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# Research Monograph on Federal International Economic Emergency Planning

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**FEDERAL EMERGENCY MANAGEMENT AGENCY**  
Mobilization Resources Division , RP-NP

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**RESEARCH MONOGRAPH ON  
FEDERAL INTERNATIONAL ECONOMIC EMERGENCY PLANNING**

**FINAL REPORT**

**For The**

**FEDERAL EMERGENCY MANAGEMENT AGENCY  
Washington, D.C. 20472**

**EMW-84-C-1747**

**October 1985**

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**RESEARCH MONOGRAPH**  
**ON**  
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## SUMMARY

 In focusing on international economic emergency planning, this study distinguishes between international emergencies which are basically economic in nature and the economic aspects of planning for "total" emergencies (i.e., recovery from all-out nuclear attack). It is the former with which this study deals.

In reviewing the concepts "economic", "international", "emergency" and "preparedness" it is pointed out that international economic emergencies could be non-adversarial in nature, for example a major natural disaster requiring controls on imports and exports. However actual international economic emergencies have all been of an adversarial nature. Like the Arab oil embargo of 1973, they have also all had political aspects. But while the oil embargo was foreign "autonomous" in nature (not arising through U.S. action) other emergencies have represented U.S. policy responses to international situations. Proposed U.S. economic action against South Africa would be a policy "response" to events in that nation.

A major reason for being concerned with international economic emergencies is the increasing exposure of the U.S. economy to international influences. Imports have about to almost 10% of GNP, and production of some types of goods in the United States has ceased. The U.S. technological lead may be diminishing. And foreign investment in the United States has reached the point in mid-1985 where we have become a debtor nation. (AW)





Basic agency functions as well as those assigned under the current Executive Order 11490 and its proposed revision are reviewed in terms of their applicability to international economic emergency planning, and the manner in which these functions are being implemented is discussed. The principal agencies considered are the Executive Office of the President, the Department of the Treasury, State, and Commerce, and the bank regulatory agencies. Supporting agencies included are the SEC, Export-Import Bank, Departments of Transportation, Energy, and Interior (Bureau of Mines), and the Small Business Administration. A separate section considers the problem of economic stabilization planning.

The study was based largely on reviews of written documentation, including agency statements, Congressional reports and other published sources. Face-to-face interviews were conducted with respondents in the principal agencies to the extent practicable, consistent with the need for limiting the imposition of such interviews on the time schedules of these respondents.

I. CONSIDERATIONS

## I.A. INTRODUCTION

The purpose of this contract is to assist the Federal Emergency Management Agency in its role of supporting efforts to coordinate federal emergency management planning across multiple government agencies, in this instance specifically federal international economic emergency preparedness.

To this end, Scientific and Commercial Systems Corporation (SCSC) was charged with developing a complete understanding of "the full range, interrelationships and implications of current federal international economic preparedness functions, programs and measures, how and where these are assigned within the federal government and how they interact with all aspects of the FEMA mission." The product of this effort is this final report (research monograph) which documents the sources of authority and the nodes of responsibility for international economic emergency preparedness.

SCSC's evaluation of these functions explicitly provides definitions of the concepts and terms describing these functions, identifies the functions, and identifies the organizational entities of the government responsible for each function.

The monograph identifies the locus of responsibility for these preparedness functions and references to their authorities, but avoids suggestions for assigning new functions or reassigning functions among governmental agencies or units. It focuses less on discussions of the

flows of work among functions and sub-functions, and focuses more on a much-needed analysis of the extent to which preparedness for international economic emergencies is being planned.

This monograph was prepared using as primary sources of information, statutes, Congressional reports and hearings, Executive Orders, and other officially prepared materials related to current or proposed programs. Supporting information available through oral responses to interviews, as well as relevant data drawn from other sources, was also utilized.

Finally, the monograph focuses on the economic factors that may result in or emanate from international emergencies and provides a guide to FEMA and other interested agencies on the way in which current planning functions might benefit from additional orientation to such potential eventualities. Where practicable, this analysis and guidance has achieved greater focus through the use of real or hypothetical international economic emergency situations.

