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# STATUS OF PROJECTS AND SEC. 702 UNDER PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965

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HEARING  
BEFORE THE  
SPECIAL SUBCOMMITTEE ON  
ECONOMIC DEVELOPMENT PROGRAMS  
OF THE  
COMMITTEE ON PUBLIC WORKS  
HOUSE OF REPRESENTATIVES  
NINETIETH CONGRESS  
FIRST SESSION

NOVEMBER 15, 1967

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# STATUS OF PROJECTS AND SEC. 702 UNDER PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965

WEDNESDAY, NOVEMBER 15, 1967

HOUSE OF REPRESENTATIVES,  
SPECIAL SUBCOMMITTEE ON  
ECONOMIC DEVELOPMENT PROGRAMS  
OF THE COMMITTEE ON PUBLIC WORKS,  
*Washington, D.C.*

The subcommittee met at 10:05 a.m., in room 2167, Rayburn Building, Hon. Ed Edmondson (subcommittee chairman) presiding.

Mr. EDMONDSON. The Subcommittee on Economic Development Programs will come to order.

Today we open the third public hearings of the Special Subcommittee on Economic Development Programs appointed last year to investigate and study the administration of the economic development programs under the jurisdiction of the Committee on Public Works.

Three days of hearings were held in August of 1966 when the subcommittee heard testimony on the status and progress of the administration of the Public Works and Economic Development Act and the Appalachian Regional Development Act of 1965.

Subsequently, the subcommittee issued its report on the first hearings in which certain questions were presented that had been suggested from the testimony. Our second meeting presented to the officials of the Economic Development Administration an opportunity to express their views and to reply to questions raised in the report.

Subsequent to this second set of hearings, the staff of the subcommittee was sent to Oakland, Calif., for about a week to make a preliminary review and inquiry concerning the projects and activities of the Economic Development Administration in that city.

I understand that Secretary Davis is going to be out there beginning tomorrow for a pretty thorough look at that situation himself.

Today we have invited officials of the Economic Development Administration to appear before us to inform the subcommittee about the overall picture of the status of the projects. We are interested in knowing how many have been approved, how many have been turned down, and how many have been placed in the reserve status. We also have asked EDA to advise the subcommittee on what it expects to do the balance of the year in regard to projects and funding available to them.

In addition, the Administration has been requested to give a detailed explanation of its interpretation and administration of section 702 of the Public Works and Economic Development Act of 1965,

including an explanation of policy and procedures as well as any difficulties encountered in their application.

We are glad to have this morning three of the top officials of EDA here to give us their comments on these general points. Lambert O'Malley is the Deputy Assistant Secretary for Economic Development Operations, and he has with him Dr. Robert Rauner and Thomas Harvey, who are both, I know, key people in the administration of this program, and well prepared to give us a status report.

Does the gentleman from New Hampshire have a statement he would like to make?

Mr. CLEVELAND. Thank you, Mr. Chairman.

I would like this morning to welcome Secretary O'Malley and his associates. It is my understanding Mr. Davis has a meeting with the Vice President and thus cannot be here. I am somewhat disappointed, however, that these hearings come so late in the session.

A little over a month ago we enacted legislation amending the Public Works and Economic Development Act of 1965. I regret that today's hearings did not precede that legislation.

I understand that one of today's topics concerns section 702 of the act which I offered, and which was amended by Congressman McCarthy. I am pleased that this has been selected as a topic, especially since our previous hearings have indicated much confusion in the Administration's "interpretation" of this section. I am hopeful that today's session may lead to a clearer understanding of the direction which has been taken by EDA in administering section 702. There is presently reason to believe the legislative intent of 702 is not being fully implemented.

In my opinion, Mr. Chairman, much of the criticism I have heard directed toward the Economic Development Administration is the direct outgrowth of the Administration's failure to communicate adequately with this committee.

Obtaining copies of such obviously public documents as published regulations, policies, and procedures has been a difficult, time-consuming chore. I hope that one mutually beneficial result of these hearings will be that the staff of the Economic Development Administration will be instructed to place the staff of this subcommittee on the regular mailing list for all published regulations, policies, and procedures, to respond promptly to requests for information and material and, perhaps most important, to make an affirmative effort to keep the staff informed about actions and decisions which are likely to become controversial.

The Committee on Public Works reported the legislation which created the Economic Development Administration. This committee should be kept informed as to the way the program is being carried out without having to launch an investigation every time a new question is raised.

A case in point is the interpretation of section 702 of the act. The agency interpretation is evidently based upon a study entitled, "The Measurement of Industrial Capacity" prepared by Economic Associates, Inc. Although the report was dated October 1966, and despite the fact that the report "gratefully acknowledges" my assistance, the fact of the matter is that I did not see the report until long after its date of publication.

Mr. EDMONDSON. The gentleman from New York or New Jersey—do you have a statement that you would like to make?

Mr. McCARTHY. Mr. Chairman, I would forgo the statement until we get to section 702.

Mr. EDMONDSON. The gentleman from California, or Arkansas?

Mr. HAMMERSCHMIDT. No, I have no statement at this time.

Mr. EDMONDSON. Mr. Secretary, would you continue, then, at this point?

**STATEMENT OF LAMBERT S. O'MALLEY, DEPUTY ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT OPERATIONS; ACCOMPANIED BY ROBERT RAUNER AND THOMAS HARVEY**

Mr. O'MALLEY. Yes, Mr. Chairman. Thank you very much.

It is always a pleasure and privilege to appear before this committee and discuss with you our program.

As you know, I bring Secretary Davis' regrets. He is committed to a yearly, or once-a-year meeting of the President's Review Committee on Alaska. And in view of the responsibilities involved, nobody regrets more than I do that he cannot be here.

Mr. CLAUSEN. You say the President's Review Committee on what?

Mr. O'MALLEY. Alaska. It meets once a year, and it happened this was the day selected for its meeting.

Mr. Chairman, you spoke of items which you wanted discussed. I do not have a prepared statement.

If you want me to proceed to give, in brief details, a description of those items which you mentioned, I will be glad to do that.

Mr. EDMUNDSON. I would appreciate it if you would begin by giving us a recapitulation of the projects that have been approved, the projects that have been turned down and projects that have been placed in the so-called reserve category.

Mr. O'MALLEY. You are speaking of this fiscal year, I assume?

Mr. EDMONDSON. The current fiscal year, and then the overall as well. I think it would be useful to have both.

Mr. O'MALLEY. As you know, most of the volume of our investments of appropriated funds is in the so-called operating programs in public works, business development loans, and technical assistance.

As of November 9, in public works we had approved a total of 47 projects this year for an aggregate amount of \$15.7 million.

We have been operating, as you know, in all of these programs, and all of our programs, on a continuing resolution. And that continuing resolution itself has been in some doubt in the last few weeks. Of course, you are all aware of that. But that is the total in the public works projects.

And as of that same date, in technical assistance we have approved a total of 49 projects, totaling \$1,642,000. In business development loans we have approved 18 loan applications, totaling \$7,191,000.

There have been also, in our other programs, planning grants under section 301, which have been funded in connection with the establishment of districts and other planning grants have been established. I do not have the cumulative figures at the moment, but they can be supplied for the record.

Mr. EDMONDSON. We would like to have them.

Mr. O'MALLEY. We will get that for you.

(The information referred to follows:)

Following is a statistical summary of the planning grants that have been made and are expected to be made during the balance of this year:

|                                                   |               |
|---------------------------------------------------|---------------|
| Fiscal year 1966 (actual):                        |               |
| Funds allocated to planning grant program         | \$1, 400, 000 |
| Number of area planning grants                    | 4             |
| Total obligations for area grants                 | \$159, 081    |
| Number of district planning grants                | 7             |
| Obligations for district grants                   | \$415, 486    |
| Number of State planning grants <sup>1</sup>      | 11            |
| Obligations for State grants                      | \$793, 817    |
| Total number of grants                            | 22            |
| Total obligations                                 | \$1, 368, 384 |
| Fiscal year 1967 (actual):                        |               |
| Funds allocated to planning grant program         | \$3, 574, 000 |
| Number of area planning grants                    | 10            |
| Total obligations for area grants                 | \$538, 186    |
| Number of district planning grants                | 39            |
| Obligations for District grants                   | \$1, 649, 049 |
| Number of State planning grants <sup>1</sup>      | 20            |
| Obligations for State grants                      | \$1, 137, 720 |
| Total number of grants                            | 71            |
| Total obligations                                 | \$3, 424, 345 |
| Fiscal year 1968 (actual through Nov. 15, 1967):  |               |
| Funds allocated to planning grant program         | \$4, 800, 000 |
| Number of area planning grants                    | 2             |
| Total obligations for area grants                 | \$41, 986     |
| Number of district planning grants                | 17            |
| Obligations for district grants                   | \$807, 292    |
| Number of State planning grants                   | 1             |
| Obligations for State grants                      | \$24, 726     |
| Total number of grants                            | 20            |
| Total obligations                                 | \$874, 004    |
| Fiscal year 1968 (estimate for full fiscal year): |               |
| Funds allocated to planning grant program         | \$4, 800, 000 |
| Number of area planning grants                    | 21            |
| Total obligations for area grants                 | \$640, 000    |
| Number of district planning grants                | 80            |
| Obligations for district grants                   | \$4, 000, 000 |
| Number of State planning grants                   | 5             |
| Obligations for State grants                      | \$160, 000    |
| Total number of grants                            | 106           |
| Total obligations                                 | \$4, 800, 000 |

<sup>1</sup> In the 1st year and a half of the EDA program, a relatively large share of planning grant money was directed to the States to enable them to help EDA organize and start development district programs. In the current fiscal year and in ensuing years only a small percentage of these funds will be given to the States. Most of the planning grant money will go directly to redevelopment area and economic development district organizations.

