

MISSION AND FUNCTIONS OF THE BUSINESS AND DEFENSE
SERVICES ADMINISTRATION

5 January 1960

GENERAL HOUSEMAN: Last October Governor Hoegh gave us a very clear understanding of what the Office of Civil and Defense Mobilization did and how they acted. He mentioned at the time that that organization delegated certain of their activities and responsibilities to other agencies of the Government.

This morning we are going to hear a discussion about the Business and Defense Services Administration. This is one of the activities which has delegated responsibilities and functions in a specific area, and plans and programs as it pertains to economic and certain business mobilization.

It is appropriate that the Director of that activity be knowable in the area of business and in the labyrinth of Government agencies. Our speaker today is such an individual. Mr. H. Herbert Hughes has a new title. He is the Acting Administrator of the Business and Defense Services Administration.

We are most happy to have you with us this morning.

MR. HUGHES: Thank you, General Houseman.

I am happy to be here. This is my first appearance on your rostrum and I can assure you that I am proud to have the opportunity to meet with this group.

I am also pleased to be here because our organization--and General Houseman is one of the few people who has gone through the whole Business and Defense Services Administration without stumbling a little bit on one of those syllables--has a cumbersome name, unfortunately. We commonly, within the organization, use "BDSA," but those initials are a little awkward, and everyone gets caught in this initial labyrinth every once in a while.

As a matter of fact, I did just recently. I was looking at some of our publications. We do a lot of things in cooperation with other agencies and trade associations. This publication was put on my desk and it said

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"ASIA." I was trying to figure if it was the American Society of Independent Architects or something like that, and it turned out to be "Asia." And, seriously, it took a little while for me to figure that out. So I hope that after these next 40 or 45 minutes you will be just as familiar with BDSA as I now am with ASIA.

Let me give you first just a bit of general information about BDSA. It is a unit of the Department of Commerce. It has a total employment of around 600 people, and an annual appropriation of about \$6 million. You each have, I think, one of these green sheets that I asked Mr. Henkel to pass out.

You will see on the organization chart on the inside of that sheet that we have a lot of boxes. Most of those boxes are industry divisions-- in fact, 25 industry divisions. Four of those boxes are offices. One of these offices is the one that you gentlemen here are most interested in, and that is the Office of Industrial Mobilization. The other three offices also have very important functions. They are, shall I say, semiautonomous within BDSA. They are an integral part of BDSA, but they pretty much conduct their own business, and they are somewhat more self-contained than the other boxes that you find on there.

In our 25 industry divisions and in the Office of Industrial Mobilization, and in the supporting staff for those 26 boxes, we have about 350 people. In the Office of Distribution we have 28 people. In Area Development we have 32; in the Office of Technical Services we have 112.

Our authority primarily stems back to the inception of the Department of Commerce, which, as probably most of you know, was established in 1913, when the Department of Commerce and Labor was split apart, it, in turn, having been established in 1903.

In our organic act there is language which has come to be very well known in the Department of Commerce, saying that we shall foster and promote foreign and domestic commerce. And that is our primary function in the Department of Commerce.

In fact, when Mr. Hoover was Secretary in the late twenties, he brought into prominence the Bureau of Foreign and Domestic Commerce; and that bureau was a substantial part and a very important part of the Department of Commerce for many years.

Then came the war. The War Production Board ballooned up into 25,000 or 30,000 people, and, of course, during the war years it took over domestic production and commerce function of the Government.

Then later, during the Korean emergency, the National Production Authority was formed. This was directly in the Department of Commerce, reporting to the Secretary.

In 1953, at the end of the Korean hostilities, BDSA was set up. So BDSA is really, you might say--I hesitate to use the word "remnant" and yet I think it's a good word to use--it is the remnant of the National Production Authority; and it is also the continuation of the domestic functions of the old Bureau of Foreign and Domestic Commerce.

As a matter of fact, we have now in BDSA some of the original "charter members" on the industry side of the old Bureau of Foreign and Domestic Commerce. We have some men there who are known as "Mr. So-and-so" from the commodities that they cover. The head of our Leather Division is known as Mr. Leather all over the industry.

Our Administrator, who retired just at the end of this year, last week, Mr. H. B. McCoy, had almost 40 years of service, virtually all of it in the Department of Commerce. He started 40 years ago as a census enumerator out in Indiana. He left Government service as the Administrator of BDSA after a very distinguished career. Mr. McCoy was in the office this morning for sort of a tag-end meeting; and when I told him I was on my way over here, I think he felt sad, because he enjoyed coming here, as he has done in the past years.

Now, Business and Defense--let me talk just briefly about the defense side of this operation; and I say "briefly" even though it is the side of it that you are most interested in, because next week Bill Truppner, who is head of our Office of Industrial Mobilization, and is really Mr. Mobilization himself, will be here and he will devote his time to that part of our operation.

I want to make just one or two points, and that is that we do not have a separate staff for industrial mobilization and a separate staff on the business side. We have the same people and the same 25 industry divisions working in both areas. They, at least theoretically, don't know from one day to the next necessarily which area they will be working in that day. It depends on the problems of the moment.

