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UNITED STATES DEPARTMENT OF
COMMERCE

John T. Connor, Secretary

Washington, D.C.

Office of the Secretary

For Release in Sunday Papers May 9, 1965

Address by Secretary of Commerce John T. Connor Prepared for Delivery Before the Business Council at the Homestead, Hot Springs, Virginia, 9 P. M., Saturday, May 8, 1965

My first inclination is to begin by saying that it's grand to be back with old and valued friends.

The only trouble is, I haven't been anywhere--as you can all testify. I happen to be sitting in a different chair, but the fact is that in the nearly four months I've been in office, you've seen more of me than ever before.

For during this time, the day has not passed that I haven't called on you and other friends in the business community for help and advice on one or another program inaugurated by the President which is vital to the national interest.

Your generous response to our country's needs has been one of the most gratifying experiences of my life. I am satisfied that during this brief period we have witnessed a new high in business cooperation with government in the pursuit of critical national objectives.

This is not, of course, something that has blossomed overnight; nor is it attributable to my presence in Commerce. Rather it is the result of several years of a steadily growing rapport between business and government, carefully nurtured through increased understanding and mutual respect. A large share of the credit goes to President Lyndon Johnson and his keen appreciation of the business viewpoint.

He understands the needs of business, and he understands the role of business as the economic engine that powers the system which provides us with the highest standard of living in the world.

The acceptance of greater leadership and responsibility by business represents, I think, one of the most significant current developments in our national life.

For many years we have watched both labor unions and government widen their responsibilities--and we have seen their power and influence grow apace.

Needless to say, I do not oppose the proper exercise of power by any group in the country. On the contrary, I welcome it, as evidence of a pluralistic society where power is diversified among many contending groups.

But as a businessman and as a public official, I have very much regretted that too often in the past the voice of business has either not been heard or has not carried the weight its importance deserves in the councils of the nation.

Today, however, we are witnessing a reversal of this trend, with business voluntarily increasing its responsibilities--and its leadership--in many areas. And with this development has come a growing business influence that, in my opinion, is having the most salutary effect on our entire national life.

But I do think there is something fundamentally new about today's business leadership that differs in important respects from that of a generation or two ago.

It is, first of all, the kind of leadership that seeks to lead, rather than to dominate. Businessmen know where this country can and must go, and they are eager to help get it there. But questions of who shall exercise the power are an anomaly when we consider the sobering responsibilities of this nuclear age. Instead of arguing over power, men today are vying with one another for the opportunity to contribute to the nation's betterment. Not

since the founding days of the nation have we all realized so fully that we are truly in the same boat.

Next, it is the kind of leadership that welcomes the chance to join with labor and government in the attainment of national goals. There is no more room and no more time for any segment of our society to indulge in fear, enmity, suspicion and mistrust. Common objectives are becoming the overriding consideration in the efforts of all of us.

Third, it is the kind of leadership that is more responsive to the needs of the people. No longer are government and labor the only ones identified, almost to the exclusion of business, with the aspirations of the great masses of our citizens. Business is demonstrating a concern no less great--and, in my opinion, has within its power, as the central organizer of our economic life, to make even greater contributions than at present.

Finally, it is the kind of leadership concerned not with its own narrow interests, but with those of the whole nation; and the kind that offers the best hope for increasing economic opportunity for not only our own people but all those throughout the world who want to live in peace and freedom.

Certainly it is the kind of leadership that President Johnson welcomes. He demonstrated this when he put the balance of payments program on a voluntary basis instead of seeking legislation that today would still be in the debating stage. He needed action fast--and at the same time he was determined to avoid the straitjacket approach that would work real hardship on some firms.

This program is fulfilling both objectives. Instead of a rigid set of rules, we have a program that is releasing the creative abilities of hundreds of companies to come up with solutions tailor-made to their own operations.

And as Al Nickerson indicated in his report to you, the reports we have analyzed to date show that business in the coming months will make a substantially greater contribution to a reduction of the deficit than ever before.

I know that many of you here tonight have been involved personally in this matter for many weeks, and on behalf of the President I want to express his deep gratitude for your efforts in this critical undertaking.

I would like to add that the program's success is due in no small measure to the support and counsel we have received from the Balance of Payments Advisory Committee in which members of the Business Council play a leading role. This is at least one advisory group which had some advice to offer that was taken. We are most grateful for their continuing guidance.

Our Commerce Department report to the President and the Advisory Committee a couple of weeks ago covered a tabulation of the first 344 responses by the participating business firms. The evidence suggests that the improvement in selected foreign transactions during 1965 will exceed \$1.2 billion. This represents an increase of about 14 percent compared with the performance of these same companies in 1964. As a result of that preliminary report, we have a feeling of cautious optimism about the ultimate success of the program.

But there are other developments in this many-sided deficit problem that requires us to be very cautious before we begin to count our chickens at this stage of the game.

For one thing, we can expect our rising standard of living to produce the normal increase in imports. In addition, despite the "See the U.S.A." program, designed to encourage more Americans to travel at home, we anticipate that foreign travel expenditures by Americans may be \$200 million greater than in 1964. This is not likely to be matched by expenditures of foreign visitors to our shores. Without a lot of second thoughts by many more Americans about vacationing abroad or reducing their foreign expenditures appreciably, the "travel gap" could reach \$1.8 billion in 1965.

But there are other plus factors besides the contribution of the business community. Commercial banks will make sizable contributions, and other financial institutions will also register gains.

Just what the over-all results of our combined efforts will be cannot be estimated at this early date, but there is no question that we have made a solid beginning. More than ever we can be confident that we will win the battle of the dollar--and, if we do, the business community will deserve a major share of credit for the victory.

But as important as this victory will be--and, we think it is absolutely critical to our continued economic development and free world leadership--I am even more interested in what underlies it. For this is the stuff that can produce a thousand victories. And in large measure, it is composed of the unity, purpose, and leadership of the American business community.

My consuming interest is to encourage business to extend its leadership and win those victories. Certainly the challenges are all around us.

One is in the field of employment--and nowhere does business have a better opportunity for demonstrating its concern for the welfare of our citizens. Nowhere does the nation need the organizational ability of the professional manager quite as much, nor the resources that only business can provide.

Let me first emphasize the depth of this problem and then suggest ways in which business can help solve it.

There is no greater human need than a job. A job means survival--for the worker, his wife, his children--for the home that is the root of his life. A job means pride. Without a job, man's self-respect and self-reliance crumble.

Unemployment crushes the individual, and deforms society.

Unemployment creates an environment in which neither business as a segment of society--or society itself--can thrive. It causes unrest, it encourages crime. And its impact is as economically burdensome as it is socially cruel.

In simple terms: the unemployed are tax users; the employes are taxpayers. The social gains of employment are immeasurable; the economic losses of unemployment are intolerable.

We take heart at the fact that unemployment in March dropped to 4.7 percent of the labor force, its lowest point in nearly 7-1/2 years. But in April it jumped up to 4.9 percent. Regardless of percentages we can't take heart in the fact that 3.6 million Americans are without a job. Or from the fact that 35 million persons in the United States live in poverty.

And if we accept unemployment as a problem today, consider the problem that could balloon from the mere fact that for each of the remaining years of this decade, our labor force will grow by 1.5 million persons.

By 1970, then, we must create 9 million new jobs to match the growth of the labor force--not to mention the 3.6 millions currently without work.

I want to focus for the next few moments on two elements of the employment problem which are of special concern to me. One is youth. The other is race.

The greatest handicap to employment today is lack of the necessary skills to perform the jobs created by the new industrial revolution--the revolution in technology which has overtaken our products and our processes of production. Ours is not a problem of mass unemployment. Our problem is not that there are too few jobs for the trained, but there are too few jobs for the untrained. And the growing gap between the demand for and supply of unskilled or semi-skilled labor has been most detrimental to those members of the labor force who are the least experienced--particularly the teenager.

Unfortunately, the rate of employment among young people--which had improved somewhat during the first three months of this year--worsened in April. The inescapable fact is that where 88 of 1,000 teenagers were out of work in 1947, the number has almost doubled--to 162--by 1964. During that period, more than half the increase in total employment occurred in

the professional, technical and managerial occupations. We can expect the trend to continue--and the number of unskilled jobs to decline.

An increase in the supply of youthful, inexperienced workers, together with an increase in the demand for technical skills, will surely aggravate our present employment problem.

It will, I believe, pose one of our gravest economic challenges for the remainder of this decade and well into the next.

Business--by broadening its concept of public responsibility--can take the lead in meeting this challenge.

But let me emphasize that the employment problem will never be solved until the opportunity for employment is genuinely equal.

Business can take the lead in providing equal opportunity, for it is business that provides employment.

Considered in plain, unprejudiced economic terms, failure to provide equal opportunity is wasteful, unsound and self-defeating.

The President's Council of Economic Advisers recently summarized the cost of unequal opportunity. The Council concluded that better education of Negro workers and a halt to job discrimination would generate an increase of \$23 billion--or an additional 3.7 percent--in gross national product.

The Council also came to this conclusion: if Negroes enjoyed the same level of education, pay and rate of employment as whites, their personal income would have increased by \$20.6 billion last year.

As you know, the Federal government has long been involved in programs to equip Americans with the skills and opportunities for employment. Its direct involvement goes back to the Vocational Education Act of 1917. And now its programs are better designed to encourage wider business involvement.

The current vocational education program is a good example. It provides for state advisory committees made up of businessmen, union leaders, educators

and employment service personnel to help determine occupational needs and many important aspects of training. Because they have been increasingly involved, many businessmen have supplied equipment and services of significant value.

The extent to which businessmen are taking part in training programs makes it clear that they are committed to upgrading the skills of the people in labor force. But I would like to see an increase, for I believe businessmen have left vocational education too long to the school people and union representatives. Teachers and union leaders have much to contribute--but so do businessmen, who do the hiring.

Another opportunity for action is coming up with the Public Works and Economic Development program which President Johnson has proposed to aid depressed areas through practical plans for regional development. The Department of Commerce will administer the program, and we welcome the opportunity, for its whole emphasis is on economic expansion in areas hard hit by unemployment.

But it will be business that will make the program succeed. With businessmen contributing their experience and foresight to the local and regional planning committees, the promise of the program--jobs and economic growth--will be realized.

Business already is pitching in to develop jobs in the service industries under the Job Development program. The President has assigned Secretary of Labor Wirtz and me to carry the program forward. Our goal is 10,000 new jobs a month by July 1.

