estimated to be about 21 to 22 percent at the end of both 1955 and 1956. Even under adverse water conditions, they would be over 19 percent. These margins compare favorably with the 15 percent generally accepted as necessary to provide reasonable standards of service in peacetime.

There are differences in the power supply-requirements situations of the several regions which are not reflected in the national totals which I have given. Additional consideration will be given to such matters in studies to be made on specific regional problems.

The expansion goal on electric power generating capacity is now in the "pending" category in the Defense Mobilization Order on goals, pending further study as to its disposition. Last month, however, ODM established a new goal restricted to electric power transmission lines and interconnections required by the military, the AEC, or a defense-related industry.

Now, an electric power system is a very touchy point, because it is impossible to stockpile electric power.

Another thing that, in case of an attack on this country, would put us in a sad situation is the fact that all these generators in the big generating plants are custom-built. It takes years to manufacture them. Take the principal sources of hydropower out in the Northwest. Take Grand Coulee, for instance, which is the largest in the world. It is the largest structure ever built by man. There are 18 generators, each of 125,000 kilowatt capacity, in that great powerhouse. Those are custom-built. They are the largest generators ever built in the world. We used to call them big when they were 75,000 kilowatts, that is, in most of these plants. But all these have to be custom-built, and it takes literally years to build them.

So, in the event of an atomic attack on this country, we would be in serious shape for the people living out in that area. Out in Oregon, in the Pacific Northwest, we would have no electricity, because we would have no power. We have the best hydro potential in the United States. We have 40 percent of the potential hydro out there now. We have developed about 20 percent of it. But if the current should be knocked out tomorrow, my wife could not even cook breakfast. She has never cooked in a fireplace fire, and I would have to show her how. I couldn't take a bath, heat my house, or get anything. Out here on the Atlantic coast, where you have access to natural gas, it is a little different. There are more household kitchen electric ranges in Portland, Oregon, for instance, with half a million people, than there are in New York City. They don't have natural gas in Portland, and if electric power should be cut off, it would be a serious thing.

But there is one good thing that I would like to point out to you folks; that is, these utility companies are accustomed to meeting emergencies. They have never met an atomic attack and they have never met a high-explosive attack, but they have met hurricanes, floods, and damage of that character. If we Government people just let these crews alone in an emergency--stay out of their way, they will get reestablished just as fast as anybody possibly could. They are accustomed to doing that sort of thing.

The whole industry is carrying on research all the time as to interconnections and inerties and so forth, planning what to do in case of an attack. I happen to have been Governor of Oregon. We set up some of the civil defense programs. You would be amazed,

those of you who have not been close to civil defense, at the cooperation that we get from the essential utilities, such as telephone and telegraph and power. Well, it is their life as well as ours. We are all in the same boat. But there is a redeeming factor. We are spread out, and it is possible to have interties and interchange of electricity. But it would be a very tough problem to replace generating plants in a short time.

In case there was not enough power to take care of everybody, to whom would you ration it? That is the question. It is an essential thing which everybody is going to need, unless we are just going to go out in the brush and live in caves. It would be a very tough thing to ration electricity in case a part of it was knocked out.

In the area of solid fuels, the coke expansion program poses some difficult and important problems. It requires continuing study and effort.

Requirements for full mobilization, including coke to operate blast furnaces at capacity and to meet the needs of other industrial users, are estimated at 84.5 million tons. Our latest estimates indicate that this country would be short from 1 to 2 million tons of coke to meet full mobilization requirements should an emergency occur now. New capacity has been installed and will be installed under the expansion program, but gains are partially offset by retirement of overage ovens.

The Department will follow closely developments with respect to coke productive capacity; and, if necessary, recommend steps to overcome any losses in capacity if such losses adversely affect the defense program. A study is planned to measure the regional capacity of coal mines to supply coal of suitable metallurgical quality sufficient to operate the coke industry at capacity.