On the defense side, the industrial mobilization side, we are responsible for the administration of the Defense Materials System, which, as many of you know, is in existence at the present time; and through it we are active every day on some problem relating to defense production or atomic energy operations.

Our problems are much different than they were back in the days of the Controlled Materials Plan in World War II and again in the Korean emergency, because we have no basic materials shortage problems of consequence, barring the problems created by the steel strike. But we do have production problems. We have expeditors, to use the industry term, in our agency who are working every day on production and delivery problems of electronics components, on problems relating to scientific instruments, with defense contractors and through the Government agencies themselves.

We administer, then, Title 1 of the Defense Production Act.

We are very much engaged in strategic stockpile operations, in survival items, and those things that are going to be necessary in the event of nuclear attack.

We operate the Industry Evaluation Board. We evaluate on the production side those industrial plants and facilities essential to any kind of a war and defense effort.

We are actively engaged in damage-assessment problems. In the event of a nuclear attack, we feel that it's the production people who can most effectively appraise the damage in a plant or to an industry.

We have been active in tax amortization. We have been active in supply requirement studies, and in component studies. We have more than 1,200 industry people in our Executive Reserve. If we are faced at any time with creating another War Production Board or National Production Authority, we have these 1,200 reservists to call on.

This part of our operation is by delegation from OCDM; and we are very closely tied in with OCDM. Mr. Truppner will be here next week, and will spend his time on this defense side. So with that may I turn to the business part of our organization?

I repeat that our agency is part of the Department of Commerce. The Department of Commerce, as you no doubt are aware, is not a clean-cut, integrated operation, with a lot of units working closely together and with a common interest. In fact, we have certain agencies that have virtually no common interest with other agencies. We are made up in part of the Maritime Administration, the Bureau of Public Roads, the Coast and Geodetic Survey, the Weather Bureau, the National Bureau of Standards, and the Patent Office.

In addition, in what we consider as the economic area of the Department, we have four agencies that do have much in common and do work very closely together. There are our own agency, BDSA; the Office of Business Economics, the office that calculates the gross national product and which puts out the survey of current business and does a lot of other things some of us who aren't quite as long hair don't get into directly; the Bureau of the Census; and the Bureau of Foreign Commerce. The 33 field offices of the Department work primarily in this area.

We feel that we have in BDSA a reservoir of technical information and economic information on industry that is not equaled anywhere in the United States, in Government or out.

Our work with OBE is in the nature of consultation, but only to a limited extent. With the Bureau of the Census, however, we are in continuous contact because the Bureau collects and tabulates a great deal of data concerning the various industries under our cognizance. Also, with the Bureau we publish jointly certain facts-for-industry series in which we determine the content. They, of course publish a large number of facts-for-industry reports on their own initiative. In fact, the Census is our statistical collecting arm. A substantial part of our appropriation each year goes to them to support things they are doing for us. We are also very vitally interested in the foreign trade statistics Census collects.

We are the domestic agency, but we are also the commodity divisions for the Bureau of Foreign Commerce. In other words, the Bureau of Foreign Commerce is operated on a functional basis. So we are working continuously, and virtually all our divisions, with the Bureau of Foreign Commerce on commodity problems involving import and export trade, in foreign investment, and the whole range of foreign problems.

In fact, we figured the other day that we spend somewhere around 15 percent of the effort of our industry divisions on foreign international problems tied in with the Bureau of Foreign Commerce. The one that recently has been taking a large part of our time is preparations for the GATT meetings in Geneva. The preliminary meetings start next September and the intercountry negotiations next January, a year from now.

GATT is the General Agreement on Tariff and Trade. On trade we have had people serving on 17 country committees for 25 countries. They have been engaged in making up the "offer lists." The offer lists are the commodities, which we, the United States offer to the other countries for negotiation. I mean, "We will talk with you, Japan, about lowering the duty on widgets and on various other things." There were 4,500 items under consideration in these negotiations.

We work closely with the Bureau of Foreign Commerce on trade missions. As I think you all know, the Department of Commerce sends out some 15 trade missions each year. They send a Department of Commerce man and industry people, to various nations of the world to foster and promote foreign commerce. That is an important operation.

We supply some of the leaders to those missions. But more time-consuming than that, we supply industry fact sheets to those missions. We help brief Foreign Service officers. We work on an analysis of the Escape Clause actions under the Trade Agreements Act; and also the Section 8, the national security petitions before the OCDM in connection with the National Security Act.

We work with OCDM in an advisory capacity, on barter programs under Public Law 480. The United States is in various parts of the world bartering some of our surplus agricultural commodities for minerals and other things, exchanging a perishable stockpile for a non-perishable stockpile. We advise OCDM on these transactions.

I have mentioned Section 8 cases, where right now we are working on transistors, on firearms, and one or two others. We spent a lot of time on the heavy electrical equipment case. We took the position in the Department of Commerce that it was potentially disadvantageous to the national security of the United States to have foreign transformers as an important integral part of our power grid; that in the event of emergency, in the event of disruption of ocean transportation, to get those transformers back to the factories for rebuilding or major repair would not be possible.