Chrysler Corporation has entered into a Job Development contract designed to train and place 1,000 new apprentices as automobile mechanics. Chrysler, its dealers and the government are sharing the costs. A similar project is now being negotiated with the Ford Motor Company, and others have been discussed with additional auto and petroleum marketing executives. I am solicit-

ing the advice of the businessmen who attended a recent meeting with Secretary Wirtz and me so that any projects that develop will reflect the best thinking of those who actually create the jobs.

Business also has joined energetically in the war on poverty. Private industry played a major part in establishing five of the first 10 Job Corps centers, and more than 30 business firms have submitted proposals to operate Job Corps urban centers.

This is the kind of leadership that the Nation needs from the business world in ever increasing amounts.

The history of our times is the story of the growing responsibilities each of us must shoulder. But the increased complexity of our civilization places special burdens on leaders such as yourselves.

I think one of the great benefits of the President's balance of payments program stems from the personal involvement of the executives concerned. And certainly Irwin Miller and the other members of the East-West Trade Committee appointed by the President have made a tremendous contribution to the Nation by their personal involvement in that extremely important problem.. I hope that experiences like these will provide a new zest for greater personal participation in other affairs affecting the nation. Help is urgently needed, particularly from those in positions of great responsibility.

Today our nation is engaged in a mortal struggle with dark forces that are bent on our destruction. The responsibility for directing our efforts in this fight falls on President Johnson. He needs the support of every American. He especially needs the support of American business, which generates the economic might that underwrites our military power.

I am confident he can continue to count on receiving that support from the important segment of American industry represented in The Business Council.

Thank you.

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UNITED STATES DEPARTMENT OF
COMMERCE

John T. Connor, Secretary

Washington, D.C.

Office of the Secretary

FOR RELEASE IN P.M. PAPERS, FRIDAY, MAY 14, 1965

ADDRESS BY SECRETARY OF COMMERCE JOHN T. CONNOR
PREPARED FOR DELIVERY BEFORE THE SOCIETY OF AMERICAN
BUSINESS WRITERS, THE GOTHAM, NEW YORK, NEW YORK,
10 A.M. FRIDAY, MAY 14, 1965

Just a week ago I had the pleasure of attending the Business Council meeting at Hot Springs and renewing my friendship with many old associates who are working to increase the economic strength of our country.

In a sense this, too, seems like a homecoming for I have been reading your reports and your views for so many years that your familiar by-lines are old and valued friends to me.

I start my day reading what you think and report; I close my day the same way. So you, like business friends, give valuable advice which is taken into full account in the decision-making process.

That is why I was particularly pleased when Joe Livingston asked me to join you today for the meeting of this important young society that can become such a constructive force in our national life.

I hope your society will continue to grow both in numbers and influence because you can do tremendous good in focusing on the economic challenges that face our country.

And I trust you will maintain a close liaison with the Department of Commerce which is the focal point of the relationship of industries and business with the Federal Government.

I want to take this occasion to look at the economy, tell you how I believe it shapes up for the short and long term--and then pose a question that I hope bothers you as much as it does me.

Your annual meeting occurs as we reach another milestone in our continuing economic advance. This, as you know, is the 51st consecutive month of the longest period of peacetime expansion in our history. The current period of growth has now exceeded the peacetime record of 50 months achieved between 1933 and 1937.

And what a difference between the times!

Our economic gains during this period are the more impressive when you consider we started from a relatively high base.

The satisfaction with which we view the years since March 1961 is enhanced by the fact that new highs have been registered in production, employment and income without overheating the economy. This has been a solid, broadly based expansion.

Just last week end the Business Council reinforced our own generally optimistic outlook for the economy. Now everyone seems to agree that the gross national product will soar to the vicinity of \$660 billion this year. And I am sure you agree that price stability has made the current rate of output all the more remarkable.

GNP already has risen by nearly \$150 billion since the low first quarter of 1961, and in real terms this is equivalent to an exceptional annual average gain of 5.3 per cent.

Stable prices, always essential to orderly economic growth, have enabled us to count the statistical gains of 51 months in terms that mean something to every American. Real consumer purchasing power has advanced more than 20 per cent since 1961.

Now, I'd like to take stock of the business prospects under three general headings: Investment, Inventory and Income.

But first I want to emphasize that our unparalleled period of expansion has been a triumph of teamwork. In my lifetime I have never witnessed such unity of purpose and cooperative effort on the part of business, government and labor.

President Johnson's understanding of the problems of both business and labor has converted a misguided sense of conflict into a forceful combination of interests. The results are on record. The Federal government provided the tax and other incentives, and the big push forward came from the private sector -- from business and consumer spending.

You will recall the doubts and the debate that surrounded the President's proposal to cut taxes and liberalize depreciation allowances when the idea was first advanced. It is noteworthy that these measures worked out pretty much as forecast and propelled our national economy to new heights.

The results have answered the two schools of argument which held on the one hand that individual gains in disposable income would not be consequential enough to have much impact on the national economy, and that the increase would be so stimulative as to create inflationary pressure.

What really happened? In anticipation of the tax cut, the President's Council of Economic Advisers predicted a 6.5 per cent increase in GNP. And that's exactly what developed--GNP surged to a gain of 6.5 per cent between 1963 and 1964. Without the cut, the increase would have been no more than 3 per cent -- if that.

Apart from such temporary factors as the rush to make up for lost time in buying new cars, the \$14.5 billion jump in GNP during the first quarter of this year furnishes additional evidence how the tax cut is fueling our economy.

Apart from such temporary factors as the rush to the \$14.5 billion jump in GNP during the first quarter of this year furnishes additional evidence how the tax cut is fueling our economy.

Because part of the scheduled reduction in taxes did not take effect until this year and because there has to be a lapse of time before the full impact is realized, we can anticipate continuing benefits from the added discretionary income that is going into the pockets of consumers as a result of the Revenue Act of 1964. And we estimate that the slash in personal income taxes raised consumer spending by \$9 billion last year.

And inflation does not appear in prospect as we move through the second quarter at a brisk pace.

Business investment, of course, is putting the tiger in the tank of our industrial machine. The earlier government estimate of a 12 per cent increase in spending on plant and equipment this year already has been topped by a private survey in which we have confidence indicating the advance is more likely to be 15 per cent. And that's on top of a 14 per cent gain last year.

Based on present estimates and forecasts, I see no reason to quarrel with surveys which indicate that businessmen are planning additional large capital expenditures in 1966 and 1967.

This demonstrates confidence, the kind of business confidence that will keep the economy humming.

We take an optimistic view also of inventories and their impact.

There has been a great deal of discussion about the accumulation of steel inventories in recent months and whether the buildup would cause trouble later this year.

It is our feeling that the continued high rate of demand for products containing steel will work against any acute distortion in patterns of production when inventories are adjusted to prevailing levels of consumption.

Other inventories are relatively low in respect to consumption rates. This doesn't mean that sales are being lost. It reflects better inventory control. So long as supplies are ample and deliveries can be made quickly, industry will pursue a conservative inventory policy.

In most of the pace-setting industries, companies today do more forward planning than once was the case and there is much better inventory control. This is helpful to the economy because inventory movements have been an unstabilizing factor in the past. The present trend will help to minimize short-term swings.

My third broad heading--income--ties in with two other elements reminding us that when we speak of economic growth, we speak of more than charts, tables, and impersonal transactions in goods and services. Income is linked with employment and spending. Combined, they represent the human aspects of growth and the yardstick of our living standard.

Consumer spending has been such a potent factor in the business upswing that in the first quarter of 1965 it accounted for \$11.5 billion of the \$14.5 billion increase in GNP.

As we know, part of this can be attributed to a makeup for sales lost during last year's auto strikes. But a large portion of the increase reflects the steady rise in income.

It's not enough to note that the tax cuts of last year and this year put additional money into the hands of consumers. The striking aspect is that a substantial increase in jobs has accompanied this upsurge in income. Nonfarm employment in March was more than 2 million ahead of March 1964.

Combine these increases and we come up with a demand for autos and other durables which will be a further strengthening influence during the second half of the year.

President Johnson's proposals to cut excise taxes and to increase Social Security benefits will accelerate consumer spending and provide still another growth factor in the months ahead.

I do not share the apprehension that the increase in Social Security contributions next January will impede our growth until the full offset of the rise in ordinary benefits and the advent of medical benefits are felt in fiscal 1967. I believe our expanding economy will absorb the difference between contributions and benefits in the intervening months.

Let me comment briefly on three other matters.

First--housing starts declined last year, but in recent months there has been evidence of improvement. I think the outlook for housing construction is bright and I look for the rate of activity to climb later this year and beyond.

Second--federal programs will have a stimulating effect on consumer demand. Defense spending has been expected to turn downward, but it is obvious that the actual size of these expenditures will be influenced by events in Viet Nam and other developments abroad.

Apart from national security, this Administration is committed to extend the war on poverty and thus raise the purchasing power of the people who live on the borders of want.

In addition, state and local governments will receive larger grants-in-aid.

Third--we are making encouraging headway in the balance-of-payments problem. The tabulation of the first 344 responses of firms engaged in the President's program of voluntary cooperation indicated an improvement of at least \$1.2 billion in selected transactions this year. In a few days we will issue a more complete report which I believe will justify our feeling of cautious optimism.

Just this week we circulated guidelines on short-term investments to the more than 600 firms participating in the voluntary program. In sum, the guidelines ask business to hold short-term investments abroad to the level of last December and, where needed, to trim them down to the level of December 1963.

So you can see we can look to the future with confidence. Business leaders share our optimism. Taking a cue from you reporters, I've done a little digging of my own. Their views, I think, will interest you.

Frederic G. Donner, board chairman of General Motors, informs us the technical indicators pertinent to the automobile industry continue to be favorable. Quoting Mr. Donner:

"With rising employment, incomes and consumer confidence, it is possible to visualize a new record level of demand for cars and trucks this year in the area of 10.5 million units."

Roger Lewis, board chairman and president of General Dynamics, told his company's shareholders, and again I quote: "Current trends do not indicate a major dip in over-all defense spending; rather they point to a flattening out around the current procurement rate." Mr. Lewis predicted a good year for General Dynamics.

This comes to us from Fred J. Borch, president of General Electric:

"I am optimistic about prospects in general for 1965 but consider it vitally important to avoid widespread wage-cost increases that would handicap U. S. industry in international competition and

thereby result in a loss of jobs. As for General Electric itself, I am also optimistic about both the short and long-term future."

C. W. Cook, president of General Foods, tells us:

"The economy promises to turn in another good performance in 1965. The food industry continues its steady growth and it will contribute strength and stability to the extension of the longest economic growth period in peacetime history."

