

FEDERAL CIVIL DEFENSE ADMINISTRATION
WASHINGTON 25, D. C.

6-83-1

OFFICE OF THE ADMINISTRATOR

APR 27 1954

Honorable Allen W. Dulles
Director, Central Intelligence Agency
Washington 25, D. C.

Dear Mr. Dulles:

I am pleased to send you the enclosed report on the
Washington Conference of Governors, April 26 - 28,
in which you participated. Extra copies of the report
are available if you desire them.

Sincerely,


Val Peterson

Enclosure

6-83-4

JUL 26 1954

Honorable Val Peterson
Administrator
Federal Civil Defense Administration
Washington 25, D. C.

Dear Mr. Peterson:

I gratefully acknowledge a copy of
the report on the Washington Conference
of Governors, enclosed in your letter of
23 July.

Sincerely,

SIGNED

Allen W. Dulles
Director

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A Report
on the Washington
Conference
of Governors



APRIL 26, 27, 28, 1954

Executive Office Building, Washington, D. C.

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THE WHITE HOUSE
WASHINGTON

July 1, 1954

FOREWORD

At this meeting in the Nation's Capital arranged by request of the Governors' Conference, my advisers and I welcomed the opportunity to share with state governors information on problems of mutual concern, including plans for the common defense. By promoting responsible, cooperative relationships between federal and state governments as contemplated in our constitutional system, such meetings add to the strength and vitality of the nation's entire political structure.

I greatly enjoyed meeting again with the governors of our states, and I look forward to other such meetings in the months ahead.



Presiding

HON. RICHARD M. NIXON
Vice President of the United States

GOV. DAN THORNTON OF COLORADO
Chairman of the Governors' Conference

HON. HAROLD E. STASSEN
Director, Foreign Operations Administration

HON. SHERMAN ADAMS
The Assistant to the President

The Vice President and the Honorable Allen W. Dulles, Director of the Central Intelligence Agency, also addressed the Conference.

Remarks of General Walter Bedell Smith, Under Secretary of State

Gentlemen, I will ask that my comments be off the record, at least until the experts at the State Department have a chance to censor the text. It is very rare that a senior officer of the State Department is allowed out where he may be tempted to orate without having a chaperon or two along with him. How it happens that I am alone this morning, I don't know, but I am. And since we are in a real crisis of foreign policy, it would be useless for me to take your time unless I did speak to you very frankly, which I would like to do.

The last time, on one previous occasion, when I had the opportunity to address the Governors was in 1948. I had just returned from three years in Moscow where the then Secretary of State and your present colleague, Governor Byrnes, had sent me. I recall on that occasion—and some of you may recall because a number of you were there—I said that at the time I went to Moscow in 1946 it would have been rather dangerous for any American official to have said publicly that we were going to have difficulty in getting along with the Russians. Had he done so, he would have been denounced by a very large segment of American press and public opinion as a man of ill will who could not be trusted with the conduct of public affairs.

By the time I returned, the pendulum had swung so far in the other direction that it would have been equally dangerous for anyone to say possibly we can work out a modus vivendi with these people. American common sense usually asserts itself, and the mean lies somewhere between the two extremes.

We are at Geneva again trying to work out some sort of a tenuous modus vivendi but against what we assume will be very bitter opposition. In order to get that background, I think we might well take a look at Europe and particularly the keystone of our policy in Europe, which now is France. At Geneva it is to be assumed that the Russians will try to accomplish four things: First, on the cardinal principle of their foreign policy, is the disruption of the Western Alliance, the separation of ourselves and our allies. And they will concentrate on that one of the free western nations which seems to offer the best target. At the moment that is France, for reasons which I will go into later. They want to break up this coalition, and they want to destroy the theory and the final culmination of our plans for the European Defense Community. They will certainly try to get some sort of a deal on the war in Indochina which will give the Communists a strong

bridgehead in that area from which to exert our influence. They will certainly try to obtain some sort of a bargain on Korea that will recognize North Korea as a separate and sovereign entity and will permit it to become part of Communist China. Of course, they will do everything they can to gain the recognition of Communist China as one of the great powers and its admission to the United Nations.

It is strange how these vital problems result in arguments and discussions which actually would seem silly and do seem silly to anybody who did not understand the reason. For example, the agreed arrangement for chairing the meeting in Geneva referred to by some of the press as the two-and-a-half solution, by which the Soviet Union, Britain, and Thailand alternately provide the chairman.

With regard to the chairmanship, it was very apparent from the beginning that the Soviet Union in spite of agreements in Berlin had determined to translate a so-called Big Four into a Big Five. We had various solutions for a chairmanship offered, and each one of those in one way or another would have resulted in Communist China taking her place as the chairman of the conference. Politically we cannot accept that and publicly we could not accept that. The American public opinion would never accept a thing of that kind—that the aggressor should be called on to chair a conference, and a conference of such weight and importance.

If we had gone to the formula of the Big Four, which was also suggested, we would have given serious affront to some of our smaller but very important allies. Australia and New Zealand, who have stood staunchly by us during many of these discussions and have supported our policy, might well have weakened in that support. Consequently, we have this so-called two-and-a-half solution, which looks a little silly, but which actually is the best that could be obtained.

Well, we have the seating arrangement we want and we have a reasonable solution, although it may seem a somewhat inconsistent one, for the chairmanship. And then we go to the battle.

Now, I must turn to France. A month ago it seemed that EDC was assured. We had prepared and, as you know, we gave to France certain assurances of our own with regard to support of EDC, with regard to the maintenance of American troops in Europe during the time the threat continued, and with regard to certain other matters which the French considered important. Once the date was fixed and the debate opened, it seemed at that time that there was every assurance that EDC would pass. We counted on the large support from the Socialist Party headed by Guy Mollet who has been a tower of strength, and we had to give those assurances in time for the Socialist Party caucus to be held which would insure support of the Defense Community vote.

At that caucus political differences developed, and for a while it looked as though Mollet had lost control of his party and that we could no longer count on the support of the Socialist votes if EDC came up for final vote

debate to start about May 25. The first reports were extremely gloomy. They were influenced by two things: A speech made by Mr. Bevan in England, violently attacking the United States, violently attacking the European Defense Community, violently attacking the idea of a Western Coalition, and holding out the promise of peace in our time with the Soviet Union if these ideas were abandoned—and disturbing and very disquieting reports from Dien Bien Phu. Subsequent estimates of the political situation in France indicate that those first appraisals were far too gloomy and as of today if we had a vote in the French Chamber on the European Defense Community, it would pass, although by a small majority; and if conditions remain unchanged, if the French Government now existent is enabled to remain in power until the vote is taken, it probably would pass then. Nobody can answer that. And to tell you why they can't, we must turn to the other side of the world and look at Indochina.

That war has been going on for almost 8 years. The French are very war-weary. A senior French general told me about a year ago that since the war had been going on it had cost every year about 70 percent of the graduating class at St. Cyr killed and wounded; and St. Cyr, the French Military Academy, is much larger than our West Point. That means every French town, every French village has its casualty.

I have said before, and I am afraid ad nauseam, that the free world cannot in Asia play with blue chips while the Chinese play with white chips. We can't compete on that basis, but we can and are able to train good native troops for those Asiatic states that are willing to fight for their freedom. If anybody wants proof of it, look at Korea. Two and a half years ago our officers and soldiers were critical of the ROKS; today any experienced officer or soldier from Korea will tell you that a good Korean division properly equipped and properly supported by artillery is about as effective on the battlefield as a good American division. I think those of you who have been there and seen it would confirm that fact. So they are good soldiers when properly led.

Unfortunately, the French established an advanced post at a little town called Dien Bien Phu, which has been very much in the headlines lately. They did that because that valley is one of the main lines of communication from Communist China over which the supplies to the order of something like 2,000 and 2,500 tons a month have been flowing into the Viet Minh.

As a matter of fact, when Mr. Dulles was in Berlin, he said to Mr. Bidault, "When you put Indochina on the agenda for Geneva, you may expect to get exactly what we got in Korea—a massive and fanatical intensification of military operations designed to gain as much territory and as much political advantage prior to and during the Geneva conference as the Communists can possibly get. And as they will believe that there isn't going to be another fighting season, they will expend their reserves." And that is exactly what they have done.

Militarily, Dien Bien Phu has no real significance. The French have committed between 5 and 6 percent of their resources there. The Communists, on the other hand, have committed between 25 and 30 percent of their resources there and they have sustained very severe losses. It fulfills all of the military requirements for a successful detached post, and our field service regulations used to state that a commander is justified in detaching a smaller element of his force only if it will contain or account for a greater strength than his detachment. Dien Bien Phu has done that, but in the meantime, it has become a symbol. We have symbols these days. Berlin became a symbol. Korea became a symbol. Dien Bien Phu has become a symbol to the French people and to French political opinion. Mr. Bidault has gone to Geneva without many strings attached to him. We are assured that there will be no cease-fire in Indochina during the Geneva conference, and I believe that the present government means exactly that assurance, and that while the Lanier-Bidault government is in existence, we can count on that.

I trust most profoundly that it will survive. Every effort is being made to bolster up political opinion. Much will depend on the way things go at the Geneva conference where our tactic is to concentrate on Korea. Certainly, if we are able to do that, we should be able to expose again the intransigence of the Soviet Union to the point where even those Frenchmen who still harbor illusions—and it is not only in France that those illusions are harbored; let's say other Europeans have harbored those illusions—will awake unmistakably to the fact that there is no compromise at this time. We can only deal from a position of strength.

Elsewhere in the world, there is a little more brightness in the picture. In the Mediterranean area, the vexing problem of Trieste is close to a solution. The Italian Government can face an election with complete confidence. The present Italian Government can take measures which will deal with the Communist infiltration in Italy that they have never dared to deal before.

Yugoslavia has come a long way in our direction and has come a long way toward a settlement, and we will see an even stronger realignment of the Mediterranean power.

In Iraq we have promised a certain order of military assistance. We are not giving arms to Iraq to use for anything except defensive purposes, and we are prepared to see that they are not used for anything else.

The strengthening of what has been referred to as the northern tier of nations, begun by the initiation of the Pakistan-Turkish agreement may be broadened to include one or more of the Moslem nations.

In Iran, while the discussions with regard to the oil settlement drag on, they are being conducted in an atmosphere of good will, and the real major issues have been settled.

We have been in Egypt again within measurable distances of a settlement on two or three occasions and internal political difficulties, since 1954

to delay, have caused deferments. We don't know what the full result of the last political move in Egypt will be, but it seems that Abdel Nasser will control the Egyptian Government. So we have not there abandoned the possibility of a settlement.

Last week prospects were generally evaluated as good.

With a settlement of the Suez Canal problem, other things may fall in place in the Middle East. It is our policy to produce a condition of peace in the Middle East and we will continue to strive to do so.

Egypt seems to be the best chance. If we can produce a treaty between, let us say, Egypt and Israel, there are about three other Arab states that would break their necks to be first, to be second, but they are not going to go first.

That brings us by a circuitous route back home. And the only place left is Latin America. The Caracas conference was a very interesting development. Our problems there are really largely economic, and except for that one ulcer of a Communist-dominated government in Guatemala there isn't anything there that we can't settle by economic discussions. But the South Americans are hard bargainers. We got at Caracas a sort of Monroe Doctrine against communism, and there we had the very strong support of Brazil and of two or three other of our staunch friends in Latin America. Actually, there were a good many of the Latin American States that didn't much care about the thing and really don't think that communism is much of a menace anyhow; but they went along with us because they are friendly, and, as you recall the result, only Guatemala voted against, and Argentina and Mexico abstained. We now have coming up an economic conference which is really going to pose some problems. As the Vice President put it very well, the answer does not lie in aid. We have found you can't buy friends, and just an increased standard of economy does not dispose of a Communist tendency. Take Italy where their economic peak is at the high point since the war and for some time before, and until now they have had the biggest Communist minority in Europe. They still have it. I hope that events will catch up with that. So that the answer to Latin America is not all just a handout. In fact, we haven't got the money, and if you spread what we have over that continent, it would be like boarding house butter on a slice of bread—you couldn't see the grease spot.

But recently we have obtained some revisions, notably one involving the Department of Treasury, which will authorize a larger measure of operation by the Export-Import Bank, which will encourage the investment of private capital by guaranteeing some of that investment, and that is where the answer to the problem lies, I believe.

The Export-Import Bank is a very important and very vital agency in the conduct of American foreign policy and, strange to relate, it is one Government institution which is making money. It pays a pretty good income from its investment, and its losses under its administration have been extremely

small. So we look to that bank and the private capital properly fostered and encouraged to solve many of the economic problems of Latin America which are basically the root of those differences we have and not ill will. That concludes my remarks, gentlemen.

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Summarization of Remarks of General Robert Cutler, Special Assistant to the President, National Security Affairs

Governor, it is a pleasure to appear before this body while the dew is still on the rose in the early morning. My job is, as you know, Special Assistant to the President for National Security Affairs. That means that I brief the President every week; I "run" the Council meeting for him every Thursday; I present for his review the record of action of the Council meeting, the legal document which, when approved, represents United States policy in the particular field of National Security at issue. I also preside over the Planning Board, the agency directly under the Council through which all papers are processed on their way up for Council action. This Planning Board meets three times a week. The average meeting time is 4-4½ hours. In the remaining hours of the day I do odd jobs for the President and try to keep out of trouble. That is about all there is for Robert Cutler in Washington, thank you.

As last year I told you about the operations of the Council, I will not go into that again. I have no prepared speech. There is really no time to prepare one. It is no fun to give a prepared speech. They are no good anyway.

The Council has been getting in the public eye a little more than when I appeared last before you. There have been some stories in the press. Some of these seem to indicate that the Council is a secret, hush-hush, super-command body, dreamed up by the executive branch and capable in wrong hands of taking over our democratic form of government. This is the arrant nonsense.

The Council is a statutory body. It was created by the Congress. Its principal functions are limited to considering policies in the fields of national security. It is advisory and recommendatory to the President. The Council makes no decision itself at all. It is a convenient mechanism created by the Congress to assist the President in resolving the Executive will in matters relating to the national security and no mechanism could be more sensibly designed, for it brings together in a regular form all of the people at the top of government upon whom the President would naturally rely anyway. It provides a convenient formalization and regularization for what should have to be done in any event. But it commands no one, and has no command function. If its operations are secret, it is because

all advice given to the President by his assistants and advisers must by its nature be secret. And that is especially true in the sensitive field of national security.

You might be interested to know the extent to which the President has used the Council since he has been in office. With my little whip, I have followed his lead and helped to drive. There have been, since the Council began in 1947, 193 meetings, and of these 66 have been held in the year and a quarter under this administration, a total of 34 percent of all meetings. There have been 1,095 actions taken by the Council since September 1947, and of them 399 have been taken in the present administration. Thus, about 36 percent of all the actions the Council has taken in the 6 1/2 years of its existence have been taken in 1 1/4 years under this administration. This comparison isn't intended as, nor is it, a reflection on any prior administration. It is simply that President Eisenhower sees the Council as a mechanism that he wants to use in a particular way, and he certainly uses it. Other Presidents who have a different concept may use the Council in a different way. Certainly, this flexibility in use is most desirable, for the Council is a Presidential aid. Each President should be free to use it as he thinks best.

Governor Peterson has suggested that I speak to you briefly about the work of the Council in connection with "Continental Defense," a subject in which we are all interested.

Let me show the logical steps that we have tried to follow in the National Security Council in developing national policy with respect to "Continental Defense." First, I must define the term "Continental Defense." As I use it, "Continental Defense" is a complex of some 40 to 50 military and nonmilitary programs, affecting the defense of the continental United States. We do not include in this term all of the programs that affect the defense of the continent. For instance, there are not included the programs of the Strategic Air Command's program and for foreign air bases, which are so vital to our ability to strike at an enemy that might attack us. There are also not included certain programs that we would in any event carry on, like the security of our Federal buildings all over the United States, on which perhaps some hundred million dollars or more is spent every year. We included in "Continental Defense" those particular programs, picked out of the great seamless web of military and nonmilitary undertakings, which we felt needed particular attention because perhaps they had not been in the past emphasized as much as some of the others. This is a difficult operation: picking out certain military programs and dwelling upon them in an effort to bring them into what one considers a more proper posture. It has to be done every once in a while. That is just what we did in arriving at the term "Continental Defense."

This great volume here which I have on the desk contains original copies of the Council's policy papers in the 14 months we have been working on the subject of "Continental Defense." Approved For Release 2003/07/29 : CIA-RDP80B01676R001000030016-3

percent of the money goes into the military programs: the early warning systems, the radar screens, the interceptor planes, the picket ships, the guided missiles, the antiaircraft batteries. All of these things are costly beyond belief. Perhaps 10 percent goes into the nonmilitary programs: civil defense, urban vulnerability, surveillance of people within our borders in the interest of preserving internal security, measures to insure the continuity of government, measures to try to detect the clandestine introduction of nuclear weapons and fissionable materials into the United States. Those are some of the nonmilitary programs.

I am sure that we have a better understanding in Washington today of the relationship of the military and the nonmilitary programs, of the essentiality of all of these programs as an integrated complex. Essentiality of a program isn't a question of money so much. Some of the nonmilitary programs which do not involve large sums of money are of great importance. And we have tried to bring them into the proper emphasis in this work we have been doing in the field of continental defense.

When the administration took office, we found a number of important studies bearing on "Continental Defense" which had been made or were in the making. Some of these were, Project East River, the Lincoln Summer Study, and, in the early part of the first year of the administration, the Kelly Report. A great deal of work had been done in pulling together basic information. Having examined this material, we proceeded to examine under carefully worked out assumptions what damage an enemy could do to us if it launched a surprise atomic air attack against the United States continent. We convened a special committee of knowledgeable people, with authority to draw on all of the resources of our Government help, and chaired by a distinguished former senior General Officer. This Committee worked on a hypothesis that the enemy would choose the time, the places, and the method of attack under which it could wreck the most terrible damage. It worked for 4 or 5 months answering this specific question. In May of last year the Committee produced its report. This report showed on the assumption stated, the amount of damage to our vitals, our people, our war potential, and our striking forces that could be done by the enemy. It was a searching and arresting report. It left a deep impression on the Council, to which it was presented orally and in writing.

Logically, having heard the extent to which the enemy could damage us, the next step was to decide how best to meet such a threat to the national security. Once again, the Council resorted to a committee of qualified experts. This Committee was charged with gathering programs which the different interested agencies of government might advance to meet this threat. This Committee devoted itself for a period of 2 months of intensive work to assembling these programs from the different departments and agencies, digesting them, collating them, and getting them in shape to present to the Council to be considered. I sometimes referred to this Committee's report as "the bill of fare." It purported to set forth all the programs

that seemed to be desirable and worthy of study in determining how to meet the problem of "Continental Defense."

When the Council had looked at this "bill of fare," the next step in our logical progression was for the Planning Board, of which I am Chairman as I said, to examine closely the validity and the costing of these programs. Thereafter, the Planning Board proceeded to seek to arrange the ones that it considered meritorious in some relative order of importance.

Money is hard to come by. That is what we believe up in New England. Don't spend all your money building a "Maginot Line." There are other programs equally and perhaps more important to the defense of our homeland than these so-called "Continental Defense" programs. The Strategic Air Command is one of them. Our great air bases overseas in England and Morocco and Libya and Spain are of equal consequence to the defense of the Continent. The Planning Board had to consider *all* of the national security programs in order to set in proper perspective those few dealing merely with "Continental Defense."

The Planning Board worked for 2 months settling the tested, costed, and proven "Continental Defense" programs into categories: some that should be done at once; some that should be brought into a high state of readiness in a few years; some that should be brought along in phase with the others; and some, in the fourth category, that we might carry on about as we had been carrying on in the past. In September, I presented to the Council the Planning Board's recommendations as to this complex of 48 military and nonmilitary programs. We had the complicated story set forth in charts and diagrams for ready Council understanding, in addition to the papers which they had before them. Eventually, we obtained Presidential approval of the policy recommendations which were presented, subject to a good number of amendments worked out by the Council itself at meetings and subject to developing the fiscal arrangements and some of the details of the largest programs. When a program involves expenditures of a billion dollars a year, it takes a long time to get the details of such a program finally ironed out.

You have read in the newspapers all kinds of fantastic figures about the cost of "Continental Defense." They run all the way from a few billion up to a hundred billion. The cost, of course, depends on what you include in the term "Continental Defense." As I have been using the term, certain very heavy expenditures, such as those for SAC and for our overseas air bases are excluded. But the residue of programs that I include in the phrase "Continental Defense" calls for the expenditure of several billions each year. We are spending in fiscal year 1954 on this complex of military and nonmilitary programs about twice what we spent in fiscal year 1952. If the Congress will give us the money, we will spend still more in fiscal year 1955. The figures do not reach up into the staggering totals which some people seem to think may be desirable. We are spending what we believe can be prudently and effectively spent, not on a "crash basis" but in

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and orderly fashion to bring about a sound "Continental Defense." In initiating these vast expenditures you have to remember that they are not only for one year and that you then have got something that will operate forever without cost. Actually the annual recurring cost of these "Continental Defense" programs that I am talking about, when they shall have been brought respectively to a state of readiness, will be considerably in excess of \$3 billion each year. That is not hay.

I have emphasized what seems to me the logical way in which the Council approached this vast program, though it is only *one* program in our National Security arsenal, of course. In February of this year final approval was given for all of these "Continental Defense" policies and for the arrangements to finance them in fiscal year 1954 and fiscal year 1955 at higher levels, despite the fact that our total military appropriations were being cut. I want you to realize that "Continental Defense" is a matter of primary concern to this administration. Of course it is. We are talking about the defense of our vitals, of our war potential, of our striking power, which helps along with our allies to deter the enemy and keep peace in the world, and of the means of providing early warning so that our citizens may have some chance to be protected wherever they may be.

In the case of provision of early warning, we have to deal, of course, with a partner. Some elements of the early warning lines are already installed in Canada. Others are in process of being tested there now. It has been most gratifying to us to find that Canada has been as aware as the United States of the vital necessity of this great system of early warning. We have had splendid cooperation from Canada in that regard in the last year. Our Air Force and the Canadian Air Force are working as one on this subject.

I wish I could tell you that as a result of all these expenditures, these studies, this cooperation, this interest, that when we shall have done everything that we are proposing to do, we will have 100 percent defense of the continent. There can never, however, be such an assurance. There isn't any such thing as 100 percent defense of the American Continent. We will have a reasonable, well-planned, well-thought-out defense, backed up by the world's finest striking force, our Strategic Air Command. But we shall never think of our warning lines or our defensive measures to strike down attackers as a Maginot Line either imaginary or real. There isn't any such thing. But I do say this: In a rapid and orderly fashion we are carrying out a sound "Continental Defense" the best that we believe can be provided short of a "crash" basis of ruinous expense.

Remarks of Admiral Lewis L. Strauss, Chairman, Atomic Energy Commission

Governor Thornton and gentlemen, I did not know exactly what kind of program had been planned for this morning, and I thought perhaps that the information I have might be better conveyed by answers to questions on subjects that interest you. I have prepared only a very brief statement on one topic that I hoped ought to be of interest; that is to say, the relationship of the Atomic Energy Commission with the States.

Because you have all come here to Washington, I am reminded, to begin with, of a story for which I am indebted to a veteran Washington correspondent whom most of you know—Arthur Krock. He is a collector of esoteric and unprinted Americana, and he told me a number of weeks ago that back in 1861 there had been a committee of Virginians, including General Lee, who were very anxious that Virginia should not secede from the Union. They had arranged an appointment with President Lincoln to find out whether he intended to use force against the States which had seceded, and, if so, to try to dissuade him. They wanted to get their information back to Richmond as promptly as possible and so they devised a telegraphic code. In modern parlance I think we would say, that they undertook proper security provisions. The code was a simple one: If the conference with Mr. Lincoln was successful, the word "Blessings" was to be tapped out over the wire. And if the conference was unsuccessful, the word was "Calamity." But they also envisaged the possibility that they couldn't get any decision, and in the case, the code was "Washington." [Laughter.]

I don't know that their choice of code words had any contemporary significance, but I do know one thing, that Washington today is not characterized by any uncertainty or lack of decision. On both the international and domestic fronts the Congress and administration are pressing forward to decisions that affect the lives of all of us, and the rights of the States have strong advocacy.

My own family is from Richmond, Va., capital of the lost cause of States' Rights. And, while I was brought up in that kind of atmosphere, no one today in Virginia questions the validity of the great decision that was reached on the field of battle in '65, but there are many of us who wonder whether the pendulum hasn't swung too far in the direction of a powerful central government in recent years.

The Atomic Energy Commission, I think, is probably today an exemplification of the greatest degree of centralization along that line that exists.

Amendments have been introduced quite recently by the Chairman of the Joint Congressional Committee on Atomic Energy to begin to terminate that condition. I will mention them in a moment.

It is my hope that you will find it of interest if I describe some of the activities of the Commission in terms of the impact of those activities on the States. But first of all, I ought to take advantage of the fact that I have the privilege of appearing before you to express the appreciation of the Commission for the cooperation that we have received on the many occasions that we have had to request it from State governments. Sometimes this has involved the quick passage of special legislation by State legislatures.

The Atomic Energy program is the largest single industrial enterprise in the country, and I am using "industrial" deliberately because we are now in the business of manufacturing, on a production-line basis, a whole family of nuclear weapons for our defense and of producing materials on a production-line basis that make possible the increasing peaceful applications of atomic energy.

These installations in which this work goes on stretch from one end of the country to the other. They are located in more than one-half of the States, but the major facilities, those that cost in excess of \$1 billion apiece, are located only in Washington, Kentucky, Tennessee, South Carolina, and Ohio. The impact of the expenditures of the very large sums required for the atomic projects, however, are not limited to those five States. Take, just for example, the building of the nuclear reactor and power plant for the first atomic submarine. The prime contractor was the Westinghouse Co., and it did its work in Pennsylvania, Idaho, and Connecticut; but the subcontracts on this one job were let in 20 other States.

Our other activities are similarly diffused geographically. There are users of radioisotopes now in every State in the Union. There are 643 unclassified research contracts now in force, and they are scattered among 132 institutions in 43 of the States. The Commission and the Department of Agriculture are engaged in activities in 30 State experimental stations. And by almost any measure of Commission activities that one cares to make, there would be a comparable national distribution.

When we took over from our military predecessor in 1947, we inherited three cities that today have a population in excess of 70,000 and are still growing. Legislation has been introduced at our request to allow us to sell two of them, Oak Ridge, Tenn., and Richland, Wash.; that is to say, to sell the private residences to private owners. It is intended that these will become normal municipalities and take their proper place in the life of the States, and, I might add, relieve me of a ghastly series of headaches.

The first test of this new policy came in Idaho where back in 1949 the Commission acquired 600 square miles for the location of a National Reactor Testing Station. Thanks to the cooperation of private enterprise, local, county, and State governments, plus assistance from Federal agencies, the

employees of the Commission and its contractors in Idaho have had the opportunity to own their own homes and are residents of a normal community. This has proved to us that it can be done. That one outfit that we will probably not be able to do anything with is Los Alamos. It has no economic reason for existence; if the laboratory were ever abandoned for any reason, Los Alamos would simply be a place for sightseers.

The Savannah River project, involving the States of South Carolina and Georgia, is, of course, a very much larger situation. When it is finished, it will have cost \$1½ billion. We might examine there, as an instance, the sort of task force concept which mobilized Federal, State, and local governments and private enterprise to get that great complex of plants started.

Here is what the Federal Government provided in the way of assistance there: \$8.8 million for the construction and operation of elementary and secondary schools; about \$6 million for sewers and water facilities; about \$1 million for police, fire, and hospital facilities; the building of more than 3,000 permanent homes under Title 9 of the National Housing Act; and some \$4 million for plant access highways which was contributed by the Bureau of Public Roads.