Our views were considered by OCDM, but ruled otherwise. They did say, in the case of hydraulic turbines, that it was not a closed subject, and that they would continue to look at the hydraulic turbine situation, both on the grounds of national security and also as injurious to the national economy, because some of our manufacturers have great difficulty in competing with foreign sources for equally good items. The Swiss, the Germans, the British make hydraulic turbines that quality-wise compare favorably with our hydraulic turbines. In world markets they underbid American suppliers by, in round figures, some 50 percent; sometimes even more. They have taken a large part of American orders in recent years. If they had the capacity, I presume they could take more. So that is something that we are very keenly aware of and following.

During the steel strike some of our people spent virtually full time with the Solicitor General when the Department of Justice was preparing the Government case for the Supreme Court action.

In the defense mobilization area we, of course, are working closely with the Department of Defense.

About the only other contact that we have with the Department of Defense on a continuing basis is that we have a semiformal arrangement whereby in the disposal of your surplus materials in any large quantity we are asked to give our opinion as to what the effect will be on the domestic markets. We have recommended in many instances that disposal should be held up, that it should be strung out, not dump everything at once; and we have a very satisfactory working arrangement with the disposal people in the Department of Defense. We recognize their problems. They have to dispose of this stuff. We say that it may cause some trouble in the markets. They try to abide by our recommendations whenever possible.

Of course, the Congress asks us for lots of things. We do an annual report on the newsprint industry. The Committee on Appropriations specifically wrote into our appropriations \$175,000 for work on textiles. That is the kind of work that we want to get into--broad economic studies. We have virtually completed a study on the work clothing industry, and how activity in work clothes ties in with fluctuations in industrial production.

We are also starting some studies, and have some of them well under way, on the factors influencing fluctuations of the textile industry. The textile industry, I believe, has had more periods of feast and famine than any other industry in the United States. Tied in with that is the long-term outlook for textiles, the various cost factors in the textile industry, and the whole problem of growth abroad and its effects on the domestic industry.

We are making also for the Congress at their direction a study of the effect of the rate increases in bulk third-class mail. And, as you know, there is a great deal of it. The mailing people told Congress, "If you increase the rates, you will destroy our industry." Our preliminary results indicate that this has not happened; and we have been engaged with the Bureau of the Census in a rather intensive study of the problem, and will report to the Congress on 1 March 1960.

We have a steady stream of industry people in and out of our divisions and in and out of some of our top offices. The best estimates that we can make--and this is based on fairly accurate reporting from the divisions--is that we get somewhere around 17,000 callers every year. We answer each year 28,000 letters. We don't include miscellaneous correspondence but only letters of substance, requiring some research. And we have some 125,000 phone calls asking for information.

Let me give you a couple of examples of what I think are rather important things that we do with industry, and two specific reasons why we have pretty good support from most industry.

We had a delegation not so long ago from the pulp and paper industry much disturbed about what the effect might be if the Outer Seven trade group actually comes into being, because the U.K. is an important market for pulp and paper from the United States. It is also an important market for pulp from Sweden. If the members of the Outer Seven reduce their tariffs, Sweden, of course, would have a preferred position in shipping into the U.K.; and our people were afraid they might be left out in the cold. Bear in mind, this was something that they were afraid might happen. It's a little more difficult to try to correct something that might happen than it is to work on something that has happened. But, nevertheless, we talked with this group on two different occasions.

We agreed that they had good cause for concern. With the help of BFC and with their concurrence we submitted, I hesitate to call it a

brief, but a summary of this situation, which we sent by special messenger over to the State Department just in time for it to be tucked away in Under Secretary for Economic Affairs, Dillon's briefcase when he left for London and Paris to talk about these problems. And we were very pleased to see in the press accounts of his conferences over there that one of the things that he took up with them and was concerned about was the effect on the pulp and paper industry of the United States in the event that the Outer Seven did make some tariff reductions that discriminated against the United States.

You are probably thinking, Well, why didn't they go directly to the State Department? Industries don't go directly to the State Department normally on those problems, because it's only in our operation, in BDSA, where there are industry divisions, where there are industry people who are fully knowledgeable of these industries that they serve-- I won't say "represent" because that implies a trade association. It's not a representation. But we are the place where industry brings its problems.

Another example is this: The Bureau of Public Roads--right in our own department--was about to change some specifications that would throw out the use of aluminum in some of the places, on bridges and guardrails where aluminum customarily might be used. The industry sent a delegation down to our Aluminum Division. Our Aluminum Division went to work with the Bureau of Public Roads, not by exerting undue influence--don't misunderstand--but by simply making sure that the Bureau of Public Roads had all the facts and had what was needed to arrive at the decision. The Bureau of Public Roads reconsidered the specifications problem and aluminum stayed in. Our people were able to demonstrate factually and technically that there had been some misunderstandings in the negotiations.

We review legislation that affects industry. We have people working full time on that when Congress is in session.