Production of coal in Alaska, which was approximately 400,000 tons in 1950, increased to about 900,000 tons in 1953. As of 30 June 1954, the estimated annual productive capacity of coal mines in Alaska was 950,000 tons. This is sufficient to meet all current military and civilian demands.

In the field of metals and minerals, we are now undertaking a part of those functions previously performed by General Services Administration (GSA). It now becomes our job to conduct the necessary studies and to make recommendations to ODM for minerals expansion

goals and the maintenance of the minerals mobilization base. Here again the Bureau of Mines and the Geological Survey will play an important part by furnishing much of the basic data.

Now, the Bureau of Mines and U. S. Geological Survey, in our Department, are, I think, two of the greatest scientific organizations in the entire Government service. They have an amazing supply of technological data and all sorts of scientific data. On the other hand I might say that we are years behind in the things we ought to be doing.

There are just so many things to be done. For instance, this country hasn't been surveyed as yet. Out in the State of Utah, which came into the Union in 1896, the basic survey of the land has never been accomplished. And now they are finding uranium there. Talk of the gold rush in 1849; there are people out there trying to shoot each other in some places. And when you strike uranium, you don't know whether it is on Federal land or state land.

The governor got awfully mad at me when I first came in. I said, "Gee, give me a chance, Governor." But, anyway, at the rate they were going, it would have taken 400 years. We have it stepped up now and put it on a 30-year basis. But that is not fast enough, because here is what is happening: We take three steps forward and slide back four because of all the excitement out there. It has even gotten into the funny papers. Have you seen Gasoline Alley? Squint is out there looking for uranium now. This morning in the paper he had run his jeep way out in the wilderness, parked it, and left it there. Even a jeep couldn't go there, and he walked ahead. Finally he got to a place and said, "This is a nice quiet spot" and, you know, there were three prospectors there. That is just the way it is. So we are having a tough time.

Then you take down at Las Vegas. Down there the land wasn't worth three dollars an acre. Now they are getting thousands of dollars an acre for it.

These are just some of the problems as they exist over the years. But the Geological Survey is one of the bureaus in our Department that is noncontroversial. It is purely scientific. Nobody argues with scientists, unless he is one himself.

More than two dozen expansion goals for mineral raw materials are listed as "open" in the Defense Mobilization Order on expansion

goals. These represent about one-third of the total number of goals still on the "open" list.

At the request of ODM, we have started to review several of these goals. Present and potential supplies, including the stockpile, will be measured against the best available data on requirements under partial and full mobilization. The level of productive capacity which should be maintained as a mobilization base for each commodity will be computed. Recommendations will then be made to the ODM as to whether the expansion goal involved should be modified or reclassified.

If our conclusion about any mineral commodity should be that an adequate mobilization base cannot be maintained without employing the financial aids and incentives available under the Defense Production Act and rapid tax amortization, it is our responsibility to advise ODM how and to what extent such incentives should be used.

If ODM approves the recommendations made by Interior and certifies a mineral supply expansion program which calls for Government loans, purchases, commitments to purchase, or the granting of rapid tax amortization, the GSA, under present delegations of authority, would handle the individual applications and transactions.

As to fishery products, no expansion goal has ever been established. The economic situation in the industry in recent years has not been conducive to expansion beyond that which the industry could finance. The industry's facilities are deemed adequate to contribute its share of food supply in time of emergency.

Incidentally, fishery products are a mighty valuable part of the Nation's food supply. Following a widespread atomic attack, the fish far out in the oceans might be at least one source of food free from radioactivity.

The fifth function is:

"Develop, assemble and evaluate data as to materials, equipment, transportation, and other requirements of the assigned industries under partial and full mobilization conditions."