The role of the Commission in this pattern of Federal assistance has been important; and the assistance to local school boards by the Office of Education for the construction and operation of facilities in areas heavily affected by Federal activities is based in a large part on the experience they gained with the Commission.

The AEC works closely with your State labor departments, both in recruitment and furnishing estimates of work fluctuation, the latter so that too many men will not be put to the expense of flocking to a given job, not infrequently in some isolated place, and on arrival finding that all the jobs have been parceled out.

There is also the problem of draft deferments, and this is going to continue to be difficult due to the specialized nature and urgent expansion of the Atomic Energy program. For instance, at the Savannah River Plant, which is important in the thermonuclear weapon program, we have had to recruit with all possible speed a scientific and technical group of 1,500 men.

The understanding cooperation given generally by the State Selective Service Directors has been of greatest value to us in delaying the dates of induction of these men until the necessary, but time-consuming, process of completing the full security clearance of their replacements could be made.

And finally, of course, there is the matter of taxes. The Commission recognizes that there will always be apparent conflict of interest between the Federal agency and its contractors on the one hand and State authorities on the other. I don't know how we can work it out, except on a cut-and-try basis each time it arises.

Of one further thing you may be sure. The law charges the Commission to operate so as to strengthen the American system of free competition in private enterprise. And certainly, with

shouldn't be here today if it were otherwise. During the hearings on confirmation of the Commission in 1947, Senator Vandenberg put a question to me which caused me to tell him that I thought the day would surely come when the socialistic aspects of the original atomic legislation could be tossed overboard and that we could safely make the atom free for invention, enterprise, initiative, and also for profits and for taxation. And, as I mentioned a moment before, a bill to amend the act and which I hope will pass at this session will go far toward that.

If one might judge from the communications received at the Commission in recent months from various State organizations, from chambers of commerce, and from Members of Congress, our one activity that is of the greatest interest at the moment is the progress toward development of electrical power from nuclear energy.

The interest of the States in this field has been well demonstrated. Members of a special committee from the National Association of Railroad and Utility Commissioners, who are your appointees, have requested and received security clearances to keep abreast of developments and to report on the regulatory aspects that are of interest to the State utility bodies.

The Governors of the Pacific Northwest named an Atomic Energy Committee more than a year ago, and on April 9 of this year the New England Committee on Atomic Energy was appointed by the New England Governors Conference and held its first meeting. We also know some of the companies have made proposals for participation in the power projects and have kept their state capitals informed of their interest.

You might be concerned with the present status of this development. Briefly, it is this: Construction will begin shortly in the Pittsburgh area on the first full-scale experimental central station nuclear power plant. It is to be built and operated by the Duquesne Light Co. We let the contract to that company in general competition, because although many of the offers were attractive—the next most attractive, Governor Byrnes, was from South Carolina—the offer of the Duquesne Co. will save the Government over the period of the contract some \$30 million of construction and operating costs. This is private capital. The Westinghouse Co. has been at work for some time on the reactor portion of the plant.

The Commission has formulated a program for pushing ahead to power plant level on at least four other types of reactors, all of which appear promising as power producers. We have a contract with the North American Aviation Co. for a \$10 million sodium graphite type reactor; and in this case, the company is putting up a quarter of the cost out of its own funds.

The President transmitted to Congress, on February 17, the recommendations of the Commission for amending the Atomic Energy Act. These are designed to provide greater incentive and flexibility for further private capital participation in speeding the advent of the new, great source of energy to help meet the rapidly growing power demands in the country.

What is the role of the individual State government in the future development of industrial uses of atomic energy? This question I repeat because it was asked at several of the symposiums being held on the subject of nuclear power and the expanding applications of atomic energy to industry generally.

By precedent, the States have general responsibility for health and safety standards. But in the atomic energy field specifically these have been retained in the Federal Government which has set the standards and administered the program as far as protection against radiation hazard is concerned. However, I think it should be the goal to have State agencies become technically competent to take over this aspect of the nuclear power program. The lawyers have argued this point, and when a panel was convened last November by the Atomic Industrial Forum, contradictory points of view were expressed with considerable force. I have had transcripts of that discussion made and I will be glad to provide copies to any of the members of the conference who might care to read it.

Reluctantly, I now leave the promising aspect of atomic power to discuss the role of the Commission in the somber task of preparing the country in order that it may survive in the event of an atomic attack. Your civil defense organizations and those of your cities and counties share with Governor Peterson's organization the primary responsibility for leadership in this work. The problem has been magnified in size by the awesome arithmetic of the thermonuclear weapon—a weapon whose destructive force is measured in millions of tons of TNT equivalent. But that is not the primary consideration. The primary consideration, of course, is our knowledge that the Soviets possess these weapons and that they possess the capacity to deliver them on chosen targets in our country. The problem is also aggravated by the modern capability for aggression by surprise attack. It would seem logical, therefore, to call for more emphasis on statewide disaster mobilization plans and a much wider base of public participation in those plans. The tremendous destructive power of nuclear weapons is such that no one with any feeling of responsibility for the Nation's welfare and for his own or his family's safety can afford to ignore or to minimize its impact.

The Commission plays a limited but important role in this task. Last fall, on Governor Peterson's invitation, we reviewed the areas of cooperation between the Commission and the Federal Civil Defense Administration. There is a steady exchange of ideas. The mechanism of liaison between our staffs is being improved and opportunities generally enlarged for drawing guidance for civil defense from our weapons testing program in which we measure the effects of atomic weapons.

I don't know whether you have seen the film "Operation IVY" or not. If you haven't, I know that it is to be shown to you. It happens to be a poor film in my opinion but it conveys some idea of the effects of a thermonuclear test in the autumn of 1952. You will recall that at the President's

press conference on March 31, which incidentally took place here in this room, it was indicated that the hydrogen bomb possesses a force greater than that of fission bombs by a degree of magnitude comparable to the difference between fission bombs and conventional bombs.

Therefore, in recognition of the gravity of that situation, the Congress permitted the Commission to meet with the British and the Canadians last fall and to exchange, within the statutory limits of security of our respective countries, classified information on the effects of such weapons. The first tripartite conference, as a matter of fact, was formally convened last February and the Civil Defense Administration participated.

Of course, within our own country we are giving the FCDA all available data bearing on civilian preparedness, and Governor Peterson will get as much data as we subsequently develop; and the tests which are now going on in the Pacific currently are developing further information which will be relayed to him as soon as the results have been evaluated.

The stronger we are to resist aggression and the more capacity we have for inflicting "instant and terrible punishment upon any aggressor"—and those are the words that the President used in his December 8 speech before the United Nations—the greater will be the chance of creating an atmosphere in which some formula for the limitation of armament of all kind might be considered.

Strength also will increase the chances for the acceptance of the significant proposal which the President laid before the world last December in the course of that same speech—his plan for international cooperation to reduce the size and stockpiles of normal uranium and fissionable material by small but continuing contributions to an international atomic energy agency which would be dedicated to spread the peaceful applications of atomic energy.

I announced for the President last week that he proposes to convene later this year, or early next year, an international congress of scientists from all countries for the purpose of exploring the benign uses of atomic energy.

As I see it, a strong civil defense and an earnest presentation of the benefits that we and other countries may expect to derive from the atom in a peaceful world are the two most powerful leverages that we can provide to assist the President in his determination to find a way by which the "miraculous inventiveness of man shall not be dedicated to his death but consecrated to his life."

Last week there was a meeting of the American Association of Newspaper Editors here, and they invited me to come before them, which I did, without benefit of a manuscript. I don't think I shall ever do that again. And in the course of it, some questions were asked, and I was reminded of this incident out of my long distant past.

In 1933 or 1934 I was in the banking business in New York. And those days, by comparison to what I am doing now, seem to have been very happy days. Bankers generally were under some fire, but I personally was not.

I had a visitor who came in with a letter of introduction. He needed that introduction about as much as Lindbergh needed the letter that he took to Paris when he called on Ambassador Herrick. This visitor was Smith W. Brookhart. He had been a United States Senator but had just been defeated for reelection. He had also been a National Rifle Champion.

He came in with a man who bore with him a long mahogany box with brass trimmings, and he said he had something of importance and confidence to discuss. We went back into a private office whereupon the box was opened, and the Senator took out a rifle. He proceeded to take the rifle apart and to reassemble it all in a matter of seconds. He told me that he and the man who had come with him owned the patents on this new rifle. The individual, I think, had been the inventor, and the rifle was something novel and they had taken it to the War Department and had received an order for a large number of them—I have forgotten the quantity—but some thousands—and at a price which showed a substantial profit.

What the Senator wanted was for me to finance him—to put up the money to build or buy a plant in which these rifles could be made, and for doing which I was to receive any part of the stock of the enterprise I might elect.

I remember what I said to him. I said in more or less these words, that I knew that I never wanted to have anything to do with any enterprise the end product of which was something designed for the killing of people.

Well, when I remembered that and compared my state of mind in 1933 with my present activities I wondered what happened to me. Quite obviously something happened to me; but also something has happened to the world. Back in those days, in 1933, Hitler and Mussolini and Tojo were embryonic dragons. They had not developed into the devouring monsters they later became. Before their smoking bodies lay headless on the battlefields of Europe and the Pacific, too many thousands of our young St. Georges perished in the contest.

Well, today, another dragon is abroad in the world. It is larger, more subtle, more ruthless, and more terrible. I know that is why I am in this job. I think it is why a lot of the men who are working with me are in it.

This would be a good place for me to stop talking.

Program of the Commission on Intergovernmental Relations

MEMBERS OF THE COMMISSION PARTICIPATING IN THE DISCUSSION

Meyer Kestnbaum, Chairman of the Commission.
Governor Dan Thornton, Colorado.
Governor Allen Shivers, Texas.
Marion B. Folsom, Under Secretary of the Treasury.
Val Peterson, Administrator, Federal Civil Defense Administration.
Mrs. Alice K. Leopold, Director, Women's Bureau, Department of Labor.

MR. KESTNBAUM. Gentlemen, as a very, very new Chairman who has been on the job less than a week, I hope you will be sympathetic with the fact that I come here with a very large stock of ignorance and a very large stock of enthusiasm. I will get over the ignorance; I hope I will not get over the enthusiasm.

I should like to say in presenting the various members of the Commission who will cover some of the aspects of the work, that no one could have been better pleased with the composition of the Commission than I was with this one. They are an extraordinary group of men and women, and with a very wide variety of experience and background. If we do not come up with a report that will make a contribution to this very difficult subject, it will not be because we do not have the talent on the Commission. It will be for some other reason.

Now, you are all, of course, conscious of the fact that there has been some interruption in the chairmanship, but now that this is resolved, I must acknowledge that some excellent work has been done in the interim. This period has not been lost by any means. The committees have been working, the staff has been organized. Many studies are going forward, and we hope in the course of the next few months to begin to show some progress. Now, it may be, inasmuch as our mandate expires next March—it may well be that this is my first and last appearance before this august body. I would be hopeful that by the time you meet again that this job will have been completed. Therefore, I would like to say only this: That this is a subject which is of grave importance to everyone here. I recognize its many rami-

fications. There are many difficulties involved; and undoubtedly as we get into the matter of recommendations, we shall run into areas in which there will be honest differences of opinion. However, we believe that we can at least determine what the issues are, and certainly within these differences of opinion, we should be able to make a great many constructive suggestions; and it will certainly be helpful, quite aside from that aspect of the report—it will certainly be helpful to get before the Congress, before this body, and before the American people, a rather clear exposition of what is involved in these multifarious arrangements and relationships between the Federal and the State governments and other political subdivisions. I doubt that there is any one person today who fully understands the Government of the United States. It is an extremely complicated subject.

With your permission, I should like to call on members of the Commission who have done a great deal of work and who are familiar with what has been going on and who have very definite views as to how it ought to be carried forward. First, I should like to ask Governor Thornton, who has been a very important member of the Commission, to cover some of the work in which he is particularly interested. Following that, Governor Shivers will have a few words to say.

GOVERNOR THORNTON. Thank you, Mr. Chairman. I think that you governors in this group are well enough acquainted with the desires on the part of the governors themselves to define clearly the functions and services on all levels of government, to know that Governor Shivers and myself are quite interested in promoting that phase of the work of the Commission. In addition to Governor Shivers and myself, Governor Battle of Virginia and Governor Driscoll of New Jersey have worked with us. This Conference itself, in times gone by, has expressed unanimous approval of making some specific changes. If you will recall the action taken by this Conference at Houston in regard to highway taxes, and the construction and maintenance of our highway system, it was one of the main topics. As a matter of fact, a great deal of that work was done, and we as governors thought that when we went to the Commission itself, we had recommendations ready that the Commission could act upon. But I do call to your attention that there are four governors on that 25-member Commission. And you enter a new area in your arena, so to speak, of your discussion, of philosophy—and you have many members on the Commission whose philosophy is sometimes different from the philosophy that we governors hold. Sometimes it takes, shall I say, a period to readjust your thinking on the philosophy, and to convince other members of that Commission that the action that is desired by the governors is wise.

Certainly, I am one of the governors who believe that the functions and services that are duplicated on Federal and State level should be clearly defined and functions put in one level of government or the other. We do not only have duplicating functions on Federal and State level, but it goes clear down into the local units of government.

So far, we have on the Commission itself task forces assigned to various subjects to bring about a clear definition of what State governments should do, what Federal Government should do, and what local governments should do. Certainly, that study has been completed in regards to the highway problem itself, and, of course, when you actually take a function or a service from the Federal Government, transfer it back to the State, it is felt, of course that it is imperative that the source of taxation that the Federal Government has used to maintain that function or service should be returned to State government. That was the feeling expressed by this Conference itself on several occasions and that is the feeling that I have as a member of the Commission.

I do think that we have not made the progress or, shall I say, the speed up to now that perhaps we might have made in regards to that very subject. But we have outlined the work of the Commission. And as I say, the task forces are at work. I think you can look for some accomplishments and some achievements in the near future.

I do not personally see any hope of getting Congress to act in regards to the specific suggestions or in regard to the resolution that this Conference has passed or in regard to the study a committee of governors of this Conference made pertaining to the highway problem in this session of Congress. Certainly, as our Chairman has just told you, we have not only a new lease on life, but we are going to push these studies through. There is a great conflict, as I said before, in regard to philosophy. There are people who seem to think that we should have more and bigger and more centralized Federal Government. However, I don't think that is a dominating philosophy on this committee. But I have encountered it on the committee. Certainly though, the majority of the members of the Commission itself feel like that there should be a return to the States of certain powers that have been taken over by the Federal Government, certain functions and certain services in certain fields of taxation.

However, there is this thing to consider: You can't drop a function or a service that is necessary until the States have picked it up. And I think, of course, that is essential, when we look at the overall problem pertaining to our highway system of America at this time. It is essential that someone do the job in building and maintaining highways in our Nation today, and certainly we cannot have the Federal Government do away with the service until the States themselves are going to pick up and perform the function and the services.

Of course, there are those in America—I don't think this is any place to dodge any information—who are against the States taking over or taking back, shall I say, the function of building and maintaining highways and also receiving the moneys that come from that area or that field of taxation. For example, we have had evidence that the National Road Administrators, and others, perhaps certain members, or a certain portion of the automotive

industry, have opposed that philosophy that we sitting on the committee, some of us, have in our minds and are trying to do.

But that is just one brief approach to this. I will turn it back to the Chairman at this time.

MR. KESTNBAUM. Thank you, Governor. May I call on Governor Shivers to give you some of his views on the subject of this Commission.

GOVERNOR SHIVERS. Mr. Chairman, and gentlemen, my experience generally in government with study committees hasn't been too satisfactory. I have seen too many large documents compiled after weeks and months and sometimes years of study, to be read by no one, and no further attention paid to it except to pay the bills that were encountered during the study. I think this particular Commission has been fortunate in securing a very able staff; and a number of what we call "impact studies" are under way, and I am hopeful that they will produce not only some fine conclusions, but some effective results through the Congress.

We can't fool ourselves into thinking that there aren't a great many people—I hope not a majority—in this country who think that the Federal Government ought to grow larger and the States smaller, rather than the reverse of that, as I believe—or that we are not going to meet solid opposition in trying to do some of the things that we as a Governors' Conference have been most interested in. And the gasoline tax structure is a good example of that.

I think on the whole we must recognize that these services grew up, at least in some respect, because the people demanded services; and the States, to a large extent, refused to answer that call, and maybe refused to meet the burden of convincing the people that the services were not needed. And the Congress did meet it by furnishing more money. It is going to be most difficult to persuade any Member of Congress, that his patronage distribution of money isn't a wise thing, because he gets to announce it from his office when a Federal bureau authorizes expenditure of additional funds in his particular district. And those people who yell loudest—at least, in my State—about increasing Federal bureaucracy and taxation and waste of money, are some of the first to come to Washington and to Austin in Texas, of course, for further expenditures for their very worthwhile projects. It gets down, of course, to be the case of the ox ownership.

I think there is a field of decision that we can reach and probably persuade the Congress—I hope anyway—in delineating the types of services that ought to be State services, State functions, those which should be in the realm of the Federal Government, or possibly some that should be in the realm of cooperation between the two. I am not too hopeful, frankly, about returning a lot of the powers from the Federal Government to the States. I think we might as well be practical about that. But I think this Commission will have served a most worthwhile purpose; and the funds that it expends, spent for value received, if we could stop the trend of at least approaching the day when I think, as

signs will be hung on the statehouse doors that this is an agency of the Federal Government. If we can just stop that trend or slow it down, we will have accomplished, in my opinion, something worthwhile. Certainly, we cannot expect a lot of these services to be discontinued or diminished unless the States are willing to assume their share of the burdens and responsibilities in return. To cite an example which Governor Thornton mentioned briefly, another field of opposition, in addition to that of Congress itself, and to many of the boards and bureaus that we run into—the Commission really grew out of the Governors' Conference, the creation of the Driscoll Committee at the Governors' Conference in Houston some years ago—with the principal reference to trying to get the Federal Government out of the gasoline tax field, in line with a criticism that the Federal Government was profiting by that—in more polite terms, meaning a good portion of the gasoline taxes which we in the States refer to as "road user" taxes were going into the general fund of the Federal Government and not going into road funds. I hesitate to give all the credit for this to the Bureau of Public Roads or to anyone in the Federal Government. I think we have, as we have seen it on a State level, lobbying organizations which were interested in bigger road programs all over the United States, particularly the American Association of Highway Officials, American Automobile Association, American Road Builders Association, and allied groups, many of whom, or most of whom, have appeared before the congressional committees considering this, who saw that possibly something was going to be done about getting the Federal Government out of the gasoline tax field and have that returned to the States, so they have now, in the bill that this Congress has passed, answered that by appropriating practically all of the revenue from the gasoline tax back to the States.

But I cite you this example as far as Texas is concerned in that. Although they say they are going to give us a lot more money for road purposes in Texas, the net result is that the way in which they give it, under this legislation, will force the State of Texas to raise its own gasoline taxes in addition to the amount of money that has been added to the so-called grant. And that is because of the fact that this money requires a 50-percent matching on certain types of roads. On the other hand, if they had followed a program that we have passed on many occasions in this Governors' Conference and returned that tax field to the States, using the State of Texas again as an example, we could have sufficed, and I think received more dollar benefit from our general road program on the 2 cents they are now levying, instead of using the 2 cents they are now levying, plus the additional cent we will have to levy on the local level. So again, the viciousness of a grant-in-aid that forces a local government to increase its own tax burden and therefore its own expenditures and, in my opinion, needlessly.

But if I may emphasize again, if we can stop this type of trend, this Commission will have served a most useful purpose.

Approved For Release 2003/07/29 : CIA-RDP80B01676R001000030016-3, Governor Shivers.

I should like to say to the governors assembled here that your representatives on the Commission, governors, are men who have very definite ideas and considerable determination, and I doubt that the findings of the Commission will be such as they would not find satisfactory.

We have asked the Under Secretary of the Treasury, Marion Folsom, to present some notion of what is involved in this whole grants-in-aid program, because reference has already been made to the relationship between the grants and the responsibility that goes with them. I can't imagine an abler man to do that than Under Secretary Marion Folsom.

MR. FOLSOM. Gentlemen, this question of grants-in-aid is tied in very closely with the budget problems of both the States and the Federal Government. I will not discuss the Federal budget and the tax problems because you are having the Secretary of the Treasury, Mr. Humphrey, in the morning and also the Budget Director, and they will discuss the overall budget situation. But I would want to say though that we are getting our financial house in better order. We reduced the deficit from about \$9.4 billion last year to around \$3 billion this year. Expenditures have been cut \$7 billion this year, compared to the projected budget of the previous administration, and another \$5 billion cut is planned for next year. And we have passed on in tax cuts practically all the reductions which have been made in expenditures. The tax revision bill which is now before the Senate Finance Committee, if it is passed, will mean a total reduction this year of \$7.4 billion in taxes, the greatest dollar reduction in taxes which has ever taken place in the history of the country. That includes a reduction of \$1 billion in excise taxes, a field in which you people are interested. The governors from time to time have recommended the Federal Government should get out of this field and reduce or remove such taxes as admission taxes, excise taxes at the retail level and telephone taxes. Most of them are coming down from 20 to 25 percent or 15 percent to a 10-percent level. But we are losing a billion dollars in those taxes and we haven't given up any functions so that means just a loss of a billion dollars to us and an increase in our deficit by that amount.

Now, this whole question of grants-in-aid, of course, gets into probably the most important part of the work of this Commission. Practically all the functions which the Federal Government has taken over are tied in with the grant-in-aid programs.

This year the total cost to the Federal Government of these grant-in-aid programs is about \$2.9 billion, almost \$3 billion. While it represents only about 4 or 5 percent of our total expenditures, if you leave out the national security expenditures and interest on the public debt, these items amount to 17 percent of our total Federal budget. These Federal aid programs amount to about 11 percent of all the State and local tax revenues. This program, as you know, has grown very rapidly in recent years. Twenty-five years ago the total amount of the Federal grants to States was under \$200 million. Now, it has gone up to about \$3 billion.

All of us on the Commission agree that it is time to make an objective appraisal of this whole system—just as we have done in our tax system. We have been studying for 15 months in the Treasury and the congressional staff our whole tax system, and we are revising it, bringing it up to date. We have an 875-page bill pending in the Senate Finance Committee. We find quite a few taxes have gone up over the years, without any one being blamed; but there had been no overall study of our Federal tax system in over 50 years. We think it is high time to have a somewhat objective, thorough appraisal of this whole grant-in-aid program to see what should be done with it; to find out, first, whether the functions are really necessary; if they are necessary, what level of government can perform those functions best; and, assuming we must continue some grant-in-aid program, what is the best type formula we can work out to do it on a fair basis to the States, the local governments, and the Federal Government combined. That is the objective. It is a very difficult problem, as you know.

If you look at an analysis of the grants-in-aid, you will find that the bulk is in public assistance and highways. This year out of about \$3 billion, about \$1.4 billion is in the form of public assistance. This year the appropriation for highways is \$575 million, and next year it will be almost \$1 billion. So those two items this year amount to about two-thirds of the total, and next year it will be a higher percentage—70 or 75 percent. Beyond those, we have a long list of items—Federal aid to schools, construction in areas affected by Federal projects. Unemployment services is next on the list. Then comes the school lunch program, hospital construction, and so on right down the list.

We are hoping, with our impact studies, which are being made in a half dozen States, to see the impact of these various programs on the different States. We are also having a committee look into the overall impact of the grant-in-aid program, and a study to try to find out the defects in the current system and what should be done about it. Of course, as you know, the present system forces States quite often to do things that they don't want to do. They might prefer to do other things than those particular things covered by grants but they can't let the opportunity go by of getting this money. You don't have the latitude you should have within each program or as between programs. It may be that you would like to use your revenue for something not in the grant-in-aid program, but you can't afford to pass this aid by. Thus, expenditures for other desirable functions are sometimes discouraged.

Those are a few of the items to consider if we are to get the system on a better basis. And if some functions are shifted back from the Federal Government to the States, it is going to be extremely difficult to shift our functions and taxes at the same time and in the same ratio. As far as we are concerned in the Treasury, of course, before we give up any tax revenue, we want to be sure we are going to be able to give up expenditures too, because our budget is tight, primarily, of course, because of the

heavy expenditure on national security. National security expenditures take 70 percent of our total budget. As long as national security expenditures are high, we must have, of course, high taxes, and it is going to be extremely difficult for us to keep the budget in balance, which means we just hate to give up any revenue source. Probably the only way we can meet this problem is, if we decide certain functions ought to be turned back to the States, to reduce expenditures and taxes at the same time. And if it is done gradually over a period of years we can probably reach the desired goal.

We have just had an analysis made for the Commission looking at all the grants-in-aid and taking also the taxes which many people say should go back to the States. If we should turn back all these grants, assuming everyone were turned back to the States, and we released at the same time an equal amount of taxes in the fields of excise taxes, inheritance taxes, and things of that sort, we would find quite a disparity among individual States. There are 14 States that would gain quite a little revenue if they levied the same taxes which we are now levying and they performed the same functions which we are now doing through grants-in-aid. Fourteen States would gain in revenue up to 100 percent. One State would actually gain twice as much on this basis. On the other hand, 34 States would lose out on it, the loss ranging from 1 percent to over 60 percent. You are going to find that opinion of the States will vary considerably with the effect on their particular revenue situation. Of course, this is due to the formulas, because the grants-in-aid are often based in part on per capita income. And some States get a better break than those with higher per capita incomes. So it is not going to be an easy job by any means, assuming that something ought to be done about turning these things back. We have already completed in the Treasury—I think it is the best one ever made—a study of the subject of overlapping taxes in the United States. It is quite a big document and it will be distributed to all governors. You will find it a very interesting document, showing how the taxes have grown in the Federal Government, and also the States, and where the area of overlapping is. We also have a committee that is active in the field of payments in lieu of taxes, which, of course, is quite a problem in many communities, especially those which have been having a number of defense plants and things of that sort constructed in recent years. We have had meetings of the committee already. We are making very good progress, and I think we will come out with some recommendations very soon in that particular committee.

Now, to sum it up, our Federal budget situation is such today that we can't give up taxes without also giving up functions, and, as I said before, we have already lost a billion dollars in taxes in a field which you people would like to get into, which you are already in, and yet we haven't given up any functions. At the same time, we at the Treasury are approaching this subject quite objectively. These proposals are being given serious consideration

years, the question of overlapping taxes, the taxes and payments in lieu of taxes, and the whole grant-in-aid question. And there is a wealth of material available right here in the Treasury Department and Health, Education, and Welfare Department. It is mainly a question of bringing it all together and thrashing it out and seeing if we can come up with some objective constructive recommendations. I am quite sure that everyone on the Commission is approaching this objectively, and I think you will all be pleased when we finally come out with our recommendations.

MR. KESTINBAUM. Thank you, Mr. Folsom. It is evident from even a cursory examination of these projects that it is extremely difficult to make generalizations about as many programs as are now identified with the grants-in-aid program. And some of the observations that are applicable to one program are by no means applicable to another, and this will perhaps become evident on such an important matter as civil defense, which Governor Peterson is going to discuss at the present time, because here I think you find the role of the Federal Government quite different from that which is suggested in problems like highways and other forms of assistance. I know you will be very much interested in what Governor Peterson has to say on this whole area of civil defense.

GOVERNOR PETERSON. Gentlemen, I have had the feeling in connection with this Commission that if it actually does its job; that is, if it gets right down on the wrestling mat, that this could be the most important governmental Commission to meet in America since the Constitutional Convention in 1787. Now I don't know whether we are going to get down there or not. There are some indications we are, and I have a feeling that under the leadership of our Chairman, we are going to make rapid progress in the months that lie ahead. We have from now until next March to complete our work, which is not a very long time on a subject of this complexity.