The sections of the report dealing with federal agencies are organized under four general headings. "Agency functions" are described in terms of those most related to international economic emergency planning. The descriptions are from official statements filed by the agencies with the Office of the Federal Register and published in the United States Government Manual. "Functions Under Executive Order 11490" are drawn from a compilation of the Order ("Assigning Emergency Preparedness Functions to Federal Departments and Agencies") furnished by FEMA's Office of the General Counsel in March 1985. "Functions Under Consideration for Revised Executive Order" are drawn from a Working copy of the Executive Order

revision dated August 1984 and furnished by FEMA staff. The "Discussion" section utilizes information secured from informal interviews with agency officials, when these were conducted, or from other sources cited.

Almost all federal agencies have functions that can be to some degree relevant to international economic emergency planning. It was therefore necessary to select for the report those agencies whose functions were considered of key importance and make judgments on those to be omitted. For example, air and sea transport were considered of central importance to international economic emergency planning, and are included. On the other hand, the subject of communications, though relevant, was omitted in the interest of concentrating on the main elements of international economic emergency planning. Similarly, agriculture, though vital to economic planning, was omitted at the request of the Project Officer because this is a field in and of itself, which should be treated in a separate analysis which interrelates national and international factors in world food supply.

## I.B. PARAMETERS OF THIS STUDY

Assigning a scope to a study of international economic emergency planning would seem to be relatively straightforward. Actually, however, the Study Team found at an early stage that watershed decisions had to be made in order to delineate a practicable limit to the research.

The major focus of U.S. emergency planning (other than for internal natural disasters) not surprisingly been on the problems of national recovery after a nuclear attack. Certainly a major facet of post-attack planning has to be economic. The reactivation of the national economy involves planning for a range of problems as elemental as the preservation of bank records and as major as the rebuilding of America's productive capacities. But we think it is necessary to distinguish between the economic aspects of total emergency planning (which obviously is inherently international) and planning for something that is by its nature an international ECONOMIC emergency. It is the latter that is the focus of this study.

To illustrate what we consider to be international economic emergencies, Table I-1 lists ten "Suggestive Scenarios" of what might be causative actions.

To have sought to cover, in this study, any economic emergency with international economic aspects would have meant dealing with almost the totality of international emergency planning. Neither the time nor the resources made available for the study would have sufficed. But more important is the question of whether the U.S. Government, in view of the

combined agency inputs into international planning over the past four decades, needs an outside appraisal of this magnitude. Our research instead has revealed instead major possibilities, or even probababilities, that an international economic emergency could find U.S agencies with planning deficiencies. We believe this finding applies to purely international economic emergencies, because there are other emergencies, more appropriately labelled politico-economic, to which this conclusion probably does not apply.

The U.S. embargo on trade with Nicaragua might be called politico-economic rather than purely economic because, although economic authorities were used for the Presidential action, there will be little or no economic impact on the United States (See Section I.D. for further discussion on this topic.)

In the following pages, in both the agency and subject sections of this report, we will lay out some of the principal U.S. players in any international economic emergency, their assigned roles, as seen in current and proposed executive orders, and their own perception of these roles. Against this we will try to overlay past or prospective international economic emergencies, and evaluate the degree to which planning appears to be adequate to meet such types of eventualities.

Table I-1  
"Suggestive Scenarios"  
of  
International Economic Emergencies

1. Interruption of imported oil supply.
2. Cascading defaults on international debts by developing countries.
3. Trade war (multiplication of protectionist barriers among major trading partners).
4. Precipitous decline in value of the dollar.
5. Runaway escalation of the U.S. trade deficit.
6. Famine needs beyond resources of developed countries.
7. Major interruption of international civilian air travel.
8. Hostile action interrupting supply of critical imported materials.
9. Major-power hostilities (e.g., Russia-China) requiring massive a U.S. economic response.
10. Hostile transfer of foreign funds or investments away from the United States.



## I.C. DEFINITIONS

To help this study accomplish its assigned purposes it is essential to begin with a set of definitions that are as precise as possible. This section undertakes such definitions in a manner that narrows the subject on a step-by-step basis to arrive at a carefully circumscribed area for investigation. This narrowing is an urgent requirement in view of the breadth of the general subject of emergency preparedness and the need to deliver useful research that does not overlap ongoing efforts of other FEMA contracts.

The sequence of the definitions -- "economic", "international", "emergency" and "preparedness" -- has been deliberately chosen to provide a steadily sharpening focus that eventually spotlights the study objective. While it is recognized that interrelationships between different fields sometimes challenge the arbitrary concepts stated in definitions, it is felt that this exercise is an essential prerequisite to the further work undertaken.

