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UNITED STATES GENERAL ACCOUNTING OFFICE
Washington, D.C. 20548

For Release on Delivery
Expected at 10:30 A.M. EDT
April 29, 1974

STATEMENT OF
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COMPTROLLER GENERAL OF THE UNITED STATES
ON A GENERAL ACCOUNTING OFFICE REPORT
"U.S. ACTIONS NEEDED TO COPE WITH COMMODITY SHORTAGES"
BEFORE A JOINT HEARING OF
THE SENATE COMMITTEE ON COMMERCE AND
THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS

Mr. Chairman and Members of the Committees:

The events of 1973 and 1974 highlight the serious problems for the United States and other countries due to growing shortages of basic commodities and resources. In the United States these shortages have contributed to the highest rate of inflation in more than 20 years. Agricultural exports have boomed. The cost of and dependence on mineral and fuel imports have risen greatly. For the first time in many years, exports of agricultural products have been restricted.

Marked changes in international economic forces and increases in world population have contributed to the escalation of inflation and commodity shortages. The Government is finding that its organization and policies, comfortable in situations of plenty, are inadequate in a climate of shortages.

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Although many interpretations of the basic causes of and the possible solutions to shortages have been made, the nature and dimensions of future commodity and resource problems have not been defined or agreed upon. Meanwhile, supply problems and rising prices are going to be with us.

We at GAO are concerned with the implications these shortages have for the effective management of Federal programs and the accomplishment of National policy objectives. We have already reported on several related problems. For example:

- In May 1973, we provided the Committee on Foreign Affairs with a summary of European views on dependence of the free world on Middle East oil.
- In July 1973, we reported that the massive sales of wheat to Russia seriously diminished our grain reserves and precipitated dramatic price increases to American consumers.
- In July 1973, October 1973, and February 1974, we reported on the necessity for the Government to improve management of its commercial forests to help alleviate the timber shortage.
- In February 1974, we reported on the feasibility of establishing a centralized Government data base for developing policies on energy matters.

Attachments to this statement list other related studies we have made or are making.

The Congress, including these committees, has moved to cope with some aspects of the commodity and resource problems.

The proposed Domestic Supply Information Act and the National Resource Information System bills are two examples of growing congressional concern.

Upwards of 50 bills have been introduced calling for export controls on a variety of key agricultural and industrial commodities and many more have been introduced on long-range alternative solutions to the short-supply problems.

The executive branch as well has shown growing concern with commodity problems. The Office of Management and Budget, (OMB) has set up an office to look at short-supply situations. OMB also is in the process of completing an extensive reassessment of U.S. export promotion programs in light of current inflation and commodity shortages. The Economic Research Service at Agriculture has restructured its organization to be more responsive to commodity forecasting work.

We noted with interest the Secretary of Commerce's statement of April 5, 1974, before the International Finance Subcommittee of the Senate Committee on Banking, Housing, and Urban Affairs. The Secretary stated that difficult and quick decisions were necessary on short-supply situations in 1973 and the needed data were not on hand. He outlined several steps under review to correct deficiencies in data availability within the Government, including studies to develop a program

for collecting monthly production and inventory data from industry.

In general, we believe that a number of executive branch steps taken have been in the right direction. They tend, however, toward piecemeal solutions.

We are here today to summarize a major report by the GAO on the U.S. actions needed to cope with commodity shortages. As you know, this report is being released today.

FORECASTING AND MONITORING

The ability to monitor and forecast future commodity positions is essential if potential shortages are to be foreseen and averted.

Our work at the Departments of Agriculture, Commerce, Interior, and State disclosed that:

- There is wide diversity in the structure, staffing, and quality of the forecasting groups within the executive branch agencies.
- Most forecasting groups do not have a clear statement of purpose, research autonomy, and access to those who make decisions.
- Despite the interdependence of many short-supply problems, there is no interagency short-supply forecasting system or set of procedures for notifying other agencies of supply problems.
- The systems that do exist are not generally geared to serving broad national program objectives.