Mr. O'MALLEY. Now in the area of denials, I would like to proceed—

Mr. EDMONDSON. Could we get this a little bit in perspective? Your 47 public works projects, 49 technical assistant grants, and 18 business loans; how do they compare with the volume of projects approved, technical assistance project grants made and business loans made in the fiscal year ending June 30, 1967?

How much have we fallen off in the scope and level of our program this year?

Mr. O'MALLEY. You mean in the investment of moneys actually and the number of projects?

Mr. EDMONDSON. Number of projects and money, yes, sir.

Mr. O'MALLEY. Well, let's see, I think we can put it probably in better perspective if we gave it to you as of the same point last year.

Mr. EDMONDSON. Do you have that?

Mr. O'MALLEY. Yes, we have that. Generally the production of projects, for instance in public works, is probably one-half at this point of what it was in the preceding fiscal year. Now, that is because of several reasons, but mainly because as of July 1, beginning of this present year, we changed the public works approach to the problem of accepting applications. This was one thing I was going to get into with regard to denials.

We found in 1966, at the end of the 1966 fiscal year, that we had accumulated approximately 1,400 applications, totaling \$1.2 billion. We knew that it was impossible to reach those applications with any facility for processing and for action.

We worked very hard during the early part of that fiscal year, and up until the spring of the past 1967 fiscal year, to eliminate those projects which were not susceptible of ultimate approval under any conditions.

That meant from November of last year, November of 1967 or of 1966, up until January or February we denied approximately 1,000 of those projects.

We eliminated them for their lack of qualification.

At the beginning of this present fiscal year, we reviewed very carefully our procedures with regard to acceptance of applications, as I am sure you are aware. We had had a great deal of complaint about the length of processing time in connection with an application.

We had been, I think, in the posture of accepting applications and reacting to applications rather than to analyzing the possibility of a project prior to the acceptance of an application.

So we developed in public works, for instance, the procedure whereby our field representative spent a great deal more time in discussing with the applicant, which in most cases would be represented by the mayor or leading city official, the ultimate possibilities in connection with an application which he desired to file.

That resulted in a process where, after those preliminary discussions, the applicant sits down with the representative of our office, our office sits down with the representatives of the applicant, and discusses not only what a particular project might do, but what the community itself is doing in connection with what might be described as an economic development process, what they are doing to help themselves;

Mr. EDMONDSON. Let me stop you just a minute and go back to this question of the rate of project approval.

Your September 30, 1967, report shows a total in public works projects approved up to September 30, 1967, of 875.

Mr. O'MALLEY. That is the total for the entire term of the Economic Development Act.

Mr. EDMONDSON. I understand this is a 1965 act.

Mr. O'MALLEY. That is correct.

Mr. EDMONDSON. And you are telling me now that approving 47 as of November 9 means the falloff is only about one-half the rate of approval that we had in fiscal 1967?

Mr. O'MALLEY. No. I am saying that to the same point of fiscal 1967.

Mr. EDMONDSON. I said the rate of approval. Are you telling me that you only approved about 115 or 120 projects in fiscal 1967?

Mr. O'MALLEY. No, I am telling you that by November 9, in fiscal 1967, as contrasted with November 9 in fiscal 1968, we approved ap-

proximately twice as many projects, or around 90. We approved in fiscal 1967 approximately 100 more projects than we did in fiscal 1966, if my recollection is correct.

Mr. EDMONDSON. If you had 875 approved as of September 30, 1967 and you only had life for 2 years, 1965 act, your rate of approval must have been pretty close to 300 or 400 a year.

Mr. O'MALLEY. That is correct, it is. We approved 364 in fiscal 1966 and 461 in fiscal 1967.

Mr. EDMONDSON. In fiscal 1967 you approved 461 public works projects?

Mr. O'MALLEY. That is correct. It might be 462.

Mr. EDMONDSON. As of November 9, 1967, you had only approved 47 projects?

Mr. O'MALLEY. For fiscal 1968.

Mr. EDMONDSON. For fiscal 1968?

Mr. O'MALLEY. That is correct.

Mr. EDMONDSON. How in the world you can say that is about half the rate of 1967 is beyond me.

Mr. O'MALLEY. I said it is half the rate of the point to which we were on November 9, 1966. In the first 4 months of 1966, that is the fiscal year 1967, we approved approximately twice as many projects as we had to November 9. I am not talking about the full fiscal year, just in the first 4 months.

Mr. EDMONDSON. I would like to have details on that submitted for the record, precise figures, because I think you must be off considerably. I do not see how you could have 461 projects approved in fiscal year 1967.

Mr. O'MALLEY. We did.

Mr. EDMONDSON. And you have only approved about twice as many up to November 9 of fiscal 1967, as you did up to November 9 of this current year?

Mr. O'MALLEY. That is exactly what happened. We will show you the rate by month and will give you the number of applications approved by month.

As you know, in the beginning of any fiscal year the rate of production per month slows down very materially. And again, as the fiscal year proceeds, the rate increases, so that your maximum production generally comes in the second half of your fiscal year.

Mr. EDMONDSON. You will submit those?

Mr. O'MALLEY. Yes, sir.

(Documents referred to follow:)

## PUBLIC WORKS APPROVALS BY MONTH AS OF OCT. 31 1967

|                                       | Number of projects | EDA funds (thousands) |         |         |
|---------------------------------------|--------------------|-----------------------|---------|---------|
|                                       |                    | Grant                 | Loan    | Total   |
| FISCAL 1966                           |                    |                       |         |         |
| January.....                          | 4                  | \$4,024               |         | \$4,024 |
| February.....                         | 19                 | 3,911                 | \$9,655 | 13,566  |
| March.....                            | 41                 | 37,905                | 12,040  | 49,945  |
| April.....                            | 139                | 58,596                | 9,165   | 67,761  |
| May.....                              | 161                | 85,654                | 11,141  | 96,795  |
| June.....                             |                    |                       |         |         |
| Total approved.....                   | 364                | 190,090               | 42,001  | 232,091 |
| Less deobligations.....               | 3                  | 145                   | 57      | 202     |
| Net approved.....                     | 361                | 189,945               | 41,944  | 231,889 |
| FISCAL 1967                           |                    |                       |         |         |
| July.....                             | 4                  | 12,380                |         | 12,380  |
| August.....                           | 17                 | 12,286                | 1,819   | 14,105  |
| September.....                        | 14                 | 7,171                 | 2,308   | 9,479   |
| October.....                          | 18                 | 10,001                | 621     | 10,622  |
| November.....                         | 50                 | 18,441                | 3,893   | 22,334  |
| December.....                         | 21                 | 6,645                 | 2,565   | 9,210   |
| January.....                          | 8                  | 4,459                 | 2,144   | 6,603   |
| February.....                         | 15                 | 3,279                 | 1,417   | 4,696   |
| March.....                            | 18                 | 3,376                 | 203     | 3,579   |
| April.....                            | 34                 | 7,255                 | 1,662   | 8,917   |
| May.....                              | 134                | 35,953                | 1,824   | 37,777  |
| June.....                             | 140                | 54,888                | 6,410   | 61,398  |
| Total approved.....                   | 473                | 176,134               | 24,866  | 201,000 |
| Less deobligations.....               | 2                  | 1,682                 | 247     | 1,929   |
| Net approved.....                     | 471                | 174,452               | 24,619  | 199,071 |
| FISCAL 1968                           |                    |                       |         |         |
| July.....                             | 7                  | 4,206                 | 368     | 4,574   |
| August.....                           | 30                 | 7,075                 | 1,694   | 8,769   |
| September.....                        | 6                  | 1,440                 | 135     | 1,575   |
| October.....                          | 4                  | 683                   | 235     | 918     |
| Total approved.....                   | 47                 | 13,404                | 2,432   | 15,836  |
| Grand total (less deobligations)..... | 879                | 377,801               | 68,995  | 446,796 |

Mr. CLAUSEN. Mr. Chairman.

Mr. EDMONDSON. Mr. Clausen.

Mr. CLAUSEN. Do I understand your request, that they will be providing a specific breakdown on the projects for these fiscal years?

Mr. EDMONDSON. What I want to have is a month-by-month picture of project approvals in fiscal year 1966, fiscal year 1967, and fiscal year 1968, which we are in now. It seems to be that the fall off in project approvals has been considerably greater than just 50 percent.

I think it is probably running about 15 or 20 percent of the rate in the previous year for project approvals.

Mr. O'MALLEY. There is not any question about what the rate for this year has fallen off very materially, and for the reason I was explaining when you asked the question.

Mr. EDMONDSON. The continuing resolution——

Mr. O'MALLEY. Our process has changed very materially. We hope to cut down, for instance, the number of applications, formal applications we accept by about half. Under our present procedure, which has worked very well, we expect to receive this year only, or to accept only about 600 applications.

These 600 will go to full processing and we expect to approve out of that group 400 out of the 600.

Now, that is because we feel that we have so refined our procedures that by the time we accept an application, it will have a high possi-

bility of approval; although, as I say, out of 600 that we look at finally, probably 400 will be approved.

Now, that is a very material reduction in the number of applications. And we hope to provide more assistance to applicants than we have been able to by diverting them at an early stage to another agency which might satisfy the requirements, when we recognize we cannot—that eliminates, then, the distasteful situation we found when we have had to spend a lot of time reviewing applications that we ultimately had to deny.