### ECONOMIC

Economists traditionally have emphasized "scarcity" as a way of defining the subject of their specialization. Thus "air" is typically considered a limitless resource, and therefore a non-economic good, whereas food, clothing and shelter (for example), which are not freely available, are considered economic goods. In view of our current environmental

concerns we might well question whether anything on this planet is really limitless, so it is easier to rely on a second fact about economic goods and services: in all but the most primitive societies they are exchanged through the medium of the marketplace.

The existence of this marketplace gives rise to other economic concerns: .

- o money, the medium of exchange;
- o rights to command economic goods and services, in the form of direct ownership or control or in the form of obligations such as stocks, bonds, and other types of portfolio investment;
- o other claims for reimbursement, such as loan obligations or other types of contractual claims. In this technological age it is also well to underline the fact that services include information and the rights to use such information in the form of licenses, patents, franchises, etc.

Accordingly, for purposes of this study, we shall define economics as concerned with the exchange of goods and services -- services including rights to information -- either directly or through the medium of the ownership of monetary resources, rights, obligations or contracts.

#### INTERNATIONAL

Ever since the astronauts presented us with photographs of the earth as seen from space we have become increasingly aware of the

interrelationship of the affairs of nations and their interdependence. Nonetheless, the existence of political boundaries means that there continues to be a distinction between national and international affairs. Several years ago when changes in key ocean currents, labeled "El Nino", caused droughts and forest fires in the Southern Hemisphere and floods in the Northern, we had a practical demonstration of the international nature of certain meteorological phenomena. Notwithstanding this, the floods that occurred in the western and southwestern portions of the United States were national rather than international problems.

It might be noted that national events can provoke international problems. Had the eruption of Mt. St. Helens, in 1980, for example, created a calamity of such scope as to require the government-arranged importation of emergency supplies and the restriction of U.S. exports of equivalent supplies, a national event would have acquired international scope.

Accordingly, for purposes of this study, we shall define international as dealing with the flow of goods and services, or rights to such goods and services, across national borders.

#### EMERGENCY

The ultimate international emergency would be general nuclear war. Fortunately that emergency has not occurred and, it is hoped, will never occur. Unfortunately, however, the decades since World War II have been filled with various types of lesser international emergencies. In addition to the Korean and Vietnam conflicts, such events have included the Cuban

missile crisis, the oil embargo resulting from the 1973 Mid-East war, the Soviet invasion of Afghanistan, the taking of American hostages in Iran and the repression in Poland. All of these events were adversarial in nature. The actions taken by the U.S. Government in turn might be categorized as either offensive (the embargo of grain shipments to the Soviet Union in reaction to the invasion of Afghanistan) or defensive (emergency actions taken to protect the nation's oil supplies in 1973).

But in addition to adversarial emergencies, the possibility always exists of emergencies generated from non-adversarial sources. Mt. St. Helens has been mentioned, but storms and floods are the more common type of natural emergency. The source of the crisis can even be manmade, as demonstrated by the case of the Three Mile Island nuclear accident.

It is important to note that none of the non-adversarial emergencies as yet has required or engendered international action, but the potentials are there, as indicated by the U.S. - Canadian controversy over the sources of "acid rain".

Accordingly, for purposes of this study, we shall define emergency as an occurrence of such actual or potential magnitude or danger as to require prompt and effective intervention by the federal government, and to note that such an emergency may be of either adversarial or non-adversarial origin, and the former may require either offensive or defensive actions.

#### PREPAREDNESS

While emergencies, by their very nature, usually place unexpected burdens on federal agencies, it is both logical and desirable from the

standpoint of public policy that agencies be as ready to cope with such emergencies as possible.

As a precondition to any preparedness, federal agencies require legal authority for their actions. Such authority may be direct -- i.e., a specific statute naming the agency -- or indirect, in that it is derived from Presidential emergency powers. But it should be known.

The requirements of preparedness presumably start with awareness of the possible types of emergencies. While much attention has been given in the public media to the problems of nuclear emergencies, environmental crises resulting from freight-car derailments or nuclear power leaks are much more typical of the type of emergency that federal agencies and the public face. Thus, from the relatively limited to the widely catastrophic, preparedness must start with an understanding of the types of emergency that may be anticipated.

Secondly, the existence of a plan for meeting such emergencies would seem to be an essential element in preparedness. The quality of such a plan can be evaluated in terms of how well it is committed to writing, so that whoever is in a managerial position at the time of the emergency has ready access to the details of the plan, and the degree of specificity with which the plan is expressed.