We concluded there is a pressing need to improve forecasting and monitoring programs if agencies are to be valuable contributors to a better system of managing our resources.

Except for the Department of Agriculture's Economic Research Service, which recently has been reorganized, agency forecasting groups have not attempted to reconsider their data requirements and administrative procedures in order to correct relatively poor forecasting performances.

We are making a series of recommendations to the Secretaries of Agriculture, Commerce, Interior, State, and the Office of Management and Budget. These recommendations are intended generally to upgrade the functions in these agencies by:

- providing a clear mandate and focus of responsibility,
- calling for more effective use of data processing equipment and better forecasting methods,
- better interagency exchanges and joint consideration of information of common concern, and
- increased in-house research skills and educational curriculums to maintain such skills.

THE SHORT-SUPPLY DECISIONMAKING SYSTEM

There are 28 groups below the departmental level and five policymaking groups above the departmental level which are or might be involved in short-supply decisions. This means that it is almost impossible to pinpoint accountability for actions taken or to determine who is actually responsible for dealing with short-supply problems.

The decision to limit ferrous scrap exports in 1973, for example, involved the Department of Commerce, with limited consultation with the Council on International Economic Policy, the Cost of Living Council, the Council of Economic Advisers, and the Special Trade Representative. In contrast, the simultaneous decision to control soybeans involved the same five groups, plus Agriculture, State, the Office of Management and Budget, the National Security Council, and the Council on Economic Policy--a total of ten agencies.

In these decisions there was an absence of clear-cut analysis of priorities considered, alternatives available, and the domestic and international impact of decisions--undoubtedly reflecting the haste with which the decisionmakers perceived their responsibility to insure adequate domestic supplies. There was little or no attempt on the part of the executive branch to advise the Congress of:

- actions to be taken,
- expected duration of controls, or
- the extent of anticipated and actual domestic and international impacts of controls.

We are recommending that the Council of Economic Policy and the Office of Management and Budget identify or establish a focal point organization or central mechanism to:

- Work with departmental commodity forecasting groups to establish data and reporting requirements.
- Coordinate data input and policy interests of executive branch departments and interrelated economic policy councils.
- Permit an opportunity for private and public groups concerned with specific commodity policy to express their views on such policy.
- Report periodically to the Congress and the public on specific and general commodity situations.

We believe the Congress should also consider the need for legislation to establish a central mechanism for developing and coordinating long-term policy planning.

IMPACT OF EXPORT CONTROLS

The Government has resisted short-supply export controls because of the domestic and international economic disruptions they precipitate. Export controls imposed in 1973 on soybeans, ferrous scrap, petroleum, and related commodities challenged the credibility of the U.S. commitment to free trade

among nations and its reputation as a reliable supplier. They also hampered multilateral trade negotiations for reducing trade barriers.

The adverse international reaction to U.S. export controls was, in part, caused by the Government's failure to communicate to foreign governments its intention to impose restrictions. Although the Department of State assisted later in developing export licensing arrangements, it was not asked to foresee the possible foreign reaction to controls and was not included in the original decision to impose controls.

Belatedly, the need for consulting with foreign governments was recognized. Bilateral and multilateral discussions have started on developing methods for ameliorating global commodity shortages that require the imposition of export controls. The Secretary of State has announced his intention to maximize the role of the Department in future export control decisions.

Traditional importers of U.S. products have sought alternative sources of supply. Japan and the European Economic Community increased soybean imports from Brazil and expanded investment in that country's soybean production and processing facilities.

No comprehensive analysis of the domestic and foreign impact has been made although such an assessment appears to be necessary and desirable.

We are recommending that the Council on Economic Policy begin a comprehensive review of the foreign and domestic impacts of 1973 export controls. Such an after-the-fact analysis could help develop appropriate administrative controls and could provide the Congress and policymakers with information and insights that would minimize the adverse impact of export controls if similar Government actions are needed in the future.