Periodically we furnish to the ODM estimates of the copper, steel, and aluminum, by shapes and forms, which would be required

for construction and maintenance, repair, and operation by industries within our purview during each of several years of an assumed war. This job in the mobilization planning era, is akin to the active claimant function which Interior's defense agencies performed when these materials were being allocated to all industries under the Controlled Materials Plan (CMP). In the event of stepped-up mobilization, calling for similar controlled distribution of materials, it is expected that Interior would again present the needs of our assigned industries to the top-level group, splitting the supply of materials.

The Department of Commerce, rather than Interior, is responsible for estimating the quantities of materials for production of equipment used by Interior's industries. However, the size and rate of industrial expansions which ODM approves, based on Interior's recommendations after consultation with industry, are major factors in setting requirements for certain categories of products, such as electric power generating equipment, mining machinery, oil field equipment, pipe, and tank cars.

Requirements for manpower have also been studied to some extent. This has come up frequently in connection with the development of current and standby lists of essential activities and critical occupations by a joint Commerce-Labor committee on which Interior is represented. Such lists, designed particularly as guides to Selective Service, point up shortages in certain groups of skilled manpower needed in our industries. Interior cannot singlehandedly cure this situation, but we do give our support and encouragement to those working on the problem.

Vast tonnages of coal, ore, and petroleum products must be moved daily from point of production or ocean port to point of consumption, transfer, or storage. Petroleum and gas pipelines are among the responsibilities delegated to Interior, but other forms on inland surface transportation are assigned to the DTA. We are vitally interested in the adequacy of all forms of transportation facilities--including rail, truck, inland waterways, and ocean ports--and also storage facilities. Representatives of the Department serve on interagency committees established by the DTA and ODM which wrestle with problems in this field.

The sixth function is:

"Assemble, as requested by the Office of Defense Mobilization, data on requirements for the products of the assigned industries as presented by or obtained on behalf of other agencies of the Federal Government."

Note that this function deals with requirements for the products of the assigned industries--such as minerals, coal, coke, petroleum products, gas, and electric power. The ODM is the ultimate requirement-setting agency for such products, just as it is for other types of products.

Under today's conditions, when these products are not being allocated, it is nearly impossible for normal claimant agencies, such as Agriculture and Commerce, to identify, except in the case of a few major programs, the quantities of electric power, petroleum products, gas, or coal entering directly and indirectly into the products or services within their purview. To illustrate, the requirements for petroleum products to be purchased by the military can be obtained from the DOD, but the Department of Agriculture has no facilities for ready calculation of tractor fuel requirements. Electric power requirements for the atomic energy program can be obtained, but the Department of Commerce would find it exceedingly difficult to compile requirements data for most of its many different manufacturing industries.

In these circumstances, requirements data on coal, power, petroleum products, and gas can best be developed through:

1. Obtaining data and forecasts from the producing companies.
2. Careful analysis and evaluation of trends and use patterns evident in reports received from the industries regularly by the Bureau of Mines and the FPC.
3. Close contact with other Government agencies whose programs involve large and readily measurable requirements.
4. Factoring for variations in levels of mobilization activity, economic activity, and economic growth.

Because of the specialized skills needed for this type of work, and the technical staff resources, industry contacts, and data available in Interior, ODM looks to us to "package" requirements estimates on coal, power, petroleum, and gas. Such estimates, of course, are subject to ODM's review, modification, and approval.

Coke requirements for the production of pig iron are given to us by ODM, but the Department computes requirements for the other uses. In the case of most minerals, Interior looks to ODM for requirements, but in a few instances, upon specific request of ODM, we furnish data and estimates for ODM's use in determining the requirements.

The seventh function is:

"Develop programs for the encouragement of the exploration, development and mining of critical and strategic minerals and metals, and administer exploration programs including programs of development relating thereto."

In connection with the discussion of expansion goals and maintenance of the mobilization base, I described Interior's work in programming minerals supply expansion, when needed, and the relationship of such operation to those of the ODM and the GSA.