Finally, the availability of resources to carry out the plan is a prerequisite to preparedness. Ideally physical resources should be in inventory and ready for instant use; realistically the likelihood is that much of the resources must be secured from others when the emergency occurs. Therefore a well-drawn plan will anticipate the location of the needed resources, and the manner in which they can be secured.

In addition to physical resources, adequate preparedness typically would require the availability of needed human resources. As the air-traffic controllers strike demonstrated, key problems for the U.S. economy can arise from a shortage of specialized skills.

Accordingly, for purposes of this study, we shall define preparedness as the state of readiness of a federal agency to cope with the range of reasonably foreseeable emergencies that might arise within its field of current or assigned responsibility. Such readiness would include legal authority, detailed written plans, and either the current availability of the necessary human and material resources or specific knowledge as to where such resources are to be obtained.

#### I.D. INTERNATIONAL ECONOMIC VERSUS POLITICAL EMERGENCIES

Drawing upon our discussion in the "definitions" section of this report, we might hypothesize that the only type of international economic emergency that could be a non-political one would be an instance in which there was no adversarial situation. We mentioned the hypothetical situation of a Mt. St. Helens disaster so severe that steps would have to be taken to promote the rapid importation of emergency supplies and perhaps to embargo exports of needed items. While not beyond the bounds of possibility, the unusual nature of this illustration suggests that almost any international economic emergency would have a political content as well.

The opposite, however, would not be true. An international political emergency could exist without any appreciable economic context. In June of 1985 the efforts to secure the release of the hijacked passengers of TWA Flight 847 reflected an essentially political emergency.

We believe it is useful, however, to pinpoint the concept of an international economic emergency as separate from what we would like to refer to as a general emergency, i.e., one arising from a nuclear attack on the United States. Obviously recovery from such an attack would present major economic problems. However, we would like to distinguish between the economic aspects of "nuclear recovery" and what we see as the separate problem of international economic emergency preparedness.

Preparing for recovery from a nuclear attack calls for planning in all segments of national life. The economic phase of national rebuilding would be but one facet of the total problem, encompassing health, environment,

and even governmental stability. The very institutions of modern society might have to be rebuilt. Thus, rather than only mobilizing or channeling economic resources, nuclear rebuilding might require the creation of new forms of records, the re-establishment of mediums of exchange, and other far-reaching changes beyond the purely economic.

While these are pertinent problems, which are no doubt being addressed in both classified and unclassified forms, we believe emergencies which may be properly characterized as "international economic" are of much more limited context and are of the type which the United States and other countries in various ways have had to address periodically since the conclusion of World War II.

The focus of this study has been set accordingly.



I.E. A DISTINCTION BETWEEN FOREIGN AUTONOMOUS AND U.S. RESPONSIVE  
INTERNATIONAL ECONOMIC EMERGENCIES

International economic emergencies affecting the United States may be characterized as either "foreign autonomous" or "U.S. responsive", depending upon whether the U.S. is coping with an international economic emergency arising from actions or developments beyond its control (autonomous emergencies) or responding voluntarily with economic measures to an emergency because of a deliberate U.S. policy decision (responsive).

An example of an autonomous international economic emergency was the Arab oil boycott in 1973 when Arab oil suppliers attempted to cut off the supply of crude oil to the United States because of its assistance to Israel.

An example of a responsive international economic emergency was the decision to support the United Nations boycott of Rhodesia, which thereby limited our access to chromium ore. Other examples were the trade-limiting steps taken to demonstrate our opposition to the Soviet invasion of Afghanistan and the repressive measures of the Polish military regime.

The distinction is important because the degree of "criticality" of planning differs between one type of emergency and the other.

To illustrate with respect to a responsive emergency, the relatively withdrawal of concessional tariff rates presumably should be taken promptly because delays might reduce the effectiveness of this measure. On the other hand, part of its effectiveness is simply the announcement of the action -- because it underlines U.S. intentions -- so that the specific date of implementation becomes less critical.

Contrast this situation with the emergency created by the Arab oil embargo. Failure to be prepared for such a situation could be crucial to the continued maintenance of an adequate level of economic activity in the United States.

At the same time, the example cited above -- a policy decision to respect the United Nations embargo against Rhodesia -- is a "responsive" emergency which does suggest that adequate advance planning can be important. If a chromium shortage had been created by the embargo, the development of alternate sources or substitutes might have become crucial to the U.S. economy. And yet, since this was a U.S. policy decision, certain actions -- such as a delay in the application of the embargo -- might have been taken to compensate for shortfalls in emergency planning.