Mr. EDMONDSON. Could you tell us whether your technical assistance and your business loans approved are roughly the same?

Mr. O'MALLEY. Roughly approximating previous level.

Mr. EDMONDSON. About half of the fiscal year 1967 level?

Mr. O'MALLEY. No, they are roughly approximating what our production was in the fiscal year 1967.

Mr. EDMONDSON. So you think fall off has been on public works?

Mr. O'MALLEY. That is correct, because we very materially changed the procedures in public works with regard to the acceptance of an application.

Mr. EDMONDSON. It absolutely baffles me that a change in procedures could result in a tremendous reduction in grant approvals. I just do not follow it.

Mr. O'MALLEY. Because it is delaying the acceptance of applications.

Mr. EDMONDSON. Is this considered to be constructive?

Mr. O'MALLEY. Yes, it is, because we do not want any longer to accept applications, if we can avoid it, that we know at the outset are probably not approvable.

Mr. CLAUSEN. If the gentleman would yield, do you have an established criteria to determine how you decide whether they are approvable or not?

Mr. O'MALLEY. Yes, we have established criteria of course.

Mr. CLAUSEN. Can you explain that?

Mr. O'MALLEY. Well, by and large it is directed, I suppose, to the question of economic impact. The first criteria of course would be whether the area is eligible. Second yardstick would be the need situation in the area, that is what the employment rate might be in one area as contrasted to another, or what the family income might be in one area as contrasted to another.

Obviously, in an area where the unemployment rate is so high that the grant rate is 80 percent, it is established as an area that has greater need than one in which the grant rate is 50 percent. So those areas are examined very carefully. It is not a solution of the problem, but it is an orderly construction of it at which we look first.

And then we examine the application itself, of course, and particularly the results of it as far as the criteria established by the act, that is what it will do to reduce unemployment in an area where there is high and persistent unemployment or where there is low or median family income.

Mr. EDMONDSON. Can you tell us what your funding availability is at the moment and under what restraints you are operating from the Bureau of the Budget?

Mr. O'MALLEY. Our appropriated funds for public works, for instance, this year is \$175 million. We are operating at the moment

under a restriction from the Secretary of Commerce to establish a pause in the approval of any grant or loan applications.

Mr. EDMONDSON. Well, based on \$175 million appropriated and project approvals totaling \$15.7 million, less than 10 percent of your appropriated money has been committed to projects right now?

Mr. O'MALLEY. Quite correct.

Mr. EDMONDSON. How about on technical assistance and business loans?

Mr. O'MALLEY. On business loans we have appropriated \$55 million, and we have obligated approximately \$7 million.

Mr. EDMONDSON. How about technical assistance?

Mr. O'MALLEY. Technical assistance, we have appropriated \$10,-265,000, and we have obligated \$1,642,000.

Based upon our experience and the indications of projects that we will have in our pipeline, and that will be submitted for approval, we have no doubt that we will be able to obligate or invest these funds in a manner responsive to the dictates of the law.

Mr. EDMONDSON. What is the restrainer or restriction the Secretary of Commerce has placed on you in connection with projects and loans?

Mr. O'MALLEY. As you know, there are studies being made at the moment by the Bureau of the Budget, by the President, by the various departments, to resolve some of the problems that have been created in our fiscal situation, but the restraint that is imposed at the present time is the request to us from the Secretary, effective until further notice, that we place a freeze on new commitments for grants, loans, and contracts.

Mr. EDMONDSON. That freeze is in effect now?

Mr. O'MALLEY. It is and has been for the past week.

Mr. EDMONDSON. And what was the date of it?

Mr. O'MALLEY. November 7.

Mr. CLAUSEN. Mr. Chairman, coming back to this question of criteria for approved projects, do you have a public document that spells this out so that it can be made available to some of the political subdivisions or people concerned?

I heard you when you gave a response off the cuff; but do you have a public document that is available for the public to determine whether or not their particular application will be approvable, as you describe it?

Mr. O'MALLEY. Yes, we have those. And they are published and have been very widely distributed, Congressman.

Mr. CLAUSEN. I would like to ask that that be made a part of the record at this point, that document. Could you provide that for the record?

Mr. O'MALLEY. Yes, we have several documents.

Mr. CLAUSEN. In response to my question, I ask unanimous consent that that be made a part of the record at this point.

Mr. EDMONDSON. I think that we have a complete book on the subject. I do not know whether the gentleman wants to put the entire book on project criteria into the record.

Mr. CLAUSEN. What I had in mind, obviously not a full book, but just a brief résumé available to the public to determine whether or not their application is approvable.

Mr. O'MALLEY. Mr. Chairman, I would be very much surprised if the committee does not have our published booklets now. We will be glad to submit a brief statement, if that is what you want.

Mr. EDMONDSON. There being no objection, anything relatively of brief nature, and I am talking about not to exceed 10 or 15 pages, will be welcomed as part of the record at this point. I think we are going to find that it runs considerably longer than that, and it will be desirable to put it in the file.

Mr. O'MALLEY. We will submit anything else that might be indicated.

Mr. CLAUSEN. I think it would be helpful to have this as a permanent part of the record at this point.

Mr. O'MALLEY. We will be glad to submit it.

Mr. EDMONDSON. Without objection, it will be made a part of the record, providing it does not exceed 15 pages.

(Information supplied will be found in subcommittee files.)

Mr. CLEVELAND. Mr. Chairman.

Mr. EDMONDSON. Mr. Cleveland.

Mr. CLEVELAND. Mr. Chairman, point of inquiry. You do not happen to have those books with you or copies of those books? Did your staff bring those with you?

Mr. O'MALLEY. No, I do not.

Mr. Dooley tells me that Mr. Lorenz has a complete set of those books.

Mr. EDMONDSON. We would like very much to have any material that you have outlining a new procedure to be effective July 1967, because I do not think that has been made a part of any record.

Mr. O'MALLEY. No, it has been only in effect since then; and if I might take just a second, it is working very well, and I can illustrate how it is working by one or two instances.

What we have tried to do is suggest to the field coordinator, we have required him to suggest to the mayor, and 90 percent of the cases we are dealing with the mayor of the community, that we are not only interested in his project, but we are interested in what is going on in his community as far as development is concerned. So that when we sit down to discuss an application with him or the reception of an application, we suggest that he bring into a meeting of that sort those representative citizens of the community who are involved in the development.

Now, that has worked very well. In one instance in Mississippi, for instance, we had 45 responsible citizens of the community sit down and discuss with the representatives of our area office just exactly what was going on in that community, and what we thought should go on in that community in order to not only support the particular project, but to see that a long-range development was carried on, not only in the community, but in the surrounding area; so that it would have effect on the surrounding area.

That has given the citizens of those communities an understanding of what we are trying to do and a better understanding of what is required for them to support a project application.

They are joining in rather enthusiastically, in that kind of participation, and we are very much pleased with it.

In addition to that, if we get to the point of accepting an application, we accept the application, and we indicate that it will probably take 90 days to process it, and with regard to those things which the mayor or the citizens of the community told us would go on in that community, while that application was being processed, we require

from them, each 30 days, a statement of what is going on and whether what they told us would go on is actually being carried on; so that when we come to the time of final approval or denial, we not only have the status of that community and the project at the time they made the application, but we have the progress of it during the time we have been processing it.

Mr. CLAUSEN. Approximately what amount of time elapses from the time that you have one of these so-called approvable applications until the actual grant is made? What is the average length of time?

Mr. O'MALLEY. It runs any place from 16 to 18 months. It depends on the size of the project, the complexity of the construction involved. And it takes some communities a little longer to get their projects ready to go to bid.

Sometimes we have had problems with overruns. We have had construction problems that we had to iron out, but generally it is running between 16 and 18 months before they actually get into construction. Some of the projects have been rather large.

Mr. CLAUSEN. On a project that is generally considered by those present to be approvable, it takes within 16 to 18 months to get an approvable application?

Mr. O'MALLEY. No, get into construction, I thought you were talking about.

We said when we file an application, we hope to have a decision, if it is approvable, within 90 days.

Mr. CRAMER. Would the gentleman yield?

Mr. EDMONDSON. On that point of approvable within 90 days, on April 11 you informed the committee that you were establishing a reserve category, projects that had merit but where funds were not available to take care of them. Now we have been supplied an exhibit from the Office of Public Works indicating, as of October 31, 1967, there were only 17 projects that were identifiable as reserve category projects; is that correct?

Mr. O'MALLEY. That is correct. As of today, it is 18.

Mr. EDMONDSON. And so out of these hundreds of projects that have not been denied, and there are hundreds of pending projects that have not been denied, you only had 18 that you identify as reserve category projects?

Mr. O'MALLEY. At this time there are not hundreds of projects that have not been denied. A year ago there were approximately 1,000. As of the present time, we have less than 160 projects pending, project applications pending.

Now, the elimination of a great many projects, which were not at any point approvable, has reduced the ratio so that those projects which we have determined might, if we had more money, be approvable, have been put into that reserve category. But because we have reduced the number of pending projects, as we wanted very definitely to do, that ratio is not out of line with the number of pending projects we have.

Mr. EDMONDSON. You have only 160 pending, but you are expecting to approve 400 this year?

Mr. O'MALLEY. That is right, exactly right, because we will receive these in the process that I just described in detail, we will receive these as we go along. But by the time we actually take an application, we will have a very good preliminary judgment as to whether it is approvable.

Mr. CRAMER. Mr. Chairman.

Mr. EDMONDSON. Mr. Cramer.

Mr. CRAMER. Mr. Chairman, I have a question on the documents that have been requested, very briefly.