Mr. Cook adds that the consumer can look forward to spending an even smaller share of his income for food.

As you have noted, I chose four Generals -- Electric, Foods, Dynamics and Motors -- for comment, but these Generals were specific in forecasting a good year.

To sum up my own view: the short-term outlook is favorable.

I anticipate increasing sales, employment and profits. I do not expect inflationary pressures to develop. I do expect that stable prices will sustain broad and orderly expansion.

As for longer-term prospects:

With increasing consumer and business confidence, and with the government following policies of expansion, I believe we have sharply reduced the chances of a slump.

Of course, we haven't yet found ways of completely eliminating ups and downs in the business cycle. But both business and government planning have reached a maturity that enables us to level off fluctuations. We are learning how to manage prosperity.

I am confident that increasing demand will continue to require substantial business investments. These, together with programs to help attain our objectives of building the great American society, which President Johnson envisions, will produce a faster rate of growth.

But don't believe for a moment that the confidence I have expressed indicates a sense of complacency on our part. Quite the contrary, we foresee enormous economic challenges both for the immediate and long range future.

Unemployment not only imposes serious social and economic penalties on our country, but it is a demoralizing influence on those individuals and families who are denied a productive role in our national life and the chance to share in our rising prosperity.

The labor force is growing at such a pace that by 1970 we will have to create 9 million new jobs to absorb the newcomers, let alone the 3.6 million who are not working now. This is much more than a problem in numbers. One of the biggest obstacles to employment today is the maze of skills required to handle the jobs created by advancing technology, while the supply of young and unskilled workers continues to increase.

We have a shortage of the trained and a surplus of the untrained. Jobs go begging for some people while other people beg jobs.

The government is doing something about the situation through manpower training, retraining and job development programs. The main thrust must, of course, come from the private sector.

Automation sets up perhaps the most pervasive economic challenge of our time. Some way must be found to provide more jobs for unskilled people in this age of the computer. But the businessman, whether he is rated small or large, must modernize his methods as well as his machines in order to stay competitive, both at home and abroad.

The challenges we face are dramatized by the need to compress into the remaining years of this century all the effort of all the preceding years of our national existence.

Urban population will double by the year 2,000. We will have to erect entire new cities--and, as President Johnson put it, we will have to build homes, highways, and other facilities equal to all those built since the country was first settled.

To move people and products, we will have to double our transportation capacity by 1985.

Yet, based on accomplishments up to the present time, no one really doubts that the free enterprise system is equal to the tests ahead.

At the outset I said I wanted to pose a disturbing question that I hoped bothered you as much as it does me. It's this:

Why is the free enterprise system so little understood and appreciated by both Americans and people around the globe?

Despite all its accomplishments in raising our own standard of living and in helping to bring the fruits of industrial society to people everywhere, and despite the economic might it provides for the defense of the entire free world, the system is often unjustifiably attacked as one that enslaves the working man.

Why have we done such a wretched job of communicating the facts about this system?

Several years ago one of the country's better known financial institutions offered a course in economics for staff members. Participants in the opening class were better than average in general and economic education. They were tested before the course began, with these results: 41 per cent believed profits were greater than wages; only 26 per cent gave the right answer that wages were several times profits. The remainder gave other answers or just didn't know.

In selling the free enterprise system abroad, I think that perhaps we've been overly content with generalities. But I can tell you that the grandest of generalities will not overcome the suspicion of a Latin American campesino who thinks business in the United States makes a 60 per cent profit every year.

Nor will it sell the United States to the Italian factory worker who thought his employer--a U.S. firm--was making worldwide profits of something like 35 per cent--six times the actual amount. This same worker, before the facts were brought home to him, thought the ratio of his pay and benefits to dividends was 5 to 4--far from the actual 19 to 1.

The problem requires, I think, a major communications effort by American business itself. Abroad, the United States Information Agency works diligently to tell the story, but the main job must be done by private business.

And I want to ask your help in alerting business to the need for increasing its efforts in this field, both at home and abroad. Many firms already do an outstanding job, but many more need to pitch in and help.

Nowhere, I think, could you make a better contribution than in helping to enlist the support of business in a truly massive effort that sells the free enterprise system with the same effectiveness that quality American products are sold.

Thank you.

UNITED STATES DEPARTMENT OF
COMMERCE

John T. Connor, Secretary

Washington, D.C.

Office of the Secretary

For Immediate Release Monday, May 17, 1965

Remarks by Secretary of Commerce John T. Connor at Meeting
of the Maritime Advisory Committee, Monday, May 17,
1965 in U.S. Department of Commerce.

You will recall that at the last meeting of this Committee on February 8th I indicated that Secretary of Labor W. Willard Wirtz and I wanted to have the benefit of your thinking before recommending any new maritime policies to the Cabinet and the President. We still hold that view. We have received many more expressions of your views during the last three and one-half months. When added to the papers and comments received by this Committee last year it makes quite a contribution on your part of information and judgment which the Government has and will continue to consider fully. Hopefully, you will continue that process today.

You may also recall at the last meeting I appointed a subcommittee to be headed by Mr. (Theodore W.) Kheel, (a N.Y. lawyer and labor expert). Subsequently, Mr. (Lane) Kirkland, (Executive Assistant to the President, AFL-CIO) and Mr. (J. Paul) St. Sure, (President, Pacific Maritime Association), were appointed to the subcommittee. We had hoped that the subcommittee could work up a draft statement for the full committee which would then be the basis for our discussion here this morning.

For a variety of reasons, that has not been possible. The subcommittee has met more than once and we have exchanged correspondence. I met with the subcommittee once. Mr. Kheel and his colleagues viewed the subcom-

mittee's function as requiring a preliminary statement from the Government as to its position, including the number of ships the Government felt necessary to an adequate merchant marine. I had hoped that the subcommittee could produce a broad statement of goals toward which the Committee could work that would be equally applicable without regard to the number of ships involved.

In any event, that is where the subcommittee now stands, and therefore it was our mutual judgment that the urgency of resolving these matters with dispatch argued for our calling a meeting of the full Committee promptly without waiting longer for a subcommittee report. And that is why we are here today; and we are grateful for your presence.

It had been my position that it would be useful to the Secretary of Labor and to me to have a statement of your views and your suggested program before the Government position was firmed up. I still hold that view, although also fully committed to a prompt resolution of our maritime problems. I can report to you that there is still no new Government policy for the merchant marine, and thus your role remains very much what it was in February.

Nevertheless, Mr. Kheel has impressed so firmly upon me your need to have some sense of the Government's position and commitment before you can even begin to deliberate that I have attempted to come forward with some expression of the broad boundaries of this Government's policy toward our merchant marine.

Mr. Kheel is quite right that the size of the merchant fleet to be subsidized necessarily is a matter largely for Government determination. The merchant marine resources needed for national security purposes are determined by the Departments of Defense and Commerce, and are of a classified nature. The number needed for protection of our own trade, on the other hand, cannot be determined precisely. We can calculate the number of ships needed to carry a given percentage of our projected trade--10%, 30% or 50%--within a reasonable range of accuracy. We want to carry a substantial portion of our trade in order to assure the availability and utilization of U.S. -flag ships, and to assure that American business has available to it the kinds and qualities of service necessary for trade expansion, and to assist in our balance of payments program. We must have an amount of U.S. -flag shipping sufficient to assure that those foreign flag ships upon which we must rely heavily will provide good service to American shippers at reasonable rates. We now are carrying in U.S. -flag ships about 30% of our general cargo trade in terms of tonnage. We are carrying about 5% of our bulk trade--again in terms of tonnage.

In evaluating our need for American-flag ships for both defense and commercial purposes, moreover, we must take account of the 1,000 priority ships in our National Defense Reserve Fleets, the approximately 450 ships owned by Americans but operated under foreign flag, and the ships available to us under the NATO alliance. Even though our access to and control over these ships is not as direct as over American-flag merchant ships, they do affect our fleet needs.

Finally, there is the cost of the merchant ship program. Here again, ultimately the judgments must be made by Government. If we had a commercial merchant marine operating at a profit, the number of ships under American flag would be a function solely of economic forces. As you all know, however, our merchant marine is heavily subsidized--55% of the cost of building a ship is paid by the Government, and 72% of the wages received by merchant seamen is paid by the Government. Together with the freight rate differential of the cargo preference program this comes to over \$400 million a year in direct subsidies at the present time, and it has been increasing. Necessarily, while the final judgment as to how tax resources are to be allocated among the numerous competing programs in need of funds must be a judgment of Government and not of those receiving the subsidy, your suggestions on this critically important matter are very much desired, invited, and will be given full consideration.

Where does this leave us?

First, and most important, this Administration supports the American merchant marine. I have mentioned here some of the reasons why we need ships under the American flag, and the Maritime Administrator, Nicholas Johnson, has discussed those needs at great length. There is no desire to sink the fleet, or curtail its growth, or to save subsidy dollars at the expense of maritime programs required in the national interest. I am sure that all of us here today would like to have a larger fleet, with more jobs, carrying a

higher proportion of our cargo, and the launching of more ships by American yards. But there are reasons why we cannot have the size of fleet we personally might like to have--for expenditures must be determined on the basis of national need not personal desire.

Second, national security needs for shipping are under constant review by the Defense Department and the Department of Commerce. Most of their studies and plans are highly classified. To the extent that such information can be made available to you, however, I will do so. Let me say for now that present figures indicate that existing ships under the American flag are adequate to meet presently established requirements for services by the military. Requirements for essential civilian shipping needs are in the process of development, but are not yet available. As national security requirements are developed or change, appropriate adjustments are made in the merchant marine and other support programs. It should be noted that over time the ships in the reserve fleet become less adequate to meet emergency requirements.

Third, our commercial need for American-flag merchant ships is impossible of precise definition. Although all would agree that we should carry some proportion of our trade to insure adequate shipping service and reasonable rates for our foreign trade, it is impossible to demonstrate as a matter of national urgency that the proportion be 50%, say, rather than 10%. I might point out in this connection, however, that our berth liners carry about 35% of our general cargo tonnage, which constitutes about 15% of our total water-borne foreign

commerce. In contrast, our tramp operators carry only 5% of the bulk tonnage, which makes up about 85% of our exports and imports. This raises the question of whether we should be giving relatively more emphasis to dry and liquid bulk.

Fourth, no judgments have been made as to the government's future budgetary commitments to the merchant marine. Such judgments will be affected by your contribution here, as I have explained. We are prepared to consider any proposals which are well developed, documented, based upon a systematic analysis of our national needs, and which would increase productivity of the merchant marine in terms of shipping capability per subsidy dollar. But I can tell you that it is highly unlikely that the Administration will consider a greatly increased subsidy expenditure so long as the structure of our maritime programs, shipping capability, productivity, and labor-management relations remain as they are today.