When we first met, I had thought that the way we should go at this problem—this may reflect some academic background on my part—was to take the Constitution of the United States and see how it had divided the powers of government between the National Government on the one hand and the State and local governments on the other hand. Then we could determine all the departures that had been made from the constitutional pattern. In the first instance, of course, these departures came in decisions by the Supreme Court, under the leadership of John Marshall. These established certain implied powers for the Federal Government, which I assume, were necessary but which nevertheless, were departures from the pattern established in 1787. Then, I thought, we would follow right on through the development of the history of this country, principally the legal history, down to the point where the grant-in-aid was invented. Then we could determine in what areas and in what fields the Federal Government, by the employment of money, and money alone, had entered spheres of activity where it had no authority, as set forth in the Constitution itself. These proposals are being given serious consideration the powers that had accrued to

the Federal Government, largely because of the development of our country, the rapidity of communication and transportation, and the very size of certain institutions which have developed in America during the course of its history. Having done that, I suggested we try to determine where the powers which have accrued to the Federal Government seem to be in the best interests of America—and reasonably constitutional, if not completely so. We then can make recommendations to the Congress, to the President, and to the American people; recommendations based strictly upon our thinking and without respect to politics or without respect to expediency in any degree.

It had also been my feeling that our recommendations would call upon the Congress and the American people to face the consideration of the return of some of these powers to the States and to the local governments. In any event, if we did not want to return the powers to the States and localities after the people had faced the issue squarely, we could end this periodic debate about State's rights and other problems that take up time in governor's conferences and in political campaigns. At least, we could clear the air.

Now, when we met, immediately, the Commission started to discuss whether that was the right approach or whether we should turn around and make the other approach where we would take a specific problem, such as highways, maybe, or the possibility of Federal aid to education, such as the Taft bill, or any of 100 other specific problems. After considering and studying those problems, and in coming to conclusions, we could attempt to generalize as to what should be the functions of government.

Now, it doesn't make much difference, really, which way you go. As a matter of fact, the Commission concluded to go both ways, and so presently there is one study force in our Commission headed by a gentleman from New York by the name of Appley. Professor Anderson of the University of Minnesota is doing a lot of work with this group which is studying the traditional and constitutional history of the United States, following the course that I had had in mind. Then we have all of these task force impact study groups which are presently in four states studying the impact of the Federal grants-in-aid policies and programs upon the State governments and local governments.

Now, when we get to considering either the specific reports or the report to be made by the Appley committee, the fun is going to start, because we have on our Commission a pretty well-balanced group. With Governor Shivers and Governor Thornton, who are fine, stern men of high integrity, we also have some pretty stern characters of the type of our friend, the Senator from Minnesota, Hubert Humphrey, who feels that the States have done a pretty poor job in the American Government, and that the cities have had to limp along in spite of the States, and who represents the municipal approach and the National Government approach. He represents it with a good deal of skill, too, as a matter of fact.

people representing other viewpoints on the Commission. And if we are usually getting down to brass tacks—and that will be the point when we start voting and debating—this Commission may make newspaper headlines in some other ways than it did with retirements and fulfillments of vacancies and that sort of thing.

Now, I was asked to speak specifically on this program about a study that Governor Al Driscoll has been heading. Governor Driscoll has been studying the problem of how to handle disaster relief in the United States. Civil Defense is involved because by Presidential Executive order it has been made responsible for coordinating the agencies of the Federal Government in the relief of natural disasters. This is a reasonably new field of endeavor on the part of the National Government. It hasn't been so many years that it has been considered proper for the National Government to help in the relief of natural disasters. In one area the Government has always helped—that is, if a flood or tornado or earthquake or fire hits a State, the Federal Government, made up of good neighbors, headed by humanitarian men, has always tried to extend a helping hand. So whenever you have trouble of any kind in your State, jeopardizing life and property, immediately, the Army, the Navy, the Air Force, the Marines, the Corps of Engineers, the Bureau of Reclamation or the Department of Agriculture move in immediately. That is the policy today, and so far as I know, it has always been the policy. The Government instrumentalities want to help the people, and that is what Government instrumentalities exist for.

Now, that applies when a disaster is right in being or the threat is existing. When we get out of that phase of a disaster, we get into the period of cleaning up the debris and wreckage and the mud and the muck. Then we get into the area of restoration of public services. Under Public Law 875, which the President has directed the Federal Civil Defense Administration to administer, we then come into play.

The law provides that whenever the governor of a State feels he has a disaster on his hands beyond the abilities of the State to meet, he is required to certify to the President that such is the case. He must certify that his State has made a reasonable effort to meet the disaster. The law is not specific as to what a reasonable effort is. And that sometimes puts the President and this agency in a rather difficult position. I think the law was made broad and loose on purpose, of course. Nevertheless, if you are the President of the United States, and the governor of a sovereign State wires you that he has a disaster beyond his ability to handle, and you know from newspaper accounts and other accounts that people are actually dying in the floodwaters or have died as a result of a tornado, you are not very much inclined, and you are not in a very good position, to be cheap or niggardly or to be tight or to debate with the governor whether his State actually has done anything very effective or not. The climate in this country being what it has in recent years, there are tremendous pressures upon governors to make those requests even before the State has done very much,

if anything. Sometimes the governor is embarrassed by the fact that people on Capitol Hill are pointing out to the people of the State that all he has to do is ask for it and the money is available, and that after all, since they are putting some of this money in, they ought to get it back. We get into all kinds of criss-crosses and currents coming from different directions. Obviously, any President wants to do the thing that is right and decent and honorable and humanitarian at a time of need.

Now, many of the governors, including the present Executive Committee of the Governors' Conference, have indicated that there should be some better way of handling this problem. They have indicated, as I think all governors have, without exception, that the States actually should do something in meeting these crises. They agree the first thing that should not be done is to rush to Washington to call for help, but, rather, to extend a little self-help in the State.

Now, how are we going to go about that? What is a fair amount for a State to do in an emergency? Should a State take the attitude that it will never call on the Federal Government? Well, that would seem to me unreasonable. I flew over San Francisco the other day, studying how the people could get out of there in the event of an atomic bombing. With those 800,000 people on a little peninsula, should you have another earthquake as you had earlier in your history, Governor Knight, you might have a disaster so big that the State of California, mighty as it is, couldn't handle it. Certainly all the United States would want to help in a catastrophe of that kind.

So Governor Driscoll—and you all know pretty well his philosophy and his approach to these problems—working with people in my agency and others in the government, has come up with some proposals. In effect, those proposals recommend that Public Law 875 be amended to provide that when the governor of a State calls on the President of the United States for help, the governor knows at that moment his State will have to put X number of dollars into the enterprise, itself. In other words, the State will be a partner in this business of meeting disaster.

Now, how are you going to do that fairly, so that every State is handled properly in relation to every other State? Well, without getting into too much detail here, we have proposed an amendment for Governor Driscoll's consideration. We have suggested that the law be amended to provide that each State participate in disaster relief on the basis of the apportionment of money made under the Hill-Burton Act. We can't find anything that seems fairer than that. Now, that is on a basis of per capita income which reflects the population of the State, and the income of the State from every possible source. If the Congress looked upon that approach with favor, and of course, the Budget Bureau and the President, too, looked upon it with favor, the contributions of the State would vary from a low of 35 percent, as I recall, in one State to a high of 65 percent in another State. That second State is yours, Governor Dewey.

Assuming that the Hill-Burton Act formula is a sound one—and I don't believe anyone would be inclined to contest that since it is pretty generally accepted over the United States—then if the Governor of New York gets a situation he feels would justify his calling upon the President for help, he would know right away that he would be placing into the fund that percentage of the total cost of the relief operation. In that way the States could feel that they were full-fledged partners in this thing. It seems to me we would have a little higher degree of self-respect than we might have had on the basis of some requests that have been made in the past. I must say to you in all candor, that there seems to have been a temptation on the part of most governors to grab the telegraph blank and wire the President before they start thinking about what they can do themselves. This would seem to me to be a reversal of the right attitude, at least from my viewpoint, on the part of a governor of a State.

Now, there is an escape clause in this proposal we are making to Governor Driscoll and his subcommittee, who will make to the full committee, which in turn will refer it to the President and the Congress and the people. The escape clause simply provides that if in the President's judgment, a catastrophe is just so tremendous, that help needs to be extended immediately and without reference to this formula, why, of course, the entire Nation would want the President to extend that help. I assume a catastrophe such as I was suggesting might, Heaven forbid, befall San Francisco again would be an example of that.

I think I speak correctly, do I not, Governor Thornton, when I say the executive committee has gone along with his philosophy?—and so far as I know, many of the governors have. At any rate, this will not be adopted until it has been fought out in the Commission and, of course, later on in the Congress.

I am glad to report to you on this one example of the work that this Commission is attacking at the present time. Thank you very much.

MR. KESTNBAUM. We have one more presentation.

In order that you may have some idea of the research work that is being carried on by the Commission—and it is extensive and very capably handled—I am going to call on Mrs. Leopold to give you some idea of what is going on.

MRS. LEOPOLD. In spite of the fact that I know you gentlemen think no woman ever lacks for words, I have something that I am going to entertain you with for about 5 minutes, which is really giving you the cast of characters of the Commission, if you choose to call it that, the personnel of the Commission and the committees and actually what the Commission is accomplishing in its projects and its committee work.

First, I would like to tell you just a little about the personnel. We have two of the important members with us now. Our staff numbers 56, and the Executive Director of the staff is Dudley White, who sits over here on my right, and the Research Director. Mr. White comes from Ohio and I

know is well-known to some of you. Our Research Director is Dr. George Benson over on my left, who comes from Claremont College in California. There are two others I believe I should mention—William B. Prendergast from Maryland, an assistant to Dr. Benson; and Thomas Graves from Connecticut, the Liaison Director.

The Commission has been doing a great deal of work, and so I hope what I can tell you will help you answer the question, what have they been doing, what specifically is on the books.

The sources of information that they have been bringing into the office have been from the Library of Congress, analysis of present activities of the Federal Government in every important level of government, analysis of the major activities on the State and the local levels; from the Department of Treasury voluminous studies of overlapping taxes have been brought in; from the Bureau of the Budget, studies of the major issues raised by the grants-in-aid; studies in the field of Health, Education, and Welfare; Labor; Civil Defense; and the Department of Commerce. There have been contributions made by all the Federal agencies involved in the Federal-State relationship.

There has been a great deal of original research under the direction of Dr. Benson in the analysis of present systems of Federal aid, with particular attention to possible methods of equalization, which I am sure you have studied far more than we.

Administrative cost involved in Federal aid programs has been given some initial research, and the degree and character of Federal controls proper on financial aid to States and localities.

Principles for allocating functions have been studied.

The reallocation of sources of revenue between the State and the Federal Government have been studied.

A collection and analysis of data for each functional field in which the Commission is authorized to study is in progress. Each committee will have on it one member of the central staff, a specialist from the committee's area of study.

We have another area of study which we call our State Impact Studies. You have heard them mentioned briefly by some of the previous speakers. The purpose of the State Impact Studies is to determine the political, administrative, and fiscal effects at the State and local level of the existing system of Federal aid. I know from reading some of the reports that in the States I am going to mention the governors have been extremely cooperative and are helping these studies go forward. The States now having these studies are Connecticut, Kansas, Michigan, Mississippi, South Carolina, Washington, and Wyoming. In addition to these seven States, similar studies on a limited scale are going on in California, New York, and Pennsylvania. The results of these independent studies will be made available to the Commission. These studies are conducted by teams of from three to eight men in each State. They spent the first 45 days on the studies, then

80 man-days in each State on the average. The reports on the studies are due in some instances May 20 and in others June 1—those are for South Carolina and Connecticut.

There has been an interesting development which we in the Commission have watched and felt was going to be extremely helpful, and that is that 21 States now have official State commissions on intergovernmental relations; 20 States have unofficial commissions of civic-minded citizens. We have found that the method used by the States to create their own intergovernmental relations commission are in three areas: (1) Either appointment by the executive, (2) by mandate of the legislature, or (3) in some instances, by the turning over of the functions of intergovernmental relations studies to an existing commission. These three areas I mention because we feel that to carry on a study into the State and local level is as important as the work we are doing on the Federal and the State level.

We have other functional committees whose purpose is to survey the Federal-State relationship in given fields of government activity. These would be comparable to the Hoover task forces, and the Commission has authorized 14 such committees:

Natural Disasters—and you have heard about that from Governor Peterson. Governor Driscoll, as he said, is the chairman of that committee.

A committee on local self-government in the Federal system; on highways; on unemployment compensation and employment offices; public health; welfare; education; housing and community development; agriculture; natural resource development; aviation; veterans; financial aspects of reallocation; and payments in lieu of taxes and shared revenues.

The Highway Committee and the Natural Disaster Committee have submitted reports to the Commission. The Unemployment Compensation Committee is undergoing reorganization. The Committee on Payment in Lieu of Taxes and Shared Revenue is now at work. They have already had one meeting. The Committee on Local Self-Government is being formed and is ready to go to work. At the last meeting of the Commission, which was held yesterday, it was decided to give priority to the study on the committee toward studying the responsibilities of the Federal Government toward education. We did this for a variety of reasons, one of which is that there is a great deal of material already available on that subject.

If I may make one personal comment in closing, I would like to say that we in the Commission who have served or attempted to serve since the very beginning feel extremely gratified that Mr. Kestnbaum is going to be the new Chairman. I can assure you gentlemen that the new Chairman will have the complete cooperation and interest and support of all the members of the Commission; and I feel that with the possibility of certain areas of compromise, we may be able, in another year, to report to you that we have had a degree of success.

Thank you.

Remarks of Mrs. Oveta Culp Hobby, Secretary of the Department of Health, Education, and Welfare, and Associates

Governor Stassen and members of the Governors' Conference, I am very much indebted to you for your kind invitation to attend this meeting and to discuss certain vital matters of mutual concern. In particular, I should like to talk first about certain aspects of Federal grants-in-aid to the States and then about the very serious shortages in education which exist in many areas of the Nation.

Our mutual objective, the improvement of the health, education, and welfare of the people, calls for an effective partnership, one that achieves a wise distribution of effort, so that each function of government will be administered by that level which can do the best.

Working with that principle in mind, and with the objectives of economy and efficiency in mind as well, the Department during this past year has reexamined its 21 grant-in-aid programs.

It became apparent in this examination that the number, variety, and complexity of the existing authorizations and regulations were obstacles to effective administration, particularly State and local administration. Moreover, the pattern and the structure of the grants did not permit the flexibility needed to meet the problems in the 48 States in the best possible way.

In order to meet these shortcomings and to realize two important goals—namely, to help make available in each State the public services which are essential to our national well being, and, to assist the States and localities in accordance with their own plans to improve and extend their services—the administration has recommended a new three-part grant structure:

First, support grants to assist the States in meeting the costs of maintaining basic services;

Second, extension and improvement grants to assist the States in meeting the cost of adding to and improving their services;

Third, special project grants to assist States, localities, and nonprofit organizations and agencies in meeting special problems or in carrying out special projects or research which hold unusual promise.

I would like now to introduce Mr. Nelson Rockefeller, Under Secretary of the Department, who will explain the three-part grant-in-aid structure in further detail. Mr. Rockefeller.

Mr. Rockefeller, Mrs. Secretary, Chairman Stassen, and Governors:
As the Secretary has said, the question of Federal-State relations has been a matter of major concern to the administration and methods of improving the relations a matter of constant study.

The grant-in-aid formulas in the Department of Health, Education, and Welfare, of which there are 21, constitute the heart of the Federal-State relationship as far as this Department is concerned. These 21 grant-in-aid programs have been under intensive study during the past year at the Secretary's direction. She set up a series of task forces to review them. Her objectives in setting those up was to remove causes of friction between the Federal Government and the States, to find ways of simplifying the relationships, to find ways of giving greater authority and flexibility to the States in the administration of the programs, and greater self-determination in coming to the conclusion as to what the needs were in the States themselves.

Now, briefly, a quick summary of the 21 programs that are under the direction of the Secretary. In Public Health, there are General Health Grants, Tuberculosis, Venereal Disease, Mental Health, Cancer Control, Heart Disease Control, and Hospital Construction. In the Children's Bureau, three: Crippled Children, Maternal and Child Health, and Child Welfare. In the Office of Vocational Rehabilitation there is only one grant-in-aid program; in the Office of Education, there are six: Agricultural Education, Distributive Education, Trades and Industry, Home Economics, the Land Grant Colleges programs, and the School Assistance to Federally Affected Areas. In Public Assistance, there are four grant-in-aid programs: Old Age Assistance, Aid to Dependent Children, Aid to the Blind, and Aid to Disabled—Permanently and Totally Disabled.

Now turning to the charts on this side of the first one is indicated the Federal share of these programs. The white indicates State and local contributions and the dotted line indicates the required matching of Federal funds. You match that much Federal money with that much State and local money. Anything beyond the dotted line represents over-matching by the State and local governments.

There is a \$250 million scale for the first group of grant-in-aid programs; and in the Public Assistance field, where the figures run much higher the scale goes up to \$1.6 billion. These figures are for 1952.

These are the programs the Secretary reviewed and for which she has made recommendations. The task forces reviewed the legislative history, the programs themselves, and the operations for all 21 of these grant-in-aid programs.

Now, the studies revealed, first, that there is a very wide divergency and complexity in the formulas themselves used for the allocation of the funds to the States that are granted by the Congress annually under the appropriations for these 21 programs. It further revealed that the present formulas cause great rigidity in these programs which has had an adverse effect in adapting to local needs in many of the States.

However, despite these complexities and the divergencies between the programs, a very interesting fact that is evident and that is that from the very beginning when these programs were first started in 1862 with the Land Grant College Act, Congress has had certain basic objectives in mind and they appear in different form in nearly all the grant-in-aid legislation.

These we have summarized and here [indicating] you have what seem to be the congressional objectives appearing throughout those 21 programs. The objectives are as follows: First, to provide basic program support to the States according to their financial need; secondly, to assist the States in improving and extending services to the people; and third, encouraging research and development of new techniques. This last appears more in the recent formulas than it did in the early ones.

Now, on the basis of these three objectives, the Secretary developed a new three-part grant-in-aid formula, which the administration has recommended to the Congress for 14 of the grant-in-aid programs. The funds for each of these 14 programs would be divided between support grants allocated on the basis of financial need, extension and improvement grants allocated on the basis of population, and special projects grants allocated on the basis of unusual problems and opportunities. The bulk of the funds appropriated in each program would be in the support grant area.

With this formula, it is felt that greater flexibility, greater simplicity of operation, and greater State determination of need can be achieved.

I would like to go into the three parts of the formula and describe briefly the objectives of the program and how the funds would be allocated. First, let's take the support grants, which represents the major portion of the total grant in each case. The allotment formula for the division of these support funds between the States would be on the basis of the formula developed by the Congress for Hospital Survey and Construction Act. I think most of you are familiar with that because it has been in existence for 6 or 7 years now. It has been very successful judging from the reactions received from the States as well as from the Federal groups who are connected with this program. It represents an equalization formula which seems to have struck a balance which is generally accepted by all of the States who fall in the different income categories.

Now let's go to the second formula, the formula for the allocation of extension and improvement. A small portion of the funds would be available for this in each one of these programs. These funds would be allotted on the basis of population. To give you just an illustration, about 25 percent of the people in this country live in counties which have no full-time public health offices. What we have in mind there, is that the funds from this money could be used to extend public health programs into those areas. The Federal Government would provide 75 percent of the funds for the first 2 years, using 2 years because of biannual legislative meetings which many of you have, and the States would provide 25 percent. The third and

fourth years the Federal Government will provide 50 percent and the States 50 percent. And the fifth and sixth years, 25 percent from the Federal Government and 75 percent from the State and local communities. After that, these programs would become a part of the regular program to which the Federal Government contributes through the support grants.

I should mention there that the determination as to what program should be extended and improved would be worked out by the States and drawn up in the form of a State plan. Then when that had been approved, the funds would be available. As the Federal participation in these programs was reduced in the third and fourth years by one-third, those Federal funds would be available for a new State plan, to extend and improve additional programs. These extensive and improvement grants would give them an extra lift to get the programs started. If they then proved successful, the public would naturally be more inclined to give them support, and thus the necessary local appropriation could be obtained more easily from county and State bodies. As funds from the Federal Government are reduced to specific projects, they would then become available for new projects to be determined by the State, thus giving continued special emphasis to extension and improvement of services to the people on a population basis.

Now, coming to the last part of the formula, special projects grants, you have here a small proportion of the money which would be allocated special projects of unusual promise, isolated problems of national concern or severe problems in specific geographic areas. These special projects grants would cover research or experimental programs going on in private hospitals or in State, or local groups throughout the country which might have major significance to the Nation as a whole. The Federal Government could in this manner give assistance to a particular program with the approval of the State with which this encouragement, might develop some new techniques which would save money and better serve all the people.

It also would be available to assist in meeting special problems of national concern or regional concern such as the regional problems of health protection caused by atomic energy operations in the area.

Then to it would also be available in connection with severe problems in specific geographic areas, as in a severe outbreak of some kind of disease. It would permit the Federal Government to move in and give financial help.

Thus, you have for the fourteen programs, this new three-part grant-in-aid formula that has been recommended to Congress by the administration. Bills covering all those programs are now under consideration in the House and Senate.

I think that if this program were adopted, the result would be to give the States greater flexibility in the operation, and greater control over the administration of their own programs, and also, very importantly, more opportunity for self-determination as to what their own State needs are.

SECRETARY HOBBY. Now, I should like to turn to the question of educational shortages in America.

There is no area of State-Federal relations more significant. We must preserve and strengthen the traditional American concept of State and local control of the educational processes, and at the same time seek to identify the most effective means whereby the national interest and the responsibilities in education can be preserved.

Our national security and well-being depend in large measure on the education of Americans to fulfill their responsibilities in a free society. President Washington recognized this need when he wrote: "The mass of citizens in these United States mean well and I firmly believe that they will always act well whenever they can obtain a right understanding of matters. But it is not easy to accomplish this when the inventors and abettors of pernicious measures are infinitely more industrious in disseminating their poison than the well-disposed heart of the community to furnish the antidote."

These comments are especially fitting under today's world conditions. They highlight the need to provide the best possible education for each and every American.

President Eisenhower referred to our present needs in his State of the Union message when he said: "Youth, our greatest resource, is being seriously neglected in this vital respect." The Nation as a whole is not preparing teachers or building schools fast enough to keep up with the increase in our population.

The States and local communities have made and are making heartening efforts to provide better education. These efforts have developed in large part because of a tremendous citizen interest in education as evidenced by the growth in parent-teacher membership and the formation of many new Citizen Advisory Committees. Such groups are active and articulate proponents for better educational opportunities. They are pressing the Federal Government for action. We believe that precipitant Federal action is not in the best interest of education.

In studying the long-range need for effective educational relations with the States, the administration has made three proposals. We believe that they constitute a sound approach toward a solution of our problems in education.

One of these would establish a National Advisory Committee on Education in order to secure the advice and counsel of outstanding laymen on educational problems of national significance.

A second proposal would authorize cooperative research programs on a matching-fund basis between the Office of Education and such groups as State departments of education, colleges, universities, and school systems.

The third proposal would provide for State and White House conferences on education, which President Eisenhower called for in his state of the Union message, and I quote: "I hope that this year a conference on education will be held in each State, culminating in a national conference. From these conferences on education, every level of government from the Federal

Government to each local school board, should gain the information with which to attack this serious problem."

Now, I should like to introduce Dr. Samuel Brownell, the United States Commissioner of Education, who will review some of the Nation's educational shortages and speak in more detail about the State and White House conferences, the success of which depends on cooperative local, State, and Federal support. Dr. Brownell.

DR. BROWNELL. Governor Stassen and Governors: In presenting these educational shortages and in discussing our educational problems, I should like to start by indicating our firm belief that education should be kept close to the people in recognition of State and local responsibility. At the same time there are some basic concerns in the field of education to which you and we are devoting so much time and energy, that I should like to emphasize them and point out why they deserve national concern.

Here [indicating] are the five main areas: First, we are concerned about the kind of education necessary to meet today's needs for the individual and for a democratic society; second, we are concerned about providing an adequate number of properly trained teachers to provide such education, recognizing that the children born today are born no smarter than they were generations ago and that they need better education than ever, for they have to face much more complex problems; third, we are concerned about providing adequate school buildings and equipment; fourth, we are concerned about the financing of education; and fifth, with the overall problem of organizing State and local facilities for maximum usefulness and effectiveness.

Considering our national concern to provide education to meet today's needs, I should like to have Mr. Ernest J. Zellmer, special consultant to the Office of Education, point out the situation as far as higher education and scientists are concerned in the context of what the Soviet Union is doing. Mr. Zellmer.

MR. ZELLMER. Thank you, Dr. Brownell. Secretary Hobby and gentlemen: The Soviet Union has long considered science as the key to economic and military power. Thus they have organized their scientific education and their scientific research at the highest levels. For example, the Academy of Sciences at the U. S. S. R. is at the level of ministries and reports directly to the Council of Ministers itself. This totalitarian system, while rigid and perhaps stifling of initiative, permits the concentration of effort on areas and objectives of importance to the national security. The result of this Soviet program has been to train a large body of scientists and engineers, so large that it is roughly comparable in quantity with that of the United States. Moreover, it is rapidly approaching in quality that of the United States.

The Soviet Union inherited a small nucleus of scientists from the czarist regime. These people were excellent theoreticians. However, they were unable or did not desire to turn their talents to industrial and military applications. Upon this base the Soviet Union rapidly expanded its scien-

tific manpower pool. Over the next decade, the number of graduates increased rapidly and quality fell. Finally, in 1933, the Government recognized the need for improving the quality of Soviet scientists and engineers. It did this first by automatically extending the term of students in colleges at that time by an extra year, by raising standards for those same students, by increasing discipline, and by improving the instructional standards. Gradually quality began to improve. Growth rates, however, increased more slowly.

In the period 1918 to 1953 the number of higher educational institutions in the U. S. S. R. increased tenfold, from 91 to 900; students rose in number from 112,000 to slightly over 1,000,000. During this same 35-year period the United States doubled its institutions to 1,800 and increased fivefold its number of students to 2,300,000.

Before we take a look at the numbers being graduated in the U. S. S. R. and total manpower, we should do well to look momentarily at the factor of quality. It would be meaningless to compare numbers in the Soviet Union and in the United States unless they were roughly of the same degree of ability. As far as length and term of schooling is concerned, the Soviet student going into a higher educational institution—that is, a college or university—spends 10 years in secondary school as compared to 12 in the United States. However, he starts at age 7 instead of earlier. His first series of courses in college lasts 5 years rather than 4. If he decides to go into graduate work beyond the B. S. degree equivalent, he spends an additional 3 years in school; at this time he gets a degree called "Kandidat," comparable to a Ph.D. in the United States.

Throughout secondary school education there is heavier stress on scientific and mathematic subjects in the U. S. S. R. than there is in the United States. For example, about 46.5 percent of the actual curriculum hours in secondary schools is on direct scientific and mathematic subjects. The stress on science is again attested to by the percentages of students in higher educational institutions working in scientific or engineering studies. This 44 percent of the students in the U. S. S. R. work in these fields. The percentage in the United States at the present time is about 28 percent, and averages around 30. Earlier in the regime a high of 70 percent were studying for science or engineering in the U. S. S. R. Today, Soviet scientists and engineers, particularly those working in military fields, have a high degree of competence in theory and have considerably improved their ability to apply their knowledge to scientific developments directly affecting national security. However, in the biological sciences, especially in such fields as genetics, we find the quality is quite low. However, it seems to be improving.