Accordingly, it is suggested that in official international economic emergency planning the distinction between autonomous and responsive emergencies be kept in mind. In the first case, planning for autonomous emergencies should be of a degree that recognizes the urgency of days or even hours to the implementation of necessary U.S. actions. In the second, the goal should be to perfect planning to the degree that would make it possible for U.S. policy goals to be made as effective as possible through being as timely as possible. Because of this distinction, it is likely that the nature of emergency planning can differ somewhat depending upon whether it is aimed at autonomous and responsive emergencies: in the latter it may be possible to provide for additional centralized leadership, e.g., for all-government policies to be worked out by the White House in consultation with, for example, FEMA and the State Department. But the

very nature of autonomous emergencies might emphasize the need for greater reliance upon individual agencies, each performing its specified role as rapidly as possible, with lesser need for centralized direction.

This is not to suggest that responsive international economic emergencies may not have their own critical elements. The maintenance or fall of a foreign government, for example, or the lives and well-being of masses of its people, may be dependent on a U.S. decision to provide economic support when such support contributes to U.S. foreign policy. Such an emergency could be anything from a famine to a hostile blockade.

As for autonomous economic emergencies, the memory of the Arab oil embargo may be fading somewhat, and we may feel that planning against the recurrence of this specific type of emergency may be adequate. But what about another type of autonomous emergency? Perhaps we should particularly focus on a new economic vulnerability of the United States, conceivably much more serious than the emergency resulting from our increasing dependence on foreign oil during the 1960's and early 1970's. This is our new vulnerability to sudden shifts in foreign-owned dollar funds or assets.[1]

The re-emergence our status as a debtor nation -- with more owing to others than is owed to us -- carries with it potentially grave implications for international economic emergency planning. At the time of this

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1. A new book seeks to measure the success of economic sanctions in achieving political goals. Hufbauer, G.C. and Schott, J., Economic Sanctions Reconsidered: History and Current Policy (Washington, the Institute for International Economics, 1985).

writing, economists are concerned with the unusual strength of the dollar, and its negative implications for such things as U.S. world competitiveness. However, perhaps an even greater matter of concern is the potential for a precipitous decline in the value of the dollar and the resulting potential for major dislocations in the U.S. economy.[2]

A "dollar boycott" -- i.e., a sudden preference by investors for other currencies instead of the dollar -- could threaten many U.S. financial institutions and could have a major impact on the level of interest rates, prices and investment. A decision on the part of foreign creditors to "disinvest" from the United States could precipitate dangerous changes in the level of security values, cut off major lines of operating credit, or even force many firms operating in the United States into severe financial difficulties.

Either of the above foreign autonomous emergencies could result, directly or indirectly, from hostile actions of one or more foreign governments. Or they could occur because of a turning point in the relation of the U.S. economy with those of other nations. Whatever the difference in the causative possibilities, the need for adequate emergency planning is essential.

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2. "The Dollar Run Scenario," Fortune, October 29, 1984, p. 6.

## I.F. CONTINUING VERSUS CRITICAL INTERNATIONAL ECONOMIC SITUATIONS

As of the moment of writing our international affairs agencies are concerned with famine in Ethiopia, questions relating to investment or disinvestment in South Africa, Brazil's ability to master its current economic problems, trade relations with the People's Republic of China, the agricultural policies of the Common Market, protection of certain U.S. industries from foreign imports, and how to guard U.S.-licensed exports of technologically advanced equipment against trans-shipment to the Soviet bloc.[1]

All of the above examples represent typical instances of continuing international economic problems. At this time not one of them can be categorized as a critical emergency in the sense of being of "such actual or potential magnitude as to require prompt and effective intervention by the federal government" (as set forth in Section I. C.).

Let's distinguish between continuing and critical international economic situations by discussing famine in Ethiopia. Today famine relief is being provided by a combination of public and private sources in the United States and other countries. Problems include transporting food supplies to the areas of need, and doing so quickly enough to prevent further deterioration of the affected population through

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1. "China Trade," (reporting on the collapse of the textile negotiations), Time, January 24, 1983, p. 61. "More Bad News for the American Farmer," Forbes, October 10, 1983, pp. 72-75. "Export Control of High Technology," Department of State Bulletin, June 1983, pp. 71-74.

malnutrition and accompanying diseases. But food supplies are available, and there is apparently sufficient funding to purchase the amount that we can reasonably expect to be able to deliver to the sites of need.