Finally, let me repeat that we would like to have an expanded merchant marine with more ships and more jobs, a fleet capable of carrying a greatly increased proportion of our total trade, a fleet to rival any in the world in terms of high productivity. The Maritime Administration, with the cooperation of labor and industry, is constantly seeking for ways to improve the merchant marine and has just made public one of its studies of the surface effect ship. Just last Friday a meeting was held on the status of the retrofit program involving a federal investment of \$27 million in 100 ships. The government has proposals for barge and container ships under consideration. We are prepared

to consider proposals from any source for a more productive use of the subsidy dollar.

You may be interested to know that the Shipbuilders Council of America has come forward with a proposal to make a four-month review of government shipbuilding policies and procedures with a view to isolating those areas where substantial cost reductions may be made. The review will be made by the shipbuilding industry alone, without government financial assistance,

I am very pleased with this proposal. The shipbuilding industry is performing an important and essential task in the partnership of government and industry in American maritime affairs. Shipbuilders can often be helpful to the government in determining those areas where procedures and policies can be simplified. As businessmen they are often in the best position to know where improvements can be made. This is one example of the kind of initiative that will lead the way to a stronger American merchant marine.

I also want to emphasize again that the government is not simply trying to decrease our financial commitment to this industry. We are trying to increase its contribution to our economy.

I am optimistic about the future of this industry. There is no limit upon its expansion save that which is self-imposed. We support you. We are prepared to work with you. We want to help. But we have much work to do together. And we must be getting on with it. For all agree that a mere perpetuation of the status quo is as unsatisfactory to management and labor as to government.

I would like to call another meeting of this Committee one month from today. Prior to that time I am going to ask Ted Kheel and his group to come forward with proposals that incorporate your views expressed at prior meetings and today. If the subcommittee remains unable to do so, within two weeks I am going to ask the Maritime Administration and my staff to put together a proposal for you to consider.

I hope this statement has been useful to you, and responsive to the need the subcommittee expressed.

I would like to open the meeting up for full discussion at this time, and hear your response to this statement and such ideas and suggestions as you may have.



Office of the Secretary

FOR AT 1:30 P.M. WEDNESDAY, MAY 19, 1965

Address by Secretary of Commerce John T. Connor Prepared For
Delivery at World Trade Day Luncheon, Plaza Hotel, New
York, 1:30 P.M. Wednesday, May 19, 1965

I am extremely happy to be with you today. As Harold Gray knows, his was one of the very first invitations to speak I received after taking the oath of office in January. I was just breaking into the job at the time and had made a resolution to accept as few speaking engagements as possible until I felt adjusted to my new responsibilities.

It was a New Year's type of resolution, however, in the case of your World Trade Week observance. It was easily broken, for there are few areas so vital to the economic growth of our country as international trade. From the outset, it was and continues to be a primary mission of the Department of Commerce.

I am especially glad that this is the occasion for me to make my first presentation of an "E" Award for excellence in exporting. The setting is most appropriate, because New York State has earned by far the largest share of "E" Awards since the program started three years ago -- nearly one-sixth of the 650 presented to date. And our survey of manufacturing exports in 1963 placed

New York second among all the states in total shipments abroad.

New York topped them all, incidentally, in the general categories of precision instruments, electrical machinery, printing and publishing, and clothing.

The "E" Award winner we honor today -- the Grace Line -- is responsible not only for carrying a sizable quantity of products to Latin American markets, but also for actively promoting exports. The Line has established a separate division, its Trade Development Office, for the sole purpose of encouraging and assisting U.S. producers to explore and expand business in overseas markets. Grace also has searched out foreign distributors for U.S. goods.

We in the Commerce Department are especially aware of the support Grace has given to Mobile Trade Fairs. In partnership with two other lines, American Export - Isbrandtsen and Farrell, Grace formed a nonprofit organization to help move U.S. products from one foreign port to another for display to potential buyers. Grace has picked up the costs of loading, unloading and transporting exhibits and containers housing Mobile Trade Fairs. Furthermore, the steady communication Grace's overseas agencies maintain with businessmen in the countries it serves has generated increased business between U.S. sellers and Latin American buyers.

These are but a few of the achievements which make the Grace Line such an eminently worthy recipient of the "E" Award. I take great pleasure in presenting this banner and citation to Mr. W. J. McNeil, president of the company. Let me read the citation:

"Through its Trade Development Office, Grace Line, Inc., has encouraged and assisted United States manufacturers not now exporting to enter international markets and also stimulated current exporters to expand their foreign business. In partnership with other steamship lines, Grace Line has pioneered the Mobile Trade Fair technique and continues to participate substantially in its current operation. In addition to developing its specialized, rapid 'containerized' service, Grace Line also provides packaging advice and assistance and counsel on foreign port operations. The export promotion activities of the Grace Line reflect credit on management, employees and the American free enterprise system."

This company's contribution to the development of our commerce is an example of how American business and government have worked together in our export expansion drive.

The success of this program is reflected in the growth of United States trade. Since 1960, our exports have climbed from \$19.6 billion to \$25.6 billion last year -- an increase of 31 percent.

By focusing more attention on the opportunities in foreign markets, our export program has helped the United States share more fully in the tremendous growth of international trade. In 1948, the exports of the Free World nations were \$48 billion; by 1954, \$75 billion; and today, a decade later, these exports are \$152 billion.

The growth of international trade is one of the great forces for strength within the Free World. Despite transient differences, our common economic bonds are strengthening the fundamental unity of the non-Communist world.

We expect this expansion in world trade to continue if we achieve through the Kennedy Round negotiations a significant reduction in tariff barriers, if the developed nations pursue policies fostering economic growth, and if we continue to strengthen our international monetary mechanism.

In recent weeks, as you know, I have been devoting considerable time to taking some of the "iffyness" out of this third assumption. For our success in developing the monetary facilities needed in a growing world economy will depend in large measure upon our success in reducing the balance of payments deficit and maintaining confidence in the dollar.

I am confident that we will be successful because we lead from strength. As President Johnson said: "America holds the world's strongest creditor position; America has the world's most favorable trade position. America has the world's largest supply of gold."

Everyone involved in world trade appreciates the importance of the dollar as a medium of international exchange. They know that confidence in the dollar and the other key currencies is essential to the growth of trade.

This is why President Johnson has launched a comprehensive program to strengthen the dollar and maintain our pledge that it is as "good as gold."

We in Commerce have been charged with the responsibility of working with business to help improve its contribution to the payments problem. President Johnson put the program on a voluntary basis for several sound reasons. He wanted fast action, he wanted to avoid the straitjacket approach that would work a hardship on some firms, and he wanted a program which would release the creative abilities of hundreds of companies so that they could come up with solutions tailor-made to their own operations.

This program is fulfilling all three objectives.

An analysis of the first 344 responses coming in from the participating firms indicates that the improvement in selected foreign transactions during 1965 will exceed \$1.2 billion for these firms. This represents an increase of about 14 per cent compared with the performance of these same companies in 1964.

And the banks and other financial institutions, by holding down foreign lending, are making a sizable contribution.

We know it isn't going to be easy to meet the President's request that we eliminate the payments deficit by the end of 1966.

The long dock strike is setting us back this year. In the first quarter our trade surplus (on an annual basis) was about one-half of the \$6.9 billion rate in 1964.

With 90 per cent of our overseas exports moving by ship, we know the strike was felt throughout our economy. Recently an executive told me how he had lost foreign orders for custom-made heavy equipment which was actually on the docks ready for shipment. But the letter of credit was cancelled during the long tie-up and the manufacturer was forced to take the equipment back to his Midwest plant for modification and sale on the domestic market at distress prices.

We know too that many other companies have suffered similar losses. The most distressing of all were suffered by small firms just getting started in the export business. I don't have to tell you how discouraging these experiences were to those newcomers, nor how our whole economy has suffered as a result of that long and costly strike.

Now labor negotiations are underway with the seagoing unions on both the West Coast and the East Coast. The public interest certainly requires that these negotiations be settled through our orderly process of collective bargaining on a non-inflationary basis without a strike. Two such strikes on the waterfront in this critical year would be devastating to our national economy and our international position.

Despite the setback of the longshoremen's strike, we have reason for confidence that we can win the battle of the dollar , on the basis of long-term as well as short-term developments.

As we achieve greater economic unity in the Free World, there should be less pressure on our capital markets, the return on our private investments abroad are likely to grow more rapidly than the net outflow of investment funds, and our favorable trade balance should expand in the decade ahead, although at a slower rate than in the last few years.

Our trade experts are predicting that U. S. exports -- and this excludes military grant aid -- will rise from the \$25.6 billion of last year to \$38 billion by 1975. With our imports expected to reach \$28.5 billion by then, we should have a trade surplus of \$9.5 billion, expressed in terms of 1964 dollars.

The projected \$9.4 billion trade surplus is \$4 billion greater than our average surplus in the 1960-64 period.

In preparing these forecasts our economists were not wearing rose-tinted glasses. Basically, they are talking about the world as it is. But, how much more could our trade grow if a "one-market world" were a reality?

The experience in the European Common Market suggests the potential is enormous. Since 1960, when they started reducing their internal tariffs--their trade has grown more than 20 per cent a year --

three times the rate for all the Free World nations. At these growth rates our exports could reach more than \$60 billion by 1975 instead of the \$38 billion we are projecting.

While we can be optimistic about our ability to increase exports, we can't afford to be complacent. World competition is growing and we need to keep our ship in trim and our trade channels clear.

Through the export expansion drive, we have developed a much keener awareness not only of the importance of foreign markets, but of how our domestic policies affect the competitiveness of American products. We know that the relationship between stable wages and prices and the strength of our exports is direct and fundamental.

Since 1961, wholesale prices in the U.S. have fallen a bit, while they were rising in all the major European countries, from about 3 per cent in Germany to 11 per cent in Italy. Studies also indicate that in the period from 1957 to 1963, unit labor costs for production workers alone actually decreased by approximately 4 per cent in the U.S. while they were increasing by 31 per cent in France, 27 per cent in Germany and 10 per cent in Italy.

We have learned that money invested in more efficient plants and machinery also pays off in the export market.

As a result of the investment tax credit and the depreciation guidelines, which were liberalized and extended by President Johnson,

spending on new plants and equipment has climbed more than 50 per cent in the past three years.