IMPLEMENTING SHORT-SUPPLY CONTROLS

The Office of Export Administration of the Commerce Department functions as the executive branch's short-supply export control implementation agency. It has been primarily responsible for the control of strategic materials abroad which led to its location in Commerce's Bureau of East-West Trade.

In the past, short-supply control actions were temporary and occurred infrequently. Thus the Office of Export Administration responded to short-supply problems in 1972-73 on an ad hoc basis. Officials assumed the situations were temporary and shortly there would be sufficient supplies to satisfy domestic and foreign demand.

As a consequence of the flurry of short-supply problems that emerged, the Office temporarily expanded its activities. Audit assistance was provided by temporarily assigning numerous personnel from other Government groups. Even though shortage situations continue to mount in frequency and intensity, no provision has been made to establish a permanent program for licensing exports, monitoring export flows, developing alternative export control systems, and insuring compliance.

We are recommending that Commerce consider expanding its activities by establishing a high-level organization with sufficient staffing and funding to respond to short-supply situations on a higher priority basis.

LONG-RUN PLANNING AND POLICY FORMULATION EFFORTS

The recent global and domestic shortages in agricultural and mineral resources has resulted in widespread attention to the need for long-term Government planning for natural resource development and allocation. Recognition that these shortages have a major impact on the U.S. economy has focused concern on the prospects for avoiding crises, where possible, through long-term planning.

Improvements in Government policy planning would strengthen its ability to shape--rather than merely respond to--basic economic and political forces.

There are numerous gaps in the data base for agricultural supply and demand factors, energy and nonenergy minerals resources and reserves, private research and development activities, and technological capabilities.

Agencies responsible for agricultural and energy and nonenergy minerals policies have not adequately developed their analytic resources. As a result, the ability to discern broad trends from raw data, integrate data from diverse sources into projections of future developments, and isolate their relevance for public policy goals is limited.

There is a lack of well-developed institutions specifically responsible for integrating information from various agencies on general agricultural, energy, or nonenergy mineral issues. There is a tendency to approach issues on a partial, uncoordinated basis.

We are recommending that the Council on Economic Policy consider upgrading the long-term planning and analytic capabilities of the Departments of State, Agriculture, Commerce, and Interior. It should also consider creating an organization, or directing an existing one, to coordinate agency analyses of long-range economic planning.

We believe the executive branch system currently in existence does not provide or coordinate the necessary information needed for broad policymaking on future resource and commodity supply and demand situations. It lacks a coordinated, ongoing, functional system and mechanism for dealing with such problems as they currently exist and as they arise. While a variety of actions are being considered or undertaken to deal with the longer range implications of these problems, this area is characterized by fragmented activity and a lack of established, interrelated, and publicized national goals.

As mentioned, we have made a number of recommendations to the executive agencies. There are some very difficult choices and questions that the Congress and the executive branch need to consider in view of the coordination and planning problems inherent in managing commodity programs. We have set these matters out in our report to encourage the further discussion of the issues.

In responding to our findings, some agency officials expressed concern that the report implied more Government intervention and controls. We are not advocating more controls. What we are saying primarily is that there needs to be better and more effective coordination of supply and requirements estimates and better management of programs already authorized.

The Nation's economic well-being is a major concern of every administration. Moreover, economic planning is no stranger to the Federal Government. As far back as 1939, the Government established the National Resources Planning Board with the specific purpose of creating an agency that would have overall responsibility for the consideration of long-range resource development. In this connection attention is called to the 1952 report of the President's Materials Policy Commission and the 1973 report of the National Commission on Materials Policy. Both recognized the need for a more vigorous Federal Government long-range planning role.

The considerations for corrective action which arise from our findings involve difficult and fundamental policy choices and questions for the Federal Government. In view of the potential changes in the worldwide resource allocation systems, the U.S. Government should have (1) a

coordinated system for commodity and resource analysis, (2) a focal point organization for current analysis and policy formulation to cope with short-run commodity supply and demand imbalances, (3) longer run national and international resource policy goals, and (4) a central mechanism responsible for future resource planning.