Mr. Secretary, I feel obliged to advise you that so far as the minority is concerned, relating to our effort to exercise the function that it is commanded we do by this committee in the form of oversight, that I for one am very unhappy with the lack of cooperation, the inability to get information, that has been experienced by at least the minority side of this staff.

I constantly receive from the staff complaints about lack of cooperation, unwillingness to provide information, lack of openness in discussing subject matters, having to go in and dig out what they are interested in rather than to have it volunteered.

For instance, the staff does not have, and I understand it was just the other day made available to the committee, a complete manual of economic development orders. I think the staff ought to have all the guidelines, regulations, criteria, and standards established.

I think the staff ought to have all of the directives and instructions and reports in whatever form they may be issued. And I think that at least two copies of such documents ought to be made available to this committee, one to the minority, and that there should be a free flow of information.

Frankly, I for one would have to be less than candid if I did not say that I am very unhappy with the lack of flow of information, the lack of cooperation, and the lack of willingness to provide information when requested.

I would appreciate it, Mr. Secretary, if you would instruct those who have the responsibility of liaison to see that such information is readily available and to be willing to provide it.

Mr. O'MALLEY. Congressman, certainly as far as EDA is concerned there is no minority, so far as this committee is concerned, so far as any Member of Congress is concerned. You are entitled to every bit of information that can be made available to you within legal restrictions.

To my knowledge there has been no complaint from the staff of this committee that they have not received, upon request, any information that they required. Certainly we would be enthusiastic in providing each member of this committee and the staff of this committee with any kind of information to which they desire.

Mr. CRAMER. I am registering such a complaint at this time.

Mr. O'MALLEY. Have you registered it prior with any of us?

Mr. CRAMER. Yes. It has been registered through the staff time and time again, and I am registering it to you at this time.

Mr. O'MALLEY. I will be glad to accept that and see that any derelictions that may have occurred will be eliminated.

Mr. CRAMER. I understand that about the only thing available to this committee as a matter of course are the public announcements, and that information relating to your orders and guidelines and regulations and directives and so forth, has not been readily made available to the committee.

Mr. O'MALLEY. As I say, Congressman, to my knowledge no request has been made by the staff of this committee that has not been fulfilled.

If that is true, I would like to know about it, and I am sure my associates would like to know about it. I am certain Mr. Davis would

like to know about it. If those requests have been made and have not been fulfilled, we will determine that, and any request from the staff that is made to me will be fulfilled, and I can assure you of that.

Mr. CRAMER. I would suggest, for instance, that any regulation you adopt or any criteria you adopt or any orders that you issue or instructions that you adopt should automatically come to the staff and to this committee so that we will know whether or not the intent of Congress is being carried out. Only in this manner can we as an oversight committee, properly exercise our function.

Mr. O'MALLEY. We would be glad to cooperate with you in exercising that function.

Mr. EDMONDSON. I certainly want to agree with the gentleman from Florida that when a request comes from the committee staff that there should be proper reply to it. I can tell the gentleman from Florida that this is the first notice that I have had that there was interest in the manual or in the directives and orders of the EDA that had not been satisfied. And I think that there is no question about the right of the minority to have access to that information; and we will certainly cooperate at our end to see that it is made available.

Mr. CRAMER. I will say to the Chairman it has been like pulling teeth to get any information out of this agency.

Mr. HOWARD. Would the gentleman yield?

Mr. CRAMER. Yes.

Mr. HOWARD. If we were to get all the booklets, pamphlets, regulations, and other printed material from the agency, I believe we would still not be informed as to some of the policy operations of the agency.

Mr. O'Malley, I would like to ask you whether or not Mr. Davis is continuing his personal policy of limiting the consideration of projects according to the unemployment rate in specific economic development areas?

Last year Mr. Davis stated that he did not have all the money he needed, and certainly not the amount of money needed to approve all the projects that would normally be approvable. So on his own, he made the decision that he would only consider applications from areas with the highest amount of unemployment.

At that time he stated that many of the counties in the Nation or economic development areas which did qualify under the act passed by the Congress were not even being considered by the agency.

He stated that some counties have unemployment rates up to 33 percent. And with the amount of money the agency had on hand, they could only look at projects in areas where the employment was down to maybe 15 percent.

Anything below that would not even be considered.

I know that it is not universal, but I would presume that almost all of the projects listed in this booklet are in areas certainly in excess of an unemployment rate of 12 percent. Is that not true?

Mr. O'MALLEY. I would have to review specifically the balance, Congressman; but I would say I know this: that in the last half of the past fiscal year, that is 1967, the investment of EDA moneys in the very high unemployment areas was much greater than it had been in the first 6 months of that fiscal year.

Mr. HOWARD. Have you, in the last few months, been considering or looking at projects in an area where the unemployment rate might be 8 percent?

Mr. O'MALLEY. Yes, we have been looking at them and will continue to look at them.

Mr. HOWARD. This is a change, then, from Mr. Davis' stated policy when he appeared before the subcommittee?

Mr. O'MALLEY. Well, I am not verifying your description of Mr. Davis' statement. I think what he said was that with the limited resources that we have that our policy generally was to look first at the areas of worst need, and from that proceed downward to those areas in which the need was lesser.

Now, it is true that in many of those areas where the unemployment rate is very high that there are no applications or no projects or no economic development process that makes them susceptible to the investment of moneys. That being true, we move down, then, to the next area or to the next lower area and look at that.

It is not to say that because an area has a high unemployment rate that we say to them: Here is money, you invest it. We do not do that. If there is no project there susceptible under our criteria to the investment of funds, we move down the line, so it is quite probable that we will reach, under that kind of process, the lowers—

Mr. HOWARD. He stated he would look first to the areas with the greatest unemployment, but the funds available were so small and so limited there was no opportunity for any second looks.

In other words, these areas of 15 to 17 percent unemployment and up were the ones that were using all the money.

Now, if he had all the money he needed, then he would be able to get down to these other areas; but he was not at that time considering applications in an area of, say, below 12 percent, I believe. He may have said 15, but certainly below 12 percent.

I asked him whether he had staff members in these economic development areas below 12 percent to help municipalities prepare applications and send them onto the agency, and if he was doing that in these low areas, I asked him if that was not a great waste of money since the agency knew these areas were not even going to be considered.

I would think the agency would be able to use the personnel in areas where they are going to at least consider the application. I do not know whether we have anything in writing, that we could get from the agency, to indicate what Mr. Davis' policy was at the time he appeared before this subcommittee and whether we have heard, in writing, or have anything available to us that we might be able to read, indicating that his policy seems to have changed since that time. I think it could save a lot of time, money and effort if people would be told that we are not considering 8, 9, 10, 11 percent areas, and that they should not bother to send in applications, and use the taxpayers' time by having Federal agents come into those areas to help or advise them; we would let them know when we are going to start considering those areas.

With the number of counties that we say are covered by this act, there are many, many of them that are in no better position to obtain Federal help for economic development than the wealthiest counties in the Nation would be as far as the operation goes.

This is done despite the act. You cannot read the act to find out what the agency is doing.

Mr. EDMONDSON. I think the gentleman has a good point. I think if there is a policy at this time with reference to the employment level

that is a prerequisite to approval of projects, we would like to know what it is. Is there?

Mr. O'MALLEY. There is no specific level above or below which an application will not be considered.

Mr. EDMONDSON. In other words, there are factors other than unemployment which are evaluated to measure the needs?

Mr. O'MALLEY. There are many factors. As I said to Congressman Howard, it is a good question.

I am sure that the policy generally as described, and I say I am not verifying his description of it as entirely accurate, leads us to look first at those counties where obviously the need is greatest. But as we look at those and nothing is apparent that we should do, we move down the list.

So it is quite possible, Congressman, that with that policy, and without any conflict in that policy, we will reach certain area projects in the lower rate areas, and we have done that.

Mr. HOWARD. If you do look at a project in an area of say 7 percent, if you look at it and consider it now, then that is a change from the policy as stated when Mr. Davis was here.

Mr. O'MALLEY. I do not think it is a change.

Mr. HOWARD. He stated they would not consider one from a 7 percent area, and now he will. That seems to be a change to me.

Mr. CRAMER. Mr. Chairman, I want, for the record, to substantiate my remark, and then I know the gentleman from New Hampshire wants to ask some questions.

But on December 7, 1965, Mr. Enfield, under my instructions, sent a letter to Mr. Francis Dooley, special assistant for congressional liaison:

I would appreciate very much being placed on your mailing list to receive one copy of each publication, directive, and other documents issued by the Economic Development Administration, to implement and carry out the provisions of the Public Works and Economic Development Act of 1965.

The December 13, 1965, reply from Mr. Dooley states:

This will acknowledge your letter of December 7th in which you ask to be put on the mailing list to receive all future Economic Development Administration publications. This has been done as you ask.

We have received nothing but public announcements. And I would like to have those two letters made a part of the record.

Mr. EDMONDSON. Without objection, they will be; and so will the project list that has been supplied. I would like to say that I am very disappointed that there is not a reserve group of projects in larger numbers than just 18 to meet the possibility of a considerable increase in level of activities without reserve projects that have been established to meet that situation.

(Documents referred to follow:)

DECEMBER 7, 1965.

Mr. FRANCIS X. DOOLEY,  
*Special Assistant for Congressional Liaison, U.S. Department of Commerce, Economic Development Administration, Washington, D.C.*

DEAR FRANK: Thank you for your letter of December 2, 1965, and the material you forwarded concerning the Economic Development Program.