Not only are the new productive facilities helping American industry hold down costs, but they are giving the U.S. the capacity to meet the needs of an expanding world economy.

On a public policy level, we have also gained a greater appreciation of the relationship between profits and technological change. Profit is the instrument of progress -- for it is the prospect of profit which has been not only the creative force behind the development of new products but the motive force of our entire private enterprise system.

And it is in industries that are coming up with new advanced equipment that are likely to increase their exports the most in the years ahead. This includes such products as office machines, computers, metal working machinery, textile machinery, air conditioning and refrigerating equipment, telecommunications apparatus, organic chemicals, electrical transmission apparatus and scientific equipment.

It is interesting to note that one of the common characteristics of these industries is that they are earning above average profits, which enables them to make greater investments. These are also high-wage industries, I might add, which make constantly growing contributions to our gross national product.

We have also come to understand in our export expansion program how business and government can work together in the

development of overseas markets. As a result, we have improved our export financing facilities, strengthened our commercial intelligence services, developed a hard-sell trade fair program, and sought to eliminate or reduce many other barriers to American trade.

We intend to build upon these programs -- many of which were started under the leadership of my distinguished predecessor, Luther Hodges. He truly earned the title of "America's No. 1 Salesman" for his outstanding efforts in opening the eyes of American businessmen to the potentials of developing world markets. For this I salute him.

Now we are focusing on specific opportunities in foreign trade. We intend to put more emphasis upon market research and identifying the areas in which American exporters can be most competitive.

Particularly is this true for our small and medium-sized companies. Through our commercial trade fairs, we have helped hundred of companies which are too small to have market development staffs abroad introduce their new products to agents and distributors in many parts of the world.

Many companies are also developing overseas markets through "piggyback" exporting. American companies with established distribution systems abroad are finding it profitable

to take on additional U.S.-made products. They have the warehouses, the organization setup and a knowledge of the market which enables them to help expand American exports.

General Electric is a prime example. In one country or another it markets such diverse products as construction equipment, medical and hospital equipment, meat grinders, intercommunications systems, X-ray film, and machine tools. Other companies which are helping to sell the products of other American firms abroad include Pillsbury Co., Borg-Warner, International Telephone & Telegraph, and Thompson Ramo Wooldridge.

"Piggyback" marketing abroad is a possibility I hope every firm with an export potential will consider if they do not have the resources to establish their own overseas marketing operations.

Incidentally, I've had the pleasure of seeing a model of the new World Trade Center here which will provide an outstanding facility for expansion of overseas commerce. We can all be encouraged to see foreign trade receive this kind of focus in this great world capital.

The growth of our trade in the decade ahead--a period in which we expect our exports to rise to \$38 billion or more--will depend in large measure upon the ability of our industries to supply the unfilled needs of a burgeoning world economy.

With the population on this planet expected to climb to nearly 4 billion by 1975, there will be growing demand for the bounty of our efficient farms.

The products of our capital goods plants will be needed in the less developed nations as they turn toward industry to achieve a better balance in their economies and higher living standards for their citizens.

And our technologically-oriented industries should continue to participate in the rapid growth of Europe and Japan.

I am confident that we will continue to share fully in the fruits of the great global market that is emerging. For we are carrying our full share in the effort to build a prospering world society and a better, more satisfying way of life for people everywhere.

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UNITED STATES DEPARTMENT OF
COMMERCE

John T. Connor, Secretary

Washington, D.C.

Office of the Secretary

FOR RELEASE AT 12:30 P.M. THURSDAY, MAY 20, 1965

REMARKS BY SECRETARY OF COMMERCE JOHN T. CONNOR AT "VISIT USA"
LUNCHEON FOR EUROPEAN JOURNALISTS, SPONSORED BY TRANS WORLD
AIRLINES, MAYFLOWER HOTEL, WASHINGTON, 12:30 P.M. THURSDAY,
MAY 20, 1965

It's good to have you journalists from Western Europe visit with us.

I understand you arrived in the U.S.A. 14 days and 6,470 jet miles ago. We are happy to greet you at this point along the way and to take note of the role which the press abroad has played in telling the "VISIT USA" story-- the story of the desirability and the ease of business and pleasure travel to the United States.

Travel the world around is one of the most rapidly growing income producing industries. And in the record flow of international travel last year, the United States ranked first in the number of visitors coming from other countries as well as in the volume of its citizens going abroad.

I want to reassure you that despite the imbalance in this country's international accounts, we have no intention of restricting travel by U. S. citizens. We have chosen the positive course of promoting America's outstanding travel attractions. Your presence here as part of an active, joint Government-Industry VISIT USA program illustrates this approach. I appreciate the importance of such visits as yours and am pleased that you could come. Certainly your hosts, too, have my warmest thanks for helping to make your visit possible. I commend Trans World Airlines, Bonanza Air Lines and Mohawk Airlines for their initiative in arranging this tour.

For almost four years, the United States Travel Service in the Department of Commerce has been channeling information abroad to encourage our free world friends and their neighbors to see the United States. But we are well aware that providing information and getting it before the intended audience are two different tasks. We are very grateful for the generous cooperation of journalists and the press in telling the people of the Old World that a friendly welcome and many travel adventures awaits them in the New World.

Thanks in large measure to the support given by you and your fellow journalists, almost a million overseas visitors came to the United States last year to do what you have been doing for most of the past two weeks. This was an increase of 31 percent over the previous year.

I'm sure that many of them availed themselves of the information facilities at our Travel Services offices abroad. At the six street-level offices in London; Frankfurt, Paris, Mexico City, Sydney and Tokyo, inquiries in person, by phone or in writing, for information on travel in this country increased from 46,000 in 1962 to 84,000 in 1963, to 131,000 last year.

No matter how much information is provided by our Travel Service or by TWA and its fellow carriers, nothing is of more interest or more convincing to the potential traveler than an eye-witness report, especially by a fellow-countryman. Your accounts of what you have seen and done here will carry great influence among your readers and listeners.

We like to think that among the great attractions for the visitor to this land are its "friendly natives." In communities across the nation, our people have taken steps to assure a warm welcome to those who come to see us. We hope you have found such a welcome. If you have, we will appreciate your conveying that message to your friends. And we certainly will enjoy your coming back to visit us again soon.



U.S. Department of
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REMARKS PREPARED FOR DELIVERY BY
DEPUTY SECRETARY JIM BURNLEY
NATIONAL ASSOCIATION OF MANUFACTURERS
REGULATORY REFORM AND TRANSPORTATION COMMITTEE
WASHINGTON, D.C.
MAY 22, 1985

LADIES AND GENTLEMEN OF THE NATIONAL ASSOCIATION OF MANUFACTURERS, IT IS AN HONOR TO JOIN YOU IN ONE IMPORTANT PART OF YOUR CONGRESS OF AMERICAN INDUSTRY. NO OTHER ORGANIZATION HAS DONE MORE TO FOSTER THE SPIRIT OF ENTERPRISE IN AMERICA. YOU HAVE MY THANKS FOR YOUR SUPPORT AS THE REAGAN ADMINISTRATION HAS WORKED TO CORRAL THE GOVERNMENT BEAST AND TO RESTORE TO OUR COUNTRY ITS RIGHTFUL ECONOMIC FREEDOM AND VIGOR. YOU DESERVE A PARTICULAR NOTE OF THANKS FOR YOUR ABIDING COMMITMENT TO REDUCING THE FEDERAL DEFICIT, AND YOUR CONTINUED STRONG SUPPORT OF DEREGULATION OF THE TRUCKING INDUSTRY. WE COULD NOT HAVE COME THIS FAR WITHOUT YOU.

SANDY TROWBRIDGE RECENTLY WROTE A THOUGHTFUL ARTICLE ON THE NEED FOR A "COMMITMENT TO COMPETITIVENESS." ALTHOUGH HE FOCUSED PRIMARILY ON PROBLEMS IN INTERNATIONAL TRADE AND THE NEED FOR REMOVAL OF GOVERNMENT DISINCENTIVES TO TRADE, THERE IS A MESSAGE FOR ALL OF US WHO LABOR IN TRANSPORTATION.

I CAME HERE TODAY TO TALK ABOUT ANOTHER COMMITMENT TO COMPETITIVENESS, ONE THAT IS CHANGING THE FACE OF TRANSPORTATION AND IN A WIDER SENSE, ABOUT THE CAUSE THAT UNITES US ALL -- ECONOMIC GROWTH.

LIKE MANY RELICS OF OUR PAST, ECONOMIC REGULATION OF TRANSPORTATION HAS SERVED WHATEVER ORIGINAL PURPOSE IT SUPPOSEDLY HAD. REGULATION HAD ITS GENESIS IN A DIFFERENT ERA UNDER DIFFERENT CIRCUMSTANCES THAN WE KNOW TODAY. TRYING TO REGULATE THE ECONOMICS OF OUR MAJOR TRANSPORTATION INDUSTRIES IS TOTALLY INCONSISTENT WITH THE BEST INTERESTS OF SHIPPERS, CONSUMERS AND THE CARRIERS THEMSELVES. OVER THE PAST DECADE DEREGULATION HAS NOT BEEN A PARTISAN POLITICAL ISSUE. IT DOES, HOWEVER, DIVIDE THOSE WHO BELIEVE IN THE FREE MARKET FROM THOSE WHO ONLY PAY LIP SERVICE TO IT.

TRANSPORTATION TODAY IS AN EIGHT HUNDRED BILLION DOLLAR INDUSTRY. IT IS SHARING IN OUR NATIONAL ECONOMIC GROWTH AND IS, IN FACT, RESPONSIBLE FOR A LARGE PART OF IT. WHILE THE DEREGULATION PROCESS IS NOT YET COMPLETE, WE HAVE CLEARLY TAKEN MANY OF THE STEPS

NEEDED TO UNTANGLE THE ACCUMULATION OF A CENTURY OF RED TAPE THAT HAD BEEN CHOKING OUR TRANSPORTATION INDUSTRIES AND SAPPING THEIR INITIATIVE. THIS REGULATORY EMANCIPATION, I ASSURE YOU, WITH YOUR COMMITMENT TO COMPETITIVENESS, WILL CONTINUE.

THERE HAVE BEEN SOME PROBLEMS AND SOME DISCOMFORTS AS COMPANIES LONG INSULATED FROM COMPETITION LEARNED TO ADJUST TO DEREGULATION. HOWEVER, OVERALL, THERE CAN BE LITTLE DOUBT THAT DEREGULATION IS A SUCCESS. FOR TRAVELERS AND SHIPPERS, DEREGULATION IS DELIVERING WHAT IT PROMISED: WIDER CHOICE, GREATER EFFICIENCY, MORE COMPETITIVE RATES AND GENERALLY LOWER FARES.