As I conclude this statement, I would like to suggest at least three broad considerations to which the Congress should given attention.

FIRST: It may be that too little economic policy attention has been given to evaluating the effects of supplies of commodities in contrast to matters of monetary and fiscal policy. Our report shows that increased attention needs to be directed to agricultural, mineral, raw material, industrial, energy, and service commodities, and ways to evaluate short- and long-term supplies and requirements--especially the question of international access to these commodities.

SECOND: Modern economic life is centered around steadily increasing interdependence of Nations not only with respect to commodities but also with respect to basic economic considerations which affect the development and free availability of these resources. No nation in the world is so self-sufficient to sustain an industrialized

economy. Many now rely on the United States for agricultural products. In turn, the United States increasingly relies on many of these Nations for basic materials to support its advanced industrial economy.

THIRD: Although many transitional factors, such as domestic inflation and price control, played an important role in the U.S. commodity shortages of 1973, we do not believe that their elimination would end future supply problems for the United States. A stronger, more centralized commodity information and control system is needed in Federal Government.

That completes my statement. Members of our staff who conducted the study can supply additional details. I should like to call your attention particularly to the summary digest at the beginning of our report. In addition, there are attached to this statement lists of related ongoing and planned studies, which I again call to your attention.

CURRENT GENERAL ACCOUNTING OFFICE
REVIEWS RELATED TO SHORTAGE SITUATIONS

1. Review of the Functions of Agricultural Attaches

Attaches are assigned to U.S. Embassies and consulates overseas to report on business information and conditions for Government and private use and to assist in finding outlets for U.S. agricultural products. Our review of the attache service was prompted by the considerable interest generated in their intelligence gathering capabilities as a result of the unexpected volume of grain purchases by Russia in 1972 and the emphasis placed on their role as salesmen by the Secretary of Agriculture. Attaches can provide a vital reporting service on world supply and demand situations, particularly on commodities critical to nations' economies.

There are 63 attache posts manned by 95 professionals. The overseas part of our review covered posts in 11 countries and two international organizations in Rome and Brussels.

Planning documents do not set forth agricultural trade objectives, nor strategies to attain them, by country or region although the Department of Agriculture had sought to do this in the past and then abandoned attempts.

In the countries we visited, attaches were spending most of their time taking care of visitors and responding to Washington with required reports.

The preliminary indications are that many aspects of the attaches' function could be improved. Attaches can improve the analytical content, relevance and overall quality of their reports. Many reports are merely restatements of published material with little analytical comment provided on the implications of the conditions reported on. Other possible improvements include

- developing country or regional strategies and plans, detailing goals, available resources, objectives and specifying priority attache activities,
- improving attache language and preassignment training, and scheduling assignments to permit briefings by predecessors,

- maintaining better liaison with international organizations on supplemental information needs,
- reorienting market development activities, and
- making more effective use of attaches in Russia and China and Eastern bloc countries.

2. Review of the Future Availability of Critical Mineral Supplies

The thrust of this review is to determine the potential for and the effect of supply disruptions or embargos for nonenergy minerals. We are concentrating on the aluminium, tin, manganese, and copper industries. The United States is now heavily reliant on imports for the first three and will be heavily reliant on imports for copper by the year 2000. International producers' councils exist for tin and copper and one is contemplated for bauxite. All four minerals are important to U.S. industrial life.

Factors being considered in the review include political and economic conditions within producing countries, the impact of U.S. Government programs, tax policies and environmental regulations, efforts to develop domestic deposits, potential mineral substitutes, and competition from other consuming nations.

The review will put the current situation into perspective, analyze present and future incentives for assuring sources, and make recommendations concerning the Federal Government's role in mineral policy and programs.