Let's take a look now at the quantitative measures and compare the United States and the U. S. S. R. To make this possible, we have divided the scientific categories into three major fields: The physical sciences; the agricultural sciences; and the health sciences. Those fields, of course, are

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two levels of education: graduates of higher education institutions, which compare to holders of our B. S. degree, and the Kandidat degree of the U. S. S. R., comparable to our Ph. D. There is no intermediate level which compares to the master's degree here.

In mid-1953, the total number of graduates in scientific fields in the U. S. S. R. who were employed within their own specialties was about 1,050,000 as compared to about 1,035,000 in the United States. If, instead of looking at the figures of people employed in their fields, we look at the total numbers, the United States figure would increase to 1.7 million and the Soviet figure to 1.4 million.

The breakdown within the science areas is roughly comparable: 280,000 in the health sciences in the U. S. S. R. as compared to 360,000 in the United States; 200,000 in agriculture to 150,000 in the United States; and in the physical sciences, 570,000 in U. S. S. R. as compared to 525,000 in the United States.

With respect to the rate of growth curve, we find a sharp dip in 1933 in the Soviet Union. There is a tapering off period in the prewar area, a drop during World War II, and finally a resurgence postwar. Note the blue curve of the United States. It has fewer sharp breaks until the post World War II period when with the GI bill, there was a sharp rise in our curve and then a leveling off. At the present time the United States curve is beginning to rise again. We have no indications, however, that the Soviet curve has leveled off at this stage.

Finally, let's look at the last category, that is, the advance degrees. In the U. S. S. R. there are 50,000 kandidats, compared to 48,000 Ph. D.'s and doctors of science in the United States. Breakdowns again are fairly close, particularly with physical sciences: 28,000 in the U. S. S. R. and 30,300 in the United States.

The figures show that at the present time the U. S. S. R. has roughly the same number of students and of graduates in science and engineering as has the United States, but also that it is increasing this number at a greater rate than we are at the present time. The trend curves indicate that this rate will continue to increase faster than will the curve in the United States. The result then will be that the total capability of the Soviet scientific and technical manpower supporting the national effort may well exceed that of the United States in the near future.

DR. BROWNELL. Thank you very much.

This information has a vital bearing on our national concern in education.

I should like now to call your attention to a few of the specifics of our overall national picture—some of which you are probably familiar with in your own State.

The first thing I call to your attention is the increase in school enrollment. Whereas we have roughly 10 million young people in the 15-to-19-year-old

group at the present time, we have 17 million youngsters under 5 years of age in this country. The impact of students today is such that we have 37 million in our elementary, high school, and college. Looking ahead, we can see at least 45 million to be taken care of in 1960. But we know that there is an increase in the percentage of 5-, 6-, and 7-year-olds coming to school and an increase in the percentage of the 16-, 17-, and 18-year-olds staying on in school. If these trends continue, the estimate of 45 million students in 1960 will properly have to be revised upward.

The second thing I would like to call to your attention is our teacher shortage. Obviously, if we are going to take care of the advanced training necessary for national security, we must have strong elementary and secondary schools under the leadership of well-trained teachers.

We started this year with a shortage of 72,000 experienced and qualified elementary school teachers. With our increasing student enrollment and at present rates of enrollment in our colleges for teacher education (bearing in mind also the present rate of those who are leaving teaching), we shall be faced in 1960 with a shortage of 292,000 elementary teachers. This shortage would have to be taken care of by further crowding in our schools, by additional half-day and third-day sessions, by using more substandard teachers. Our only alternatives are: first, to do more in the way of getting teachers to stay on longer, because we have many who leave before they reach the retirement age; second, to make better use of our teachers, through redistricting to eliminate some of our inefficient school districts; and third, to recruit more teachers.

If we look at the public school construction situation, the facilities studies, to which your States contributed, show that in the 48 States at the present time, we have a shortage of about 340,000 classrooms in the elementary and secondary schools. We are building about 50,000 classrooms per year at the present rate, when we need about 117,000 classrooms per year to keep up with the need. To make up the 340,000 classroom deficit that we have would cost about \$10 to \$12 billions, and that figure does not include the needs for institutions of higher education.

This glance at the national picture shows that we are falling behind at the rate of about 67,000 classrooms annually in our elementary and secondary schools.

Another aspect of the national situation with respect to our trained manpower needs is our functional illiteracy. At the present time 5 States have 12 to 18 percent of their population who have had less than 5 years of schooling. These people are what we call functionally illiterate. In another 11 States 4 to 12 percent of the population have less than 5 years of schooling. Relate these figures to rejection rates on the Armed Services Qualifications Test for Korean draft selectees, we find those five States have the highest percentage of rejection. The highest percentage of rejection is 58 percent. You can see the close relationship between a low amount of schooling and a high percentage of rejection from Selective

Service. And from the national point of view, that, of course, means that where we have this high percentage of rejection in the States, that has to be made up by all of the other States.

Another way to show our waste of manpower, is to look at the "drop-out" figures. Taking the group of children that were in the fifth grade in 1943 and following them on, we find that out of every 1,000 that were in the fifth grade in 1943, we only had approximately one-half, or 505, that graduated from the high school.

With our shortages in trained manpower, in the sciences, in medicine, in nursing, and in teaching, it is a very real question whether we can afford this waste of manpower through inadequate education. We know from research that many of those who drop out are not necessarily the dunderheads. Many are capable of profiting from much more education than they had and of making a valuable social contribution as a consequence.

We recognize of course, that there are a great many ways in which the States are improving education. The reorganization of school districts, the expansion of programs for teacher training, the local initiative in meeting local problems is apparent in all States. You recognize, as Mrs. Hobby pointed out, the increase in citizen interest. Just as an illustration, in 1950, there were only 1,000 school districts we knew of where there were Citizen Educator Advisory Committees. In 1953 we were able to identify 8,000 of them. What better indication of the rapidity of the increase in the citizens interest in education?

The reason these groups have been effective in getting salary schedules raised and having bond issues passed and so on, has been primarily because of the ease with which citizens and educators can together plan within the local community. What they are finding increasingly is that they face problems beyond the province of the local school district. For example, they find that they need to reorganize a school district to develop an efficient high school. In order to do so, they find they need State aid. In some States they may find they have reached the limit of their bonding capacity in terms of a State bonded indebtedness limit or a State tax limit. Hence action at the State level is increasingly necessary. An illustration of the need of such action is the fact that State legislative approval is necessary to increase the teacher educational facilities. Such matters as these show the need for action called for at the State level rather than at the local level.

Concurrently, I should like to indicate very briefly some of the limitations that local communities face. First, limitations in financing local school districts almost exclusively through property tax action; second, maximum ceilings on bonded indebtedness; third, limitations on freedom to reorganize school districts in some States; fourth, inequities in raising local assessed valuations unless there are applied generally throughout the State; fifth, lack of State aid for school construction; sixth, inadequate teacher education facilities through lack of adequate support.

These are some of the obstacles to progress in budgeting at the local level. To remove these, localities must look to the State for assistance and action.

With this situation in mind, we have moved to the idea of assisting the development of State action programs so that citizens and educators can get together to plan as they have successfully in the local school districts. Such assistance takes money. The necessary preplanning, the study and assembly of materials and proposals on the many pressing educational problems the presentation of these to a representative group of citizens for study, and the agreement on an action program within the State all take time and money. This year, many of the States do not have legislative sessions that would permit the appropriation of funds for such well-planned and well-carried-out conferences.

Hence, the general purpose of the State and White House conference plan would be for the Federal Government to provide a certain amount of money available to the States for use in developing State conferences. Following the State conferences, the White House Conference would study the "grassroots" problems from the national point of view.

The purpose of the State conferences would be to bring together representative groups of citizen educators for the necessary planning and the development of materials to carry on a conference leading to an action program. Subsequently, the White House Conference would have as its major purposes: first, to emphasize the importance of education to the national well-being; second, to report on the progress made in the several States, so that all of the States could profit from the experience of others; third, to summarize the resources available and needed to keep American education operating at the level essential for national security and well-being; fourth, to demonstrate clearly what the citizens of the 48 States can do and want to do to meet their educational problems; fifth, to indicate whether citizens wish greater or less Federal support or participation in the various phases of education; and sixth, to give impetus to efforts to improve education on the State and local level.

The White House Conference thus would focus attention on the major problem areas in education today:

- Providing an adequate supply of well-prepared teachers;
- Providing school buildings and equipment;
- Financing education adequately;
- Effective local and State organization of education.

We believe that the proposed State conferences, followed by the White House Conference, would lead to rapid progress, not only toward making up the deficits in education but also toward keeping education ahead of the problem that it faces in this country.

Remarks of Rowland R. Hughes, Director, Bureau of the Budget

Thank you Governor Adams, and gentlemen. It is indeed a challenging thing to step in after Joe Dodge, because he was certainly an A-1 Director of the Budget. We are going to try to continue to carry on, following the policy which we worked out together and have heretofore been following.

Now, in dealing with the budget, which is some 1,200 pages, I shall perforce in this period of time deal only with the highlights, and will cover as many of those as is possible without too much regard to connecting links.

Despite the fact, with which I think you will all agree, that a budget man should never enter a general popularity contest, still the budgetary considerations are ignored at our peril, and that is true at all levels.

In the Federal Government we have had plenty of examples, as we are finding out since we have been operating here in Washington, of the influence and effect of the kind of an attitude which ignores budgetary considerations. In your State governments you must be finding it all the time. Even in the family, when you think of what would happen if you just let every member do what he or she wanted—buy a new car, buy a new house, buy a new fur coat, and so forth, without regard to the finances available—you can appreciate there would be more than a little trouble before you got very far. It is quite true that the family may come into periods when emergencies arise, such as illness or fire or something of that sort, but even then, it only means that after that period you have to be even tighter with your budget until you are back on your feet again. That is exactly the position that we are in as a nation.

It is difficult to overemphasize the importance of the Federal budget as it affects all of us. As taxpayers we feel it directly because as a result of it we have to pay over a good share of our income into the tax coffers of the Government. The budget affects our whole national economy. We are concerned with that. When one-fifth at least of the total national income is used in Federal expenditure, it is a major factor in our whole economic life. The budget also affects each one of you as governors, because something like 10 percent or a little more of the total State and local government income is the share that comes from Federal funds; that is a matter of importance. And more than that, the budget reflects and is the basic form and plan of all the Federal Government operations, domestic, foreign, military—and that is, of course, of great importance to each one of us—and to you in your State administrations.

Naturally, therefore, we have spent a great deal of time on budgetary questions in the year and a little more since we have taken over the administration. The inherited budgetary task and the problem that we faced was really a stupendous one. In only 3 of the last 20 years did we have a budget balance, and as a result, there was a twelvefold increase in the debt in the two decades. The purchasing value of the dollar dropped about a half. Those facts are history, but nevertheless that is the situation we were faced with. The 1953 and 1954 budgets had already been presented to the Congress, and each of these showed an increase or a steady continuation of large deficit financing.

During the years since 1933, moreover, there had been many provisions worked into the laws—and I am not here quarreling with any particular one—that called for mandatory expenditures on grants-in-aid of one type or another, such as veterans' benefits, farm supports, and others of that nature. These added together now amount to about one-fifth of the total budget and represent a category of expenditures that cannot be effectively dealt with in each year's budgetary operation. These expenditures are beyond the usual budgetary process and only some outside action, for example, on the part of some other person, is needed to set government expenditures in motion. That, of course, meant that we might make savings in carefully dealing with the budgetary expenditures in other fields and find, as we did in 1953, that unexpected increases in the mandatory requirements for crop support wiped out over a billion dollars which had been saved in the first five months of operations by the administration.

There is another picture, too, in which just the figures themselves are impressive. Over the years 1950 to 1953 and included in the budget in 1954 was a total of authorizations of \$75 billion in excess of expenditures. That was the situation that we took over and that meant, of course, that there was an accumulation of a tremendous amount of c. o. d.'s, orders which had to be paid for when the goods were delivered, and that had to be taken into the budgetary consideration for the current years.

Joe Dodge made a very significant comparison, which some of you may have heard, of the situation that we were faced with as compared with the family problem. He likened it to a family which over a twenty-year period had customarily spent more than it made, which had accumulated a debt of four times its annual income—there had been, it is true, five years of real adversity—which, in addition, had a year's accumulation of unpaid bills that had to be met when the goods were delivered, which has cash in hand to meet only one month's bills, which was faced with a cut in income of some ten percent under the laws as they stood on the statute books, and which had no visible plan for a change in its habits. That was about the situation that we were faced with. I don't want to spend too much time on it, but I think it is important to see this situation under which we began our budgetary program, because, of course, we are still in the midst of working out of it.

Regaining control of the budget under these conditions was an extremely difficult task. The wealth and resources of our Nation and its people are the envy of the world. On the other hand, our desires are substantially unlimited, and most existing and proposed projects have some degree of merit.

Other important considerations include the need to obtain an adequate defense, the possible disturbing effects on the economy of action which is too abrupt, and the existence of large areas of human welfare which have been so interwoven into government expenditures as to be continually dependent upon them. It is obvious, however, that we cannot permit ourselves the luxury of perfection or provision for every conceivable contingency. The difficult question, therefore, is one of priorities. What services and activities should be carried on by the Federal Government, and on what basis? There we encounter the habits encouraged over the past two decades and feel the pressures which have been built up behind the discovery of many new ways to benefit a particular group or area as a result of persuading the Government to finance it from taxes levied on all the people.

As we move into the problem, we find that most people are righteously for Government economy, in the abstract at least, but it is too often assumed that economy should begin somewhere else and not affect the project of a special interest or locality. It is admitted, of course, that expenditures should be reduced, budgets should be balanced, and taxes should come down; but nevertheless, proposals for Government spending too many times are tagged as "having merit" and "being in the public interest." Now, a lot of them do have that, but there are a good many that don't have it that are still put in the same classification. Denial or retrenchment too often bring charges of false economy or something worse.

On the reverse side of the coin, as Secretary Humphrey will discuss, there is a continuing demand for greater and greater tax reduction. Our policy as we are working it out, is to have taxes reduced as fast as that can be done without building up inflationary deficits and adding still further to the legacy of debt we are turning over to our children. Reduction in taxes needs the support of reduction in expenditures. Expenditure rates determine tax revenue requirements. Expenditures which are not paid for by tax revenues can in the end be paid for only by a far more insidious type of taxation—by inflation. It is our determined purpose to make further reductions in taxes, but only as rapidly as those reductions are justified by prospective revenues and reductions in expenditures.

Since the Federal budget is the financial expression of the administration's program for the year, it reflects the extent and manner in which the administration's policies are being carried out. We have proceeded on the principle—and this, I think, is a fundamental, important principle that Joe Dodge started out with and we have been carrying on—that when costs are not an issue, expenses will multiply, and when costs are made an

issue, savings will multiply. Costs have been made an issue—for the first time in many years—and they will remain an issue.

Now, this program emphasizes the importance of priorities among expenditures—that, of course, is the test we have to use—and eliminates the programs of lesser importance to make way for those of greater. That has been perhaps our main job, chipping away at the former principle of perpetually adding new expenditures and also keeping the old at the same time.

In the chart here we see what has happened. This top line is the line of appropriations; this is the line of expenditures; and here is the line of tax receipts. You see, we came in here [indicating] at a time when the Government had accumulated a tremendous backlog of expenditure authorizations, with the resultant increase of expenditures and receipts following and deficit financing the inevitable result. Now we are at this point, reducing appropriations, and that is gradually bringing down the line of expenditures and since the line of receipts has been kept up pretty well, we are narrowing this gap as we go along. That is about the present picture.

In the year that we are dealing with now—fiscal 1954—the budget we were faced with had this picture on the chart of expenditures and receipts and a projected deficit of nearly \$10 billion. And that, of course, we didn't leave untouched. This was a budget presented before we took office, and we couldn't build up a whole new budget, but there was steady and effective chipping away at those figures so that these expenditures, as we now foresee them—and that is still a recent check—are about \$71 billion against receipts of \$67.6 billion. This reduces the estimated deficit from \$10 billion to \$3½ billion. That, you see, has been primarily by reducing expenditure totals.

Now, it may well be that before we finish the year, some of these receipts may be a little bit less, but also it is quite possible that some of the expenditures may be less, because we don't take our expenditure figure as a static one. We keep working through the year on expenditures. Instead of saying that this is the figure and you can spend everything within this figure, we try to find ways of still making savings as we go along, so that we don't expect at this time to have more than this \$3.3 billion deficit. Except, of course, we may have some contingencies that may develop before we are finished, and that is one of the problems we face.

The chart in 1955 shows a further reduction in expenditures and a further reduction in receipts due to the tax reductions and savings which have been passed on to the taxpayer, so that we end up with approximately the same deficit that we expect to have in 1954.

In dealing with this budget, I would like to emphasize that we are dealing with a budget as it was sent to Congress on January 21. It is going through the fire of congressional action. Some of you had experience with that and know what it means; it is a much more serious problem, of course, than you have in your States, because the question of executive responsibility

is more serious than in most States. But so far, up to this time, the changes which have been made have been substantial in some individual items, but they have not affected greatly the grand total or the big group classifications, which we are dealing with in looking at this picture. Of course, the battle is not over. We still have many reasons for being alert, and there are many pressures which can result in changes in this picture.

Former President Hoover the other night pointed out very seriously some of the difficulties encountered in the course of the budgetary process, but as we see it today and as Congress has acted so far, the picture still remains approximately as depicted here [indicating]. In other words, we expect to end up fiscal 1955 with about a \$3 to \$4 billion deficit as we see it today, in the absence of some of these things that can happen internationally, or some action that can happen under pressure of need for doing something because of future domestic economic developments. But as it stands today, this still remains the approximate position of the 1955 budget estimate.

In making savings, we have followed, of course, two paths. There are two ways in which you can cut expenditures, which you know just as well as we do. They are firstly, in what you spend the money for—in other words, the programs and what can be done about them—and, secondly, in doing a better job in carrying out the programs, wiping out waste and inefficiency, and, in general, tightening up the operation.

There have been a substantial number of savings made constantly throughout the Government in some of these operating procedures. That is a teamwork job in which the administration heads, the secretaries and the other heads of agencies have done a noble job in really taking hold of their own operations and finding ways to accomplish their objectives for less time and money and doing a better job in many ways. For instance, to mention some of these savings, they include: a reduction of over 7,000 in the Government worldwide fleet of automobiles, which will mean a saving of about \$2 million a year in maintenance charges; a revision of the schedules of fees charged for the issuance of Government licenses of one type or another which over the years have developed into a situation where the general taxpayer was paying a great deal of the cost of these licenses for the benefit of the individuals concerned; and operational economies by the Government Printing Office—representing about \$2 million annually. Millions of dollars of savings have been made possible by modernization and streamlining of accounting methods and systems of individual departments and agencies—that is governmentwide, running into a million dollars here, 500,000 here, 10 million here—really tremendous savings all through when you add them up. Reduction of office space by 5¼ million feet saved approximately \$8 million. One illustration, for example, will show what we are dealing with. If you change the cost of the meals served by the Government 1 cent per meal, that means \$25 million annually. That is the kind of thing that can be done by small individual savings.

Now, let me turn to the expenditure program. That is of course, the real test, and that is a tougher problem for there we have to meet the real opposition.

In order to present it as simply as possible in our budget, we have divided the categories of Government expenditures into three main divisions: (1) major national security, which is about 70 percent of the grand total, and, of course, is the big fellow; (2) these charges which I mentioned before, fixed by law, which depend on actions of other people and not so much on budgetary actions of the Government—that is about 20 percent of the total or \$14 billion; (3) and then we have all the other activities of Government, which, of course, include some security items, too, although the major ones are in the big fellow. This "all other" category includes \$6.5 billion or about 10 percent of the grand total. Now, this last group is only 10 percent of the total amount, but as far as number of operations and things which most people think about as government are concerned, it represents a very large proportion of the total. Law enforcement, tax collection, civil defense work, and all the many things that a government does daily relate to this 10 percent category. This area has been reduced in the last 2 years by about 25 percent, and there isn't too much more that can be done without vitally changing perhaps some of our attitudes on operations. There can be some more done, no doubt, but not savings of large totals.

This part [indicating the relatively uncontrollable programs] can't be changed much until you change congressional action. That is a matter of the laws which are embedded in the statutes and which we have to act on and deal with as an overall policy, and which can only be changed substantially by changing the laws, or some of the conditions; you might, for example, have good crop years and good demand for exports which might make a difference in some of those expenditures in the "relatively uncontrollable" group.

The big fellow is the category of major national security, which consists of four programs: the military part of the Defense Department, which, of course, is the biggest section of it; the mutual military program; the atomic energy program; and the stockpiling program. Those are the four principal items in the national security area, and those are the programs which vitally affect and determine the outcome of the budget. Whichever way you analyze it, these give the answer as to where we are going to come out.

Now, I would just like to mention briefly one or two things in connection with this defense budget, which is going to be dealt with by others; but there are one or two factors that we come in contact with.

President Eisenhower has pointed out that "our military strength and out economic strength are truly one. Neither can sensibly be purchased at the price of destroying the other." The question is what kind of defense structure can be reasonably effective under present circumstances, will be economically bearable and can be maintained if necessary over a relatively long period of time? The reductions in the national security area represent

the largest single element in the total saving in our current year's budget. However, the expenditures for some programs were reduced; others will be increased. This is not a meat-ax operation by any manner of means.

In the mutual military program and the atomic energy program, for example, we have the largest expenditures we have ever had. In the Defense Department itself there are many changes up and down. Expenditures for our air forces will be the largest since World War II. We will spend more for continental defense—for defense against air attack—than in any year in our history. The defense budget has been built up on a careful study by the Joint Chiefs of Staff, which is aimed at providing a strong military posture that can be maintained successfully over an extended period of uneasy peace. The expenditure reductions have resulted from taking into account the most effective application of our growing number of nuclear weapons; to an important degree from improved management and better balanced procurement (and that has been a major job, and is still resulting in prospects of further reduction to an important degree); and from termination of active hostilities in Korea. Such savings as these, we hope, will enable us to move from the crisis atmosphere of past years into a period which can see sustained defense made compatible with a continuing approach to a normal, prosperous, economic life.

This is a change in policy from having a fixed date which we had to meet at all costs of preparedness—spending money like water, so to speak, to prepare for a fixed date, which then was moved ahead to another fixed date and the process later repeated again—to the present procedure, which is careful operation under the leadership of the real expert in military affairs, our President.

There are only a few minutes remaining; I would like to mention briefly some of the matters about which there has been public discussion. Are we right in assuming fairly stable conditions internally and externally during the period which this budget covers? Some people say, "Well, you ought to provide this and that and the other thing against possible danger." We do not prophesy depression in this budget, but, of course, we are continually making plans and getting ready for action such as might be needed when and as it becomes necessary. But we are reserving, as far as our budgetary operation is concerned, emergency measures for emergencies, not to cause trouble by putting them in too early, and we would certainly expect to have them ready before it is too late. That is the budgetary ideal.

Then there is some talk about the budget encouraging recession through cutting down expenditures too much. I think that most of the trouble comes from remembering the period after World War II when Federal expenditures were cut \$59 billion in 2 years. The consolidated cash statement is the best index of the flow of funds between the Government and the public. Expenditures on this basis will be reduced only about \$6 billion in 2 years; and we are offsetting this cut by the amount which is being given back to the economy in tax savings. We think, of course, this

also means a better way of getting results and building up our economy than just the amount represented by the tax savings. That position is not a blow against the economy.

As the President says, the administration is conservative in its economics but it is liberal where human relationships and welfare are involved, and we have made moves in helping and expanding some of those procedures. We have reduced Federal activities and turned, wherever possible, things back to the states and private enterprise, as some of you know, in your own experience; and we are trying to do that, wisely and carefully, each department working out the best proposals for its own problems. But we are working with the departments on the budgetary side of it and are making progress. We are also waiting on some matters for the Report of the Commission on Intergovernmental Relations, which will give us something real and genuine to work with.

Now, in conclusion and summary, I would like to say that when President Eisenhower took office a year ago, he promised the Congress and the people that his administration would seek to chart a fiscal and economic policy which would reduce the planned deficits and bring the budget into balance as rapidly as the national security and well being will permit. He warned that this would not be easy. There still are heavy national security requirements. Substantial expenditures are by law relatively nondiscretionary. The far-reaching activities of the Federal Government, of course, can be extremely complex. The battle is far from won, and new pressures with varying degrees of urgency and plausibility have to be continually resisted as far as they relate to unnecessary spending. We are in the midst of that battle.

Despite these inherent difficulties, we have not only stemmed but have turned the tide of colossal spending and mounting taxes. The \$12 billion reduction in expenditure programs effected since Inauguration Day is the greatest promise for continuing that progress. The \$7 billion reduction in taxes made possible through these reductions in expenditures is the largest single tax reduction in any one year in American history. By using necessity rather than mere desirability, as the President says, as a test for our expenditures, we will continue in our efforts to reduce the share of the national income which is spent by the Government. We are convinced that more progress and sounder progress will be made over the years, as the largest possible share of our national income is left with individual citizens, to make their own countless decisions as to what they will spend, what they will buy, and what they will save and invest. That, of course, is in the President's message.

The purpose of reducing these taxes, giving back more of this money, is the stimulation of American genius for creative initiative, which we believe will multiply our productivity and provide the jobs that build us up to greater and better prosperity. The budget presented to the Congress

will be allowed to continue. Each state has a stake in this Federal budget program. It represents a plan of government that will not only protect our way of life, but will also strengthen our economic base and enhance the welfare of our people.

Remarks of George M. Humphrey, Secretary of the Treasury

Gentlemen, it is a great privilege to come back and meet you again here, and I am very glad that our Chairman explained that my limp was a result of a horse. If he hadn't, I'm afraid you might have thought it was the result of several recent appearances before the Ways and Means and the Senate Finance Committees. I assure you that is not the case. This year the representatives of the Treasury and the representatives of the Ways and Means Committee worked very well together and the final bill, this revision bill, that came out was the result of the joint effort. It was all worked over and all agreed to between the Treasury and the Ways and Means Committee. Now it has passed the House, as you know. It is before the Senate Finance Committee, and they have had their hearings.

As you might anticipate in a bill of this size, a bill of some 850 pages, there were bound to be some errors, bound to be some revisions that got in that were not intended, or where the wording was wrong. During the Senate Finance Committee hearings and during the interim, right now when the committee is studying the bill, many relatively minor things are being corrected.

There has been some talk about wanting to postpone the enactment of the bill because of its great size until we had more opportunity to study it. We have seriously objected to that, and I don't think that view will prevail. We have objected because of the injurious effects of having legislation of this kind pending and not knowing whether it is going to be enacted or whether it isn't. Just the fact it is passed and out of the way will have a stimulating effect, because people know again exactly where they stand. A period of indefiniteness is a very bad thing to have.

Now I want to be sure that you get our tax program in perspective. Our program is a much broader program than just this single bill. As a matter of fact, this bill that is now pending before the Congress is the last step in the program for this year. What we have done on our program—and there are three-quarters of it through now—was to first put through the reduction in individual taxes. That became effective on the 1st of January. The reduction in individual income taxes averaged about 10 percent in rates for all taxpayers.

The second thing we did was drop the excess-profits tax. We extended it for six months, but with the agreement it would end on December 31, as it did. The individual income tax reduction saved individuals a little over

\$2 billion a year. The excess-profits tax reduction was a little less than \$2 billion a year to corporations in the taxes that they are required to pay. In addition to those two things, which total approximately \$5 billion, was a matter of the excise taxes. There the Congress and the Treasury did not see exactly eye to eye. The Congress granted some additional relief, more than the administration approved. The bill, brought up and passed after some six weeks of discussion and debate knocked off another billion dollars of taxes that we had counted on in receipts. This brought up to about \$6 billion the tax reduction from the three sources.