I would appreciate very much being placed on your mailing list to receive one copy of each publication, directive, and other documents issued by the Eco-

conomic Development Administration, to implement and carry out the provisions of the Public Works and Economic Development Act of 1965.

Sincerely yours,

CLIFTON W. ENFIELD.

U.S. DEPARTMENT OF COMMERCE,  
ECONOMIC DEVELOPMENT ADMINISTRATION,  
Washington, D.C., December 13, 1965.

MR. CLIFTON W. ENFIELD,  
Committee on Public Works,  
House of Representatives,  
Washington, D.C.

DEAR MR. ENFIELD: This will acknowledge your letter of December 7th in which you ask to be put on the mailing list to receive all future Economic Development Administration publications. This has been done as you ask.

Please let us hear from you if we may be of further help at any time.

Sincerely,

FRANCIS X. DOOLEY,  
Special Assistant for Congressional Liaison.

OFFICE OF PUBLIC WORKS

PROJECTS IN DENIAL-RESERVE STATUS, FISCAL YEAR 1968, AS OF OCT. 31, 1967

| Project No.       | Date denied | Location                                        | Project type                     | EDA funds (thousands) |       |        |
|-------------------|-------------|-------------------------------------------------|----------------------------------|-----------------------|-------|--------|
|                   |             |                                                 |                                  | Grant                 | Loan  | Total  |
| ARKANSAS          |             |                                                 |                                  |                       |       |        |
| 08-1-00562        | Aug. 29     | Desha: Arkansas City                            | Water/sewer                      | \$149                 | \$149 | \$298  |
| 08-2-00366        | do          | do                                              | Sewage treatment                 | 8                     | 21    | 29     |
| CALIFORNIA        |             |                                                 |                                  |                       |       |        |
| 07-1-00396        | do          | San Diego: San Diego                            | Industrial park                  | 447                   |       | 447    |
| 07-1-00480        | Sept. 22    | San Joaquin: Stockton                           | Warehouse/port                   | 700                   |       | 700    |
| 07-1-00481        | do          | do                                              | Port facilities                  | 750                   |       | 750    |
| 07-1-00482        | do          | do                                              | do                               | 238                   |       | 238    |
| 07-1-00483        | do          | do                                              | do                               | 750                   |       | 750    |
| 07-2-00484        | do          | do                                              | Sewage treatment                 | 344                   |       | 344    |
| 07-2-00486        | do          | do                                              | do                               | 313                   |       | 313    |
| COLORADO          |             |                                                 |                                  |                       |       |        |
| 08-1-00607        | Oct. 13     | Costilla: San Luis                              | Tourist center                   | 514                   |       | 514    |
| MASSACHUSETTS     |             |                                                 |                                  |                       |       |        |
| 01-1-00085        | Aug. 11     | Fall River: Fall River                          | Shrine development               | 2,000                 | 2,000 | 4,000  |
| MISSISSIPPI       |             |                                                 |                                  |                       |       |        |
| 04-1-00366        | Aug. 15     | Tallahatchie: Cascilla                          | Water                            | 472                   | 118   | 590    |
| NORTH CAROLINA    |             |                                                 |                                  |                       |       |        |
| 03-1-00459        | Aug. 11     | Columbus: Fair Bluff                            | Water/sewer                      | 111                   |       | 111    |
| 03-2-00460        | do          | do                                              | Sewage treatment                 | 29                    |       | 29     |
| NEW MEXICO        |             |                                                 |                                  |                       |       |        |
| 08-1-00326        | Sept. 27    | Sandoval: San Yaidero (Zia Indian Reservation). | Multipurpose community building. | 120                   |       | 120    |
| OREGON            |             |                                                 |                                  |                       |       |        |
| 07-1-00130        | Sept. 28    | Wasco: The Dalles                               | Harbor facilities                | 170                   |       | 170    |
| WASHINGTON        |             |                                                 |                                  |                       |       |        |
| 07-1-00313        | Sept. 18    | Klickitat: Dallesport                           | Industrial park                  | 499                   | 499   | 998    |
| Total 17 projects |             |                                                 |                                  | 7,614                 | 2,787 | 10,401 |

Note: No denials reconsidered to date.

Mr. O'MALLEY. Congressman, in some of these instances I am sure you are aware that the applicant withdraws his project and does not want it kept in reserve status. He wants to pursue some other avenue of financing.

Mr. EDMONDSON. I understand.

Mr. CLEVELAND. Mr. Chairman, I think that some of the questions already point up the fact that besides the EDA being perhaps a little lax in keeping us informed, I think to be candid we have to admit we have been a little lax in holding hearings.

Now, as we all know, the bells are going to ring in about 3 or 4 minutes. We all know that there is very important legislation on the floor, that we are going to have to leave, and I know this comes as good news to at least some of the witnesses. But I want to get it on the record now that we are going to have more hearings, and as soon as possible.

It is my understanding from the chairman and other people that perhaps next week may not be a very heavy week, but again that is in the spirit of Thanksgiving, and the witnesses may be pleased; but I think the week following that, we should make it clear that we are going to have hearings. I want to make it clear that if we have those hearings—and I urge those hearings—that I am going to be asking representatives from EDA questions with reference to the 702 section. I am going to be asking them about the *Clay Pipe* case, with which I know they are familiar. I am going to be asking them about a more recent case, which is the *Blue Ridge Nursery* case in North Carolina. I am also going to repeat, to the extent that time permits, the observations made on page 40—questions raised by the observations on page 40 of our first interim report, House Report No. 82.

I am going to expect the people from EDA to be fully prepared to discuss those observations and questions and particularly the two cases: the *Clay Pipe* case and the *Nursery* case. And I believe that Congressman McCarthy also has a case, and I think for the record he ought to mention the name of his case, because I am convinced that the clear legislative intent of 702 is being ignored by EDA.

I am also convinced that you are insulating yourselves behind procedures that you have not made public, so that the general public has no way even to enforce the clear legislative intent of 702.

This is one reason, Mr. Chairman, why I urge that we do schedule continued hearings of this committee in the week immediately following the Thanksgiving period.

Mr. McCARTHY. Would the gentleman yield?

Mr. CLEVELAND. I yield to the gentleman from New York.

Mr. McCARTHY. I thank the gentleman for yielding. I would like to place something into the record here, so that you gentlemen when you return, will be able to supply this committee with additional information on a specific case. I refer to the Fiber Insulation Board industry.

The information I have is from the Insulation Board Institute, the industry association. In a letter dated August 7, 1967 to the Secretary of Commerce, they note the long-range trend of overcapacity in this industry. They point out that within the last few years the Armstrong Cork Co. and Johns-Mansville Co. have discontinued all production of insulation board production at their plants at Pensacola, Fla., and Natchez, Miss., and plants in Hawaii, Oregon, and New Jersey have been completely dismantled.

Nevertheless, the EDA saw fit to finance an insulation board plant not yet in production at Blountstown, Fla.

Now, on the heels of that, EDA has recently announced a \$6.8 million loan to finance another company in this industry, where many are going out of business. The loan is to the Industrial Development Corp. of Cordova, Ala., to build a plant which they will then lease to Southern Fiber, Inc., which will produce 95 million feet annually of half-inch fiberboard and roof insulation.

Now, Mr. Chairman, this, to me, is the clear-cut violation of section 702 alluded to by the gentleman from New Hampshire. And just for the record, I will read section 702:

No financial assistance under this Act shall be extended to any project when the result will be to increase the production of goods, materials and commodities, or the availability of services or facilities, when there is not sufficient demand for such goods, materials, commodities, services or facilities to employ the efficient capacity of existing competitive commercial or industrial enterprises.

Now, you have financed a study by Economic Associates, Inc., to clarify this point. And in their report to you they said that the term "existing competitive enterprises" may be understood and defined by one of the coauthors of section 702; namely, myself, as "an established company in the same line of business and in the same market area."

Now, this is actually a nationwide market; but even if you want to quarrel on that point, most of the plants I have mentioned are in the Southeast United States.

Now, I happen to have new information indicating, on the heels of the closing of these plants that were cited by the Insulation Board Institute, that another company is considering selling its facilities because there is just no money in this business. There is no money in it. They are thinking of selling it.

Now, what you are doing is just driving people out of business. I do not understand how this can happen. The industry figures are available but the Insulation Board Institute was not even consulted on these loans at Blountstown and Cordova. Now, the result is going to be that you are going to be losing jobs in other places in the Southeast, where these people are going to go out of business. And what they are doing now is to try and get out of this business anyway, and convert the machines to making something else.

If they cannot do that, and apparently some of them feel they cannot—at least one—they are thinking of selling the plant.

Mr. CLEVELAND. Would the gentleman yield?

Mr. McCARTHY. This loan that you are going to make, making over \$6 million to these people, how are they going to sell the product if nobody else in the business now can sell it?

Mr. CLEVELAND. Would the gentleman from New York yield back to me? I yielded to him.

Mr. McCARTHY. Yes.

Mr. CLEVELAND. Mr. Chairman, I move that the staff—

Mr. CRAMER. Before the gentleman moves, would you yield?

Mr. CLEVELAND. I yield.

Mr. SNYDER. I would like to ask one question also.

Mr. CRAMER. Very briefly, I am very concerned, and others have expressed their concern, about the administration of this program under section 702, which provides: No financial assistance under this

act shall be extended to any project when the result will be to increase the production of goods, materials, or commodities, or the availability of services or facilities, when there is not sufficient demand for such goods and so forth to employ the efficient capacity of existing competitive commercial and industrial enterprises.