Then we get into a problem which does relate to the Department of Defense, and it's one of our most perplexing to handle. We must make a determination in connection with all Government excess property sold abroad before any such property can be brought back into the United States. That determination says that, if it is to be brought in, it shall be determined that there is a domestic shortage of that item, or that to bring it in will be otherwise beneficial to the economy. If there are any oracles among you who

can interpret that latter phrase "otherwise beneficial to the economy," you have a job tomorrow morning in our organization administering foreign excess property. It is the biggest headache we have for the least results. We have had two congressional investigations. The first one a little over a year ago was because we were letting too much stuff come in. The second one, more recently, was because we were keeping too much stuff out. So we are caught right in the middle.

All these things that I have been talking about are things that we must do, because someone in authority says we have to do them. And in addition we have to do the industrial mobilization work for OICDM that I mentioned earlier. About half the time of our people that is not spent on mobilization is spent on the kind of activities that I was just talking about; and what we spend on mobilization varies from 30 to 50 percent of our time, depending on what's hot at the moment. So we are left with somewhere around 25 to 35 percent of our time to spend on the things that we originate, that we generate, or programs that we feel should be done.

In that area we do various things. We have had very favorable results from what we call short market surveys. We go out, and with the help of the Foreign Service, we come up with reports of trade, of world movements of commodities. We have published some 90 what we call outlook studies--a review of the 1959 outlook for 1960. The last one just went to press a few days ago.

We have periodicals in some of our divisions, that is, we have monthly or quarterly reports that review statistical highlights.

We are working on some longer-range, more profound special studies. Some of them are of a highly technical nature. I don't mean technical in the sense of engineering technicalities, but in the sense of being related to specific industries in which we have people who know those industries.

We want to expand into broader industrial economics work. We are headed in that direction now. And I use the term "industrial economics" advisedly.

Coming for a moment to these three offices that are in BDSA, the first one is the Office of Distribution, where we collect and disseminate facts relating to marketing and distribution. We do some original distribution research. And in particular we rework and recap Census data to put them in usable form for sales promotion and to meet marketing

problems. With the expenditure of just a nominal amount of money, we can get retabulations from the Census Bureau from the raw data which may have cost millions of dollars. And we do quite a lot of that kind of thing. The Office of Distribution has probably the best known and most used collection of data relating to marketing and distribution that there is in this country.

The Office of Area Development works with distressed areas to bring in new industries. It, too, accumulates experience, of the results of what has been done in other communities. So that any new community faced with that problem, working with our people, can get off to a fast start to attract new industry. The booklets written some years ago by our people in Area Development on industrial parks are now standard references in the field of industrial parks development.

The Office of Technical Services has four different operations. One is on commodity standards. Probably the best-known thing that they have done is standardization of clothing sizes, particularly in women's sizes. The Department of Agriculture some years ago measured 100,000 female forms, which in itself was quite a project; but they never used the information. Our people, working with industry, have utilized that information; and it's now possible for almost anyone, regardless of size and shape, to go into a store and get a readymade garment that will fit; which, incidentally, is not true elsewhere in the world.

Another thing that was done with the Army was to standardize red tape. That was really serious. In masking tape and other kinds of tape the Army wanted standardization of color. And red is one of the most used colors. So we have now standardized red tape for Government use.

The Inventors Council is in that office. A thousand things a month come in there. About 40 of them are referred over to Defense R&D people. Just recently there was an electrographic printer that emerged from one of those referrals, which replaces, I am told, some 20 standard teletype machines. Test models are now ready to actually be tested by the Signal Corps.

The World War II mine detector came out of this National Inventors Council procedure. It was submitted by just an ordinary radio serviceman from the Army, I understand, although nearly every electronic laboratory in the country was working on the problem.

Then we collect and disseminate technical literature. Government research projects, about 13,000 titles a year, are abstracted and are sent out to industry.

Just a little over a year ago we started on foreign literature--translations available to us from other sources. We don't translate. We have about 13,000 of those, or a rate of about 13,000 a year, coming through.

We use 150 people, roughly, on this work. The head of that operation recently was in Moscow. They have 1,700 people working full time on a comparable job. They have some 25,000 people working part time, many of them as translators. In journals alone, they are handling 12,000 titles from abroad, 3,000 from within the Soviet countries, in 65 languages, from 95 countries. Thirty-five percent of their material is in English. And they are translating, cross-indexing, and recapitulating 700,000 technical articles a year for dissemination in Russia in the Russian language.

We feel that there is very definitely a need for more information, more industrial economics information, to meet the threat of economic war with the Soviets. And we have a threat too, not only with the Soviets but with our own friendly nations, in meeting the competition in preferred markets and even here at home. We don't have the information that we think must be collected to do that job properly.

Coming back to the Soviets for a minute, to compare some figures, the latest figure that I think the Department of Commerce is using on gross national product for 1959 is 478 billion. For the U. S. S. R. it's somewhere around 160 or 170 billion--roughly a third as much. We are spending about 10 percent of ours for the military and for foreign aid. They are spending about 25 percent, I understand.