LET US LOOK AT THE MOTOR CARRIER AND RAIL FREIGHT INDUSTRIES TODAY. REGULATORY REFORMS IN THE TRUCKING INDUSTRY HAVE STIMULATED COMPETITION, RESULTING IN NEW PRICE AND SERVICE OPTIONS AND DISCOUNTS FOR MOST TYPES OF TRAFFIC, INCLUDING LESS THAN TRUCKLOAD SHIPMENTS. EVEN THOUGH THE OVERALL BENEFITS OF MOTOR CARRIER DEREGULATION MAY BE LESS CLEAR CUT THAN THOSE IN OTHER INDUSTRIES, TRUCKING DEREGULATION IS AS YET INCOMPLETE. THE MOTOR CARRIER ACT OF 1980 WENT A LONG WAY IN PROVIDING MORE FLEXIBLE RATEMAKING AND LIBERAL ENTRY, AND ELIMINATING ANTITRUST IMMUNITY FOR SINGLE-LINE RATES. THE NUMBER OF CARRIERS UNDER ICC JURISDICTION HAS NEARLY DOUBLED SINCE THE ACT WAS PASSED.

REFORMS UNDER THE 1980 ACT HAVE MOTIVATED ESTABLISHED CARRIERS TO BECOME MORE INNOVATIVE AND EFFICIENT, LEADING TO LOWER RATES AND

CONSUMER SAVINGS. FURTHERMORE, THE ADMINISTRATION HAS ENCOURAGED THE ICC TO REDUCE UNNECESSARY REGULATION OF HOUSEHOLD GOODS CARRIERS, ELIMINATE TARIFF-FILING REQUIREMENTS WHERE IT CAN DO SO BY LAW, EXPAND ZONES OF RATEMAKING FREEDOMS, AND EASE ADMINISTRATIVE RESTRICTIONS ON OPERATING CERTIFICATES AND PERMITS.— SHIPPERS ALREADY ENJOY GREATER FREEDOM IN NEGOTIATING RATES AND HAVE A GREATER CHOICE IN SELECTING CARRIERS. BROKERS ARE CONSOLIDATING LESS-THAN-TRUCKLOAD SHIPMENTS, "TOPPING-OFF" LOADS AND OTHERWISE BRIDGING MANY OF THE GAPS ONCE SEPARATING COMMON, CONTRACT AND PRIVATE CARRIERS. TRUCKERS SHIPPING "PIGGYBACK" LOADS CAN EVEN USE RAILROADS AS SUBCONTRACTORS. ARTIFICIAL BARRIERS AGAINST JOINT OWNERSHIP OF TRUCKING AND RAIL CARRIERS ARE BEING BROKEN DOWN.

YET, FOR ALL OF THAT, THE FINAL CHAPTER IN MOTOR CARRIER DEREGULATION REMAINS TO BE WRITTEN. IT IS NO SECRET WHERE WE STAND. THE PRESIDENT SAID IN THE STATE OF THE UNION ADDRESS LAST WINTER THAT WE WILL SEND LEGISLATION TO CONGRESS DURING THIS SESSION TO COMPLETE THE PROCESS OF DEREGULATION.

MANY OF YOU ARE SHIPPERS, SO YOU KNOW FIRST-HAND THE OPPORTUNITIES CREATED BY DEREGULATION. I KNOW THAT MANY IN THE TRUCKING INDUSTRY ITSELF MUST BE WONDERING AT THIS POINT WHAT ADVANTAGES THE REMAINING REGULATIONS OFFER. TARIFF FILING AND PUBLICATION AND ALL THE OTHER EFFORTS THAT GO INTO COMPLYING WITH ICC REGULATIONS TAKE TIME THAT COULD BE MORE PROFITABLY SPENT COMPETING FOR BUSINESS. THE INDUSTRY FINDS ITSELF TODAY IN A NO-

MAN'S LAND, HALFWAY BETWEEN THE COMFORT AND FAMILIARITY OF A REGULATED ENVIRONMENT AND THE SOMEWHAT UNSETTLING EXCITEMENT OF A FREE MARKET.

IT SIMPLY DOES NOT MAKE SENSE TO STAY PUT. I HOPE WE CAN FIND A STRATEGY THAT SERVES ALL OUR PURPOSES AND JOIN TOGETHER. MANY MOTOR CARRIERS DO UNDERSTAND THAT A FREE MARKET WILL WORK TO THEIR LONG-TERM ADVANTAGE. THEY ARE READY TO TAKE THE NEXT STEP WITH US.

LET ME TURN NOW TO RAIL DEREGULATION. THE STAGGERS ACT OF 1980 GAVE THE INTERSTATE COMMERCE COMMISSION MORE FLEXIBILITY TO ENCOURAGE COMPETITION AND GREATER ECONOMIC FREEDOM WITHIN THE RAIL FREIGHT INDUSTRY, BUT IT DID NOT ELIMINATE ECONOMIC REGULATION ENTIRELY. THERE MAY BE SOME "CAPTIVE SHIPPERS" WHO NEED PROTECTION AGAINST MONOPOLY PRICING FOR THE FORESEEABLE FUTURE. IN GENERAL, THE ICC'S EXISTING AUTHORITY IS SUFFICIENT TO ADDRESS THOSE NEEDS. THEREFORE, WE STRONGLY OPPOSE ANY EFFORT TO ROLL BACK THE GAINS ACHIEVED UNDER THE STAGGERS RAIL ACT, EITHER IN CONGRESS OR IN THE COURTS.

THOSE GAINS ARE SUBSTANTIAL. THERE IS LITTLE DOUBT THAT THESE INCENTIVES TO COMPETITION HAVE HELPED SAVE THE RAILROAD INDUSTRY. LESS THAN A DECADE AGO, EXTREMELY LOW RATES OF RETURN AND DWINDLING MARKETS WERE ERODING BOTH THE RESOURCES AND THE SPIRIT OF AMERICA'S RAILROADS. OFT-DELAYED IMPROVEMENTS AND LONG-DEFERRED MAINTENANCE HAD REDUCED EFFICIENCY AND INCREASED COSTS. THE STRANGLEHOLD OF THE

REGULATORY HAND ON OUR RAILROADS WAS CLEARLY A MAJOR CAUSE OF THEIR SLOW STARVATION.

TODAY, RAILROADS ARE BUYING NEW EQUIPMENT AND MAINTAINING EXISTING STOCKS. TRACK IS RAPIDLY BEING RENEWED. NEW CARS ARE RIDING THE RAILS. TRAFFIC IS INCREASING. COSTS ARE BEING VIGOROUSLY CUT. REGULATORY REFORM CAN BE CREDITED WITH HELPING MAKE IT POSSIBLE FOR THE INDUSTRY TO REMAIN PROFITABLE THROUGHOUT THE MOST RECENT RECESSION. RAILROADS HAVE BEEN MARKETING THEIR SERVICES AGGRESSIVELY, AND COMPETITION IS PROVIDING EXCELLENT OPPORTUNITIES TO MANY OF OUR SHIPPERS.

THE RANGE OF NEW FREEDOMS PROVIDED UNDER THE STAGGERS ACT --THE AUTHORITY OF RAIL CARRIERS TO CONTRACT WITH SHIPPERS, TO EXEMPT MORE TRAFFIC FROM ICC REGULATION, TO ADJUST RATES WITHIN CERTAIN ZONES AND TO CANCEL UNECONOMIC AND INEFFICIENT JOINT RATES AND ROUTES -- HAS CHANGED THE WAY RAILROADS DO BUSINESS, IMPROVING CONDITIONS AND PRODUCTIVITY FOR SHIPPERS AS WELL AS CARRIERS.

ONE OF THE MOST DRAMATIC CHANGES, LEGALIZING RATE AND SERVICE CONTRACTS, HAS LED TO WIDESPREAD NEGOTIATED AGREEMENTS INCORPORATING VOLUME COMMITMENTS, ATTRACTIVE RATES AND IMPROVED SERVICE. APPROXIMATELY TWENTY-FOUR THOUSAND CONTRACTS BETWEEN SHIPPERS AND RAILROADS HAVE BEEN SIGNED.

THE NEW RATE AND SERVICE OPTIONS OF TRANSPORTATION DEREGULATION

CONRAIL. SHOULD THE GOVERNMENT BE COMPETING WITH PRIVATELY-OWNED RAILROADS AND THE TRUCKING INDUSTRY FOR FREIGHT BUSINESS? IF YOUR ANSWER IS "NO," THEN I INVITE YOU TO SUPPORT US IN OUR PLAN FOR PUTTING CONRAIL BACK INTO THE PRIVATE SECTOR.

SINCE 1976, WHEN THE GOVERNMENT CREATED CONRAIL, THE TAXPAYERS HAVE SPENT SEVERAL BILLION DOLLARS TO PURCHASE AND RESTORE ITS PHYSICAL PLANT AND KEEP IT IN OPERATION. OVER THE PAST FOUR YEARS, CONRAIL HAS TURNED A PROFIT, THANKS TO THE TOOLS WHICH THE STAGGERS ACT AND THE NORTHEAST RAIL SERVICES ACT OF 1981 PROVIDED. THE NORTHEAST RAIL SERVICES ACT ALSO DIRECTED THE SECRETARY OF TRANSPORTATION TO DEVELOP A PLAN TO RETURN CONRAIL TO THE PRIVATE SECTOR.

THE PLAN SECRETARY DOLE SUBMITTED TO CONGRESS WAS DEVELOPED AFTER MANY MONTHS OF CAREFUL DELIBERATION. IN REACHING HER DECISION TO CHOOSE NORFOLK SOUTHERN, SECRETARY DOLE KEPT IN MIND THE SACRIFICES AND SECURITY OF CONRAIL'S EMPLOYEES, THE NEEDS OF ITS SHIPPERS AND THE INTERESTS OF ITS MAJORITY STOCKHOLDERS: THE AMERICAN TAXPAYERS.