A special program to encourage domestic exploration for strategic metals and minerals is carried on by the Defense Minerals Exploration Administration (DMEA). DMEA enters into contracts with private parties under the terms of which the Government contributes to part of the costs of exploration projects.

Depending upon the particular mineral being sought under the contract, the Government will contribute 50 or 75 percent of the cost. The Government's contribution is made without any interest being paid by the operator. However, if the Government considers that a discovery or development from which production may be made has resulted from the work, the Government may certify to that effect in writing to the operator.

If such certification is made, all production from the land described in the contract is subject to royalty not to exceed 5 percent of the "gross proceeds" or "value" of such production for a period of usually 10 years from the date of the contract or until the full amount of the Government's contribution, without interest, is fully repaid, whichever occurs first. Regardless of certification, all ore produced from the project property during the life of the contract is subject to the same royalty provisions.

In other words the Government puts up the money for about half the cost of this exploration. It is a sort of grubstaking idea, to get some of these people to go out and look for the stuff. That is the only way to find it. Regardless of what the Geological Survey does, somebody has to get out on the ground and explore physically on the ground.

The DMEA program has been an effective stimulant to exploration. During the four years since the program was started, more than

700 contracts have been executed. Projects have been carried on in 31 states and the Territory of Alaska, involving the search for 25 different minerals or mineral combinations. The program is open to all. Both large and small operators have participated in it, but about two-thirds of the contracts executed are with small operators.

About 250 projects have found ore. In the case of two-thirds of these successful projects, formal certifications of discovery or development had been issued as of the end of 1954. Royalty payments received by the DMEA to date amount to more than 825,000 dollars. Based upon the best estimate that can be made at this time, ore reserves indicated on the certified projects have a net recoverable value in excess of 200 million dollars at current market prices.

In minerals exploration work there are failures as well as successes. But even the failures, the costs of which will ultimately be charged to the borrowing authority provided by the Defense Production Act, tell us where there is either a possibility, or absolutely no hope, of marginal reserves--uneconomic to mine under present conditions--which might be tapped in the event of a future emergency. The successes add to known reserves available for production immediately or in the near future.

The eighth function is:

"Screen and make recommendations on requests for tax amortization, loans, guarantees and procurement contracts for the assigned industries."

Accelerated tax amortization has been the principal, and nearly the only, form of incentive used in connection with expansions of facilities in the fields of electric power, petroleum and gas, and solid fuels. There have been a few, isolated cases where direct Government loans have been helpful in the case of petroleum and solid fuels. A special type of procurement contract developed by the armed services has aided in the expansion of aviation gasoline production facilities. In the case of programs to increase the productive capacity for, and supply of, minerals, financial aids and incentives other than rapid tax amortization, or combinations of several forms of incentives, have been employed more widely.

The granting of accelerated tax amortization encourages defense or defense-supporting facility expansion with private rather than

public funds by permitting accelerated depreciation deductions for income tax purposes, over a period of 60 months, for that portion of the cost of facilities certified as necessary in the interest of national defense. If a businessman is normally entitled to deduct the cost of capital equipment over a 15-year period, for example, a tax amortization certification will permit him to deduct over a 5-year period that portion of its cost which has been certified. Rapid tax amortization is not a gift. Here is something that I want to make clear to you, because there are a lot of people who do not seem to understand it. It has, however, helped large numbers of companies, particularly small companies, in financing expansions for defense production which they could not otherwise have undertaken. This not only increases the supply of defense products for immediate needs, but also in the end adds to our mobilization base.

Now, just one quick explanation. The taxpayer in business these days spends half of his time figuring out how to avoid taxes. That is legal. If you evade your taxes, they put you in Leavenworth or some place that is equally as undesirable. But your taxes have become so high that in some places they have gone to 94 percent. That is an extreme case. So the businessman hires some smart guys and spends a lot of time figuring out how to save some of that money rather than paying it to "Uncle." It is perfectly legitimate as long as you do not go over the line, and no good tax accountant would dare advocate anybody gypping the United States Government, because they would put him in jail too.