The revision bill, which is the tax bill that is now pending and which is the fourth and last proposal, the last bill of the 1954 tax program, makes adjustments here and there in various ways and eliminates some of the more serious inequalities. It also will eliminate about \$1.4 billion in receipts, bringing the total tax reduction up to about \$7.4 billion. There will not be one taxpayer in the Nation who will not have had some reduction in his taxes, and the total of \$7.4 billion in the whole program is by far the largest single dollar tax cut ever made in the history of this country. Never has there been a tax cut in as short a period amounting to as much money. As a matter of fact, never has there been one in any 4-year period amounting to as much money as this.

I am often asked why do you do this, why do you make such a tremendous tax reduction when the budget still isn't balanced? Have you changed your mind, have you quit trying to balance the budget? We have not changed our program. We are moving toward balancing the budget, and we must balance the budget. It is just a question of how rapidly it can be done. The reason it takes so much time to do it is not only because of the accumulation of obligations that have come up over a long period of time. If you stop to think about another very simple fact you will see right away that there is a limit within which you can move and move reasonably well at any given time.

A real tax reduction can only result from a saving in expenditures. Any other tax reduction is not a real reduction at all. It is just a postponement of the payment of the tax. When the Federal Government spends any given sum of money, that amount of money has got to be raised by taxes sometime. If you don't raise it all today, you raise what you can by tax. You raise the rest by borrowing, and you postpone the tax needed to pay the borrowing, so that the only real reduction in taxes must accompany a reduction of expenditures. Now how does the Government reduce expenditures? How do you accomplish it? To be absolutely flat about it, 99 percent of it is accomplished by putting people out of work. Now that is a tough way to say it, but it is a fact. The only way the Federal Government can save money is by eliminating people directly from its payrolls or by buying less material. Those are the two things that the Government's money goes out for. It either goes out to employ people or it goes out to buy things. If you discharge people directly off the roll, they are out of

work until they are put to work some other place. If you stop buying goods of some kind the people that were making those goods are out of work until they can get back to work making some other kind of goods or making other goods that somebody else will buy. So, when we make substantial expenditure reductions, we necessarily affect employment directly in relation to the amount of money that we save. We have a transition of people working for the Government and getting their pay from Government funds to working for the public and getting their pay from the people's money. Now that is why we must, we feel, make this very large tax reduction ahead of the time of balancing the budget. The two things must be brought along together. We must make progress in balancing the budget, but we can't do it all at once. We can't just chop off expenses sufficiently to balance the budget and then do nothing more about it because, if we did, we would make harder the transition of these people who have been getting paid from Government funds, either directly or through the production of goods the Government buys. They would be out of a job without some counterbalancing effort or help in getting them into other jobs. That is why, when we have reduced our expenditures in the amount of approximately \$7 billion, that we have cut our taxes approximately \$7 billion and handed the money back to the public so that the public can start buying things that will reemploy those who have to make this transition and shift over. Now that doesn't mean a geographical transition necessarily, although sometimes it is. It doesn't mean necessarily a change from one employer to another as to people who are making goods. What it means in a great many cases is that the man on the machine that was making a tank turns to making washing machines, or something of that sort. That, as I have said many times—and I think you can't express it more accurately—is a transition from people employed in making things for killing to people making things for living. Now that is what is going on and that is the basic reasoning that underlies our program of tax reduction, notwithstanding the fact that the budget isn't balanced.

We made substantial strides toward balancing the budget not only by cutting expenses but also rearranging and getting more results for the same amount of money. We expect to continue our drive to get this budget balanced, which is our objective just as much today as it was a year ago, or any other time. But we must always temper it with working out the transition.

How is this transition taking place? I think myself that it is a perfectly remarkable transition that is going on in this country today. I think to make that much change in the amount of money that the Government is spending and putting into employment channels, while maintaining the amount of employment and the high volume of business that we still have, is a perfectly remarkable thing. I think that if it can be continued and if we can get over the hump without any substantially worse period than we are having, then we will be fortunate indeed and the program will be

working in a very excellent way. Every community has had some unemployment problems here and there—we have seen unemployment in one industry or another. We have seen changes and layoffs and shorter working hours and all that in various places, but we have had over 60 million people still at work in America in January, February, March, the first quarter of the year. There has been only one other first quarter where we had more than 60 million people working, and that was the first quarter just a year ago. So that while there have been fewer people working, by a very small percentage, in the first quarter this year than in the first quarter of last year, there are more people working than in the first quarter of any other year except last year in the history of America.

Of course, we have to expect in America to see more employment all the time because our population is increasing all the time, and that brings up some of the most controversial points of this tax program.

We are asked why we don't do more to stimulate consumer spending, and why we want some of these revisions that help business and encourage investment. The answer gets back largely to the transition problem, but it also is a thing that has been proved by past experience. You can't have full employment, you can't have real prosperity in America, simply by running consumer goods industries. We have tried that. We tried stimulating consumption, at the same time deterring investment and deterring business expansion; and we had about 9 million unemployed when the war came along and changed the program.

Now, if you will just stop and think about it for a moment, you will see how it must necessarily be that way. Just stop and think of the number of people throughout the great manufacturing areas of this country who are working in what we call heavy industry, who are working on the big things, who are producing generators, who are producing power plants, who are producing big machine tools, who are building the big things, the kind of things that individual consumers do not buy. Those people are making goods that business buys, and that investors buy. If we only stimulate the consumer so that just the consumer buys, and do not stimulate the investor and business to buy the big things, you have got the consumer goods industries running, but you have got all these other people out of work. You have to provide people who will buy the goods made by the heavy industries in order to have broader employment throughout the whole country.

That gets back to the point I made just a minute ago. We have got to look forward in America to the making of more jobs all the time, because we have more people coming along who must have jobs all the time. Now, how do you make jobs in America? What does it take to put a man to work in America? Just stop and think for a minute. Nobody in America today makes his living just with his own two hands. There isn't a job in industry in America that somebody hasn't invested on the average of \$8,000 to \$10,000 in power and tools and equipment and various things to make

possible that sort of a job. That is what makes possible high wages. That is what makes possible higher earnings. A man with his own two hands can't earn the wages that we pay in America, or enough to enjoy the standard of living we have in America. The reason that we have that standard of living, and the reason we are going to continue to increase that standard of living is because we have learned the trick of putting power and putting tools into the hands of people so that they can create more and do more than they could just with their two hands.

I was talking about this the other day with a newspaper writer, and he said to me, "I don't know as I believe that. I have my head and I have my pencil and a piece of paper and that is my job. Nobody has invested a lot of money for me to have a job." I said, "Let's just think about that for a minute. To get the paper, think of all the things you have got to have, you have got to have logging operations and transportation operations and all that sort of thing. For you to get your education and get what is in your head, you have to have colleges, you have to have schools, you have to have tremendous investment in that kind of thing. But suppose you have got your paper and pencil and your head; who is going to buy your stuff? Who is going to pay you unless somebody has invested a lot of money in newspaper operation and in equipment, in the transportation and delivery of the newspapers, and the whole system of putting them out? When you add up all the things that somebody has put money into in order that you can take a piece of paper and pencil and your head and write something down, a tremendous amount of money has been invested by somebody so that you can get the kind of pay you are getting."

It is a system of investment of which all of us get the advantage. It is not as direct in some cases as in others. You take a man in the steel plant or a power plant—it is perfectly simple to see he couldn't have a job at all unless there were tremendous amounts of money invested in machinery. You take a man working in an automobile factory on machine tools; there you can see, anybody can see, how much money has to be invested for him to have a job. But the fact is that in every line of industry in America today a job requires a substantial amount of investment; a substantial amount of what we call heavy goods must be produced and developed and put into operation and maintained.

As time goes on, every American wants to be a little better off, to have the opportunity to be a little better off, to make himself and his loved ones a little better off by his own activity and endeavor. To do that we have to provide more and more tools. We have to keep continually building up the capital assets of America, continually building up the supply of tools for people to work with, so that more people can have more and better jobs and make cheaper goods. That is the whole thing that America is built on, that is why we have the kind of prosperity we have, that is why the idea is wrong that we only have one piece of pie and we have to keep cutting the pieces smaller and smaller and smaller to divide up the little we

have. Instead of trying to slice down and divide up what we have into smaller pieces. Instead of cutting the pie smaller, what we do in America is to make another pie, and everybody has a bigger piece because you can keep making more and more pies and cutting the pieces bigger and bigger. That is done, gentlemen, by the system of investment that we have developed in America. So as we make these transitions we must not only stimulate the consumer, but we must continually be expanding the physical capacity and the physical assets of America, and so the power that Americans have in their hands with which to create more and more for all the people in this country.

Now, these are the basic underlying facts of the tax program. That is why the administration is absolutely opposed to further reductions through an increase in exemptions. As a matter of fact, that is wrong for two or three other reasons. Let's just spend one minute on that while we are at it. A man, wife, and three children have approximately as high an exemption today as they have had for many, many years. The exemption for a man, wife, and three children is \$3,000 this year. In other words, they don't pay any tax until they get over the \$3,000. If you go back 10 or 15 years the exemption was \$3,200 under the same circumstances. Under the \$3,200 exemption, the initial rate that that man paid was 4 percent. Today it is 20 percent. In other words, the exemptions have stayed approximately level for a family of that size, but the rates have increased about 500 percent.

When you start to reverse the process, and go down instead of going up, the logical thing is to start to make the reductions in the places where the increases came, and the increases to all intents and purposes all came in the rates. So the proper thing is to do what we did do, reduce the rates. We propose just as fast as we can see additional savings in sight to make further reductions in rates rather than change the exemptions.

If you increase the exemption, the first thing you do is put a large number of people off the tax roll. As a matter of fact, if you increase the exemption \$200, you put 7.5 million off the tax roll. There are about 47 million people on the tax roll. If you take off 7 million the taxes they paid are put on the 40 million who are left so that you help 7 million people to the detriment of 40 million. Why that is a good political argument, I can't understand. Why people think that just raising the exemption and shifting the burden from 7 million people that you let out entirely to the 40 million people you hang on to, why they think that is good politics, I don't quite understand. I don't see how it can be, but more than that it is awfully bad economics. Bringing rates down, so that the whole structure comes down as it went up, spreads the benefits and spreads the incentives that you have got to have to get people to buy all along the line—to buy not only consumer goods, as I have said, but the hard goods, heavy goods and investment goods as well.

Now, the main reason why we object—and why I am sure before we get through that we will defeat any proposal to increase exemptions—is because a \$100 higher exemption increases the deficit by \$2.5 billion. It is \$2.5 billion for the first \$100 and \$4.5 billion for the second \$100, so that if we put in a request for a \$200 increase in the exemption, we would increase our deficit by over \$4.5 billion. With the deficit we already have budgeted of \$3.5 billion to \$4 billion we would be way back up again to an \$8 billion or \$9 billion deficit. We would have lost all the ground we have gained. We would be right back on the merry-go-round of inflation from which we have just gotten off, and we would be back to where, instead of having the price levels almost stable as they have been now for fourteen or fifteen months, we would be again depreciating our dollar and we would again be pushing up our prices. The American people don't want that, I am sure, and certainly this administration is directly opposed to that policy. So I say to you that I believe we will be able to defeat that measure.

That brings us to a second extremely controversial point. I am passing over entirely the good things, all of the very advantageous things in the bill, generally speaking, to speak about these two controversial points.

I'm reminded of a fellow who had a pair of horses, a black horse and a white horse to sell. He drove his team up the street, and his little son was with him. Here was a prospective customer. He pulled up and talked for a long time to the fellow about what an awfully good horse the black horse was—how sound and quiet he was, and how well he drove, and all that. After a bit they drove on, and the man's son said to him, "Dad, why did you talk to him just about the black horse? Why didn't you spend a little time talking about the white horse?" He said, "Oh, the white horse is all right; I don't need to talk about him."

So that is the way it is about the tax revision bill. It contains a lot of good things that are white horses, and we don't need to talk about them. I am just talking about the black ones.

The other black horse is the reduction of the double taxation of dividends. Now, that has caused a great storm. It is blown up out of all proportion. The amount of relief is about \$240 million, out of the bill's total of \$1.4 billion. The relief gradually increases as time goes on if dividends continue. If dividends don't go on, of course, the amount of relief will come down. It is automatic. If the dividends go up and we get more dividends distributed in America over a wider area, this will mean more money. If the dividends go down, it means less money. At the present time it means about \$240 million and over a 3- or 4-year period in very prosperous times, it can go up as high as \$700 million or \$800 million.

Now, before 1936, there never was a double tax on dividends. Dividends were always eliminated, as they properly should have been, from the initial tax because of the fact that the corporation paid the tax and it was just collecting it right over again to have the individual pay it. In 1936, a change was made, and what was proposed was that there should be no tax

on dividends at all. They were just going to tax corporate earnings that were retained in the business; the dividends would be entirely tax free. The corporation would pay no tax whatever on the amount of money that it earned that was paid out to the stockholders; it would pay all its tax on what was held back.

Well, it very soon developed that that was a very bad theory, because it put a terrible penalty on retaining some earnings for things which make more jobs, such as reequipping with machinery and adding new machinery. They found it wouldn't work, and it was abandoned. A switch was made and for the first time, in 1937, dividends were taxed at the basic rates. That has gone on ever since, because of the fact that we haven't had a revision of these laws. Democratic committees, Republican committees, leading Democrats and leading Republicans all over the entire period of time since then have advocated the reduction of this double taxation of dividends. It has come from both sides of the aisle. It has come over a long period of years. It isn't something we just dug up new. It is something that people have complained about being absolutely unfair and unwarranted, and a deterrent to progress during all this time. Now it comes up at this time and it is one of the most seriously criticized things.

It is one of the steps, like the depreciation item, that we must take to encourage investment, to encourage further purchase of tools, further building of plants, further increase of the physical plant of America, in order that America may grow and provide the plant and provide the tools to make jobs so that an increasing number of people can earn more by making more and cheaper goods for the rest of us to buy. That is what lies behind it and that is the reason behind it.

I just want to say one more thing, if I may. I am trying to cover, not in too good order, some of the things, the controversial things, that are brought up, for you to have them in mind.

A lot of people say to us, in talking about our times, "when are times going to improve?"

The man that is out of a job has an awful problem on his hands. He wants to get back in a job as soon as he can, and we ought to do everything we can to help him get back. We ought not to let unemployment grow. We ought to do everything we can to provide jobs for people to be in. But you often hear people say, "when is the Government going to get in? When is the Government going to do something about this?" just as though we were all sitting here in a firehouse with a fire blazing down the street, waiting for somebody to ring a bell. That is not the situation. The Government is doing something every day. The Government is in the economic picture every day of the year, and can't be out of it. Our actions, or failures to act, on every single day affect the economy in one way or another. Last July, the Federal Reserve Board made a reduction in the rediscount rate. It has made two of them since then. Four or five months ago it reduced the reserve requirements on bank reserves. These steps were taken to

keep the economy in balance. Everything we do is done with a purpose of letting nature take its course as largely as we can: letting supply and demand work as well as they can without, by inaction, our not having enough money to meet the demands, or by too much action, having too much to meet the demands. We are just trying to let the laws of supply and demand operate freely without undue restraint.

Now, as I say, everything we do affects the economy. The excise tax bill alone held up buying power for at least 6 weeks in a tremendous way. While that debate was going on for 6 weeks in Congress, who in the world was going to buy something and perhaps pay 20 percent tax on, when if he waited for 30 days, maybe he wouldn't have to pay anything? The tax revision bill that is pending right now has a lot of things in it that will stimulate jobs, that will stimulate investment, that will stimulate new machinery installations and modernizing of plants. People are not going to move until they know whether the bill's benefits are going to be available to them or not. They are standing by waiting to see. So we ourselves are doing things to deter purchasing as well as things to stimulate purchasing.

Debt management, with the huge refunding we have to do, is of tremendous importance to you people who are borrowing more money and spending more money than you were before. If we go into an investment market with billions in securities that we have to handle, and walk right into the same kind of a market that you gentlemen are trying to sell your municipal and your State and your other bonds to, we can destroy that market or run interest rates up out of sight by stepping in with too large amounts. We can ruin the mortgage market if we step in too far. We can retard or slow down or affect the buying in your programs and all these other things, so we have to, from time to time, make a tack in our course. It is like sailing a ship. You have your eye on where you intend to go but you may have to tack two or three times. When a security is due you have to pay it immediately or refund it. If the time isn't opportune for us to step into the long market, we step into the short market. And then at a later time we step into a longer market, and gradually, a little at a time, we are continually moving into a longer market, and that is what our program is.

Remarks of Gabriel Hauge,
Administrative Assistant to the President

Governor Adams and gentlemen, to be introduced as an economist, I suppose is to have at least 1½ strikes against you. In this town some people devote themselves to the business of counting, packaging and cutting them in half. However, it still is a necessary occupation to be pursued because, after all, Government today touches the economic life of our Nation in manifold ways.

The so-called economic problem that a government has to address itself to, I suppose whether at this level, whether at the State level, whether at the local level, is about the same. The economic problem is simply this: How does a society organize itself to meet the unlimited needs of human beings with limited resources? That is the economic problem. At times when business activity subsides a little bit, perhaps that particular definition doesn't seem to be the most realistic one. In reality, however, that is what economic history has been about down through the years—the way human beings have organized themselves, the institutions they have created, the governments they have established, and the ways they have utilized government to solve the economic problem, the meeting of unlimited human needs with limited resources.

Not so long ago in Governor Dewey's hometown there was a play of great interest to me called "Tea House of the August Moon," a play about the military occupation of the islands of Okinawa after the war. An Army colonel was governing this group of islands. I gather that from the way he was caricatured in the play, he was not one of the finest products of the United States Army. He was put in charge of the military government of those islands, and he anticipated all the problems and he wrote out all the answers in a great big black book. When some young officers were sent to him to help govern the smaller communities in the islands, he brought them in, gave them a copy of this great big book and sent them off. There were the problems and there were the answers, and this was the way to do it.

Well, he sent this young captain up to a town in Okinawa to govern it and when he came there the young captain looked over the situation and found that the economic situation was not in very good shape. There was unemployment, some destitution. So he looked up in the black book as to what should be done about it. The book said to find out first what the resources of the community were. He looked around and found that the people could make pottery; they could make crocks; they could make

sandals; they could put baskets together. So he organized those production activities, but there wasn't any market. Things did not go so well. By accident, the captain discovered that these people could also produce a certain brew of great potency. More than that, a great market existed because a United States naval base was within 100 miles of the community. So the young captain turned his people to producing this brew which they did with great success. He found his market. Prosperity came to that community, and also great joy and happiness and mirth.

When the colonel commanding the islands heard about this, he was appalled. He immediately set out for the town, hauled in the young captain, proceeded to give him a star-spangled bawling out. It was so bad that at the end the young captain said to him, "Well, Colonel, I guess there is nothing for me to do but to go out and shoot myself." Whereupon the colonel exploded, "Don't minimize the problem."

The kind of economic problems that we confront here in the national administration today are not easily minimized. But they are a kind of which the President has stated a certain economic creed to express his belief that economic growth is the essential thing that we should all seek to bring about in this country, gifted as it is with extraordinary endowments of natural resources, with a temperate climate, with people who out of their natural origins provide an extraordinary ingenuity and enthusiasm to put things together and to make things and find ways to distribute and market them.

What are the tenets of that economic creed that the President of the United States believes in? I would like to summarize them because I think that in the crises of every day and every week, we sometimes tend to lose sight of the guiding principles which quite unconsciously determine decisions.

First of all, the President of the United States in his economic philosophy sets down as point No. 1 the simple truth that an enterprise system is going to work only if enterprise is released to the ultimate degree. Ten million centers of initiative on the farms and in the factories and mines of America are what make America what it is today. The net effect of that kind of decision making, that kind of risk taking, from 10 million centers of initiative as against 1, is the magical production we know.

If I were to describe the nature of the President's emphasis on this point, I would do it in terms of the maximizing individual freedom within our kind of system in order to release enterprise in individuals.

I remember a very striking statement made by Mr. Richard Austen Butler, the Chancellor of the Exchequer of the United Kingdom. He has been trying, as you know, to untangle the legacy from the preceding Socialist regime in Britain in order to once again draw upon the strength of individual enterprise for his country. In summarizing the reaction to the process, many times very bitterly resisted, he said this, "Freedom is a clean wind, but it is a chilly one for those not accustomed to it."

The President's economic credo is his emphasis on incentive. If we are going to have an enterprise system, we must have incentive. I think that perhaps in that area, the President is seeking to establish something of a new direction. These things are not easy to decide in a particular aspect of a tax bill, for example. But where the issue is in doubt, I think in the President's mind the emphasis clearly comes down in favor of less rather than more tampering with that incentive nerve, less paring away at that incentive carrot out front as against more paring away of it.

In the third place the President believes in effective competition and in effective enforcement of the antitrust laws. I believe further, he thinks that savings and capital formation are essential to our kind of a system. He believes that personal thrift as a source of savings is a doctrine which once again must be refurbished.

When I went to graduate school in the thirties, the great problem was how to get the economy going. It was sagging. We got up out of the pit of disaster of 1932 and 1933 but somehow we couldn't get the economy up past nine and a half million unemployed in 1939. As we studied that grim fact in graduate school, we looked at all the figures and we read all the analyses. What was it that was wrong? Why couldn't this stricken giant get along?

All sorts of ideas were employed. The main emphasis was upon increasing consumer spending by various devices, and we got certain results. But somehow we weren't able to trigger off the mechanism within this economy that would get it going back up to a level of activity that was decent and was acceptable to the majority of the American people. I think there developed in that decade a belief that the American economy was destined to run down; it somehow didn't have the renewing forces within it to keep it going at a level where an acceptable number of people were employed and an acceptable production level was achieved with reasonable stability.

I think that in the mind of the President, one of the essential ways to try to remedy that kind of situation is to stimulate private capital formation—which means, of course, the spending by business for plant and equipment to increase the productivity of workers, to find new products and to find new ways of reducing the cost of products to consumers. That is an essential thing and must get emphasis, regardless of any kind of criticism that is directed against it. The economic stakes are too high in the mind of the President.

A further point in the President's economic credo relates to the importance of research and development. Four billion dollars was spent last year in this country for research and development. That is a footnote on the genius of America—finding new and better ways of doing things and finding new things that will satisfy the needs of our people. Certainly there is an appropriate role for Government at every level to see to it that those research fires are well banked, because it is from that source that we are going to

get these great technological transformations that have provided the impetus toward steady economic development in this country.

Then, in the President's mind the vital matter of economic stability and the role of the Government in its maintenance stand very high. He has emphasized that time and again. In his Economic Report to the Congress in January, the President further stressed this point. There is great and well-stated and honest difference of opinion as to how economic stability can best be achieved. I think when my colleague, Arthur Burns, speaks to you a little later, he may get into some of these conflicting ideas because they bear particularly upon his area of operation.

Another point, as I see it, in the President's economic credo is this: there must be a floor of individual security, not only because that is what the sense of decency of America demands, but that is what economic sense requires. You don't have a buoyant, productive labor force if it is required wholly on its own to meet vicissitudes for which it was in no sense responsible.

If a great economic tidal wave is allowed to hit the country and take jobs away from breadwinners through no responsibility of their own, you will not have a labor force that is productive and confident and believing in this nation, nor will you have an atmosphere in which the investment decisions that provide jobs are going to be made. So the President has incorporated in his program, as I shall mention in a moment, several additional strengthening elements to help achieve personal security.

Lastly, the President strongly believes in the importance of widening and deepening the channels of international trade and investment. Now this is a troubled matter. The application of this particular concept in particular cases involves the necessity for great wisdom but it also involves the necessity for great courage. I think the President has constantly tried to keep those two things in mind, to balance them out as best he can in the interest of American people as a whole.

Again the background of what I regard as the President's economic credo, or the tenets of his economic faith, we can consider the President's economic program. The President, when he came into office a year or more ago, was faced with an extraordinary task in the economic field. If you could place across this wall a chart that would recount the economic history of this country since its beginning, you would find several great peaks followed by calamitous drops. Usually they have been associated with the war and postwar history of this country. Wartime is a wasteful time from an economic point of view. Economic decisions have to be taken on the basis of what it is necessary to do to win the war. Financial means can't always be the wisest and the soundest in the long run. We have witnessed the destruction of the purchasing power of the dollar all the way up to 50 percent or more. We have experienced a distortion of the way resources are used. And every time in the past history of our country, these excesses and distortion have been liquidated by a calamitous falling out of the bottom of things, with mass unemployment, destitution among

wage earners, business failures, farm and home mortgage foreclosures. That has been the history of the typical postwar period in the United States.

Now, what the President has been called upon to do is to help effect a transition. Let me say it another way. He has been called upon to make history and not let it repeat itself. I think the chances are excellent that he is going to succeed in guiding the American economy off this brink of wartime inflation with its distortion of productive effort and its misdirection of resources into war goods, bring it back off that dangerous and perilous point from which every time in the past it has fallen on its face with terrible suffering for America, lead it back through this plateau, this readjustment, while the economy catches its breath and prepares for a new advance, for increased production, increased productivity, and increased distribution of good things for the people in this country. That is the background against which it seems to me we ought to interpret what is going on today.

Now, in the field of applied economics as it characterizes the President's program, the President took early action to try to put into effect some of the cardinal tenets of his economic faith. He ordered the demobilization of the panoply of wage and price controls almost immediately. He began to redefine the relationship of government to private business. The Congress approved a bill for the sale of the synthetic rubber plants and that is now going forward very well in the hands of three very competent men.

The President approved the sale of the Inland Waterways Corporation, which not only made sense from the point of view of his economic philosophy, but it also made it possible to get rid of an operation that was costing the American taxpayers millions of dollars.

When it came to transmitting a program to the Congress in January, on which he spent last year in intensive study, the President sent up what has been called a "massive" program. I am going to touch only a few high points of the economic part of it to try to illustrate how the President has been seeking to apply his economic philosophy in these programs.

The Secretary of the Treasury has already gone over the tax program with you today. There is, of course, nothing I could say to add to that, except I think perhaps the tax program, not only in this country, but in countries all over the world, recognizes that the era of economic bulb-snatching is over. The time has come when we must be not only concerned about how the pie is cut up, but also in making that pie bigger and bigger and bigger so that all the pieces can be larger. To do that, the tax program must provide a stimulus not only for consumption and for the demand which that consumption creates for labor and for materials, but there also must be a stimulus to demand for labor and the products of farms and mines that comes from the spending by business organizations—partnerships, corporations, unincorporated business, small businesses—for plant and

equipment which is beyond the immediate consumption demand available to them.

It seems to me that one of the unfortunate trends in public discussion of late—and I comment on this purely from an economic point of view—has been the setting up of an utterly false dichotomy between consumption and investment as competitive ways of stimulating the American economy. They aren't competitive. Each has to do everything it can to stimulate this economy to the ultimate utilization of its resources. Neither one can do it alone. We tried in the 1930's to emphasize consumption and I think that its inadequacy is illustrated by the fact that in 1939 American business spent on plant and equipment only \$5.5 billion. In 1953 American business spent \$28 billion-plus on plant and equipment.

Now, if you were to ask me what was the main explanation for the fact that we had 9,500,000 unemployed in 1939, if I had to give you one short answer, that would be it. Something was wrong. That figure of \$5.5 billion for business spending on plant and equipment was too low. Even if you step it up to \$10 billion to compare it with \$28 billion on the basis of our 50-cent dollars, still it is out of line.