NORFOLK SOUTHERN WILL PAY THE GOVERNMENT A MINIMUM OF ONE POINT TWO BILLION DOLLARS IN CASH AT CLOSING. NOT ONE CENT OF THAT IS LEVERAGED OFF CONRAIL ASSETS. IT ALL COMES FROM NORFOLK SOUTHERN ASSETS. EVERY OTHER OFFER WE HAD TOOK SOMETHING FROM CONRAIL. THE ACTUAL DOLLAR AMOUNT OF THE CASH PORTION OF THE PRICE WILL PROBABLY

BE HIGHER THAN ONE POINT TWO BILLION, SINCE THE FINAL PURCHASE IS KEYED TO THE AMOUNT OF CASH CONRAIL HAS ON THE DAY OF CLOSING. NORFOLK SOUTHERN WILL ALSO SURRENDER CONRAIL'S ACCUMULATED TAX BENEFITS OF ONE POINT EIGHT BILLION DOLLARS IN NET OPERATING LOSSES AND THREE HUNDRED SIX MILLION DOLLARS IN INVESTMENT TAX CREDITS.

ADDITIONALLY, NORFOLK SOUTHERN HAS AGREED TO BE BOUND BY A STRONG SET OF PROTECTIVE COVENANTS FOR FIVE YEARS DURING THE TRANSITION TO PRIVATE OWNERSHIP. THE SECRETARY FEELS STRONGLY THAT THE COVENANTS ARE A KEY PART OF THE CONSIDERATION WE WILL RECEIVE FROM THE BUYER.

WE MIGHT HAVE RECEIVED A HIGHER CASH PRICE FOR THE STOCK IF WE HAD BEEN WILLING TO FOREGO THE PROTECTIVE COVENANTS. CONTROLLING STOCKHOLDERS ARE NOT GENERALLY ACCUSTOMED TO THE SORT OF RESTRICTIONS WE HAVE NEGOTIATED WITH NORFOLK SOUTHERN. THE COVENANTS REQUIRE NORFOLK SOUTHERN TO OPERATE CONRAIL AS A SYSTEM MUCH AS IT IS TODAY.

NORFOLK SOUTHERN HAS AGREED TO INVEST HUNDREDS OF MILLIONS ANNUALLY IN CONRAIL'S PHYSICAL PLANT AND TO REFRAIN FROM DEFERRING MAINTENANCE TO ANY LEVEL BELOW NORFOLK SOUTHERN'S OWN STANDARDS, WHICH ARE THE HIGHEST IN THE INDUSTRY. THE COVENANTS REQUIRE CONRAIL TO REFRAIN FROM PAYING DIVIDENDS TO THE PARENT COMPANY UNLESS FIVE HUNDRED MILLION DOLLARS IN CASH WOULD REMAIN AFTER THOSE DIVIDENDS ARE DECLARED. CONRAIL'S EXPEDITED ABANDONMENT AUTHORITY

HAVE TWO COMPETING EAST-WEST SINGLE-LINE CARRIERS FROM NEW ENGLAND AND UP-STATE NEW YORK.

FOR SHIPPERS IN THE MIDWEST WHO ARE SHIPPING EAST, TODAY AT THE CHICAGO GATEWAY THERE ARE FOUR MAJOR OPTIONS -- NORTH VIA THE GRAND TRUNK; CSX TO THE SOUTH; NORFOLK SOUTHERN TO THE SOUTH; AND CONRAIL TO THE NORTHEAST. A NEW NORFOLK SOUTHERN/CONRAIL COMPANY WOULD OFFER SHIPPERS MORE: THEY WOULD STILL HAVE THE GRAND TRUNK OPTION TO THE NORTH, BUT NOW SHIPPERS WOULD HAVE TWO SINGLE-LINE COMPETITORS TO THE NORTHEASTERN PORTS AND MARKETS -- GUILFORD AND CONRAIL. SHIPPERS WILL HAVE TWO SINGLE-LINE COMPETITORS TO THE SOUTH -- CSX AND NORFOLK SOUTHERN. SHIPPERS GAIN A COMPETITIVE OPTION TO THE NORTHEAST, AND THE SAME IS TRUE TO ST. LOUIS. SHIPPERS COMING IN FROM THE WEST TO THE SOUTH WHO HAVE USED THAT ST. LOUIS GATEWAY PICK UP A SECOND SINGLE-LINE CARRIER TO THE NORTHEAST BECAUSE OF THE DIVESTITURES.

NORFOLK SOUTHERN HAS ALSO OFFERED TO REOPEN MANY OF THE THREE HUNDRED GATEWAYS AND JOINT ROUTINGS THAT WERE CLOSED TO SMALLER CARRIERS BY CONRAIL SEVERAL YEARS AGO.

COMPETITION IN THE CONRAIL REGION IS NOT GOING TO COME FROM THE UNION PACIFIC OR THE SANTA FE, BUT RATHER FROM THE REGIONAL CARRIERS WHICH NOW OPERATE IN CONRAIL'S REGIONS -- GUILFORD; DELAWARE AND OTSEGO; GRAND TRUNK; AND THE PITTSBURGH AND LAKE ERIE. THE DIVESTITURES THAT COME ALONG WITH OUR PROPOSAL IMMEASURABLY

STRENGTHEN THOSE REGIONAL CARRIERS. THEY LENGTHEN THEIR HAUL; THEY GIVE THEM ACCESS TO NEW MARKETS; THEY INSURE THAT COMPETITION WILL BE THERE OVER THE LONG RUN. YOU DO NOT GET THAT ADVANTAGE WITH CONRAIL AS A SINGLE ENTITY.

NOW, I WANT TO MAKE ONE FINAL POINT. NORFOLK SOUTHERN'S OFFER HAS HAD TO FACE A TOUGHER STANDARD THAN ANY OTHER RAIL MERGER. THE JUSTICE DEPARTMENT PRESCRIBED DIVESTITURES AS A WAY TO MAINTAIN A COMPETITIVE BALANCE IN SPECIFIC AREAS WHERE THEY FOUND THERE WOULD BE A REDUCTION IN COMPETITION. THE NORFOLK SOUTHERN HAS TENTATIVELY NEGOTIATED AGREEMENTS TO DIVEST SEVENTEEN HUNDRED MILES OF TRACK TO GUILFORD TRANSPORTATION INDUSTRIES AND THE PITTSBURGH AND LAKE ERIE RAILROAD. THE JUSTICE DEPARTMENT HAS FINAL APPROVAL ON THOSE DIVESTITURE AGREEMENTS.

THERE HAVE BEEN RECOMMENDATIONS THAT WE CHOOSE ANOTHER APPROACH TO THE SALE OR WAIT FOR A BETTER TIME. JUST LAST WEEK A NEW PROPOSAL FOR A PUBLIC OFFERING WAS MADE PUBLIC. HOWEVER, THE PROPOSAL ANNOUNCED BY MORGAN STANLEY AND COMPANY IS NOT FUNDAMENTALLY DIFFERENT FROM SOME WE REVIEWED IN THE PAST. TO THE EXTENT IT WILL BE HELPFUL TO CONGRESS, WE WILL RESPOND TO QUESTIONS ABOUT THE NEW PROPOSAL AND OUR DELIBERATIONS ON SIMILAR PURCHASE PLANS CONSIDERED LAST YEAR.

I BELIEVE WE HAVE CHOSEN THE BEST FUTURE COURSE FOR CONRAIL, ITS EMPLOYEES AND SHIPPERS. THROUGH A MERGER WITH THE NORFOLK

SOUTHERN, CONRAIL'S FUTURE AS A VIABLE NORTHEASTERN RAILROAD IS GUARANTEED. I THINK TOO THAT CONRAIL SHIPPERS AND WORKERS DESERVE TO KNOW THE FUTURE OF THE RAILROAD AS SOON AS POSSIBLE. IN SECRETARY DOLE'S OPINION AND THAT OF OUR INVESTMENT ADVISOR, GOLDMAN SACHS, A "BETTER" OPPORTUNITY WILL NEVER ARRIVE. I HOPE YOU AGREE AND SUPPORT THIS SALE.

YOUR SUPPORT DOES MAKE A DIFFERENCE. WITH IT, WE WILL SUCCEED IN RETURNING CONRAIL TO THE COMPETITIVE ENVIRONMENT OF THE PRIVATE SECTOR. WE WILL FURTHER DEREGULATE THE TRUCKING INDUSTRY. WE WILL REDUCE THE FEDERAL DEFICIT AND DEAL WITH OUR TRADE PROBLEMS

YEARS AGO -- DURING THE DARK HOURS OF WORLD WAR II -- WINSTON CHURCHILL PLEADED WITH FRANKLIN ROOSEVELT SAYING "GIVE US THE TOOLS AND WE WILL FINISH THE JOB." THE REAGAN ADMINISTRATION HAS PROVIDED TRANSPORTATION WITH MODERN-DAY TOOLS TO ACHIEVE A REBIRTH OF FREE ENTERPRISE AND COMPETITION, THAT IS, AN ECONOMIC ENVIRONMENT CONDUCIVE TO GREATER PRODUCTIVITY. LET US POOL OUR EFFORTS, SO THAT SOMEDAY WE CAN LOOK BACK AND SAY THE DECISIONS WE MADE IN 1985 PAVED THE WAY TO A GREAT FUTURE FOR AMERICA'S MANUFACTURERS AND THE TRANSPORTATION INDUSTRIES THAT SERVED THEM.

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UNITED STATES DEPARTMENT OF
COMMERCE

John T. Connor, Secretary

Washington, D.C.

Office of the Secretary

FOR RELEASE THURSDAY A.M. MAY 27, 1965

ADDRESS BY SECRETARY OF COMMERCE JOHN T. CONNOR
PREPARED FOR DELIVERY AT THE ANNUAL BUSINESS
STATESMAN AWARD DINNER OF THE HARVARD BUSINESS
SCHOOL CLUB OF NEW YORK, PLAZA HOTEL, NEW YORK,
N. Y., 8:30 P. M. WEDNESDAY, MAY 26, 1965

Others may profess humility at receiving such a high honor
as this. I say I am proud--not because I think I deserve it, but
because I refuse to pit my judgment against yours.

Besides, think what a rare moment in human existence I
would miss if I didn't let myself feel proud to be honored by
fellow Harvard men!

Thank you for this recognition. I shall cherish it always.

As a group, you provide a forum for free inquiry that is in
the best tradition of the great school in your background. And as
individuals, your participation in this club indicates a personal
interest in affairs that transcend your immediate business concerns.

Tonight I'd like to take advantage of this interest by discussing
the broadened responsibilities of American business in these critical
times. One doesn't have to be in government to serve the public
interest; business, too, offers careers in public service. For business
is a public service institution.

Illustrations of this fact are all around us, but the outstanding one I like to cite first these days is the cooperation of business in President Johnson's voluntary Balance of Payments program.

Never before has business acted with greater responsibility in the public interest. The corporations joining in this voluntary effort are doing so without the slightest legal requirement. The President simply explained our deficit problem to the chief executives, told them their assistance was urgently needed, and asked them to make the sacrifice required to help restore the balance in our international accounts.