For instance, on a building made of concrete, it takes 50 years to write it off. In other words we have about a 2-percent writeoff a year. At the end of that time your building is gone. You have recovered the cost of it in that time. But the unfair part of it is that a 50-year building is obsolete long before that time. Or in some types of machinery where they allow you a 15-year depreciation, it is obsolete in 7, because of rapid changes in technology. So the Government allows this man to write off the defense-related part of it in 5 years instead of 15.

But it speeds up the time when the Government starts collecting more taxes. You see, the taxpayer is gambling that by the time he gets this written off in five years, maybe the Government's taxes will be lower. I wonder. But, anyway, he is in a high-tax bracket now, so he puts these deductions in on his tax now. Then when he gets in a low bracket five years hence, he makes money. But what if the taxes are higher then? He is stuck. You see, it is a gamble either way.

But this is the incentive. This is something that you don't have to pay out of your capital structure. You see, the less you have to pay for taxes now in the case of a small, new company, the more you have to work with. That is where it is advisable for the little operator. It is the poor fellow with new capital, who hasn't had experience with big profits, who is coming up in the world, that is likely to get stuck. It is not the rich companies. They are well prepared for it.

I read a little squib this morning in the paper on the way down to work saying that if they took all the income of all the people in the United States who make over 10,000 dollars a year, it would be only 5 billion dollars. That would support the country for only about one month. So when they talk about soaking the rich, there are not enough rich people.

The ODM refers to Interior, for recommendations, applications for accelerated tax amortization under section 168 of the Internal Revenue Code made by companies building facilities within the Department's purview. These are studied to ascertain the facility's relationship to the national defense, whether its capacity is within the limits of an expansion goal, its probable postemergency usefulness, and its conformance with the national dispersal policy (if applicable) and other criteria. Such considerations determine whether or not the facility is eligible for a necessity certificate.

Based on our findings, a recommendation is made to ODM to issue a necessity certificate to the Internal Revenue Service or to deny the application. In nearly all cases recommended for approval, the percentage of the cost recommended for certification conforms to an industrywide percentage pattern established long ago by ODM for each category of facilities under the various expansion goals. Recommendations on applications for amendments are also made to the ODM.

Interior has been performing this function since the beginning of the defense mobilization program in 1950. A total of about 2,900 tax amortization certificates for defense-supporting facilities within Interior's purview, except minerals, have been issued.

The ninth function is:

"Develop and maintain programs, including the necessary orders and regulations, for the operation of the assigned industries under partial and full mobilization conditions, and cooperate

with the Office of Defense Mobilization and other appropriate agencies in planning other production and distribution controls related thereto."

We hope that no situation will arise which will require the use of directives or material distribution controls. Yet we must be prepared to meet such a situation if it should arise.

As a background of experience, Interior has available the orders which were used in World War II and the Korean conflict in connection with operations of the industries within its purview. Although the circumstances of a future conflict might be different, the experience gained in the operation of these orders in the past will help in adapting them to meet the possible needs of the future.

In both World War II and the Korean War, special orders providing for the allocation of construction and maintenance, repair, and operating materials to the minerals, solid fuels, petroleum, gas, and electric power industries were developed in conjunction with the CMP. During the Korean situation, these orders, although issued by the National Production Authority, were administered by Interior's defense agencies, which distributed the materials to the industries.

The planning for steps to expand the existing DMS into a full-scale material control system, if ever needed, is being done by the Business and Defense Services Administration (BDSA) in the Department of Commerce. Interior's job is to work with the group there to assure that the system planned, including provisions tailored to fit the particular needs of the minerals, fuels, and energy fields, is the most effective and workable that can be designed.