3. Survey of Federal Efforts Under the Mining and Minerals Policy Act of 1970 to Insure the Availability of Nonfuel Mineral Resources

The United States is experiencing greater difficulty in obtaining reliable supplies of materials at reasonable prices and increased competition in selling many manufactured articles. The Mining and Minerals Policy Act of 1970 declared it is in the national interest that the Federal Government foster and encourage private enterprise in (a) the development of economically sound and stable domestic mining, minerals, metals and mineral reclamation industries, (b) the

orderly and economic development of domestic mineral resources, reserves, and reclamation of metals and minerals to help assure satisfaction of industrial, security, and environmental needs, and (c) other related matters such as mining, mineral, and metallurgical research.

Because of the Department of the Interior's role in land use and minerals development, the Mining and Minerals Policy Act directed the Secretary of the Interior to carry out the above policy when exercising his authority under such programs as may be authorized by law. We are examining into the various laws, programs, and policies affecting the Department of the Interior and other pertinent organizations to determine what progress has been made in carrying out the Mining and Minerals Policy Act of 1970, and to identify obstacles impeding progress, including the possible need for changes in legislation. We are also examining actions taken by the Department on recommendations of the National Commission on Materials Policy in its June 1973 report to the President and the Congress.

4. Review of U.S. Quantitative Import Restrictions

The United States imposes quota restrictions on importing over 75 industrial and agricultural commodities, some of which are in or could be in a shortage condition. Many of the restrictions have changed little since they were established in the 1930s and the 1950s. We are interested in assessing the current validity of quotas and in finding out whether Government agencies have studied the continued need for import restraints in view of current realignments and changes in worldwide supply and demand conditions.

In April 1974 we provided the Congress with a report on the economic and foreign policy effects of the voluntary restraint agreements on textiles and steel.

The current review will elaborate further on matters discussed in the April report. In that report we questioned the relevance of the agreements which were perpetuated without reassessment of the continued need for protection of domestic industries.

5. Survey of the Department of Agriculture's Forecasting System

Department of Agriculture reports and publications which forecast production, supply, demand, and prices of agricultural commodities are important sources of data for economic decisionmaking. They are used by farmers and businessmen as a basis for planning crop production and making marketing decisions and by Government officials for formulating, implementing, and modifying national agricultural policy and commodity programs. During the past 2 years, however, agricultural forecasting reports have contained significant errors and have underestimated farm exports and U.S. food prices by wide margins.

We are looking into the recent problems in agricultural forecasting and the reasons for significant forecasting errors and the Department's plans and actions for improving forecasting procedures. We are concerned with the effects that inaccurate forecasts have had on price-support payments for wheat, corn, and other commodities and on acreage set-aside payments and planting and marketing decisions.

This survey is in its early stages, but some information on forecasting problems has already been provided at the request of a member of Congress.

6. Review of Mineral Exploration and Development

We are reviewing the effectiveness of the Mining Law of 1872. Contrary to its intended purposes, the law has not effectively encouraged the exploration for and development of minerals on Federal lands and has impacted adversely on the management and use of the lands. Among other things, we have noted many mining claims and mineral patents (Federal deeds granting fee title to land) were not being mined and, in some cases, were being used for purposes other than mining. Also, the extent of mineral exploration and development on public lands cannot be assessed because mining claims do not have to be reported to the Federal Government and recordkeeping practices in the counties GAO reviewed are poor.

Because of the growing dependence of the U.S. economy on many critical and strategic mineral ores, the Federal Government needs to take appropriate action to increase domestic sources.

7. Survey of Energy Data Collections, Analysis, and Reporting Activities of the Federal Energy Office

GAO's recent energy information study prepared for the Chairman, Senate Interior and Insular Affairs Committee (B-178205, February 6, 1974) discussed overall Federal activities in the energy data area, concluded that the existing data base for analysis of energy problems is not adequate, and identified a number of problems involved in the collection of energy data. The Chairman has requested that GAO continue its involvement in the energy data area.

Current indications are that the Federal Energy Office may become a focal point in the Government for the collection and analysis of energy data. Legislation establishing a Federal Energy Administration to assume responsibilities of the Federal Energy Office specifically provides for GAO access to the information it collects and requires GAO monitoring and evaluation of the collection and analysis process.