Our annual growth is in the range of 3 or 4 percent. Their annual growth is about 7 percent. Our foreign aid is about 1 percent of our total. Theirs is perhaps more than 2.

But particularly in the foreign aid field they have great advantages. A dictator can make his own decisions and do whatever he wants to do. And, without elaborating on that theme, because you all know it perhaps better than I do, let me give you one specific instance of my own knowledge.

I mentioned trade missions a while ago. I was on the trade mission to Morocco last spring. Morocco, as you know, gained independence only a few years ago. They have serious economic problems. When the U.S. Trade Mission was there the year before, the Moroccans were plagued with overproduction on their sardine canning for that season. It amounted to, let's say, a half million dollars or something like that. Our Trade Mission told them the names of importers in New York. They told them how the sardines would have to be packaged, what kind of label they would have to have in order to be attractive to housewives. Every little fish should be exactly the same size and should be put in the cans very nicely, and some of them apparently weren't.

The Soviet trade mission came in there a few weeks later and was told about the same problem. They said: "Fine, we'll buy them." They did. They packed them up and shipped them to Russia. Now, that is a definite advantage that the Russians have over us in dealing with these new, underdeveloped nations, nations that we must depend on in the future for much of our raw material supply, and nations that we want to be friendly with. We want them to be friendly. We want them to be sympathetic to us. But we are up against a great handicap in some of those dealings.

I was also fortunate enough to be part of the United States delegation to the ILO, the International Labor Organization, meeting in Geneva last June. There was one whole balcony there, with anywhere from 3 to 5 or more people from each country, from 15 potential new countries. I think it's worth reading the list. There were the Central African Republic, the Cameroons, the Republic of Chad, Republic of the Congo, the Gabon Republic, the Republic of the Ivory Coast, the Malagasy Republic, the Republic of the Niger, the Federation of Nigeria, the Federation of Rhodesia, Nyasaland, the Federation of Mali, Somaliland, Republic of Togoland, Republic of the Upper Volta, and the Federation of the West Indies. Fourteen of those fifteen are from Africa.

Every one of those countries represented at the ILO, their people were watching carefully the behavior of the U.S. delegation--not only their behavior on the floor and their tactics and strategy, but the personal behavior of the individuals of that delegation. They were watching the behavior of the Soviets very carefully.

We must, in my judgment, do a lot of basic economic work in the Department of Commerce, much of it in our agency, so that we can answer much better than we can now some of the important questions

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that are being raised, many of them relating to foreign trade as it exists at present, many of them relating to the potential future foreign trade of these new nations.

We made a study recently of some 10 or 12 products, the kind of study that the economists call a study in depth, trying to arrive at the import impact of those things on our economy. About the only conclusion that we came to was that we do not have the facts, that we do not have the data, on which to base sound conclusions from such a study. We think that this Nation has to get more facts in order to meet the Soviet economic threat. We think that it's not solely a Government operation. It must be a joint industry and Government undertaking. And it is there where we in BDSA feel that we have those industry contacts. We feel that we should expand our work, our contacts with industry to get into some of this basic information.

Let me give you just one more example. You all know of the flow of U. S. capital abroad, the rush with which American companies are building plants abroad, particularly in the Common Market area, but not entirely there. In fact, the common figure, I think, now in use is 1,000 plants built abroad since the war and 1 million people working in those plants.

Well, it's easy to jump to the conclusion that that's 1 million jobs taken away from American workers. But that is not so, because a lot of those plants, a lot of those workers, are working on things to be shipped to markets that could not be filled by their equivalent number of people working in the United States in comparable plants.

In other words, the analysis of this whole problem of foreign investment and its impact on our economy is not a simple statement of a thousand plants and a million people. To get at the actual facts of that situation will take a profound study, that we are not at the moment equipped to do. We hope that the Congress will agree that some of these problems are important. When they do, we hope that BDSA--and I hope that you now know a little more about BDSA--will be in there doing our part to help solve these problems. I thank you very much.

MR. HENKEL: Mr. Hughes is ready for your questions.

QUESTION: Mr. Hughes, I notice that on your organization chart you have a Water and Sewerage Industry and Utilities Division. I notice

the absence of an aircraft division. I am wondering if you refer problems in this industry to the Department of Defense or if they are handled in one of the other divisions in BDSA.

MR. HUGHES: I am pondering here how elaborately to answer that question. There was in the War Production Board an Aircraft Division, as you well know. In the shakedown the work on aircraft that was done first in WPB and then in NPA--there were a lot of divisions combined, and you will notice there a division called Automotive and Transportation Division. So the "must" jobs were done in that division--tax amortization, for example, and a few things like that.

One of the things that we have had under consideration for the past more than a year now, and very active consideration, is whether or not we should establish an aircraft industry division.

A short while ago we got into aircraft matters somewhat heavily in connection with the disposal of surplus aircraft. We called a couple of industry conferences to discuss some aspects of that problem. About the same time the Export Committee of what was then the Aircraft Industry Association came down and talked with the Bureau of Foreign Commerce and talked with us about some things they would like to have the Department of Commerce support abroad with the Foreign Service officers--things that they wanted the Foreign Service people to do for the industry.