I am now referring to the North Carolina project which you list in this EDA directory; namely, Vaughan's Blue Ridge Nursery, which I understand will provide for 28 greenhouses for cut flowers.

I understand also that the chief clerk of the Committee on Public Works in the Senate, Mr. Richard Royce, wrote a letter to your department on August 11, 1967, inquiring as to how you conformed to this legislative mandate in making this loan. This reply came from Mr. Coleman Stein, Director, Office of Business Development:

Our staff made a thorough study of the application. Loan specialists in EDA evaluated the material submitted by the applicant, and engineers and market analysts from the Small Business Administration conducted a detailed investigation. Consultations were held with growers, wholesalers, and retailers of cut flowers, North Carolina State University, Society of American Florists, American Association of Nurserymen, and the U.S. Department of Agriculture. Also, an opinion from an independent consultant. As a result of the information obtained from these numerous sources, it was concluded that the restrictions of Section 702 of our Act were not applicable and the loan was approved.

Now, I understand also that letters were directed by the Society of American Florists, one that was cited as having been consulted, and by the American Association of Nurserymen, Inc., another cited as having been consulted, one letter dated October 11, 1967, and directed to Mr. Stein, in which was advised that there was no knowledge of such consultation and no records of such consultation with the Society of American Florists; and the same information came from the executive vice president, Mr. Robert Lederer, with the American Association of Nurserymen, Inc.

Mr. EDMONDSON. Would the gentleman like to have those made a part of the record?

Mr. CRAMER. I would like to have all three of those letters made a part of the record because I think this raises a very serious question.

Mr. EDMONDSON. Without objection, the letters will be made a part of the record.

(Three letters referred to follow.)

U.S. DEPARTMENT OF COMMERCE,  
ECONOMIC DEVELOPMENT ADMINISTRATION,  
Washington, D.C., August 25, 1967.

Mr. RICHARD B. ROYCE,  
Chief Clerk, Committee on Public Works,  
U.S. Senate, Washington, D.C.

DEAR MR. ROYCE: This will reply to your letter of August 11, 1967, addressed to Deputy Assistant Secretary Lambert S. O'Malley and also refer to the conversation we had on August 21, 1967, relating to the loan which the Economic Development Administration approved to Vaughn's Blue Ridge Nursery, Inc., Pineola, North Carolina.

As we discussed in your office, the only information we can supply is that which is a part of the public record. However, I feel that this will be sufficient to reply to the questions raised in Attachment A of your letter.

Regarding the question of the repayment terms under the EDA loan, it should be pointed out that the terms of the loan require principal payments to start after 48 months with interest only being required for the first 4 years. Our loan repayment requirements are established in such a manner as to permit our Borrower to amortize its debt at a level annual basis taking into consideration the bank loan in the amount of \$111,600.

The terms of the local development company loan were based on its fund being supplied on a standby basis until the Government loan has been fully paid. As you can readily see, these conditions materially differ from those set forth in Attachment A. Our analysis indicated sufficient earnings projections to meet not only this debt burden but the other requirements necessary to operate this business.

Our staff made a thorough study of the application. Loan specialists in EDA evaluated the material submitted by the applicant, and engineers and market analysts from the Small Business Administration conducted a detailed investigation. Consultations were held with growers, wholesalers, and retailers of cut flowers, North Carolina State University, Society of American Florists, American Association of Nurserymen, and the U.S. Department of Agriculture. Also, an opinion from an independent consultant. As a result of the information obtained from these numerous sources, it was concluded that the restrictions of Section 702 of our Act were not applicable and the loan was approved.

For your information, the average 1966 unemployment rate in Avery County was 17%. This project at full operation is expected to employ 41 additional people of the county's hard-core unemployed, thus creating long-term employment opportunities.

If there is further information that I can supply you, do not hesitate to call on me.

Sincerely,

COLEMAN B. STEIN.

*Director, Office of Business Development.*

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SOCIETY OF AMERICAN FLORISTS,  
SHERATON-PARK HOTEL,  
Washington, D.C., October 11, 1967.

Mr. COLEMAN B. STEIN,  
*Director, Office of Business Development, Economic Development Administration,  
U.S. Department of Commerce, Washington, D.C.*

DEAR MR. STEIN: The enclosed letter which was directed to the Honorable Ray A. Taylor, and signed by your predecessor, James T. Sharkey, is self explanatory. In the third paragraph of this letter Mr. Sharkey commented that consultations were held with the Society of American Florists.

I would like very much to know on what authority this statement was made. I would appreciate very much your pinpointing the name of the person in my organization who was purportedly consulted with by EDA. I would also like to know the dates and what was discussed. A check of my staff indicates we have had no discussions with EDA on a loan that was approved for Vaughn's Blue Ridge Nursery, Inc., Pineola, North Carolina.

Ross P. Davis, when he was Executive Administrator of the SBA, wrote a two page article for our American Florist magazine relating to the work of the SBA. The editor and chief of the magazine indicated there was no discussion held concerning the subject included in Mr. Sharkey's letter to Representative Taylor.

Your consideration of this request will be greatly appreciated.

Sincerely,

JOHN H. WALKER,  
*Executive Director.*

AMERICAN ASSOCIATION OF NURSERYMEN, INC.,  
Washington, D.C., October 12, 1967.

Mr. JAMES SHARKEY,  
*Director, Office of Business Development, U.S. Department of Commerce, Economic Development Administration, Washington, D.C.*

DEAR MR. SHARKEY: A letter addressed to Congressman Roy A. Taylor, dated February 21, 1967, and signed by you, has recently come to my attention. The letter, which is concerned with an application of the Vaughn's Blue Ridge Nursery for an EDA loan, refers to the American Association of Nurserymen as a consultant prior to approval. For one reason or another, we can find no records in this office, of ever having been consulted on any application for an EDA loan. For that reason, we respectfully request your office to furnish us with background information on the particulars concerning consultation by your office with ours on the loan in question.

Thank you.

Sincerely yours,

ROBERT F. LEDERER,  
*Executive Vice President.*

Mr. McCARTHY. Would the gentleman from Florida yield?

Mr. CRAMER. Just a second.

Concerning whether or not consultation took place, in the reply to the chief clerk of the Public Works Committee of the Senate, it was stated that these organizations were consulted. However, these organizations have advised the Department of Commerce that their records do not show that they were consulted.

Now, this is a pretty serious situation.

I would like to have the staff investigate this matter, and also I would like to ask further, since I understand that checks have not been written on this loan yet, that they not be negotiated until this matter can be thoroughly investigated.

Mr. EDMONDSON. I think the gentleman from New Hampshire has already made the proposal, which has a great deal of merit, but if you want to state it formally for the record—

Mr. CLEVELAND. I propose that we direct the staff of this committee to investigate the nurserymen's case that Mr. Cramer has discussed, the case Mr. McCarthy has discussed, and also investigate the clay pipe case; and that this be the first order of business in hearings that I propose we hold on Tuesday following the Thanksgiving week.

Mr. EDMONDSON. Is the gentleman proposing that they investigate preceding the hearings?

Mr. CLEVELAND. I think that should be done.

Mr. EDMONDSON. You may have a time problem on trying to investigate all three of those cases, and have hearings on them the first Tuesday after Thanksgiving.

Mr. CLEVELAND. Mr. Chairman, if the investigation is not complete, I still think it would be helpful to have the hearings at that time, because if the investigation is not complete, at least the staff will have enough information so that we can pose constructive questions to the EDA in regard to these matters. They certainly have information with regard to the same subject matter.

Mr. EDMONDSON. The Chair wants to carry out the wish of the subcommittee. If the subcommittee wants to have the staff go into some of these areas, we will certainly direct them to do so without any delay.

Mr. ROBERTS. Would the gentleman from New Hampshire yield?

Mr. CLEVELAND. Yes.

Mr. ROBERTS. Would the gentleman amend his motion to make it the subcommittee—I am willing to go with the staff, and I think you are, too, and I think we will get a lot more information if we go with them—the whole subcommittee.

Mr. EDMONDSON. I think within the time limits it will be impossible to get the subcommittee out in the field. I think the suggestion of the staff going is good. I think hearings based on staff findings will be in order.

I will try to get the chairman's approval for a hearing date at the earliest possible date following some effective exploration of the matter by the staff.

I will certainly do everything I can to expedite the staff inquiry into it.

I think, too, that we would like to get, if we can, for the record the criteria that has been developed, the regulations that have been developed by EDA for implementation of section 702.

Can you provide those for the record?

Mr. O'MALLEY. Yes, we can provide that for the record. As a matter of fact, I think the operating orders that are in effect now are in the hands of the committee at the present time.

(The information referred to follows:)

U.S. DEPARTMENT OF COMMERCE, ECONOMIC DEVELOPMENT ADMINISTRATION—  
MANUAL OF ECONOMIC DEVELOPMENT ORDERS

ECONOMIC DEVELOPMENT ORDER 3.02-3

*Section 1. Purpose of order*

This Order defines the requirements set forth in Section 702 of the Public Works and Economic Development Act of 1965, 79 Stat. 552 (hereinafter called the Act), and establishes procedures for compliance therewith.

*Section 2. Text of section 702*

Section 702 of the Act provides: "No financial assistance under this Act shall be extended to any project when the result would be to increase the production of goods, materials, or commodities, or the availability of services or facilities, when there is not sufficient demand for such goods, materials, commodities, services or facilities, to employ the efficient capacity of existing competitive commercial or industrial enterprises."