Our survey will concentrate on the effectiveness of actions taken by the Federal Energy Office to improve the collection, analysis, and reporting of energy data and to resolve problems identified in our earlier study.

8. Review of Stockpile of Strategic and Critical Materials

The General Services Administration maintains a stockpile of strategic and critical materials for defense needs during a national emergency. Although the stockpile has been used primarily for defense emergencies, the supplemental stockpile (a part of the strategic and critical materials stockpile) has been used occasionally in economic emergencies.

Our review showed that large quantities of stockpile items have been declared excess and will be released into the economy. These excesses resulted from changes in assumptions which determine the objectives (quantities to be retained in the stockpile). For example, during a national emergency the stockpile will provide only 1 year of support rather than 3 years, import quantities will not diminish except from Communist countries and other countries involved in a conflict, and support will be provided through substitution and increased civilian austerity. These changes reduced

the stockpile objectives by about \$4 billion--leaving stockpile objectives of about \$700 million.

In view of the world resources outlook and the fact that the purpose of the stockpile is to accumulate and retain materials for use during a national emergency, we believe that the basis for the newly established objectives for materials in the stockpile should be reevaluated. While this reevaluation is being made, we believe disposal of materials from the stockpile should be halted.

9. Review of Limitations Placed on Scrap Steel Exports

To reserve quantities of scrap steel necessary for domestic industry needs, the Secretary of Commerce in 1973 instituted a licensing requirement which limited steel exports.

At congressional request, we reviewed the manner in which scrap steel export controls were being administered. Particular attention was given to the validity of statistics used to establish domestic availability and demand.

Three related reports were recently issued to a member of Congress on these matters. These reports pointed out that:

- Commerce's ferrous scrap price data base is the result of published industry information. Commerce officials maintain that precise price statistics are not now available and would be too costly for their purpose of estimating price trends.
- Information on the generation of prompt industrial scrap is not collected by Commerce. The supply of obsolete scrap could not be reliably determined, because there is no known method for estimating the supply that will be available in a given year.
- Commerce maintained that it had sufficient information on domestic demand and price; therefore, no special reporting was undertaken to obtain additional demand and price data. However, the total domestic supply of scrap in any given year is not known. The supply of certain types of scrap is heavily influenced by its selling price. As the selling price increases,

a larger supply of certain types of scrap will be generated.

- While it is possible to estimate the quantity of scrap which will be used domestically on the basis of production forecasts, the amount that will enter the market at a given price cannot be reliably determined.

COMPLETED AND ONGOINGGENERAL ACCOUNTING OFFICEREVIEWS RELATED TO MANAGEMENT OF RESOURCESCOMPLETED

1. Review of the Progress and Problems Being Experienced by Federal Agencies in Developing Experimental Techniques for Recovering Natural Gas in the Rocky Mountain Area, B-164105, April 2, 1974.
2. Survey of the Potential to Reduce Inefficiencies in Energy Use in House and Apartments, B-114860, January 3, 1974.

ONGOING

1. Survey of the Pricing Practices of Electric Utilities' Suppliers.
2. Review of Federal and Private Activities Relating to the Development, Use, and Economic Feasibility of Solar Energy.
3. Survey of the Manpower Needs of the Nuclear Power Industry and AEC's Efforts to Help Meet Those Needs.
4. Survey of the Development and Use of Geothermal Resources
5. Survey of Federal Coal Research Programs.
6. Congressional Request for Review of Fertilizer Shortage Situation.
7. Congressional Request for Information on the Availability of Wheat for Domestic Purposes.
8. Review of Resource Projects Involved in East-West Trade.
9. Congressional Request for Information on the Feasibility of Establishing a National Export Licensing Agency to Control Exports of Agricultural Products.
10. Congressional Request for Information on the Impact of Domestic International Sales Corporations on Grain Supplies.

11. Congressional Request for Information on the Adequacy of Domestic Supplies of Petrochemicals and Plastic Feedstocks.
12. Review of the Commodity Exchange Authority and Commodities Trading Generally.