That is why the administration tax program is seeking to implement the idea, as I am sure the Secretary indicated, that the demand for labor, the creation of jobs, and the demand for farm products and mine products must be stimulated from both the consumption and investment sides, and it is in the interest of all the people to do it.

Money and credit policy I understand the Secretary touched on. It is going to be geared to the needs of the times.

In the field of housing I will mention just one item. In this area we have developed in this country a Federal public housing program which has been highly controversial but which has been important in meeting certain needs. Now, as the President looked at this situation, he recognized a problem existed. He said to himself: "Is this the only road to Rome or are there some others? Certainly we ought to take a look to see if there are any others." And so the Advisory Committee on Housing came up with their concept of a 40-year, 100-percent mortgage for the low-income group and said, "Let's take a chance. Let's see if we can begin to meet some of the need in this area through a method that is more in line with the general philosophy that we believe. But until we are sure that it has promise, we are going to continue through a public housing program to meet the needs of those people, because government has, and must have, not only a head, but also a heart." That is a sensible position.

In the field of power policy, the President sought to develop the concept of partnership. I could summarize what I think is the essential part of the administration's power policy in this way: The power needs of this country are prodigious and growing. It is going to take the combined action of all those who can contribute to meeting these needs to do so. As I understand the President's policy it is this: His philosophy is not that the Federal

Government should play a proper role in the field of power production, but that the Federal Government should take those actions which will get into the field of power production and distribution those additional resources at a local level, private and public, without which we cannot meet in an acceptable way the vast and growing power needs of the country.

Now, it seems to me that is a reasonable position on which reasonable men can agree.

In the field of social security, the President has, as you know, expressed his desire to build upon the structure which he found, to expand the coverage, to try to bring benefits up in line with the depreciated buying power of the dollar, and to make certain other improvements.

In the field of unemployment insurance, he has also made certain proposals to try to strengthen those excellent programs that were in existence when he assumed office.

In the field of foreign economic policy, he is seeking to continue progress that has been made, realizing that 12 million acres of our land and 4 million jobs in industry and business are dependent on markets abroad. In moving forward with that policy, as I said before, the President is seeking to balance the necessity of being courageous with the necessity of recognizing the impact of changes upon our own economy.

And, finally, in the field of agriculture, the President has decided that the time has come to stop sweeping the problem under the rug and trying to solve our surplus of farm products with mirrors abroad. He has made a proposal to the Congress which I think economists will agree recognizes the essential fact that price must play some part in the determination of the composition of production in this vital industry. He had made a proposal which seeks to move production into consumption and not into storage. I think he is acutely aware and very much concerned that a continuation of ignoring the problem, trying to build up a solution on the basis of mutually reinforcing dilemmas just isn't good enough. The debate which will take place in the Congress will seek to try to find a way—you cannot move rapidly on a problem of this complexity and of this widespread character—to seek to move gradually in a direction where the production of our great agricultural industry will be responsive to the needs of markets and will be able to respond to it in a way which will assure to the farmer a fair chance to compete against other parts of the economy.

Remarks of Arthur F. Burns, Chairman, Council of Economic Advisers

Governor Adams and Governors of the States, I have been asked to make some remarks this morning on the activities of the Council of Economic Advisers and on the current economic outlook. Before I turn to this double-barrelled assignment, I should like to say a few words about the Employment Act of 1946, which is the statute under which the Council functions.

This act, as you know, was the outcome of a prolonged discussion within and outside the halls of Congress. As World War II approached its end, great fears were expressed by many that demobilization of our Armed Forces and sharp cutbacks in the production of military goods would again lead to mass unemployment such as characterized the dark thirties. Although this view was not shared by all students of economic affairs, there was a broad consensus that storms of business depression must not be allowed in the future to run their own course, that the Federal Government had a responsibility for helping to maintain economic stability, and that the Government would have the best chance of promoting this objective if it proceeded systematically instead of trusting to improvisations under conditions of an emergency.

With these thoughts in mind, the Congress established a Council of Economic Advisers in the Executive Office of the President. The Congress directed the Council to make continuous studies of current and emerging trends in production, employment, and the flow of incomes to the people; to appraise the myriad activities of the Federal Government from the viewpoint of the contribution that each makes to the attainment of maximum production, employment, and purchasing power under conditions of free competitive enterprise; and to advise the President on economic policies that seem likely to foster a stable prosperity in our country.

One of the earliest acts of President Eisenhower, after he assumed his office in January 1953, was to direct that a study be undertaken of the ways in which the Council of Economic Advisers has functioned and of the means whereby its effectiveness might be increased. This study disclosed that the Council was handicapped in two respects: First, under the law, each of the three members of the Council had identical powers and this division of responsibility interfered with the efficient management of the Council's activities. Secondly, no regular machinery existed whereby the planning that goes on constantly within the various departments and agencies in the executive branch could be brought to bear effectively on the work of the

to bear on the work of the executive departments and agencies. The studies and thinking of the Council could be brought to bear on the work of the executive departments and agencies.

To remedy the first defect—namely, the lack of centralized management—the President submitted a reorganization plan to the Congress under which responsibility for administering the Council's affairs was delegated to the Chairman.

To remedy the second defect—namely, the want of machinery for integrating economic policies—the President established an Advisory Board on Economic Growth and Stability, which brings together in frequent sessions the top representatives of the leading economic departments of the Government.

In performing its functions under the law, the Council works with its own staff, which includes approximately 25 economists, statisticians, and clerical aids. The Council draws from time to time, as need arises, upon expert consultants outside of Government. The Council also works closely with the economic departments and agencies of the Federal Government, by consulting directly with the heads of these units, through the Advisory Board on Economic Growth and Stability, through a staff committee which includes the top economists of the Government, and through interagency task forces of which six are now in operation. One of these is devoting itself to the subject of low income families; the others are concerning themselves with Federal credit aids to private construction, fiscal policy, public works, local unemployment, and monetary and financial problems and policies.

In order to draw on the best economic thinking of the country, the Council also consults frequently with representatives of labor, business, agriculture, and with academic groups. Finally, the Council keeps in close touch with the Congressional Joint Committee on the Economic Report, which has a joint responsibility with the Council under the Employment Act.

One of the Council's duties specified in the Employment Act is to assist the President in the preparation of his Economic Report to the Congress. The President submitted his first report to the Congress on January 28. Exactly 3 months have elapsed since the submission of this report. Turning to my second assignment, namely, to discuss the current economic situation, I shall take the conclusions reached in the President's Economic Report as my point of departure.

This report concluded that some signs of a decline in economic activity began to appear early in 1953, but that economic activity taken as a whole continued to increase until July. Beginning in July, a gradual but persistent contraction set in. While the overall extent of the contraction was small, it had spread by the year's end over a rather wide range of activities.

Apart from agriculture, which suffered from a price decline that began in 1951, the contraction was felt most keenly in manufacturing industries, which experienced an appreciable decline in employment. The economic contraction, taken as a whole, was largely an inventory fluctuation, meaning by this term that the decline in the Nation's total output of goods and

services was the result, preponderantly, of a decline in inventory purchases by business firms. In other words, apart from inventory purchases, the community's expenditure on goods and services was being rather fully maintained. The report went on to state that, except for the defense goods industries, the decline in inventory spending was largely a passive adjustment to current sales rather than an anticipatory adjustment to unfavorable sales expectations.

The report warned, however, that an inventory fluctuation must not be viewed with complacency, since a movement of this kind is capable of spreading to other categories of expenditure and thus could bring on a spiraling contraction in business activity. Hence, the report concluded, prudence required that immediate steps be taken by the Congress—and these have been outlined to you by Dr. Hauge—to stimulate the expansive power of individual enterprise and to protect and strengthen the forces of economic stability.

These, in very brief compass, were the major conclusions reached in the Economic Report. Since that time numerous changes have occurred in our economy, and a reappraisal, while it must be brief, is clearly in order.

Let me say, first of all, that the contraction under way since last July is, as of today, still a minor decline on any overall basis. The current economic decline is even smaller than the contraction of 1948-49, which is generally regarded as one of the very smallest movements of this type in our history.

Take, for example, the gross national product, which is simply the dollar value of the Nation's total output of commodities and services. The total output has declined thus far by about 3.5 percent. Over a period of corresponding duration, during the 1948-49 movement, the decline was a little larger, 3.8 percent.

Or, let us look at the evidence concerning employment, that is, the number of men and women employed in nonagricultural establishments. Here the decline since July 1953 has been around 3 percent. Over a period of corresponding duration, during the 1948-49 movement, the decline was 3.7 percent.

Let us examine, next, personal income—that is, the sum of individual incomes in America. That magnitude has fallen less than 2 percent since last July. The corresponding decline in the 1948-49 contraction was 4.3 percent.

Or let us take note, finally, of the disposable personal income, which is simply the sum of individual incomes minus the amounts paid by individuals in income taxes. This magnitude—and it is, of course, a very critical magnitude—has diminished by less than 1 percent since last July. The corresponding figure for the 1948-49 movement is 3.8 percent.

I could go on and supply additional evidence along these lines, but I think that the figures I have cited are sufficient to show that the current contraction has been even milder on any overall basis than the contraction of 1948-49, when observed at a corresponding point. The latter contraction

as you know, turned out to be one of the very mildest business-cycle episodes in our history.

Let me say, next, that while the contraction until the end of 1953 was almost entirely an inventory movement, in the last 3 months the decline in Federal spending on national security has materially reinforced the contractive pressures within the economy, and that a further reinforcement, though a slight one, has come from the side of consumer spending. In the meantime, expenditures on housing and on business plant and equipment have been maintained at or close to the peak levels reached in 1953. On balance, in view of the spread of the contraction in recent months, it is clear that there has been some deterioration in the industrial sector of our economy.

The degree of the deterioration is not revealed fully by broad aggregates. From July 1953 to March 1954 employment in nonagricultural activities has declined approximately 1,600,000 or a little over 3 percent, as I stated earlier. The brunt of the decline has been borne by manufacturing industries, where employment has fallen 7 or 8 percent. The decline in manufacturing, in turn, has been preponderantly concentrated in the durable goods sector, where employment has fallen around 10 percent. Further, if we confine attention to "production workers" and allow for the reduction in the length of the workweek as well as for the number employed, we find that the decline of employment in the durable goods sector of manufacturing has been approximately 15 percent.

Thus, while the decline of economic activity on an overall basis has been rather small, this decline has had a serious impact on workers in certain industries—in our steel mills, automobile factories, metal mines, ordnance establishments, railroad equipment shops, shipbuilding yards, and various of the machinery trades. And since the geographic distribution of these industries differs considerably, the economic contraction under way since last July has left some regions nearly undisturbed, and yet has created real trouble in others.

It appears that the decline in industrial activity has considerably abated in recent weeks. Unemployment has leveled off. Steel output is no longer declining. The agricultural implement industry and the automobile industry are showing some vitality once again, and so are many of the soft goods industries. However, there is no persuasive evidence as yet that the economic contraction has come to a close or that an economic recovery is definitely under way.

I have concentrated on changes in industrial activity in the recent past. When we turn next to such records as exist of the plans and expectations of the business community for the future, the economic picture brightens considerably. In the fall of 1953 the McGraw-Hill Co. made a survey of the expenditures that manufacturers planned to make in 1954 on new plant and equipment. In the last 2 or 3 weeks that survey has been repeated. The new survey shows a revision of manufacturers' expectations which is very en-

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couraging. Whereas the survey made in the fall of 1953 indicated a decline of something like 8 percent in planned expenditures, the new survey shows no decline at all.

Furthermore, construction contracts have of late been booming. In January of this year, contracts ran 7 percent above a year ago. In February they were 20 percent higher; in March 13 percent higher; and the first half of this month, 17 percent higher.

Construction contracts are, of course, orders to construction enterprises. But it appears that orders to manufacturing firms have also risen recently. Orders declined materially during the second half of 1953, and reached a disturbingly low figure in January of this year. Since then, orders have picked up on a broad front. The orders flowing to our manufacturers for durable goods and other types appear definitely to be increasing once again.

These advances in the market for real investment goods are reflected also in financial markets. Stock prices have risen continuously since September. Indeed, they are presently at least 10 percent higher than in July of 1953, when business activity was at its peak. Bond prices in all categories have also been rising, and the rise has been exceptionally large, when judged by historical standards. To take one instance, the 3¼ percent Treasury issue, about which so much was heard a year ago, went to a discount shortly after it came out. At the present time it is selling at a handsome premium of some 9 or 10 points.

It is well to note also that during the entire contraction, commodity prices have been well maintained. Of late they have shown some tendency to increase. Industrial prices this March were almost at the same level as in July of 1953. Farm prices and prices of basic commodities generally were a little higher, perhaps 2 to 2.5 percent higher.

Taking, then, the economic picture as a whole, we find very uneven developments in recent months. The industrial sector has shown some deterioration, although there are signs, as I mentioned, that the deterioration has abated. The financial and investment sector, on the other hand, has been showing extraordinary strength. This dissimilarity in behavior cannot be expected to continue. In the near future we shall find either the financial and investment sector accommodating itself to the industrial sector of the economy, or else the industrial sector accommodating itself to the recent movement of financial and investment markets. Which of these two types of adjustment is in store for us, no one can assert with certainty. The extraordinary turn of financial, investment, and commodity markets, when read in the light of the history of business cycles, justifies, I think, a feeling of confidence that industrial recovery will soon be under way. However, we must remember that the art of economic forecasting is extremely uncertain and imperfect. Therefore, economic policy must be shaped with a view to building an ever stronger America and with a view to meeting such contingencies as may arise in the process.

It may be hoped, for this reason, that the Congress will enact before very long the tax reform bill recommended by the President; also the housing bill, the social security bill, the unemployment insurance act, and other parts of the President's economic program. It may be hoped, also, that the States will take their rightful place in strengthening our Nation's economic defenses against business depression, and that the States will proceed by increasing unemployment compensation benefits, by advance planning of public works, by facilitating the formation of neighborhood conservation districts for urban renewal, and in such other ways as may recommend themselves to the judgment of their citizens.

Thank you very much.

Remarks of Charles E. Wilson, Secretary of Defense

Governor Adams, Governor Thornton, gentlemen, it is a pleasure for me to be here today and to talk to this Washington Conference of Governors in regard to the Defense program and some of our problems. I have asked that each of you be given a copy of the semiannual report of the Defense Department. I think you have it before you. Following my remarks I would be pleased to answer any questions that any of you may care to ask me.

Knowing of your interest in Reserve, National Guard, and ROTC affairs, I have asked Dr. Hannah, who is our Assistant Secretary of Manpower and Personnel, to come along and take part in this question period.

When I appeared before the Appropriations Committee of the House and Senate a year ago, I stated that during the summer and fall of 1953 it was planned to take a new look at the entire defense picture. I can say now without reservation that this intensive study has been made and that great and encouraging progress has resulted from the reexamination and reorientation of our military program. I do not claim that all the inefficiencies and waste in our defense activities have been eliminated nor that all of our objectives will shortly be achieved. Improvement must be a continuing process. While we must have plans and programs for the long pull, we must always be ready to take a new look at them when world conditions change, or new scientific and technical developments indicate the desirability of making some modifications in our military and strategic plans.

In his message to the Congress early this year, President Eisenhower well stated the basic philosophy underlying our whole national security program. He stated, "Since our hope is peace, we owe ourselves and the world a candid explanation of the military measures we are taking to make that peace secure. As we enter this new year, our military power continues to grow. This power is for our own defense and to deter aggression. We shall not be aggressors, but we and our allies will have and will maintain a massive capability to strike back." He made six essential points which underlie the more important considerations in our defense planning, the substance of which I would like to reemphasize.

First, while we are determined to use atomic power to serve the usages of peace, we will take full account of our growing and enlarging arsenal of nuclear weapons and the most effective means of using them against an aggressor if they are needed to preserve our freedom. We would propose sharing with our allies certain knowledge of tactical use of such weapons

Second, the integration of new weapons systems into military planning creates new relationships between men and matériel which emphasize air power and permit economies in the use of manpower.

Third, these new concepts require maximum mobility of action upon the part of all our Armed Forces and, therefore, require the reassembly of our strategic reserve forces as dictated by world conditions and their maintenance in a high state of readiness to cope with any possible acts of aggression.

Fourth, our national defense must rest on the most economical and mobile use of trained manpower. Since a professional corps of trained officers and men is the teacher and leader of our Armed Forces, we must take steps necessary to create conditions of morale and security which will retain in the career service the required numbers of long-term personnel.

Fifth, the foundation of an effective defense program which must be maintained at a high level of readiness for an indefinite period of time is an industrial mobilization base which can be converted swiftly from partial to all-out mobilization if that unhappy course of action is forced upon us.

Sixth, the President placed emphasis on a strengthened plan of continental defense which includes provision for an improved early warning of enemy attack and the men and matériel to man the radar outposts, interceptor and guided missile squadrons and other units of our air, naval, and land forces devoted to this task.

These basic concepts are the foundation of our Nation's defense program. This program is built around new military plans recommended by the Joint Chiefs and approved by the President following consideration by the National Security Council. While these plans were developed by new Joint Chiefs appointed last August, a review of our military strategy was indicated and would have been undertaken no matter who our Chiefs of Staff might have been. Our new program is a natural evolution from the crash program that was adopted following the beginning of hostilities in Korea. It recognizes the need for the long pull and that we must continue to maintain our military and economic strength over a long period.

The atomic age has forced us to recognize that oceans and the control of water near our shores in themselves no longer prevent invasion or serious destruction in our country in the event of all-out war. Hence, we talk about and plan for continental defense, civil defense, and our ability to deter war through the threat of massive and effective retaliation.

Our military plans, therefore, call for some shift in emphasis toward airpower and new weapons. It, of course, does not mean that the relative strengths of any of the military departments can be radically reduced. In the absence of actual shooting, the potential strength of the Army must rest to an increasing degree on a sound reserve plan. I thought you might be interested in how the force level of military personnel we are planning to attain at June 30, 1954, and at the end of fiscal 1955 compare with the force level when the Korean war was going on.

	Actual	Projected	
	June 30, 1953	June 30, 1954	June 30, 1955
Army.....	1, 533, 800	1, 407, 200	1, 172, 700
Navy.....	794, 400	740, 600	688, 900
Marine Corps.....	249, 200	225, 000	215, 000
Air Force.....	977, 600	955, 000	970, 000
Total.....	3, 555, 000	3, 327, 800	3, 046, 600

In order that you might get some measure of the effect of this change in force levels on major combat units, I thought I would give you a comparison of them:

ARMY

	June 30, 1950 (start of Korean war)	June 30, 1953 (end of Korean war)	June 30, 1955 (present estimate)
Divisions.....	10	20	17
Regiments and regimental combat teams.....	12	18	18
Anti-aircraft battalions.....	48	114	122

NAVY

	June 30, 1950 (start of Korean war)	June 30, 1953 (end of Korean war)	June 30, 1955 (present estimate)
Warships.....	237	409	404
Other ships.....	363	720	676
Total active.....	600	1, 129	1, 080
Carrier air groups.....	9	16	16
Marine divisions.....	2	3	3
Marine air wings.....	2	3	3
Active aircraft inventory.....	9, 099	13, 308	13, 191

AIR FORCE

	June 30, 1950 (start of Korean war)	June 30, 1953 (end of Korean war)	June 30, 1955 (present estimate)	June 30, 1957 (present estimate)
Combat wing.....	42	90	107	126
Troop carrier.....	6	16	13	11
Total wings.....	48	106	120	137
Active aircraft inventory..	12, 295	18, 412	22, 927	24, 710

That essentially is our military program.

The new funds for our Nation's defense program currently being requested from Congress, are importantly influenced by the new military program. Improved weapons and a greater reliance on expanded airpower are additional major factors. Other considerations which enter into the formu-

lation of fiscal year 1955 requirements were the end of the Korean war, the increasing strength of the NATO nations, the greatly improved and expanded ROK army, the excess funding during fiscal year 1954 and prior fiscal years of which portions are still available for 1955, and the increasing efficiency and greater application of sound business methods within the Department of Defense.

Our estimate of expenditures for fiscal 1955 was influenced by our new military program and the commitments previously made under earlier appropriations. The fact that we are still in the buildup stage in some of our military activities requires expenditures at somewhat higher rate than will be true when the program levels off. This is the reason that estimated expenditures for fiscal year 1954 will exceed new money authorized for the same period by approximately \$7.8 billion. And the expenditure we estimate for fiscal year 1955, will probably exceed the new funds granted for that period by about this same amount. The estimate of the expenditure rate for the fiscal year 1955 is approximately \$37.5 billion. I am speaking of Defense Department's program itself, and I do not include any military assistance.

With expenditures estimated at \$37.5 billion for 1955, they will be \$4 billion less than expenditures for fiscal year 1954, which are estimated to be \$41.5 billion. And I am sure we will come very close to it. This amounts to a reduction between fiscal 1954 and 1955—a planned reduction—of a little less than 10 percent. This change in our rate of expenditures should not in itself be sufficient to importantly affect the overall economy of the country. All of our military programs and the forecasts of money required to carry them out are subject to change. The next few months are obviously critical ones in world affairs, and what happens in Europe and Asia during this period may force a soul-searching review of our specific policies, plans, objectives, and expenditures.

The duty of the Defense Department is to provide a sound defense for our country. We must achieve this by obtaining maximum combat effectiveness for every dollar made available by the people through their Congress. There are three distinct methods of achieving economy in military affairs.

First, there is economy in planning—what some planners call economy in forces. By this we mean devising a strategy which permits the selection of those force elements and weapons systems which provide the greatest combat effectiveness at the lowest cost in manpower and resources. This is primarily the job of the Joint Chiefs, who, on the basis of State and national policies and objectives, evaluate the capabilities and potential aggressors and devise the most effective strategy to meet such conditions. Economy in forces is reflected in the carefully considered, long-range plans of the Joint Chiefs of which the fiscal year 1955 phase is reflected in our current budget request.

Second, there is economy in programing. By this we mean the provision of the proper support forces and resources such as manpower, materiel, and

bases required to maintain the degree of combat readiness and effectiveness to implement the strategy we have adopted.

Economy in programing is receiving the concerted and conscientious effort of the military and civilian members of the defense team. They are examining and validating all planning factors and procedures used in the computation of manpower, materiel, and construction. They are determining peacetime stock levels and war reserve requirements. These reserve requirements include both trained personnel and plans for quickly training others, both stockpiled materiel and capacity to quickly achieve mass production of great quantities of all military products if required. Men, materiel, bases, activation of new organizational units, training rates, activity rates, deployment—all must be projected 2 and 3 years into the future and must be kept in balance.

Third, there is economy in operation. This relates to the execution of the plans and the accomplishment of the programs that have been laid out and that are reflected in the annual budgets. This is the area which has received the most public attention and at which most of the criticism of waste and inefficiency have been directed. Many hundreds of thousands of men and women—literally millions of them—have been in and out of the armed services. Each of them has seen some waste of his own time or of someone else's time, some waste of material or something done that they realize could be done better. No man really likes to waste his time. He will do it and collect his money, but he would rather feel that the money he is being paid is being earned. He would like to feel his personal efforts are not being wasted whether he is a janitor, a top technician, a private, or a general. He would like to feel that personally his efforts are being appreciated and he is accomplishing something. Economy in operation, particularly, requires the interest of many hundreds of thousands of men and women in the services. Steps are being taken to encourage and cultivate this important type of cooperation.

Therefore, when we say that our objective is to achieve more defense for every dollar spent, I would like to emphasize to all of you that we expect to do this by making intelligent savings through economy in forces, economy in programing, and economy in operation. These factors apply no matter what our defense program might be. The Chiefs of Staff and their principal assistants have the major responsibility for economy in forces. The civilian secretaries and their assistants, together with the top military people, have the responsibility for economy in programing, and every member of the defense organization has some responsibility for economy in operation.

We have improved the effectiveness of the civilian personnel farther down the line. We know we have because we were getting along with over 160,000 civilians less in January this year than we had in February of last year. Progress along this line is continuing, and I was just informed this morning that the last month for which figures are now available, that is for February of this year, there was a further reduction of 7,321.

total reduction now stands at 168,049. We have done this in an orderly manner by not filling vacancies and by moving people around a bit and seeing that they have enough to do. I am sure that we have not hurt the effectiveness of the organization one bit. In fact, I feel sure it has been improved.

We are down some in military personnel, also. Improved utilization of manpower permitted a reduction of 170,000 military personnel between January 1953 and March 1954, while at the same time building up the effectiveness of our units. Considerable improvement has been made with respect to the more effective utilization of military personnel. The overall percentage of nonoperating forces has been reduced from approximately 44 percent as of September 30, 1953, to 39 percent in our planning for fiscal 1955. A further saving of 70,000 personnel from March to June of this year is anticipated. This more effective utilization of both civilian and military personnel together with what has already been accomplished in the last year will save the United States taxpayers almost \$2 billion a year. Some shifting and a further reduction in total military personnel is still called for by our plans for 1955.

I would like to mention briefly some of our current problems. We have the problem of security risks. I suppose everyone that can sneeze knows that. A person is a security risk if, based on all the available information, his employment or retention with the Federal Government is not clearly consistent with national security. Security risks with loyalty connotations are the ones that especially require judgment and careful appraisal. Some such persons while not card-carrying Communists can be listed as fellow travelers or security risks. A security risk is not necessarily a proven disloyal, subversive, or treasonable person. People must be treated fairly, but the national interest must be paramount. After all, fundamentally it is a privilege and not a right to work for the government. The American people do not believe that security risks should have places in government where they could be used by the world's Communist conspiracy to undermine our Government. Above everything else, Americans do not want such people in their military services.

We have the problem of improving our reserve and our reserve planning. The House Committee on Appropriations in its report released in the last few days had this to say about our reserve program, that is as it stands at the minute. A serious weakness of our military makeup is the absence of an effective reserve program. Obviously, the Nation cannot afford, nor is it desirable, to maintain a regular military force of a size adequate to cope with probable emergencies. While the situation may improve somewhat during the ensuing fiscal year, reserve force goals have not been met during the last several years. Most of the reasons for this lag appear to be known to the Department. Bottlenecks of the program must be eliminated and incentives to serve in the reserve should be developed. Fund requests for the various reserve programs have been approved substantially as presented. Of a

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total of approximately 2.25 million in the reserves at the end of December 1953, nearly 619,000 are in drill-pay status. We must also have a sound ROTC program, and in fairness to all young men in our country, have it well understood and established and make little or no change in it over a period of years. The Selective Service Act under which we operate expires June 30, 1955. We are working on this whole problem of military service and how we handle our reserves.

We have the problem of career service in the military establishments. I might mention the fact that with say 3 million men in uniform and a 2-year service requirement for drafted people, if we drafted all available people every year on a 2-year cycle, it would take 750,000 to give you a million and a half. If you say that the average of your career people is going to be 10 years, you have a million and a half enlisted people in the longer cycle. Just to replace them every 10 years would take \$50,000. So you have 900,000 men that have to enter the service every year and that is all the young men there are in this country becoming of military age. So that is part of the program.

Now it is a much more effective thing for the Nation, and the cost is greatly reduced, if the turnover in military personnel is low. So a military career must at least be made desirable enough to attract and keep competent officers. We must also have technicians and experienced people who enlist for a period of more than 2 years. Our modern weapons and the problems of maintaining them and effectively using them have gotten to be so complex that men must have training and experience over a longer period of time to properly carry out their duties and responsibilities.

We also have the problem of maintaining the mobilization base which is our industrial potential to produce weapons of war if they are needed. Since we must maintain our military strength, including our industrial potential over an indefinite period of time, we must have plans to maintain this base when the orders run out or are importantly reduced.