The Aircraft Coordinating Committee made a specific recommendation that there ought to be a central focal point for information on disposal of surplus aircraft and related problems.

So we hired a man about a year ago and put him in as a special assistant to the Administrator, working on aircraft problems. He has a Foreign Service officer with him. We do have a little unit on aircraft now, not comparable, however, to the industry divisions as they are now constituted, but with all of us giving very serious consideration as to whether we should reconstitute it as a 26th industry division.

QUESTION: The deterrent power of this country depends on two important things, one of which is our ability to retaliate in time. This is supported by the Defense budget of some \$40 to \$50 billion a year. The second part is our ability to present a difficult target to the enemy, which comes under your department and which I understand is

supported by practically 40 cents a year. Do you consider this a wise policy on the part of the Government?

MR. HUGHES: I wasn't even sure we had 40 cents for it.

I don't think so. No. As a matter of fact, at the moment, except for giving some consideration as to how we get back into this problem, I really don't believe we are doing anything. But may I suggest that you ask that question again when Truppner is here, because he can give you a far more lucid answer than I can. It's right in his shop, and I have not inquired into it recently to know what we are doing. I know we have one man in there who has been spending a lot of time trying to come up with some recommendations again, and working with OCDM, as to how we should get into it actively and aggressively. But I am not familiar with the current status of it.

QUESTION: Back to your industry divisions for just a moment. I know that we have great technological advances at the moment in many of the things, and I know that you have an Electronics Division, a Communications Division, an Electrical Equipment Division, and a Scientific Motion Picture and Photographic Products Division. How can you define the industry and get the figures that you want and what specifically are you doing with respect to the Census now to get a better determination industrywide or a definition of the various new products and so forth so that you get them in the right industry?

MR. HUGHES: Our people work closely with the Bureau of the Budget and the Census in connection with revisions of the Standard Industrial Classification, with which I assume you are all familiar. Our electronics people just recently, I know, have been in very lengthy conferences trying to straighten out the problem that you raised. And with the complexity of those industries and that equipment, they just don't fit cleancut into classification patterns. You can't cover them with a nice, well-rounded, two-, three-, four-digit or even six-digit code. I think we're going to have to run into fractions to cover some of them. It's a real problem.

Now, within our own operation we just arbitrarily assign certain things to certain divisions. And very recently we took out of Communications Division and put into Electronics Division some of the little gadgets that are used in microrelay stations. It's true that they are

used for communications, but from the standpoint of the production of the product they are electronics; and in the assignment of products to our divisions we try to go by the producer of the equipment.

We have what we call a Product Assignment Directory, which takes every item in the Standard Industrial Classification and assigns it to one of our industry divisions. That doesn't mean that we are working all the time on those things, but that is the skeleton pattern. In the event of an expansion to a War Production Board, those are where those things will be assigned. So we have to be arbitrary on some of the problems that you raised.

QUESTION: Sir, I notice that whenever there is an industry strike, the Labor Department gets into it, evidently on the side of labor. I was wondering if the Commerce Department provides any help for industry during the strike. I notice that you have an Iron and Steel Division. Do they provide information for that industry?

MR. HUGHES: Yes. We have done a lot of things and we had a lot of people very busy all during the period of the strike and right up to now, but with virtually no publicity.

You will recall that the Secretary of Labor, with the approval of the President, was set up as sort of an individual factfinder at the beginning of the strike. Well, our people, working through the industry contacts of our industry divisions, working through our field offices, collected what we thought would be pertinent information relating to the effects of the strike. And we submitted weekly to the Secretary of Labor and to the White House a summary of our findings. I already mentioned that some of our people worked with the Attorney General in connection with the Government side of the Supreme Court case.

Then after the workers went back to the mills, we submitted for some weeks a daily report to the White House on the continued scarcity of steel to consumers, again working through our industry divisions and field offices. In other words, our farm equipment people would contact the farm equipment manufacturers, and the field offices would contact industry in general in their areas; and we put together a summary of the supply situation as seen through the eyes of the consumer. And then when it appeared that things were coming back in good shape, we discontinued the daily report and, I guess, right up to now we have been submitting weekly reports. No; two weeks ago we said: "We have nothing to report. Any shortage is minor, and things seem to be in good shape."

QUESTION: We have heard many statements here and read in the paper about the pressure of European markets and world markets and our inability to compete in them. Disregarding specific industries, would you comment on our ability to compete in the world markets, with our customary pressures?

MR. HUGHES: Well, I would say this: The Bureau of Foreign Commerce very recently came out with probably as profound a study as can be made with existing information exactly on that subject, and the conclusion that they came to was that from the standpoint of broad-brush treatment we are getting along very well. It is true that we have lost our foreign markets entirely in some items and we have gone way down in some others; but there are other things that have come up. So that broadly we are still not in as bad shape as many of the crepe hangers think we are.

But I personally feel that this is an area in which we must do a great deal more work before anybody can stand up and say to anyone definitely and exactly what the answer to your question is. The catch phrase has been, as you know "pricing ourselves out of world markets."