Consumer rationing is another form of control in the planning of which the Department should participate. In the past we have not administered such controls, and we do not wish to do so in the future. If an emergency develops which would require rationing, Interior as the supply agency, obviously would be responsible for determining the quantities of petroleum or coal available for rationed distribution. Because of this possibility, the overall system of rationing must be built to accommodate fuels in a manner which would mesh with distribution operations of the fuels industries and other control systems to be planned by Interior with the industries.

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The tenth function is:

"Provide guidance and leadership to assigned industries in the development of plans and programs to insure the continuity of essential production in event of attack, and cooperate with the Department of Commerce in the identification and rating of essential facilities."

Through its membership on the Industry Evaluation Board, chaired by the Department of Commerce, Interior for a long time has been assisting in the identification and rating of the essentiality of individual facilities. Such identifications pertain to many different segments of industry, including some within Interior's assigned areas of responsibility and some upon which our particular industries depend for materials and equipment.

I believe that, on the whole, the industries within our areas of responsibility have been alert to the tremendous problems which would confront them and the Nation in event of an enemy attack. They know better than anyone else that power service and deliveries of fuel would have to be restored at the earliest possible time for any community needs or essential, operable industrial facilities which may remain.

The petroleum, gas, and electric power industries are used to making emergency repairs and replacements of equipment damaged or destroyed by natural disasters, such as hurricanes, floods, and so forth. They are equipped to deal with immediate postattack measures, such as establishment of emergency connections or deliveries to undamaged fringe areas.

Many segments of these industries have worked closely with Federal Civil Defense Administration officials in planning postattack measures in urban areas. Many companies have established emergency headquarters sites away from congested target zones.

The National Petroleum Council, at our request, is making an extensive study of organization and measures needed to cope with problems resulting from nuclear attack. One part of the study has been completed, and the other is well advanced.

Coal production facilities are widely dispersed; our problem in this field, under attack conditions, would probably arise from disruption of transportation. Coke plants are closely associated with iron

and steel plants, and for the most part they are covered by preparedness programs of the steel industry.

We have not yet studied the situation in the minerals industries. A number of the larger companies in this field, having fabrication facilities as well as mining operations, have participated in conferences called by the BDSA on the subject of continuity of management and operations under attack conditions. Representatives of Interior have participated in such meetings with officials of individual companies.

The eleventh function is:

"Assist the Office of Defense Mobilization in formulating plans for the stockpiling of strategic and critical materials and, to the extent necessary, in the acquisition of such materials and the expansion of domestic sources of supply."

That is a very important one, because conditions do change. Look at the development of these new metals--titanium and so forth. They are needed in supersonic planes. In the future they may eliminate some of the necessity for aluminum; so the aluminum can be assigned to private enterprise rather than the military in some cases, because they will not need so much. But it is constantly changing. You can't just establish stockpile objectives and sit down, because in this fast, dynamic economy of ours, with its fast expansion and its technological changes, what is good today may be obsolete tomorrow.

The ODM is responsible for the establishment of stockpile objectives and the setting of rates of acquisition. The purchasing is done by the GSA.

The ODM has set up interdepartmental commodity advisory committees on which Interior is represented by commodity experts from the Bureau of Mines, as principals, and the Geological Survey, as alternates. A top-level ODM committee--the Interdepartmental Materials Advisory Committee--considers knotty problems in this field. Interior's representative on this group is the Assistant Secretary for Mineral Resources. Some stockpiling problems boil up to the Defense Mobilization Board, of which I am a member.

In the course of this whole process, we furnish a lot of data and assistance to ODM in connection with stockpiling.

The twelfth and last of the functions is:

"Develop and maintain plans to insure the continuity of the essential functions of the Department in event of an attack on the United States."

Late last summer we were asked to submit to the ODM a list of those functions of the Department which would have to be carried on even in the face of a full-scale attack on this country. These functions fall generally into two categories: (1) certain minimum essential operations of the regular bureaus and offices of the Department, and (2) those functions which must of necessity be built up in the defense areas.