When I first came down here I immediately sensed that the planning had been focused on a date of maximum danger and that little or no planning had been done as to how we would maintain a mobilization base if we didn't have a war and if we didn't have the requirement to produce all these billions of dollars of materials. We must now have a plan that maintains this capacity to produce in a state of readiness, to produce even though it is not running at anywhere near its capacity.

The Defense Department is still working on the big problem of organization, including the military services. We have a tremendous organization of almost 5 million people, including the civilian and the military departments, and we are still working on the problem of strengthening and making more effective the organization here in Washington and in the Pentagon. By improving the organization at the top, by clarifying the lines of authority and responsibility, we know that we can greatly improve the utilization of manpower farther down in the organization.

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We know there is a lot of work done in this big defense job, and we face new and important problems every day. In spite of the magnitude of the job, the defense team is making progress in solving many of our difficult problems while facing, may I add, some less important but time-consuming ones. We are confident that we have made real progress in providing the Nation with a sound defense program.

Remarks of Arthur S. Flemming, Director, Office of Defense Mobilization

I am very happy to have the opportunity of discussing informally with you some of the problems that face us in the defense mobilization field. I am sure that the members of this group are fully appreciative of the setting in which we carry forward our defense program. I would, however, like to underline three aspects of that setting that we feel we must keep in mind as we participate in the operation of the present program and as we plan for the possibility of a stepped-up program. And those three aspects have been underlined very effectively by the President in three specific statements. The first one was a statement that he made last May, when he said very simply, "We are in an age of peril." The second was in the statement that he issued on October 8, 1953, when he said, "The Soviets now have the capability of attack on the United States, and that capability will increase with the passage of time." The third was in his State of the Union message, when he said, "We shall not be aggressors, but we and our allies have and will maintain a massive capability to strike back."

Proceeding from these three premises, we believe that, first, the current mobilization program must be kept at approximately the present level; second, that we must be prepared for the possibility of our becoming involved in an operation such as the one we undertook in Korea; third, that we must be prepared for the possibility of our becoming involved in an operation such as the one in Indochina, if the Chinese Communists should intervene directly; and, finally, we must be prepared for the possibility of general war. All of this means that there are certain specific objectives that we feel that the Nation must keep in front of it at all times.

The first objective is one that Secretary Wilson has already touched on but that I would like to discuss with you in just a little bit more detail, and that is that we must develop and maintain a strong mobilization base. Now to us, this means that we must have available that combination of facilities, production equipment, and skilled workers, that together with any stockpile that we may have of military weapons, will enable us to meet rapidly accelerated wartime requirements. I am sure all of us recognize the fact that we have to place a great deal of emphasis on those words "rapidly accelerated."

Now here are the things which it seems to me that we as a nation must do if we are going to achieve the objective of having a strong mobilization base: First of all, obviously, we need to know what gaps we have in the mobilization base and if we are to know what the gaps are, we have got to

know what our military requirements are. I would like to pay tribute to Secretary Wilson and Deputy Kyes for providing us for the first time in the history of mobilization planning with the requirements for 1,000 major military end items that we would need in the event of all-out mobilization. Now, those 1,000 major items would account for 80 percent of our expenditures for military hard goods if we should become involved in all-out war. We are now taking requirements for the 1,000 items, and, in cooperation with the Department of Defense, translating those into matériels requirements. Then from the Department of Commerce and the Department of the Interior, Defense Transportation Administration, and other similar agencies, we are obtaining information as to what the defense or war-supporting requirements would be and also what the rockbottom civilian requirements would be. Then, with that requirements information available, we are balancing it over against our supply information, and in that way identifying our gaps as far as plants, equipment, matériels, et cetera, are concerned.

But not only do we need to know what the gaps are in our mobilization base, obviously we have got to have our on-going program designed to fill in the gaps in our mobilization base. As some of you know, the Government over a period of the past few years has been working against about 242 expansion goals. Those expansion goals are nothing more or less than the gaps in our mobilization base.

We made a review of those goals 2 or 3 months ago. On the basis of that review, we decided that we had closed the gaps in 140 out of the two-hundred-and-forty-odd areas. The remaining 90 to 100 are the areas on which we must concentrate in an effort to close the gaps.

Well, what kind of programs are under way in an effort to close the gaps in the mobilization base? First of all, as you know, over a period of the past few years, the Government has been saying to private industry, "If you will back an investment in plant and facilities and equipment that will help to close these gaps, we will give you a rapid tax amortization over a period of 5 years." It is interesting to note that the rapid tax amortization that has been given up to the present time totals about \$17 billion. The projects involved in that rapid tax amortization will represent investments of around \$29 billion. We are not granting tax amortization certificates as rapidly as was the case immediately after the outbreak of hostilities in Korea, but we are still in business. We are still spotlighting those 90 to 100 expansion goals where the gaps have not been closed. For example, during the first quarter of this year we granted tax amortization certificates totaling half a billion dollars. That contrasts with a billion-and-a-half a year ago, so that it gives you some idea of the declining curve. But we are continuing to say to industry, "If you are willing to come in and make capital investments, then your Government is willing to provide you with some incentive," and we intend to continue to emphasize that program.

In some instances we have gaps that private industry making capital investments. In some instances, it is going to be necessary for the Government to provide additional incentives. For example, I think it is known to many of you that we have some rather serious gaps in our tanker program. We just don't have enough tankers to deal with a situation that would confront us if we became involved in all-out mobilization. And so, the executive branch of the Government has gone to the Congress and said to the Congress, "We would like authority, we would like funds for a trade-in and build program, a program under which some existing tankers would be traded in, new tankers would be built, of greater speed, and of far greater effectiveness than our present tankers." The Senate has already approved that program, and undoubtedly the House will approve it before this session of Congress adjourns.

Now, of course, that is not only going to help us close the gap as far as the tanker program is concerned, but it is also going to help us to maintain our mobilization base as far as our shipyards are concerned, because, as all of us know, we are up against some rather serious problems in that particular area.

Wherever we have gaps that cannot be filled, as a result of private investment without some help and assistance from the Government, we will identify those specific programs, and we will go to the Congress with specific requests.

But not only must we know what the gaps are in our mobilization base, not only must we develop the programs that are designed to fill those gaps, but, as Secretary Wilson indicated, we have got a real problem of maintaining the mobilization base. And it is a new problem as far as our country is concerned. We have been accustomed to building up a mobilization base in order to deal with an emergency and then permitting it to disintegrate once the emergency was over. Now we are up against a situation where I think all of us recognize the fact that it is absolutely essential for us to maintain this base that has been developed over a period of the past few years. Well, how are we going to do it? There are those who seem to think that the only way in which you can maintain the base is through the device of placing orders for current production. Obviously, if we are dependent on that for maintaining the base, we just are not going to maintain it because the production curve for military end items is down, should be down, and we hope it will continue to decline. We hope that the world situation will not make it necessary for that curve to start moving up again. So, consequently, we just can't count on orders for current production in order to maintain the mobilization base. We have got to get at it in a far more basic and fundamental manner.

We feel that it is absolutely essential for the Government to get itself in a position where it will enter into contracts with private management for what might be referred to as standby programs. That is, contracts with private management which will insure the fact that the facilities and the

tools that have been used in the production of defense items will not only be stored but maintained so that if it should become necessary for us to move into all-out mobilization, we could convert very quickly.

Now in the past, after World War II, the Government took its Government-owned tools in some instances, and leased them to private industry, and in doing so, it broke up valuable packages of tools. In other instances, it stored those tools in Government warehouses and then forgot all about them, and when we went back and tried to use them after the outbreak of hostilities in Korea, we found that it was virtually impossible to do so. We are determined not to get into that kind of situation again, and so we have issued orders to the effect that the packages of machine tools that are owned by the Government should remain intact, that they should not be leased to private industry, that they should be stored in warehouses right alongside of the plant where they would be used in the event of all-out mobilization. We have also issued instructions to the effect that those tools should not only be stored but that they should be maintained and should be modernized.

Now that is one part of the standby program, but an equally, and in fact to my way of thinking a more important part of the standby program, is to work out contracts with management which will insure retaining on the job hard cores of management, engineering and skilled personnel that would be available in the event of all-out mobilization. Well, you say, "How do you do that? Are we just going to have them sitting by without anything to do?" Of course not. In some instances it may be possible to maintain a single live or hot production line and, of course, that is the most desirable situation, if it is possible to do so. In other instances it ought to be possible to enter into contracts with management under which management agrees to use this hard core of personnel for the purpose of maintaining and modernizing the tools and the equipment, and to make them available for training programs, so that they can be brought up to date on the most recent developments.

Now there isn't any doubt in our minds at all but that if we can develop a program for the maintenance of the mobilization base along that line, instead of our sitting around and waiting for 9 months to get a particular item into production, we ought to get it into production in a period of 3 or 4 months. We feel that the Government should spend money in order to maintain the base by entering into contracts with management along the lines that I have just indicated.

Then, our current production would be more or less of an extra dividend. Of course, current production helps in the maintenance of the mobilization base, but we can't start with the idea that we are going to maintain the base through current production. We have got to start with the idea that we are going to develop a comprehensive program for contracts with management which will result in keeping our mobilization base in standby condition; and then whatever we can do in the way of current production becomes an extra dividend.

Not only must we identify these gaps and not only must we have programs designed to close the gaps, and not only must we maintain the base, but it is also, I am sure, clear to all of us that we must do everything we possibly can to protect that base. That is why we have been interested in dispersal programs. That is why we won't grant a rapid tax amortization certificate to a company that intends to build a defense plant until it agrees to comply with dispersal standards. Now there are times, of course, when it is impossible to comply with dispersal standards and under those circumstances an exception is granted. As you will recall, I said a few minutes ago that we granted rapid tax amortization certificates totaling \$17½ billion. If you take the certificates within that group calling for investments of a million dollars or more, 80 percent have complied with the dispersal standards.

Now you know what those dispersal standards are. You know that there are local dispersion committees in many of our large cities. Those committees are made up of representatives of management, labor, and the public. They identify the areas of population and industrial concentration and then in effect draw a circle around those areas, and then we say that new plants should be located at least 10 miles beyond the perimeter of those circles.

But not only must we be interested in dispersal, we must also be interested in those plants that have to stay right in that heart of critical target areas. As far as those plants are concerned, we are very much interested in protective construction. In fact, we have said that if there is a defense plant in a critical target area, and if the management decides to make an investment in protective construction, we will grant a rapid tax rate write-off on 100 percent of that investment. Normally when we grant rapid tax writeoffs, they average about 60 percent of the capital investment. In this instance, we will grant a rapid tax writeoff on 100 percent of the investment. So much for the mobilization base.

But here is another objective that we try to keep in mind at all times, and that is this: that we must achieve our stockpile objectives just as rapidly as possible. Our stockpile objectives now as a result of a recent directive from the President break down into two principal categories: Minimum stockpile objectives and what we refer to as long-term stockpile objectives. The minimum stockpile objectives are objectives that were set a few years ago. They have been revised, of course, from time to time. They have been established by taking our requirements information, then by taking information relative to supplies, both domestic and foreign, and in the case of foreign supplies, discounting those foreign supplies on the basis of advice furnished by the Joint Chiefs of Staff and the Department of State. Then, having figured the requirements, having figured what our supplies would be, and having figured out what the deficit would be, that deficit has been established as the stockpile objective. There are 75 materials on our stockpile list at the present time. In the case of 38, we have virtually reached our objective and it is interesting to note that the Govern-

ment has invested \$4.2 billion in its stockpile program. We have \$900 million of materials on order. In order to reach all of our minimum stockpile objectives, we have to spend another \$1.8 billion. In other words, the total bill for our minimum stockpile objective will be around \$7 billion.

Now in the case of 12 materials, we are a long ways away from our objectives, and those materials give us very real concern. Let me take one of them, one that you have heard something about. That is nickel. We took most of the controls off nickel a few months ago. In doing so, we recognized the fact that the demand for nickel was considerably in excess of the supply, but in taking those controls off, we issued a memorandum stating that we recognized that that was the situation, but we also stated that we had a very important stockpile program, and that we intended to pursue that stockpile program even though by so doing we would be taking nickel away from the civilian economy that the civilian economy could use. And that is just what we are doing. May I say to you that we are in serious shape as far as our nickel stockpile objective is concerned. The Government in the past has not followed a consistent purchase program for reaching that particular stockpile objective. Beginning with the first quarter of this year, such a program has been put into effect. We intend to hold to it. At the same time we are doing everything within our power to develop additional sources of supply of nickel so as to relieve the situation which exists in the civilian economy and so as to make it possible for us to reach our stockpile objectives just as soon as possible. We are determined to reach those objectives just as soon as we can. We don't know how much time we have on our side.

Now what about these long-term stockpile objectives? The President directed the Director of Office of Defense Mobilization to take a look at all of our stockpile objectives and in those cases where we were relying on foreign sources of supply, to discount the foreign sources of supply 100 percent except for those countries that are so close to us that from a strategic point of view we can continue to count on our supply from those countries—Canada, of course, being the outstanding illustration. We are now in the process of reviewing all of our stockpile objectives in the light of the President's directive. We will increase some of them, and in some instances where we had already reached our minimum stockpile objectives, we will go back into the market and begin to purchase for the stockpile. Two good illustrations, of course, are lead and zinc, and I expect that over a period of the next 2 or 3 weeks that it will be possible for us to move back into the market and begin to purchase lead and zinc. I don't make that as an absolute statement, because there are some fiscal problems involved here that may require consultation on the Hill before we can actually put the program into effect; but in the matter of a few weeks we will be going back into the market and we will begin to purchase lead and zinc.

Why did the President direct us, to Approve For Release 2003/07/29 : CIA-RDP80B01676R001000030016-3
objectives? First of all, and most important, we feel that it makes good sense from the standpoint of the security of the Nation, and in the second place, it makes it possible for us to go in and acquire materials at prices that are favorable to the taxpayer. In the past we have had to rush in under emergency conditions and have had to acquire these materials at premium prices. We think it is a sensible program, one that will put us in a stronger position from a security point of view, and one that will be of some help and some assistance to our mining industry.

And may I say this: when I talked about the maintenance of the mobilization base, I referred to plants that produced military end items. A very important part of that mobilization base is the mining industry of this country. Within the past few weeks, I have sent a letter to the Secretary of the Interior asking him to establish for us what are the minimum mobilization requirements as far as lead and zinc are concerned, and also to suggest to us the kind of a program that the Government should follow in order to insure the maintenance of our lead and zinc mines at that minimum level. And that is how we intend to approach that part of the maintenance of the mobilization base. We are going to take it case by case, analyze the situation case by case, and then develop a program and present that program wherever necessary to the Congress.

Shifting from materials and plants and equipment for just a minute, to touch on one problem that Secretary Wilson also touched on—there isn't any doubt in our minds at all that we must develop manpower programs that give adequate recognition to the fact that the lack of skilled manpower could be the one limiting factor in the prosecution of a war. We have spent a lot of time over a period of the past few months, particularly in the National Security Council, in trying to determine what the size and the composition of our active forces should be. As the Secretary has indicated, we have now reached the place where we feel it is necessary to spend time on determining what the size and composition of our reserve forces should be. That has never been done in this Nation. Now once we get agreement on the part of the executive and the legislative branches as to what the size and the composition of the reserve forces should be, then we can decide what kind of training programs we need in order to achieve that objective. Up to now we have had a lot of discussion about UMT and the other types of training programs without having a definite and specific objective in mind. But the President is determined to reverse that situation and to get the horse in front of the cart, and for the first time to arrive at an authoritative determination as to what the size and the composition of the reserve forces should be. Then we will figure out what kind of training programs we need in order to reach the objective. And so he asked me to ask the Department of Defense to prepare a program of our reserve forces, for submission to the National Security Council. That program will be in around the 1st of May. It will be considered by the National Security

Council and following that undoubtedly recommendations will be made to the Congress.

Now in working out that reserve program and in determining just how we will operate in the event of all-out mobilization, it is going to be absolutely necessary for us to keep in mind the fact that we do have shortages of scientific, engineering, and skilled personnel. We are going to have to devise some kind of a system for making sure of the fact that an engineer is used at the place where he can render the best service to the over-all program. That may be in the civilian economy, it may be in the Armed Forces, but we have got to handle that in an intelligent manner, a far more intelligent manner than we have in the past when we have been confronted with similar emergencies.

Remarks of Dr. Howard A. Rusk, President, American Korean Foundation

Governor Adams and gentlemen, I appreciate very much the privilege of being invited back here today. A year ago you were generous enough to ask me to come in for a few minutes to tell you a little bit about Korea, from where I had just returned on a mission. I told you a bit about the country as we saw it at that time—of people who were cold and hungry and sick and yet who still had a great desire to fight to be free. If you want to know what the health conditions are in Korea, I can tell you very quickly. If you will think of any town in your State of 25,000 people—unroof one-fourth of the houses and destroy a fourth; have everybody on a 1,700-caloric diet, which is two hops of rice and meat or fish twice a month—two hops of rice a day; knock out the plumbing; knock out the water supply; bring the water in from the nearest polluted stream. In that town of 25,000 you will have 1,200 down with TB, 50 cases of leprosy. You have 22,000 persons with intestinal parasites; pneumonia rates 10 times that of our county; and 1 poorly trained general practitioner to meet the needs of that community—that will give you some idea of the health conditions. One nurse to every 54,000 people, 100,000 full orphans, and 300,000 war widows.

It might interest you to remember that Korea has lost more people in the Korean conflict than we lost in World War I, II, and Korea put together times two.

As I remember back in some 100 institutions that we visited from refugee camps to leprosariums, I remember most vividly that in the entire trip I never heard a child cry, nor a man groan in pain, nor never heard a Korean, including Government officials, ask for anything except "Won't you help us off our knees so we can continue to fight?"

It seemed last year when I came before you that there was a place and a need for a voluntary agency to go into the field of rehabilitation in Korea in addition to all that the Government had done. I am often asked, why is it necessary? And I can explain my own philosophical reasons to you in a sentence: If you are down and out and broke, you have to go on the dole; you have to accept the relief check. But if a neighbor comes in with a pot of soup they have made, or a shawl they have knitted, or a job opportunity they have found because you are their friend, then it is a very different situation.

So, after our meeting, with your generous help—and every Governor of every State in the Union came to our help in our national campaign—we went out in a disorganized campaign, because we didn't have time to

raise a little over \$2 million in cash and \$3 million worth of goods in kind, primarily drugs—I don't mean old clothes—that have gone to Korea and the money has been allocated or spent.

Right after the armistice, President Eisenhower felt that it would be wise for a second mission to go back, and I went back again. On that mission with me were General Van Fleet and a number of businessmen—Mr. Edgar Queeny, chairman of the board of Monsanto Chemical Co. from St. Louis; Robert Jackson, the head of the National Cotton Manufacturers; William Carr, the head of the National Education Association; Jack Zinsser, president of Sharpe and Dohme; Leonard Mayo, executive director of the Association for the Aid of Crippled Children; John Price Bell, vice president, Webb and Knapp; William Zeckendorf, president, Webb and Knapp; Eugene J. Taylor, editorial staff, New York Times, and Palmer Bevis, executive director of the Foundation.

This time we went back with some money in our pocket, the money you had helped us to raise, and in 10 days we spent a half-million dollars and set up 126 projects, including the first school of public health in Korea, a new national tuberculosis control program, the national leprosy control program, and a national program for nurse education. We restocked the libraries of 26 teachers' colleges. We brought a group of teachers over here for short-term training. We set up a model orphanage and a staff. We set up a rehabilitation center there for amputees, and I sent three of our top young women therapists there to run it. We were in business.

I think you might be interested in one little incident, especially those of you from the cotton country. Bob Jackson saw, as we divided into task forces, that the textile industry was down 50 percent of the time for one reason—that the thread broke all the time. There were two reasons the thread broke: First, that the 10 percent Korean cotton that was in the thread was of such poor quality; and second, they needed a different length of staple shipped from our country. He changed the staple length with one telephone call. For \$1,500 we arranged through one of the research departments in an agricultural school to pick the six best seeds likely to grow in that climate. They are in the ground now as an experimental crop. Next year there will be a seed crop, and the next year the entire cotton production of Korea will be changed.

We came back and went about our business until things began to develop international-wise. The Geneva Conference was announced, and some of us who had been very intimately associated with the program had the deep conviction that when you are dealing for the peace in the Orient, which many of us feel is the key to peace in the world, and when you are dealing with an old patriot who has been 78 years old for the last 5 years, and a brilliant old man, that possibly the feeling of belonging and the warmth of friendship might mean as much and possibly more than power diplomacy across the table; and that if we could let that feeling go across the Pacific

and behind the Iron Curtain and the Bamboo Curtain that we might be building one little stone in the peace negotiations.

I came down and discussed it with Governor Adams and Bedell Smith, and together we went to see the President. He said that he felt there was no more important program that could be undertaken during these next 90 days, especially during the Geneva Conference. So we went to work.

We organized a national campaign, a campaign headed by Henry Alexander, the president of J. P. Morgan of New York, with Mrs. Wendell Willkie as head of the Women's Division. We have a campaign organized in 50 major cities and we have written all of you to ask you if you would lend us your support again.

We went to the Association of American Railroads and asked if they would send "Help Korea Trains" across the country. They said they would be happy to and pay all expenses. We thought it would be one train and we ended up having to start six. This is not like the "Friendship Train" that had 57,000 unmatched shoes on it and where they had to stop them between cities to dispose of spoiled perishables—we are taking nothing except carload lots and boxes packed for overseas shipment. These are a few of the things we have gotten: One hundred tons of raisins from the raisin growers in California because it is the only fruit that the kids in the orphanages had for a long time, and when we sent a small amount over on the Mercy ship that we sent to Pusan, they came back and said what a treat it was. Fifteen reconditioned buses from the Greyhound Bus Co.; a carload of railroad ties from Mississippi; two carloads of leather and hand-tools to make shoes from New York; a carload of lead pencils from Illinois; two carloads of citrus fruit juice concentrate from Florida; two carloads of soap from Ohio; a carload of drugs from one of the large manufacturers from New Jersey. (Valued at \$300,000.) And so on down the line.

So we didn't start one train—we started six. We started the Plymouth Rock Special from Boston and the Independence Special from Philadelphia and the Liberty Special from the Statute of Liberty in New York and the Dixie Special from the South. But when our people talked to Governor Talmadge last week, he wanted to know how many cars we were going to have. He said Georgia wanted a train of its own and would furnish 80 cars for a special train. I think we will end up with more than 1,000 cars. It really isn't a train—it is a collection of cars that will assemble out in the San Francisco Bay area to be shipped overseas, and FOA has earmarked the cost for our overseas freight. Our people in Korea with the help of FOA and KCAC will distribute it to institutions and to the orphanages and to the people who need it.

In addition we have the three youth groups—Boy Scouts, Girl Scouts, Camp Fire Girls—all packaging boxes of equipment and uniforms. We have a school program, and we expect 50,000 boxes from every school for every school in Korea. They will be coded and marked, and in each one will be a letter in Hangul, the Korean language, stating that this box comes

from the American school. That there are some art materials in this box, and "Won't you paint some pictures of what your school looks like and what your people are like so we can see; and we will send you pictures of our school."

I have had a little private project in this that is sort of "my baby." No doctor in Korea had had a new suit of clothes for over 5 years, and to take a little five-footer and try to cut down a suit of my clothes from the rag bag for him doesn't do much as to fit and doesn't do much as to spirit. So I began to write to some of my doctor friends pointing this out, after I had introduced in the American Medical Association a resolution welcoming Korea as the newest member in the World Medical Association and congratulating them on the wonderful job they did. As of yesterday I had received 1,200 replies from my physician friends, each enclosing \$20. When the woolen manufacturers became interested—and I have never been so impressed about the goodness of people as I have in this campaign—for \$20 we are able to buy enough excellent wool for two suits of clothes, with the lining, a package of needles, and two spools of thread, and had enough left over to put a plastic raincoat in it. In each one is a letter in Hangul to the Korean doctor from an American colleague. We have asked the Korean doctors to write and acknowledge, so we can have a "person-to-person" relationship built up. I can visualize a Korean doctor going on his rounds and his patients seeing him the first time in years in a decent suit of clothes and saying, "Doctor, where did you get it?" and his replying, "This came from an American colleague. He sent it to me because he wanted to. And he sent me a letter in Korean."

The women's clubs are organized and now just recently I can report to you—now off the record because it will be reported to the President on Friday—that for the first time in the history of this country every major veterans' organization in America has agreed to participate in a Veterans' March for Korea, a house-to-house canvass after a saturation radio and television show. Two million of these Scrolls of Salutes have gone out. The organizations include every group from the largest, the American Legion to the smallest, the Congressional Medal of Honor Society. Every one will be asked to sign this statement, "I subscribe to the Veterans' March for Korea, to help the Koreans to help themselves, to show that in a democracy we stand by those who fight with us against communism."

The President is meeting all of the national commanders on Friday so this can be announced on May Day—when the celebration is a little different in most parts of the world. The State commanders will then call on you and ask you to sign. Next Tuesday the commanders are all being flown to Korea free by the Northwest Airlines to spend 3 days, to present the first of these scrolls to General Taylor, and to carry with them the President's five-star flag which he has given as the first piece to go in the new American wing of "Americana" in the Korean National Museum in Seoul. There will be a letter in Hangul, the Korean language, stating that this box comes from the American school. That there are some art materials in this box, and "Won't you paint some pictures of what your school looks like and what your people are like so we can see; and we will send you pictures of our school."

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museums in the United States—the give an article of historic or artistic significance to go in this American Wing, where our GI's, the other UN troops, and the Koreans can come and see them.

Never have I seen anything catch fire as this has. The group visited Governor Herter last week in Boston and came back with a most enthusiastic response.

These have all been mailed out, gentlemen, by volunteers working after hours and all day Saturday and Sunday. I spent some time with them on Saturday and there were two Congressional Medal of Honor winners, and there were 12 amputees, and 25 Korean veterans, with their wives and mothers and fathers who were there, packaging two million of these to send out because they wanted to.

We hope and believe that this can be one of the greatest demonstrations of how democracy operates towards its friends there has ever been in the world. This has been a spontaneous thing that has just grown because it seemed to be right.

Pan American World Airway flew the Korean Children's Choir here. Possibly some of you heard them on television. The American Airlines flew them from New York to San Francisco, and Greyhound Lines has provided a special bus for their National tour—all for free. These children have captured the hearts of everyone who have seen them. Those who have seen them don't feel any more that the Koreans are little yellow people running around in a different part of the world. They realize that the Koreans are dynamic human beings with great culture, great music, and a great desire to fight for a free world.

We believe in and want to help in everything that government does and has done. We have worked very closely with Mr. Stassen in FOA, and with the other national and international groups in Korea. But we feel—at least, I feel—that the Koreans, although they are hungry and ill-clothed and sick and malnourished, that more than food or clothes or medicine, they need the feel that they belong; that they have earned the right by the way they have fought and asked to continue to fight in order to be free.

It was most heartening and thrilling to us to know that the Executive Committee of this body is going to Korea in May. We have set aside a small amount of money, enough so that we hope that when you go, that you will announce that we are establishing in every province in Korea a Governors' scholarship for a Korean youngster to go to Korean college; and it is named in honor of the American Governors—again, as a person-to-person acknowledgment between two people who have fought together. We hope in turn that possibly there will be some fellowships and scholarships available in State Universities so that brilliant students can be brought over here. We will haul them over for free, because Mr. Tom Cuffe in San Francisco has given us free passage on his passenger-carrying ocean freighters.

With the start that we have and with the great need there, I hope that we can help make Korea the showplace of the Orient, and can demonstrate that democracy is a better way of life, and we can do it the free way as we have always done it here.