Now, there are a lot of items that you can pick individually and make a case for each item that I don't think anybody could refute, that we have priced ourselves out of the market. "Priced" is not quite the right word but our competitive costs are such that we can't compete.

In the case of automobiles some have claimed that we have deliberately designed ourselves out of the market. It wasn't a question of price so much. It was the design. But I think the trend has now turned around, and I don't think there is any doubt but that we should get an increasing share, with our present compact cars and the plans of some of the companies to bring out an even smaller car. Then I think we will be right back in the international business in automobiles, but only providing that foreign countries remove restrictions that discriminate against our cars.

QUESTION: It is my understanding that the authority for this accelerated tax amortization expired at the end of December and that most of the expansion goals have been met. I wondered if there had been any possibility of a renewal of that authority; and, if so, what areas of industry would be given the treatment.

MR. HUGHES: I have heard of no serious movement in that direction. That does not necessarily mean that there isn't, because I might not have heard of it. But I don't know that there is anything of that kind in the offing.

QUESTION: What association do you have with the Defense Department in the administration of the Military Assistance Program, particularly with regard to surplus materials that may be used in this program and off-shore procurement?

MR. HUGHES: I think my answer will have to be "none." But I am not positive that that is necessarily the full and correct answer. None that I know of.

Now, again, bear in mind that in the position that I have been in up until yesterday, there were quite a few things that were going on in the administrative office that I was not fully aware of at all times, and we divided certain jobs. So that this conceivably could be an area in which there may have been some conversations. But as far as any day-to-day operations, I think I can say, without qualification, "none."

QUESTION: My original question has been answered already, but I noticed that there doesn't appear to be a shipbuilding industry division in your boxes. That is probably handled by some other division.

MR. HUGHES: Maritime Administration.

QUESTION: What connection is there between the two of them?

MR. HUGHES: In peacetime, very little. Virtually none. I think the only direct contacts we have had with them, to my knowledge, at least that I have had, is that in connection with any of these foreign excess property things that involve LST's or any of these surplus things, we consult with the Maritime Administration. We consulted with them as to the effect of the steel strike on shipbuilding. But there is very little connection back and forth.

You will notice too that there is no petroleum industry box. That's in the Department of Interior. There is nothing on solid fuels. That is also in the Department of Interior.

QUESTION: There is some speculation that the steel settlement will lead to a further price increase of steel. My question is, will the Department of Commerce get into the administrative price fixing of steel? And do you anticipate any rise in the price of steel?

MR. HUGHES: I would not think that the Department of Commerce would. No. That would be contrary to what I believe the Department's policy is. Bear in mind that I am not in a policy-level position in the Department. We are an operating agency, and we go up one floor in the building on matters of policy.

QUESTION: I understand that at one time you were having difficulty in keeping up your industry divisions. Is this still a problem? Have you felt any particular squeeze from the Bureau of the Budget on that?

MR. HUGHES: What we have tried to do in the last couple of years, and entirely unsuccessfully as far as new money is concerned, is to sort of broaden the horizons of the industry divisions. Many of our people served in NPA, where their job was to allocate steel and other materials to the companies in their industry. They know their industry frontwards and backwards and every plant in them very well. Men like that, however, tend to get into such a narrow framework of operation that they may not be the best men to see the relationship of their industry to other industries and to the broad economic problems both domestically and internationally.

So what we are hoping to do is to create what we are referring to as an industrial economics staff, where we will get some economists to work, some in our industry divisions directly, in the bigger divisions; but some in the staff area where each man will have, say, two or three of our divisions to look after, divisions with common interests.

We have not yet been able to convince other people that that is a desirable thing to do. So I would say that, in my judgment, the answer to your question, after all this talking on my part, is: Yes; we do have a bit of a squeeze.

QUESTION: My question takes off from the previous one. Returning to your organization chart, you show 25 industry divisions in your office. I remember management engineers telling me that you shouldn't have more than four to seven people reporting to you and that the fastest way to get into trouble is to have too many people reporting to you. Do you have 25 people reporting to you or your deputy? If so, how do you do it?

MR. HUGHES: I can't disagree with a thing that you have said. I will tell you this, though: This is the third time I've been in Government service. Way back years ago I started in the Bureau of Mines. I left there after 11 years, in the early part of 1941 and I had an active ulcer. Then I was asked to come back into ECA, that is, the Marshall plan, and worked for two and a half years in Paris on the Marshall plan, which was most enjoyable. But when I left there in 1951 I again had an active ulcer.

But, seriously, up until I guess it was two years ago--at least it was some time when they reorganized--they used to have three assistant administrators. That's before I was there. And they had the industry divisions divided into three groups and came up through an assistant administrator. I think there might be some merit in that too.

I will say this: that as a result of what you point out, I spend most of my time sitting and talking to people. I don't get much time for anything else.

QUESTION: May I ask this question regarding policy: What is the nature of the foreign and domestic economic policy guidance that you might get that establishes a framework and gives you the direction that you will take in helping the Department of Commerce promote commerce? And in answering that question would you be so kind as to indicate whether or not you play any kind of role in developing domestic and foreign economic policy?