In line with the governmentwide "emergency relocation plan," we have selected a site within an area assigned to us by ODM. We are planning all the detailed arrangements needed to operate a nucleus organization at the site, as well as to build up rapidly the organizations that would be needed to discharge our responsibilities. This involves the selection of personnel presently employed in the Department, and also those people in industry who would be called back to operate emergency agencies. It entails storage at the site of operating records which we would need in an emergency, and also many administrative plans and actions to prepare for such an operation.

I expect that in the near future our plans will be complete. Given sufficient warning of an attack, we would then be able to pick up the thread of our Department's activities and be in a position to do those things for which we are responsible under the assignments made to us by the ODM.

In this talk I have given you a resumé of our functions, activities, and problems. If I have skipped some that are of special interest to you in connection with your studies, perhaps I can fill in the gaps during the discussion period to follow.

COLONEL BARTLETT: Secretary McKay is now ready for your questions.

QUESTION: I have been in Alaska as an observer and noticed the problems that the industries there have in getting deliveries. Has any consideration been given to subsidizing the railroad so it can make better deliveries to the industries up in the Arctic?

SECRETARY McKAY: No. Not particularly. You probably are thinking of the remark that the Governor of Alaska made that the rates on the stateside roads are too high on things going to Alaska.

Now, we have 525 miles of track up there going from Seward north to Fairbanks. The Government, the taxpayer, has put about 150 or 160 million dollars into that railroad. It has been operating at a loss. So when we came in, we fired the manager. Then we went to a little company, the Southern Pacific, and asked the president, Mr. Russell, for a man to run that railroad. We told him we wanted a young man who is coming up and might be president of the railroad some day. We wanted someone who was an operating man, not a traffic man. So they sent us Frank Kalbaugh, formerly manager of the Ogden division.

The first thing he did was reappraise the system. He found it overstaffed, as may happen sometimes in Government agencies. So he cut the employment from some 2,400 down to some 1,900. He improved the service by store-door delivery at the LCL rate. He cut the freight rates in February 1954. And he made about 750 thousand dollars the first year. This year we are going to do better. In February, which is a red month ordinarily, we made a profit. I think that this year we will make double what we made last year.

The question comes up then whether what we would like to do with this railroad is to make it self-sustaining, without having to go to Congress every year and ask for money to build a bridge there or something. The question is whether we should subsidize that railroad and reduce the freight rates.

I haven't been interested in that. I suppose it has its points. But that is one of these subjective things. Alaska is a tremendously expensive place, you know. Everything you build there is tremendously expensive. It costs 50 cents to get your shoes shined and two and a half dollars for a haircut. They say it is the freight. They blame the freight for everything. Milk is from 40 to 60 cents a quart in Fairbanks. Up where I was, at Point Barrow, you would like to have some, period. You couldn't get it at any price.

QUESTION: I would like to ask a question relating to this petroleum committee that passes on questions of international trade. As I understand it, over the long haul we are going to need more petroleum and other resources than we have in this country now. As I

understand it, the decision of the committee was to put some restrictions on the importation of crude oil. At the same time the report suggested that we ought to push our exports of coal abroad. How are we going to persuade our foreign friends of the wisdom of that particular policy?

SECRETARY McKAY: Of course, we do need to have access to foreign oils, particularly in the Caribbean area, because out in the Middle East, if we get in a war, we would lose some shipping. We also need business. Venezuela has bought a lot of things in this country. A lot of pressure was put on me last year to put some regulations on the amount of imports, based upon our own needs. I am opposed to Federal regulations on private business except as a last resort.

The suggestion in the report of the President's Advisory Committee on Energy Resources, to which I assume you are referring, was that 1954 be the base. Just reading between the lines--we had better be careful about how we do it; there are only five or six companies that are importing crude oil and we had better be a little careful not to restrict them too much.