Their response can only be described as magnificent. The leaders of the 500-odd participating firms have accepted the challenge as though it were their own private corporate problem. These firms are already major contributors to our favorable trade balance. Still, they have now undertaken measures to make an even greater contribution toward a solution of the deficit problem.

I would also like to emphasize that our voluntary program applies to all of American industry, and not just the companies which are reporting to us on a quarterly basis. And tonight I wish to announce that I plan shortly to send a letter to 3,000 additional companies to ask their cooperation in the effort.

I am not requesting these companies to report summary figures on their foreign transactions; to do so would be

impractical because some of them actually have little continuous foreign business. But we hope they will make a serious effort to contribute to our foreign earnings through expanded exports and by exercising the same restraint on direct overseas investment now practiced by firms reporting to us.

I can assure you that winning the battle of the dollar is of critical importance to every businessman and worker in America. For continued domestic economic growth depends on the sound dollar we are striving to maintain. So does the expansion of world trade, which flows on confidence in the dollar as the principal medium of international exchange.

Business is similarly involved in many other voluntary programs, both privately and in cooperation with government and labor. It is supporting education, helping to re-train workers, participating in community affairs, working in health projects, and helping to provide equal opportunity for all Americans regardless of race or national origin.

But I'd like to focus mainly tonight on business' traditional responsibilities to produce wealth, to provide increased economic opportunity for people, to earn profits, and to do every proper thing required for the operation and improvement of the free enterprise system.

These missions have taken on a vital new importance today. For they are basic to America's ability to meet the growing challenges of the world. These are largely economic in nature, and business,

as the central organizer of our economic life, has a major responsibility for helping us meet them.

It is also entirely fitting that we examine business' performance in this task. For we Americans are looking at all our institutions with a view to making improvements so that they will serve us better.

The process is part, I think, of a great national ferment in which Americans are thinking deeply about the basic purpose of our nation and about its ultimate destiny in the world.

Historically we have nearly always been a world-oriented nation. The American Revolution was a world event whose effects are still reverberating around the globe. Our Civil War was a contest, as Lincoln said, to determine whether any nation conceived in liberty could long endure. And we have drawn on every nationality in the world to help populate this nation.

But the position of world leadership which has been thrust upon us requires that we look at ourselves more than ever in global terms. So we are measuring our society against other world societies, and testing our actions and attitudes against eternal truths. Never before have we thought so earnestly about how we can best contribute to the social and economic advancement of not only our own people, but those everywhere who want to live in peace and freedom.

For we all sense, I think, that the human race faces the greatest challenge in all history, and people everywhere must meet it with all the wisdom they can muster. Nothing less can save us.

Evidence that America is deeply committed to social and economic advancement for both our own people and those abroad is all about us. At home we see it in the war on poverty, in the civil rights movement, in our regional economic development programs, in our employment and training programs, and in our massive efforts to improve the education, health, and housing of our people.

Overseas we see it in the dedication of our Peace Corps volunteers, in our multi-billion dollar aid program, in the financial organizations for international development which we support, in our technical assistance programs, and in the education and technical training of foreign students in this country.

These things prove, I think, that our commitment to progress is global. We do not subscribe to the narrow view that America can be made better without improvement everywhere. The forces of the modern world are too interrelated. Economic isolationism is as dead as political isolationism.

Now every element in our society contributes to the fulfillment of our commitment to progress. Government, labor, education, science and technology, the church, and others, are all involved.

But basic to the entire effort is economic wealth. And business has the central task here. It is business which organizes and manages the production and distribution capabilities which create wealth and make it available. And not just in static amounts, but increasing amounts -- rapidly increasing amounts.

Now what is the current performance rating of business in this task?

The answer is written in the record of the greatest economic advance in American history. Never before has so much wealth been created for so many in such a short time.

Every element of economic society shares the credit for this unparalleled performance. But it is business that provides the daring, the initiative, and the creative energy that welds these elements into a functioning whole.

It is business which takes the risks, understands and uses the power of science and technology, studies the requirements of society, brings together personnel of many specialties, and launches the product on the perilous sea of the free, competitive market place.

It is business which earns the profits required for research and innovation, and for new plants and equipment that mass produce better products at lower prices.

Now a moment ago, in listing the ways in which we keep our commitment to progress, I mentioned only programs that were largely instituted by government. And I pointed out that these programs are underwritten by the economic activity which business generates.

But even more significant is the fact that the private sector itself makes the greatest contribution of all through the extension of individual opportunity in an expanding economy.

It's the dynamics of the free enterprise system, operating in a climate of confidence and security, that has brought the highest standard of living in the world to the United States. And this same system can provide its benefits around the globe wherever this same climate prevails.

Direct private investment overseas by U.S. firms is an outstanding example of how business is helping to keep our commitment abroad.

Our manufacturing enterprises overseas had total sales of over \$31 billion in 1963, adding substantially to the economic well-being of people in many countries.

A personal experience I had in Brazil a couple of years ago is typical of many other examples of such performance.

The firm I was with had opened a new plant near Campinas, a modern industrial city and cultural center in the State of Sao Paulo. The plant was in the village of Sousas, where less than a thousand people lived.

At a gathering during my visit, the local priest stood up and told what our operation had meant to the villagers. Before, he said, Sousas was a place without hope.

The people had no shoes, few had running water or sanitary facilities. The town was at the end of a ten-mile rough clay road. There were many unemployed.

Now, he said, Sousas had been transformed. Wage earners, company-paid taxes and increased merchant activities had injected new life into the community. Additional electric power had been supplied to the town. The clay road had been replaced with a shorter, well-paved highway to Campinas.

On-the-job training had succeeded in transforming farm laborers into mechanics and technicians. Our employe training school was teaching English to young Bralizian secretaries and training them to take shorthand in both Portugese and English.

The priest told how health facilities had been established. And he said the people now have shoes, and good clothes, and better food, and better transportation facilities. He told the story of the dramatic changes with tears rolling down his cheeks.

This is only one example of countless others in which American business is helping fulfill our commitment to progress. All business needs is security and freedom for its investment and the competition of the open marketplace.

Wherever it finds such conditions, in developed as well as underdeveloped nations, American business can help improve the economic well being of the people.

I know the General Motors automobile operation in Australia has brought tremendous benefits to the people of that growing country.

Including dealer outlets and direct suppliers, GM's Holden operation there provides a livelihood for about 74,000 Australians and their families. All the technological capability of General Motors--the result of many years of scientific investigation and engineering costing many millions of dollars--is infused into the Australian work force. The skill of the Australian worker is raised and the benefits of his knowledge and performance are spread throughout the nation's economy. Opportunity for economic advancement grows, and the standard of living is raised.

It's this kind of progress that gives real meaning to the idea of business as a public service career.

I know that our young people are ready to dedicate their lives to the social and economic advancement of people everywhere--and this is why such activities as the Peace Corps have such an appeal for them.

But I know of no way to make a greater contribution than in organizing economic activities which enable people to cooperate efficiently with one another in providing for their material wants. And that's what businessmen do.

This message needs to be brought home to our college graduates. I would like to see the business community make a concerted effort to do this--and such organizations as yours might well take the lead.

Business also offers direct-action opportunities for service. You are familiar, I am sure, with Frank Pace's work with the International Executive Service Corps. This private, voluntary program enables executives to spend four to six months in less developed countries helping foreign businessmen acquire more efficient managerial skills. A lack of such skills can be as great a barrier to economic growth as investment capital.

This organization is now expanding its operations and is seeking executives with appropriate experience for the new projects being launched. I know this program will have the wholehearted support of the business community, and we at Commerce are glad to endorse its aims.

Now keeping in mind that American business is providing greater economic opportunity to people abroad as well as at home, what is the challenge to business?

It is, I think, to measure progress by our potential, not by our past performance.

During the postwar period our Gross National Product has been growing at a rate of about 3 1/2 per cent a year. In the recovery period since 1961, it has grown at the rate of nearly 5 per cent in real terms.

But West Germany has been growing at a 5 per cent rate for about 10 years, and Japan has been growing at a 9 per cent rate.

Of course, those two countries started from a lower base, and they have been re-building their war-torn economies -- in the early part of the period, I might add, with large infusions of U.S. capital.

But we have helped supply them with something far more important: the basic requirement for a rapid and sustained growth rate, which is scientific and technological information.

Their remarkable growth rates are a direct result of the vigorous application of this knowledge through a superior industrial intelligence communication system.

And they have not only applied our scientific and technological know-how with great effectiveness, they also are now engaged vigorously in their own basic scientific investigations. Japan, for instance, has far more scientists engaged in civilian research proportionately than do we.

But, you might ask, don't we apply the technical resources available with equal speed and effectiveness?

The answer is that most of the big corporations do, but the vast majority of firms lag far behind their potential productivity.

A recent Department of Commerce study suggests that these firms could improve their productivity several fold simply by adopting the techniques already known and proven in use without any improvement in the existing technology. All they have to do is adopt the practices, equipment, layout and other procedures of the more efficient establishments.

The studies, based on productivity per employee, reveal widely varying levels of efficiency and productivity within many nationally important industries.

For instance in the sawmills and planing mills industry, the more efficient establishments were shown to be nearly three times as productive as the less efficient. Among paperboard mills, the more efficient were four times more productive than the less efficient. The pattern is the same for many major industries, and studies going all the way back to 1910 reveal the same historical pattern.

These facts present, I think, a major challenge to management. For it is management that must put the available science and technology to use as a prime method of maximizing profits and stimulating national economic growth.

At Commerce we have launched several programs to aid this effort. One of my first acts on assuming office was to dedicate a new Clearinghouse for Federal Scientific and Technical Information. This is the central source for supplying the industrial and technical community with unclassified information about Government-generated science and technology.

We also are conducting a series of conferences throughout the country on how industry can modernize plant and equipment.

In addition, we have proposed to Congress the State Technical Services Act which would offer the latest technical information to industry through educational and other qualified institutions in the various states.

Science and technology are dominant influences in our lives today. But it is only recently that we have come to a fuller appreciation of their connection with economic growth and the enlargement of economic opportunity.

Their full use would enable American business to make a far greater contribution to the well being of both the American people and those abroad who want to live in peace and freedom. It is a basic requirement to the fulfillment of our commitment to help lift the burden of misery, poverty, disease and ignorance from the shoulders of suffering mankind.

I am confident that business can and will meet this challenge with the same energy and dedication that it applies to the pursuit of other great national objectives.

Thank you.

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