MR. HUGHES: I would like to answer that backwards and say, that the role that I might play, or that my people might play, would be the factual information that we could develop to bring to bear on specific problems, that in turn might be reflected in changes of policy.

As far as saying, what is this policy and how does it come to us? I think probably the best way, if any of you have that as a term paper here, I think one of the ways that you could get a lot of information would be to go back through the file of the speeches made by Mr. Kearns, who is our Assistant Secretary for International Affairs. Mr. Kearns likes to speak and speaks well. He's one of these people who--and I mean this in a very complimentary fashion--doesn't hesitate at all to stick his neck out. So that his speeches are really quite revealing. And if you go back even only two years, you will find great emphasis on aid and investment abroad and "We must let countries import into the United States" and great emphasis on working with the foreign countries and foreign manufacturers to develop greater imports into the United States.

But now the pendulum has swung somewhat the other way, and rightfully; and the emphasis, you will find, in Mr. Kearns' speeches, is to promote exports, and for the Government to do everything possible to develop a program, an industry-government program, to keep our exports up and prevent any further decline in exports, and to go on into further and greener pastures in the export field.

I think that both positions are supportable by the facts as they existed two or three years ago and as they now exist. In the past year our balance of payments situation has turned right around, as I think you all know.

During the intermission I was asked to say a little bit more about the makeup of the industry divisions; and I can say just this: that they vary greatly. For almost any criterion that you might take you will find one division over here and you will find another one over here and you will find most of them somewhere in between. And for very good reasons, in many instances.

Take this whole problem of industrial mobilization. Our Iron and Steel Division, our Copper Division, our Aluminum and Magnesium Division are right in that way up to their necks, because they are the controlled materials under the Defense Materials System. Take our Electronics Division and our Scientific Instrument people. They are still very active in the mobilization area, as I indicated earlier. On the other hand, go to the Textiles Division. Textiles don't use any Defense Materials System materials. They spend very little of their time on mobilization. Your favorite Sewerage Division doesn't spend very much time on mobilization. Incidentally, it's Water and Sewerage and Utilities, as you see from the name. It's one of our smaller divisions, but it is one of our most active divisions; and it serves a very essential purpose.

QUESTION: Mr. Hughes, we have discussed foreign trade, we have discussed balance of payments, but we haven't discussed tariffs. Now, I would imagine that your industries within this broad spectrum here have developed some patterns on their views concerning tariffs or artificial restraints of trade. Is that too political a question for you to handle? What are your views on tariffs?

MR. HUGHES: That's a rather broad question. Let me say that I am reflecting the views of some industry people that I have talked with recently, though not necessarily an adequate and proper sampling and

cross section; but I think there is more concern on the part of many industries on these artificial barriers to trade--the quotas and not making available foreign exchange and those things--the things that were being discussed in the most recent meeting of GATT, in October in Tokyo. Mr. Dillon was there and Mr. Kearns was there.

They made a lot of progress in that meeting with various nations that are markets for our products, in getting them to agree to take off these various artificial barriers.

On tariffs you wanted to know my personal opinion and I would say that I lean probably closer to being a free trader than I do a protectionist. I think high tariffs are a great mistake. On the other hand, I think that what we have set up in the Trade Agreements Act, that is, in Section 7, the escape clause, for those industries that for an economic reason, I mean, if the foreign importers jump on a particular industry and drive the price down and tend to force that industry out of business, then I definitely feel that that industry either should have some protection, or there should be some way that it can be helped in phasing out of that business and getting into some other related line.

Now, we have been rather successful, and Mr. Kearns has been rather successful personally, in Hong Kong, which is just a hotbed of trouble to a lot of our industries, particularly the textile and the apparel industries, because such well-known and commonly used items as women's brassieres come in from Hong Kong in almost an exact copy of--I don't know what the trade name is--Formfit or some of these that the gals like, or Maidenform. You will have the Maidenform on a rack here selling for, let's say, two dollars or maybe three dollars; and you'll have the Hong Kong import over here two for \$1.87. And it takes awfully close scrutiny, I am told, to detect the difference.

Now, when Mr. Kearns was over there, he was able to, I think, get a pretty good appreciation on their part of the fact that if they just concentrate on brassieres and send them in, we will take some kind of Government action to prevent that being done. On the other hand, if they enter into some kind of a sensible, self-policed quota system of their own and diversify the products that they are shipping into the United States, we tell them that "Yes, the United States does provide a very good market for your products."

I think he said, when he came back the last time, that there are 2 million Chinese refugees in Hong Kong, and they are all employed,

and almost all of them in the textile and the apparel industries. And many of them are in plants that have been set up with American capital, and many of them in plants that have American designers working in Hong Kong that are producing these things and shipping them into this market.

MR. HENKEL: I think that is a good point to close on, Mr. Hughes. I am sure that all of us have a better understanding after listening to you. On behalf of the College and the Commandant, thank you very much for coming.

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