*Section 3. Policy*

No application for financial assistance under Titles I and II of the Act may be approved until it has been determined that approval of the project would not result in violation of the provisions of Section 702 of the Act. To make this determination, every application for financial assistance under Titles I and II must be reviewed. This review of the application and project file may be sufficient to enable a Section 702 determination to be made. However, in the case of business loan and certain public works projects (see Section 6 below), a Section 702 research study is required before the final determination can be made.

*Section 4. Responsibility for making section 702 determinations*

The Deputy Assistant Secretary for Economic Development Operations, or his designee, is responsible for determining whether the approval of assistance for a project would violate Section 702 and for taking whatever action may be necessary and proper in making such determinations. In all cases, the Area Offices furnish the appropriate Washington Office with preliminary data and information. The Washington Office determines whether more information is needed, decides when a Section 702 study must be made and in those cases conducts the study, and in all cases makes a final Section 702 determination.

*Section 5. Definition of key terms*

(1) Demand: "Demand" is the amount of the product or service which can reasonably be expected to be used thereafter in the market area to be served by the project or its principal industrial or commercial beneficiary.

(2) Capacity: "Capacity" is that quantity of production or supply of services which could reasonably be expected to be produced or supplied over a sustained period of time by existing competitive enterprises for use within a reasonable market area under working schedules historically customary for the industry.

(3) Efficient Capacity: "Efficient Capacity" is that part of the capacity which is produced or supplied by plants or suppliers employing well-designed structures, equipment, machinery, methods, designs, and techniques.

(4) Existing Competitive Enterprise: "Existing competitive enterprise" is an existing establishment which produces the same or an equivalent product or which supplies the same or an equivalent service to the same market area or a significant part thereof.

*Section 6. When a section 702 study is required*

A Section 702 study is required for: (a) All business development loan projects, and (b) Each public works project designed to provide public works facilities in order primarily or essentially to benefit one particular firm or industry.

*Section 7. When a section 702 study is not required*

(1) No Section 702 study is required when the request for financial assistance is for a public works project which would not result in a significant increase in the

production that has theretofore been available in the area. Examples of such projects are as follows:

- (a) Projects designed to replace capacity recently destroyed by flood, fire, wind, or other accident.
  - (b) Projects designed to assure the retention of existing capacity and employment. An example of such a project would be the construction of a sewage processing facility to serve an existing industry, necessitated by new regulations concerning disposal of waste into public waters.
  - (c) Projects for the rebuilding of displaced facilities within the same market area, where no significant expansion is involved.
- (2) No Section 702 study is required for public works projects which are designed primarily for the benefit of a community or area as a whole or for general industrial or commercial purposes, rather than for a particular industry.

*Section 8. Procedures for making a section 702 study*

(1) A Section 702 study requires the same procedures whether it is for a business development loan project or a public works project. Business development loan applicants are required to furnish to the Area Office all data in items *a* and *b* below. When there is a single primary beneficiary of a public works project, the Area Office obtains from such beneficiary as much of the information in items *a* and *b* below as possible.

*a. project information*

The Area Office shall obtain and include in the project file the following information for use by the Washington Office in making a Section 702 determination:

1. Information regarding applicant's or beneficiary's operation:
  - (a) Detailed descriptions of all products now being or to be manufactured, including Standard Industrial Classification (Bureau of the Census) numbers wherever possible.
  - (b) Estimated annual total volume or value of shipments.
  - (c) Estimated production tonnages expected or number of pieces per item produced annually.
  - (d) Detailed information on the market areas to be served:
    - (1) Specific purchasers.
    - (2) Local market.
    - (3) Regional or area markets.
    - (4) National or international markets.
  - (e) Distribution system (own truck fleet, motor carriers, rail, etc.)
  - (f) If it is an existing plant, in addition to the data above, the amount of expansion planned:
    - (1) Numbers of existing and new jobs.
    - (2) Increases in production.
    - (3) Changes in range of products and markets.
  - (g) If the project involves a new plant, in addition to the data in items (a) through (e) above, the numbers of new jobs.
2. Competition:
  - (a) Firms already in the market area manufacturing products which are competitive and, where possible, an evaluation of the quality of their plants, equipment, and products.
  - (b) Plants under construction in the area which are expected to manufacture competitive products.
  - (c) Other competitors, wherever possible.
3. Any other factors which might have a bearing on a Section 702 determination should be furnished.

In the event that the Area Office anticipates a possible violation of Section 702, it shall, prior to forwarding the entire file to Washington, send separate copies of all pertinent data to the designee of the Deputy Assistant Secretary for Economic Development Operations in order to allow maximum time for the Washington Office to make a Section 702 study. In the case of business loans, notification of any possible violation shall be included as part of the "Preliminary Project Evaluation Report" forwarded to Washington.

*b. Industry Information*

All business development loan and public works applications received from the Area Office shall be reviewed for acceptability under Section 702 by the Deputy Assistant Secretary for Economic Development Operations, or his designee, who shall decide whether a Section 702 study is necessary. If he deems such a study to be necessary, he shall promptly submit a written request to the Deputy Assistant

Secretary for Economic Development Planning or his designee for industrywide information required to supplement the data furnished about the project by the Area Office.

1. Types of information to be requested include:

(a) Industry-wide historical data and projections on:

- (1) Dollar volume or value of shipments.
- (2) Production quantities or number of pieces manufactured.
- (3) Capital investments.
- (4) Demand.
- (5) Employment and employment practices.
- (6) Degree of automation.
- (7) Number and location of manufacturers.
- (8) Efficient capacity—modern structures, techniques, etc.
- (9) Market data, including local, regional, national, or international data.
- (10) Distribution practices.
- (11) Percent of production, dollar volume, or value of shipments exported.

(12) Percent of total national consumption provided by imports.

(b) Any unusual factors affecting the industry.

(c) Information on history and projections of government purchases in the industry.

(d) Information on history and projections of related industries—suppliers, customers.

(2) The Deputy Assistant Secretary for Economic Development Planning or his designee shall submit to the Deputy Assistant Secretary for Economic Development Operations, or his designee, a report containing as much of the above data as is available, together with an evaluation of the industry. The Deputy Assistant Secretary for Economic Development Operations, or his designee, will assess the data furnished by the Deputy Assistant Secretary for Economic Development Planning or his designee and by the Area Office and, when necessary, will obtain additional information from the Area Office staff, the applicant or beneficiary, or other appropriate sources.

*Section 9. Making a section 702 determination*

All the above data shall be assessed by the Deputy Assistant Secretary for Economic Development Operations, or his designee. Demand, efficient capacity, and existing competitive enterprise shall form the basis, together with the other relevant factors, for the final Section 702 determination. A brief statement of the findings and determination shall be included in the project's Requirements and Certification Report, or shall be set forth in a separate report, and shall become a permanent part of the project file. In both cases, all data supporting the final determination shall be attached to the report.

*Section 10. Effect on other orders*

This order supersedes any other instructions which may be in conflict with its provisions.

Mr. CLAUSEN. That was the question I asked.

Mr. EDMONDSON. The gentleman from Kentucky.

Mr. SNYDER. Yes. I would like to get a question in before we leave. I am probably not as familiar with the program as the other members, being new to the committee and having no EDA counties in my district. However, I noticed that some loans have been made, one in Oldham County, Ky., which is in my congressional district. Talking to the city attorney this morning, I found out that both Verolon and Mo-Vac have folded. The last loan was made in March of this year, which was a guarantee on a \$450,000 note to the largest bank in Kentucky. I would like for you to provide for the record, if you would, (1) the number of business loans and guarantees that have been made and the number of those companies that have folded, and (2) the number that you anticipate will need additional financial assistance in order not to fold, so that we can go into that when the hearings resume.

Mr. CRAMER. Would the gentleman yield? Would the Secretary

answer my quest, whether he is willing to accede to it and not issue the checks on this nursery business until this investigation takes place?

Mr. O'MALLEY. Congressman, this loan has been approved. In the absence of anything that I do not know at the present time, my disposition would be to say that the loan money will be disbursed as required by the borrower. If there is any interference with that in any legal way, then, of course, we will abide by it.

Mr. CRAMER. You mean to tell me, in view of the two letters that I read, indicating that those two organizations which you stated had been consulted and whose records indicated they had not been consulted on the critical question of competition, you would still write the check, even with this committee looking into the matter?

Mr. O'MALLEY. At this point, in answer to your question, I would much prefer to stand by the statement Mr. Stein made in his letter, that you read from Mr. Stein's letter, that they had been consulted. I have more confidence in Mr. Stein.

Mr. CRAMER. This is Mr. Stein's.

Mr. O'MALLEY. We will welcome an investigation of the factors which went into our determination in making this loan.

Mr. MCCARTHY. Would the gentleman yield?

Mr. CRAMER. I am astonished at the answer that you are not willing to withhold the disposition of these funds.

Mr. O'MALLEY. It is not a matter of our being willing, but we have a contract with the borrower.

Mr. CRAMER. But you have been holding this up for months now.

Mr. O'MALLEY. We have not been holding it up. I think in response to other questions, I said we have a contract in which we intend to fulfill.

Mr. MCCARTHY. Would the gentleman from Kentucky yield just a moment?

Mr. SNYDER. Just one second. Will you get the information for the record I requested prior to the resumption of these hearings?

Mr. O'MALLEY. You mean as to the list of loans and the status of them at the present time?

Mr. SNYDER. The number folded and number you anticipate will need additional financial assistance not to fold.

Mr. O'MALLEY. When you say anticipate, you mean those on which we have requests for at this time?

Mr. SNYDER. Yes.

Mr. O'MALLEY. We will be able to provide that.