Again, may I express my own and General Van Fleet's and Milton Eisenhower's and all of our trustees'—many of whom are from your own part of the country—our deepest appreciation for your help and your understanding and your feeling about what we are attempting to do.

Remarks of Val Peterson, Administrator, Federal Civil Defense Administration

Gentlemen, we have sat through a long, and I hope, very profitable conference. I am going to speak briefly and right to the point on three things and three things only.

First, I would like to utter a word of caution. There have been many exaggerated reports published of what happened out in the Pacific in March. I assume that was inevitable. Until the officials who were responsible for those tests are able to study and analyze the data which they alone assembled out there, we simply cannot know exactly what happened. In the meantime, people cannot be stopped from speculating. As a result, stories have appeared that made the devastating effects of those weapons, great as that devastation has been, appear to be greater than in fact they were.

Without attempting to minimize the effects, I have prepared this chart which shows the law of diminishing returns applies to any kind of atomic or hydrogen weapon.

Let us take a 25X bomb; the equivalent of 500,000 tons of TNT in explosive force. That is a big one. There aren't many of those in the world at this minute. President Eisenhower has said we have some of them in our stockpile. A 25X bomb would create a radius of total destruction of $1\frac{1}{4}$ miles wherever it was dropped. In other words, it would totally destroy the area under it. Now if you double that 500,000 tons and make a 50X bomb we would have the equivalent of 1 million tons of TNT. The radius of total destruction for a 50X bomb is increased only from $1\frac{1}{4}$ miles to $1\frac{3}{4}$ miles. The law of diminishing returns is now coming into play.

Now let us apply this law to the device that was exploded in Operation Ivy. Many of you have seen the color film and all of you will be able to see it because we have made color prints available to our State Civil Defense Directors. I am not privileged to say the exact number of millions of tons of TNT equivalent that were involved, but let me say Ivy involved from 5 to 7 million tons of TNT equivalent. That bomb would cause total obliteration within a radius of $3\frac{3}{4}$ miles. Now let's assume one of the bombs exploded this March was the equivalent of 10 to 16 million tons of TNT. It would destroy everything in a radius of 4 to $4\frac{1}{2}$ miles. Now you can't take too much hope from what I am telling you other than that I am getting this down to 3 or 4 miles in total destruction instead of the vast distances some people were talking about a while back. You can't take too much hope from it for two reasons: first, I have been talking about total destruc-

tion. The device exploded in Operation Ivy, in addition to having a radius of total destruction $3\frac{3}{4}$ miles, had a radius of severe damage up to 7 miles. The destruction between total and severe may not be very comforting. The second reason I say that you can't take too much hope from this is that the enemy, if he chooses, may bring three or four of these bombs and drop them. Then he begins to widen his area of total destruction and of severe damage.

I think this is helpful to you—this correct information. I do not have, of course, exact information from the March test. So I utter this word of caution to you: wait until the returns are in from the Atomic Energy Commission before you accept every statement that appears in a newspaper or a magazine article or over the radio.

Now, point two. It has been my personal program to try to call on each Governor and each Director of Civil Defense in his own State office and to make myself available for any service that those two officials would care to have me undertake. In that connection, last week I was in Governor Mennen Williams' State and appeared before a group of legislators and other officials. Last week I was also in Governor Frank Clement's State. I recall further that I spoke before Governor Dan Thornton's Legislature. I am perfectly willing to come in and do anything that any of you want. Some 10 days ago I was in Governor Knight's State for a week. I was in Governor Kohler's State and in the States of many of you I see around the table. I am perfectly willing to come in any time you want me. My feet will be close to the ground. If you want me, or want any of our people, call on us and we will try to come and do the things we can to help you. Those are the first two points.

Point number three. It was suggested immediately after the hydrogen bomb was exploded, that Civil Defense no longer had any meaning in America or in the world for that matter. One of the first exponents of that view, I was interested to note, was the Communist Party in the United States and in England. And that might speak for itself.

Some people felt that the situation was hopeless. That is not the case, even as of today. Whether the scientists will someday make a weapon that will make the situation hopeless, I do not know—and I don't know that anyone else knows, including the scientists. There is still a most definite need for Civil Defense, even a greater need than there was before the first hydrogen weapon was exploded in November 1952.

Let's go back a bit. The first time I saw the picture that portrayed the first thermonuclear explosion in history was in March 1953, when some of us were summoned to the White House. The Cabinet members were there, some of the White House staff, the Joint Chiefs of Staff, and a few other people. Shortly after that time—and I don't recall the exact dates—the picture was "sanitized" and we started showing it to small groups of Americans in responsible official positions. We showed it to all your State Civil Defense Directors so that they would understand our mutual problem.

Later, we showed it to 175 mayors, city managers, and county commissioners assembled here at the President's invitation at the December 14 and 15 meetings of last year. We attempted first of all to spread this information through officialdom as rapidly as we could.

We could not show it to all of you Governors because there was no meeting of all the Governors at which we had an opportunity to show it. We had expected to show it here today, but in the meantime, we were able to release it for the entire American public.

Now all of America has seen this picture. Today the need for Civil Defense is as great as ever or greater. All this does is shift the emphasis within Civil Defense. In the beginning we were dealing with small bombs, 1X bombs. That is the term used to describe the bombs exploded over Nagasaki and Hiroshima. Each was the equivalent of 20,000 tons of TNT. Even when those bombs were exploded, as devastating as they were or still are as a matter of fact, there was still some hope that a bomb could be exploded over a great American city and we could maintain life within that city and still maintain our philosophy. In other words, at that time the philosophy and the policy of the Civil Defense Administration and of Civil Defense clear across America and in the world was "Duck and take cover—get the best shelter you can, duck and take cover, come out after the raid is over, clean up the mess, and start resuming life as usual and production as usual."

But with the development of these monsters—and you don't have to talk in terms of hydrogen weapons to have monsters—with the development of these 250,000-ton bombs or 500,000-ton bombs, the idea of duck and take cover became absolutely obsolete. Of course, if a bomb were exploded right this minute, I would duck and get as close as I could to the strongest possible wall. The bomb might fall far enough away from here so that even that precaution might save my life. Or if I threw myself into a ditch, I might save my life. Some of you who were at Las Vegas in March 1953 know that those of us who were up at the front line with the troops, 2 miles from the explosion, in a trench 5 feet deep, suffered no ill effects, even though the earth trembled just as I imagine a great pile of jelly would tremble if one stood on the center. In other words, a ditch might save your life, or throwing yourself behind a wall may still save your life because you may be lucky enough to be far enough away. It did save lives for the Japanese at Nagasaki and Hiroshima.

On the whole, it is foolish to talk any more about remaining in the city to duck and take cover. Therefore, there are only two choices to the people who live in great cities of America or in any great cities anywhere over the world. One is simply to go under ground in concrete catacombs lined with steel, equipped with air conditioners, gas filters, sanitary facilities, living facilities, and communication facilities. Go down, way down deep 70, 80, or 90 feet under the ground into these monstrous man-made caverns, if you please, or into the rock if rock happens to be available, as it is over in

visited last summer and autumn. That is one choice. Protective-wise it might do the job. But it does not appear to be feasible from an economic standpoint. It would take untold billions of dollars and it would take years to build them. Then there would be the question of getting the people into them after we have the shelters in existence. As I have said in some of your States, America may eventually have to come to that anyway, if and when we get into the guided missile era with missiles carrying atomic warheads, traveling thousands of miles an hour. This would eliminate warning time and ability to evacuate our cities. But it appears that this is sometime off, if it can ever be accomplished. That is one alternative—get under the ground. I won't take any more time to discuss that alternative here this afternoon.

The other choice is one that I have been thinking about ever since I saw this picture in March 1953. I started talking about it publicly in June 1953, with some little harm to myself because some people said that I was either scaremongering or warmongering. One or two were unkind enough to suggest that either I had information that nobody else in the world had or I was crazy, or both. Nevertheless, I started talking about evacuating our American cities, assuming that we would get warning time to move out on the surface of the earth—because when the bomb goes off, the city is gone. That is the end of it. There won't be much of a city there, and if you are in it, you will be dead. So I said, let's get out of these American cities and in an orderly manner. And gentlemen, it doesn't make any difference whether you believe in evacuation or not. The people will evacuate these cities. The only problem is—are we going to get them out in an orderly manner or are they going to go out in an unruly mob. Governor McKeldin, if a man lived in a town half way between Washington and Baltimore when those two cities are bombed, which I assume would be simultaneously, and those mobs started streaming out on advanced warning and weren't organized properly and were converging half way between Baltimore and Washington, I wouldn't give a nickel for life or limb out in that country when those people come churning over that countryside. So we must organize these people.

It can be done, and what is required before it can be done? The first thing required is that we must have warning time. To give us warning time is the responsibility of the military, and particularly of the United States Air Force. Before we can have warning time, we must have completed a detection system that will run clear across the north lands of Alaska and Canada, with installations over—and some of these are in place—Iceland and Greenland. One way to put it would be that we must have a detection system in depth, extending all the way from Hawaii clear over the north land of North America to Iceland and Greenland, with an arm sticking down to the Azores and some to the south, in the event the Communists are ever able to penetrate the south.

Such a plan has already been approved by the Security Council. Secretary Wilson said the other day, it is already in process of implementation. He is hopeful that in a period of months—and no one knows exactly how many months—perhaps 1½ to 2 years, that detection system will be completed to the point where we will be able to have a pretty good chance of being tipped off whenever the enemy starts moving his bombers into North America. Then we will have up to 6 hours of warning time.

As of this moment, I would say that cities like St. Louis, Oklahoma City, Little Rock, Atlanta, and possibly some others in that area would have up to an hour-and-a-half or more of warning time because they are favorably situated. That is enough warning time so those cities could be evacuated, in my judgment.

Now, what about the rest of America? Well, up in Washington State, in Oregon, and over in New York, it is questionable whether at this moment we could get more than 30 minutes to 1 hour of warning time. As a matter of fact, the Air Force won't guarantee any warning time, and I don't think it is reasonable to ask them to guarantee anything in this business. But they have sometimes said that maybe we could only plan on 15 minutes or less of warning time. I am inclined to think they are now organized to where we could get somewhat more than 30 minutes, maybe up to 1 hour—and that time will increase from now on.

We need at least 2 to 6 hours of warning time; from 2 hours on up toward 6, to do the job in most of the big cities of the United States. However, something happened out in Spokane, Wash., this week that is encouraging. At Spokane, they tried the evacuation of an American city of some size; a city, according to the newspaper account, of 175,000 people. It says that despite wind and rain, the crowd moved quietly and in an orderly fashion to the edge of a fireball perimeter where in a real attack buses would take them far from the vicinity. In other words, they walked from the downtown area, they got to the perimeter of the fireball, and they were all ready to be evacuated by transportation. Vice Admiral Daniel E. Barbey, who is the Civil Defense Director in Washington—and it has been by pleasure to be in that State and work for him and Governor Langlie—says, according to this newspaper account, that the test proves a business district of a metropolitan area can be evacuated within 10 minutes, and people started on the way to safety in the country. Now, he is speaking, of course, of a city of 175,000—he is not speaking of New York City in connection with this test.

But it has been my feeling that cities such as Columbus or Indianapolis, and others of that size, can be evacuated in an orderly, sensible fashion with 1½ to 2 hours of warning time, and maybe less if we really get to work on this problem. I think Chicago can be evacuated satisfactorily. You really have some tough ones in Seattle, San Francisco, New Orleans, Los Angeles, and New York—and there may be some others that don't occur to me at the moment. New York because it is such a tremendously con-

—and that is true of those other cities I have named, with the exception of Los Angeles. However, the Civil Defense Director down in the City of New Orleans, General Marais, tells me—and he has been telling me this for the last 6 months—that he can work out plans and is working them out to evacuate New Orleans. If you can do that, you can evacuate any of the other cities we are talking about, again, with the possible exception of New York—and I think we can do it there, although that is probably the toughest problem in the world. The fact is, it is going to be tough—I know it is going to be tough because it is tough to get to work down here in Washington. It is tough to get home at 5 o'clock. The fact that it is tough doesn't mean that it won't be done or it won't have to be done. What is the choice. Go under the ground, evacuate, or be vaporized—stay, and die. I refuse to believe there is not in every city in America enough common sense, traffic-wise and engineering-wise, to figure out a way to get the people out of these cities and save their lives. Now for the first time, Civil Defense says to the people of America—here is something positive and affirmative. We will help you save your life if you will help us to save the lives of millions of American people. We are not talking about ducking any more and hoping we are alive after these things go off. This is a real challenge, and it is your responsibility as a Governor of a State to see that your Civil Defense is functioning to the point where these people can get out of these cities. It is the responsibility of the Mayor, right along with you. It is a responsibility imposed by law, and it is imposed by law on the President of the United States whom I serve as a lieutenant.

I had hoped to have a minute or two for any questions you might care to direct to me. I can tell you that in many cities evacuation plans are now being made. Milwaukee is one and there are many others in the United States. We are going to be able to get this job done if we just use our ingenuity. We can figure this thing out; it is not a hopeless problem, although it is an extremely difficult one and sometimes a rather frustrating one.

Now, one more thing. This shifts the emphasis to the support areas. When you evacuate Baltimore, you must evacuate to pre-arranged places. You must have schoolhouses and churches designated out in the country, 25, 30, 40, 50 miles, to which these people can go and where they can be fed, clothed, sheltered, and given medication. The emphasis now has shifted from the target city itself which no longer can take care of its problem, to the people in the hinterlands or in the rural areas of America. That is a tremendous shift of emphasis in Civil Defense. It means, Governor Anderson, that your great State of South Dakota, as good neighbors, may have to take care of the people of Minneapolis, for example. It means that out in rural Utah they will have to take care of the people of Salt Lake City, if that city is hit. It means in my State of Nebraska, we may have to help the people of Denver; we may have to help the people of

Minneapolis and St. Paul or Kansas City. We may have to send tank teams out to Seattle to help the people of Washington. It means that rural America now will have to be really good neighbors and friends to the people of urban America, if we are to be able to maintain the people of the cities of the United States.

After an attack takes place, the military, in my judgment, will be immobilized in America. They won't be calling your National Guard away from you. It will have to stay home and help clean up your State. You are not going to move great concentrations of troops out of America because there won't be any harbors after the bombs go off, no railroad terminal yards, no great cities. The industrial guts of America will be spilled on the ground, and we will have to tie America back up. I hope Russia will be lying in the same condition within minutes after the attack on the United States starts. Then the question will be, which one of these two countries has enough guts and moral stamina and spiritual fiber to get up off the ground to complete the job in order that the real objectives in this war can be won—and that is the preservation of our freedom of religion, our freedom of democracy, and our freedom of enterprise. Those are the things that the enemy is out to destroy. Those are the things that we want to maintain. That is going to be our challenge.

Thank you very much.

Remarks of Henry Cabot Lodge, Jr., U. S. Representative to the United Nations

Mr. Chairman, gentlemen; I appreciate the opportunity to come to you at the end of this long day. I think it is a wonderful thing that men as busy as you are and as burdened with heavy responsibilities as you are, take this time. I am sure it is worth while, because certainly in the field of foreign policy the success and the effectiveness of what this country does is in direct relationship to the degree of public understanding and public support. Whenever our foreign policy gets away from public opinion, then it becomes unsuccessful. And you, as leaders and as opinion-makers in the States of the Union can play a very decisive part in making our foreign policy a success.

At the United Nations, where I am in daily contact with the representatives of sixty different countries, we have been seeing a number of things that do not lead to optimism. I know you have had a great deal of discussion here already about Indochina, so I won't go into that. About the only optimistic and encouraging event in recent months has been the decision of Pakistan to be counted with the free anticommunist forces of the world, which was followed up by the decision of President Eisenhower to extend military aid to Pakistan. In other words, we have added an ally, which is not an event that happens often enough to make us blasé about it. I think that event and the recently signed agreement with Turkey, of which it is a part, can have a tremendously stabilizing effect in one of the most crucial parts of the world. It is a very real setback to communist imperialism and I think it is an example of effective operation in the field of foreign affairs.

The subject that has been taking up the time of the United States representative for the last few months has been all the different disputes that are taking place in connection with Palestine. There is a dispute between Israel and Syria. There is a dispute between Israel and Jordan. There is a dispute between Israel and Egypt. There has been a good deal of shooting, a good deal of killing, and it is a situation which is certainly potentially as dangerous as the situation in Indochina, although it hasn't yet gotten to the crucial point that that has reached. But with the religious differences, with the tremendous reservoir of oil that exists in that part of the world, with the strategic importance, with the nearness of the Soviet Union to it, you can all see the great possibilities for danger.

Now, if any of you were to drop in to a meeting of the Security Council—and, by the way, I hope if any of you have got time to come to New York, that you will come and give me the pleasure of entertaining you there—you would get a sense of utter frustration to hear our debates. We had a meeting yesterday, for instance, and the whole time was taken in discussing whether the Israel complaint against Jordan should be first on the agenda or whether the Jordan complaint against Israel should be first. There wasn't any question of discussing the complaint itself; it was a whole afternoon spent in pettifogging and verbal toe-dancing and egg-walking of the most flagrant type. We have been doing that all winter. However, both the Arabs and Israelis will tell you in private that as long as the Security Council is talking, they don't get out in mass military formations and engage in large-scale killing. So, while the talk is in itself very frustrating and while it doesn't make it a good source of news, at the same time it is fulfilling a useful function in preventing that situation there from getting worse.

Last December we developed a resolution for the utilization of the waters of the Jordan. As you know, it is a very poor part of the world, and it is possible to utilize the waters of the Jordan River in a way which would be advantageous to all those countries—to Syria, Israel, to Jordan, and to all the affected countries—if only the political differences would permit. Well, after days and nights of negotiation and haggle, we got a resolution which commanded a majority of the votes, and which would have represented a forward step toward improvement of everyday life of people in that part of the world. While that was going on, Vishinsky was letting sly hints go out that he wouldn't veto it—which I always had my doubts about. We finally got a resolution to a point where we had a majority of the votes, we brought it up, and he brought in a veto simply because he saw something constructive happening which might possibly leave that harassed and nerve-racked region in a more peaceful and stable condition.

That is why I hope, if we ever get to the point of revising the Charter—which comes up for revision in 1955—that we certainly give very serious consideration to amending it so as to eliminate the use of the veto in the pacific settlement of disputes such as I have just illustrated there.

The United Nations is a place where wars have been prevented, and of course the war that you prevent is never as dramatic or as sensational as the war that takes place.

I would like to just give you a brief enumeration. It is a place where the threat of war in Iran in 1946, due to pressure of Russian troops, was moderated and gradually extinguished, which was absolutely a clear case of the effect of world opinion. Now, world opinion doesn't react as fast or as clearly as public opinion does in Detroit or in New York or in Chicago, and it doesn't develop as fast as public opinion in the United States, but there is such a thing as world opinion and it has been the best of it and they pulled the troops out of Iran.

The United Nations is a place where the initiative was taken, with substantial American backing, to prevent communist encroachment on Greece in 1947. There are many parallels between the communist encroachment on Greece in 1947 and the present communist encroachment on Indochina.

It is a place where open warfare over Kashmir between India and Pakistan was stopped.

It is a place where the advent of Israel into the family of nations was determined and an end put to a bloody war in the Holy Land, although as I say, the situation is still dangerous.

It is a place where, working with the Netherlands and the Indonesians, full independence was given to the 76 million people inhabiting Indonesia.

It is a place where part of the free world was organized to repel the bloody aggression in Korea, which threatened the whole free world.

I would like to say a word about the contribution in Korea because there has been a good deal of criticism about the fact that the United States put up such a tremendous proportion of the men and of the weapons. It is true that the United States put up an overwhelming share of both. Only the Republic of Korea put up more men, and the Army of the Republic of Korea was trained by the United States Army. The other nations of the United Nations put up the equivalent of two divisions. If the lend-lease policy of World War II had not for some strange reason been reversed, I think we might have had 5 instead of 2 divisions out of the United Nations members. There were a number of nations that had excellent fighting manpower, but didn't have the logistical support, that didn't have the dollars, that saw no prospect of ever paying for it, and which were thus prevented from sending manpower because of the policy that was then in effect that each nation had to pay for its own logistical support in dollars. That is a mistake by the way, which will not be repeated in the future.

But two divisions is something. Two divisions in World War II figure cost \$600 million a year. So if we had had to put up those two divisions we would have paid \$600 million a year. When you match that up against the contribution of \$13 million, which is what we make to the United Nations, that is not such a bad deal. Incidentally, we have gotten the United States contribution reduced so that it is now down to 33⅓ percent. We have gotten the Soviet contribution increased.

If it had not been for the United Nations whereby we had troops from such widely dispersed nations as Turkey, Ethiopia, Thailand, the Philippines, and Colombia fighting alongside of the troops from the West and the northern part of the world, it would have been impossible to have prevented the Communists from denouncing the Korean War as an example of the white man seeking to bring the colored man into a new colonialism. Due to the United Nations, that type of propaganda was totally ineffective. So we have gotten advantages out of the United Nations even in Korea which we would not have had if the United Nations had not existed.

I would like to say to you gentlemen that of the 1,800 employees of the United Nations, all but about 185 have now been screened for their loyalty by Civil Service Commission and FBI procedures; and I am hopeful that the 185 will all be cleaned up in a very short time.

The United Nations is useful as a world forum. In fact, it is the only world forum. I have a rule there of always speaking on the day that a Communist speaks so that in the news story that goes out over the world there will be something about the position of the United States.

You may have noticed that the low sway-backed building looks rather like a loudspeaker. At least, it does to me. I don't know what the architect intended. And certainly if it does look like that, it is appropriately designed, because if you have an idea you want to get out over the world in the quickest possible way, that is the place to go and from which to put it out.

It is a place where the Communists have an opportunity to make an exhibition of themselves, and it is an opportunity of which they take frequent advantage.

I remember last summer after the Korean Armistice we had a day of commemoration of the services of the dead. Each representative of each nation that had had troops there, in his own language and in accordance with his own religious customs, and quoting from the finest literature of his own country, paid a tribute to the men who had been killed. There was almost the atmosphere of a chapel in the United Nations on that day. Right in the middle of it, Vishinsky gets up and got the floor and makes a bitter attack, not on the statesmen of those countries who, he might have said, had misled the soldiers, but on the very soldiers themselves—the men who had been killed. Now, of course, he knows that is a stupid thing to do, but he does so in response to absolutely arbitrary orders that he gets from the Kremlin. And when things like that happen, you can feel the representatives of the free world consolidating right in front of your very eyes, because, being free, they tend to drift apart, but sooner or later the representatives of communism say something so monstrous that it tends to pull the free world together.

The United Nations is a place where you can get authoritative reactions quickly on what is passing in the minds of people throughout the world; and those of us in this room who have spent a great deal of our life in elective office can appreciate the importance of a place like that.

Let me give you one illustration. On one occasion last year Vishinsky turned to me with upraised fist, which is the usual gesture that he uses to me—a gesture of endearment, I suppose—and he said, "You Americans have lost Asia anyway." Well, I turned to him and said the obvious thing—that we Americans weren't trying to get Asia, we wanted the people of Asia to have Asia, and we didn't regard it as a mere pawn in the Marxian game of power politics to be moved hither and yon in accordance with the Communist dictatorship. The minute I had said that, there were representatives of three Far Eastern countries that said, "That is the kind of line

that will go over the Voice of America." There is no other place in the world where you can get that kind of reaction on what people are thinking.

Then it is a great place to refute lies. Last year they put out this monstrous lie that the United States had been using germ warfare in Korea. Well, at the last General assembly—and Governor Byrnes was one of the distinguished and extremely helpful members of the United States Delegation—we got Dr. Mayo, who was another member of the Delegation—Dr. Charles Mayo of Rochester, Minn., to get up and make a systematic refutation of all the charges of germ warfare. We took the Chinese Communist film purporting to show the confessions, and then we took the movies of the same aviators when they got off the boat at San Francisco. And having a man of Dr. Mayo's medical standing in the world make this presentation resulted in our keeping the front page for about ten days, and we completely refuted that lie. In fact, I think we came out ahead in the cold war because of showing what a dreadful lie it was that they perpetrated.

It is a place where we can develop the truth about the Chinese Communists. I would like to just enumerate for you why it seems to me it would be a most dreadful thing for the Chinese Communists to become members of the United Nations. I say this because:

- the Chinese Communist regime has repeatedly expressed its open contempt for the purposes and principles of the United Nations;
- because it stands convicted by the United Nations as an aggressor in Korea where it killed and wounded many thousands of American and other soldiers who were defending peace;
- because it continues to support aggression in Indochina, by giving substantial aid and by furnishing advisers and technicians to the Viet Minh forces;
- because it went in and occupied defenseless Tibet and seized control of its government and resources;
- because it sponsors guerilla and subversive movements in Malaya, and throughout the rest of Southeast Asia;
- because it committed dreadful atrocities—unspeakable atrocities—against Americans and others fighting for the United Nations in Korea, and subjected prisoners to physical and mental cruelty in seeking to extort military secrets and confessions of alleged guilt;
- because it still holds 32 American civilians under barbarous conditions without published charges, and subjects these innocent missionaries, newspapermen, and businessmen to cruel and inhuman treatment;
- because it wilfully fabricated and publicized false evidence of spurious germ warfare charges designed to blacken the reputation of the United States, and because it carries on a deliberate "hate-America" propaganda campaign;

—because it has executed millions of millions into slave labor;

—because it even stoops to an international extortion racket in squeezing millions of dollars from overseas Chinese—and many of them in this country—who try to buy safety and protection for their relatives at home—which is something I intend to develop in the United Nations if the time comes and if this thing is brought up and I have a chance to do so.

The exposure of the terrible ways in which the Chinese Communists violate the normally accepted standards of international conduct has so horrified many decent people that this regime has never even gotten a toe-hold on the threshold of the United Nations. And I can promise you that as long as I am there, I will steadfastly resist all maneuvers by the Chinese Communist regime and its advocates to bribe its way into the United Nations. It seems to me to admit to the United Nations a regime which believes in war as an instrument of national policy would be the first time in its history that the United Nations had deliberately decided to stultify itself by flagrantly acting in contradiction of its primary and basic purpose, which is to "save succeeding generations from the scourge of war."

People who say, "Well, the Russians are in—why shouldn't the Chinese Communists be in?" I think, overlook the fact that if the Russians had been acting in 1946 in the way in which they have acted since, that we would not have been in favor of admitting them. And for us to admit a flagrant violator in cold blood, as we would be doing in the case of the Chinese Communists, would be to stultify the United Nations. It says that it shall be composed of "peace-loving nations." Those two words are quoted from the charter. It is not contemplated that it should be a mere continuing diplomatic forum in which the virtuous and the criminal should sit side by side.

I would like to conclude by pointing out that perhaps the biggest thing that has happened at the United Nations since I have been there was on the 8th of December, when President Eisenhower appeared and made his famous proposal to set up an international stockpile of fissionable material to be used for peaceful purposes, which would lead the world away from war and toward peace. At that moment I think it was that James Reston, the diplomatic expert of the New York Times, said that in one stroke he had seized the initiative away from the Kremlin which they had had in the cold war since the end of World War II.

This is a wonderful illustration of how the United Nations can be used if we have the imagination and the gumption and the statesmanship to use it.

The United Nations is a beginning. It is evolutionary. It rather reminds me of the time in 1903 when the Wright brothers got the first airplane to fly. I think it flew 31 miles an hour for 17 seconds. When it came to the ground, they didn't thereupon go out and destroy it and chop

it to pieces and blow it up. They went out and tried to make it better. I think it can do it some more, and I think the thing for us to do is to improve it and to build it up.

Thank you for this opportunity.