Now, they might stand some regulation. But you must not forget that they can't get together and say "This is it," because of the Sherman Antitrust Act. But we do need exchange trading on most of the things we produce where we have surpluses. We need to sell them abroad. It is a very delicate question to balance in your thinking between ourselves and the other people. In other words it is a very fine line.

They said also in one report that a strong domestic economy is essential to a strong defense. For instance, lead and zinc are things in which we were deprived of imports from abroad during World War II and Korea. Submarginal mines were opened up with subsidies. When you look back at what we did, some things appear to have been mistakes, and it seems easy to think "What dumb people we are in Washington." It is easy enough to quarterback on Monday morning about some of the things that we did.

Where they made their mistake was to help companies out on this price situation. The price went down here; yet we were buying the same thing from foreign companies at 20 cents, while our own mines were getting only 12. We will not make that mistake again. If we start such a program again, it will be at the market price.

But it is a very delicate situation and always requires very careful work on the part of everyone concerned, because we know, most of us here today, that we just can't live here alone and not trade with the other people of the world, any more than we in America can have a handful of people rich and the rest going hungry. The world can't go on with some people starving to death and others living in luxury.

But I don't know the answer. It takes smarter people than I am. It takes an awful lot of thinking on some of these things.

QUESTION: Mr. Secretary, I am asking this question because I thought possibly I might get a forecast of what they might decide to do in this tax amortization business that you spoke about. You mentioned that a concrete building would be written off in 50 years. That would mean 2 percent each year which you say the Government would allow.

I was under the impression that the Government, despite the fact that this might be the usual rule, would allow a particular individual or corporation to capitalize such a building in 25 years, or some figure within reason, let us say, and write it off at 4 percent of the capital cost. I am asking this question because I thought I might have misunderstood you. I thought the Government was quite flexible in this business. I thought that if some particular individual wanted to write that building off in 25 years, at 4 percent, it was perfectly possible for him to do it. Of course you would have to adjust it with the tax people. But I thought that the Government was quite lenient in extending the length of time that the building could be written off.

SECRETARY McKAY: As a taxpayer I would have to differ with you because they certainly wouldn't do it for me. Since World War II I have built three buildings in Salem to accommodate my business. They have concrete walls and understructure. The Government officials offered only one choice to me and I could not talk them out of it. Maybe I didn't have the right kind of influence. But "50 years" was what they said.

That is something on which I have no quarrel as a taxpayer. I am not talking as the Secretary of Interior now, but as a taxpayer. Some people, in those postwar days when profits were big, liked to write it off as fast as possible, because they were going to make money and the Government was going to pay a half of it. When they

come to the point where the profits are not big temporarily any more, you couldn't expect them to do it. But you stimulate business usually by offering this fast writeoff.

For instance, in the automobile business, if you could say to a garageman, "You can write off this hydraulic press in 5 years instead of 15," I am not sure about right now, but in the past you could stimulate business. Every salesman in the United States who was selling such things to garages could hold out that inducement, and he could sell more machines than you could shake a stick at. The garage owner would figure that, while this would increase his capital expense now, it would ultimately come back to him. But if you wait until there are no profits, he wouldn't see any incentive in it.

On this business of the concrete building, where I found in my experience that I couldn't get it down less than 50 years, I am not going to quarrel with that, because, when the building becomes obsolete, I can tear it down. That is what happens to a lot of buildings in America on the local tax level. If you have an obsolete office building which can't return enough to pay for the taxes at the local level, you tear it down or do something else to straighten things out.

Understand now, I am not quarreling with the Government about this thing as a taxpayer. I am just stating facts. I never had any luck quarreling with my wife, a newspaper, or a traffic cop. You can't win. So when dealing with the Internal Revenue, you had better be in a good humor.

COLONEL BARTLETT: Secretary McKay, on behalf of the two colleges, I thank you for a most informative lecture on the role of the Department of the Interior in economic mobilization.

(16 May 1955--450)S/feb