(Material supplied follows:)

The Area Redevelopment Administration approved 399 loans for which it obligated \$150,427,408. Forty-one ARA borrowers, who had received initial loans totaling \$15,939,000, obtained additional ARA financing after their initial loans were approved in the amount of \$3,100,000. ARA did not have authority to guarantee loans. Forty-three ARA loans, representing total disbursements of \$16,563,824, have been liquidated. The actual net loss sustained on these projects after recoveries from the sale of collateral amounted to \$6,700,000.

The Economic Development Administration has approved 132 loans for which it obligated \$67,113,648. Two EDA borrowers, who had received initial loans totaling \$1,068,000, obtained additional EDA financing after their initial loans were approved in the amount of \$47,000. EDA has approved 31 working capital loan guarantees for \$11,488,000. No EDA loans have been liquidated.

Interest in the following amounts has been paid by the borrowers of the respective agencies:

|                                  | ARA               | EDA           |
|----------------------------------|-------------------|---------------|
| Through June 30 1965.....        | \$3, 758, 617. 31 | -----         |
| July 1 1965 to June 30 1966..... | 2, 663, 627. 98   | \$19, 180. 07 |
| July 1 1966 to June 30 1967..... | 4, 057, 858. 48   | 274, 370. 27  |
| July 1-Sept. 30 1967.....        | 1, 162, 745. 92   | 300, 523. 65  |
| Total.....                       | 11, 642, 849. 69  | 594, 073. 99  |

Note: The above interest collections apply only to direct loans.

Mr. SNYDER. I will be glad to yield—as a matter of fact, I yield the floor. If the chairman recognizes you, it will be all right with me.

Mr. MCCARTHY. I would like to add one additional item to the record on the *Cordova* case. The Insulation Board Institute asked me to arrange a meeting with Coleman Stein, Director of the Office of Business Development, on this matter of Cordova, Ala., loan. Now, the executive vice president of the organization, with his attorney, came here from Chicago, and we went down there to the Commerce Department to see Mr. Stein. I took my time. These fellows came in from Chicago to discuss this situation which affects their industry, which is on its uppers, as I get the facts from these people closing up. And we went down there, and he lost his file.

Mr. Stein couldn't tell us a thing about it. He didn't have his file.

Now, what kind of a way to run an organization is that?

I think this is indeed regretable. These people come all the way from Chicago, and this fellow cannot tell them a thing because he does not even have his file.

Now, I think we should get into this matter—its handling and the clearcut violations of section 702 when these gentlemen return.

Mr. CRAMER. Would the gentleman yield?

It is my understanding that in the administration of section 702 you have taken the position that Congress did not specifically provide for a hearing before your agency, or Mr. Stein, on the question of competition with present business, and hearings have not been permitted, even when requested.

Mr. O'MALLEY. Are you referring to public hearings?

Mr. CRAMER. I am referring to hearings by your agency where all these businesses can come in and make a matter of record what they think a loan will do to their business.

Mr. O'MALLEY. Congressman, at any time prior to a contract being executed, we will be glad to consult with or have an opportunity for any interested party to be heard as to whether or not our actions should be taken or should not be taken.

Mr. CRAMER. Is such provided for in any of your regulations?

Mr. O'MALLEY. Not that I know of.

Mr. CRAMER. Do you not think it should be?

Mr. O'MALLEY. I am talking now about consultations or the opportunity for anybody to be heard during the time the application is under consideration.

Mr. CLEVELAND. Mr. Secretary, will you answer me this—

Mr. CRAMER. Do you have any regulations that would indicate that when someone believes himself to be aggrieved, he has a right to appear before your agency and be heard?

Mr. O'MALLEY. To my knowledge, there is no specific regulation, but I think it is very general, common knowledge, because we have those kind of considerations.

Mr. CRAMER. That is why we want to see those regulations.

Mr. CLEVELAND. Mr. Secretary, may I ask another question: Do you have any procedure whereby you notify people that you think might be affected? After all, if some of these loans——

Mr. O'MALLEY. Congressman, we could not do that. There are a variety of people that might be interested, whose interests we cannot identify. It would not be that we would not want any interested party to have knowledge that there is such an application, but we would have no way of knowing——

Mr. CLEVELAND. Mr. Secretary, how would the nurserymen down in North Carolina avail themselves of the right to come in and say that he is going to have unfair competition if he did not know that you were contemplating lending to a competitor? This would be totally useless to say that you would let them talk, if you do not tell the people that may be affected what is going on. Do you have any answer to that?

Mr. O'MALLEY. We have no way of notifying any possible interested party, and the fact that we have received an application——well, we do not know what their interests might be, or who that might be. If anyone comes to us and says: You have an application pending, we would like to be heard in connection with it. We are always very glad to hear and discuss our situation.

Mr. CRAMER. Do you mean to say in this particular instance of the cut flower and nursery business that you would not realize that those at least in the North Carolina area, the same general area, would be interested in knowing, pursuant to 702, that there was a loan being contemplated?

Mr. O'MALLEY. I am sure——

Mr. CRAMER. And have an opportunity to let them know how it affects their business?

Mr. O'MALLEY. I am sure a great many people in the industry did know that loan had been contemplated, and I am sure a great many of them were consulted before this contract was entered into.

Mr. EDMONDSON. I think on that point that we are going to have our staff people get with your staff. There certainly will be memorandums or letters or reports to document the consultation that took place, if there was such consultation, I would think.

Mr. O'MALLEY. I am sure——

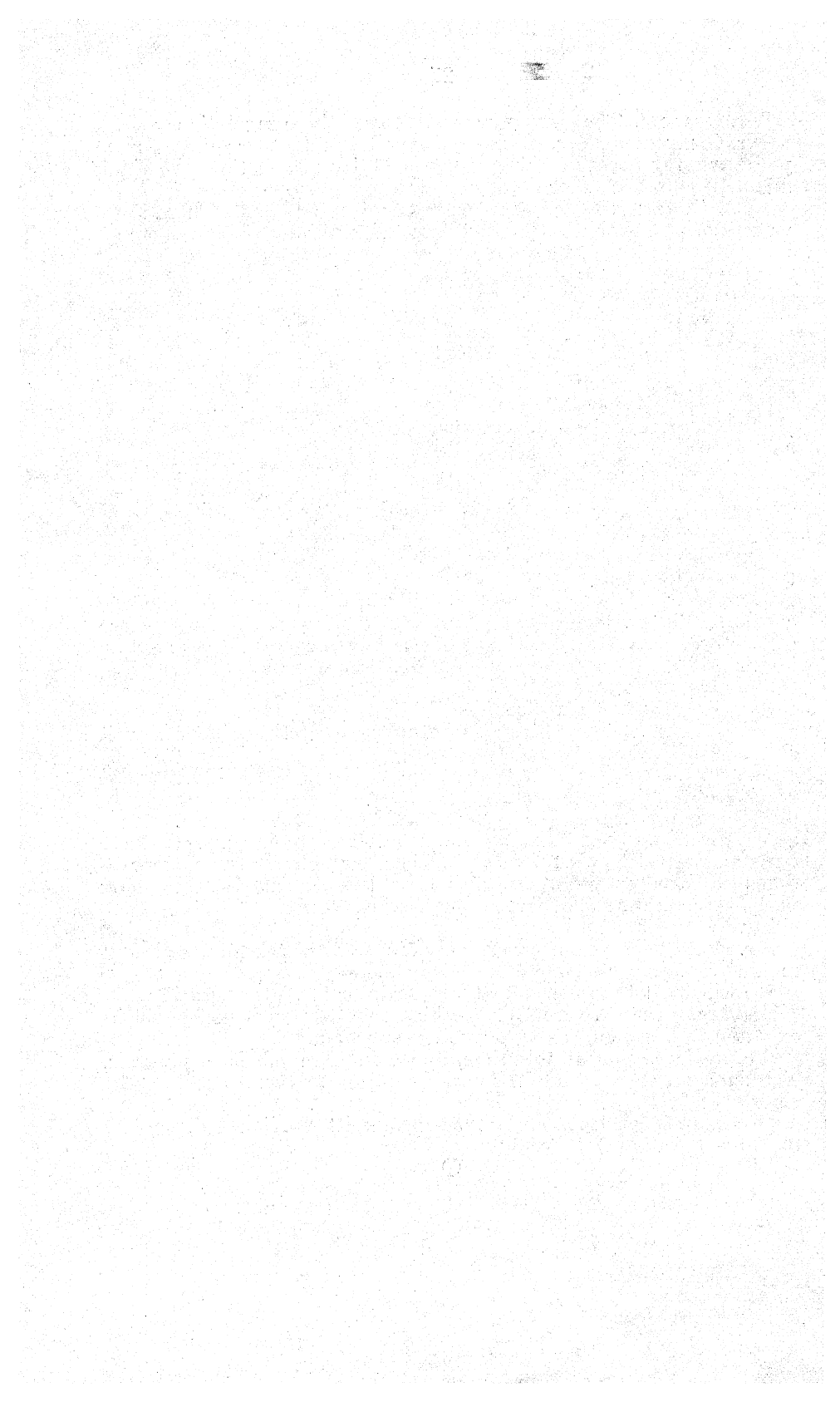
Mr. EDMONDSON. I am sure nobody did it on the telephone, without making a record or memorandum about it.

We will want to get that for the record, for the future hearings.

Frankly, I think that it is something that you folks surely will be expected to have, and to supply to the subcommittee.

We are in session at this time, and a quorum call is in progress. The subcommittee stands adjourned subject to further call of the chair.

(Whereupon, at 11:17 a.m., the subcommittee adjourned, subject to call of the Chair.)













## DATE DUE

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