Suppose instead that we were in the midst of a general global food shortage; and that other crises were diverting much of the international shipping capacity that would have been available to deliver relief supplies to Ethiopia. A continuing problem would graduate to a critical problem. This would constitute an economic emergency, because special measures would be required to locate and deliver the supplies necessary.

Our relations with international financial institutions, including the World Bank and the International Monetary Fund, represent continuing international economic situations. But a cascade of debt defaults in Latin America could constitute a critical situation, demanding emergency actions by U.S. agencies.

Trade relations with both industrial and developing countries are a continuing international economic situation involving recurring problems. But our trade deficit could reach a critical enough point to require emergency action (such as the imposition of temporary tariff increases or surcharges, quotas or other trade restrictions).

Stockpiling of critical materials, including the U.S. oil reserve, is an established element of our international economic policies. But a new petroleum embargo against the United States, or a severe interruption of our imports, such as a blockage of the Persian Gulf, would result in an immediate emergency.[2]

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2. "Behind U.S. Moves Near Persian Gulf," U.S. News and World Report, October 24, 1983, p. 12.

If any of the above situations should develop, actions not under U.S. control would have elevated a continuing problem to the level of criticality. A critical situation could also be created by a deliberate U.S. policy decision. Thus emergency action was taken to impose an embargo against trade with Nicaragua because this represented an instrument of the administration's foreign policy.[3] These distinctions are drawn in order more effectively to delineate the coverage of this report.

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3. "Reagan Imposes U.S. Trade Sanctions Against Nicaragua," Washington Post, May 2, 1985, p. A1a.

## I.G. THE INCREASING INTERNATIONAL EXPOSURE OF THE U.S. ECONOMY

The economy of the United States has long been unique among free-world countries in its degree of autonomy. The vastness of the American market in terms of both population size and per-capita wealth, the wide variety of basic resources, and the geographic extent of our contiguous territory have all enabled us to be proportionately the most self-dependent of the free world's economies.[1]

But changes have been taking place.

During the past two decades international trade as a percentage of gross national product has been climbing steadily. Combined imports and exports were only 6.8 percent of GNP in 1960. By 1980 the percentage had risen to 18.0. While this is still below percentages for the Common Market countries, for example, the difference is accounted for by the fact that much of the latter's essentially local trade must cross national borders.[2]

More significant, the role of imports in the U.S. economy has been growing even faster. The figure for imports as a percentage of GNP stood at 2.9 percent in 1960. By 1980 it had risen to 9.5 percent.

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1. Although the United States ranked ninth highest in the world in GNP per capita, the 8 countries with higher per capita GNP had in total less than half the U.S. population. World Bank Atlas, 1983. (Washington: The World Bank, 1983.)

2. Calculations based on statistics in the annual Economic Reports of the President.



These overall figures can be dramatized in terms of the types of products for which domestic production has either ceased entirely or diminished to a small proportion of total consumption. To give one example, during the relatively brief existence of the Washington Metropolitan Area's rapid transit system, U.S. production of subway cars has ended. Consumer products ranging from watches to shirts rarely today carry the "Made in America" label. Table I-2 provides illustrative figures from a study by the International Trade Commission on types of machinery and equipment for which U.S. production has dropped to 30 percent or less of "apparent consumption"[1].

Optimists talk of an evolution of the U.S. economy from goods production to service production, or from the production of low-technology products to high technology. Convincing proof, however, is hard to identify. For example, the purported U.S. technological lead is more and more a matter of question. Whereas Japanese technology long was distinguished as just "copy and follow", that nation is now beginning to show leadership in research and development in fields ranging from electronics to pharmaceuticals. While computer chips were an American invention, millions of American homes now have television sets and video recorders which are the product of Japanese rather than American development. Portable personal computers may be the next field to "go foreign".[2] Some quantitative expression of this

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1. Apparent consumption is defined as the sum of U.S. production plus imports minus exports.

2. "The Next Battle in Memory Chips," Fortune, May 16, 1983, pp. 152-154.

Table I-2  
 ILLUSTRATIVE IMPORT PENETRATIONS  
 OF  
 OVER 70 PER CENT

<u>Product Category</u>	<u>Import Penetration Ratio<sup>1</sup></u>
Weaving Machines	78.5
Knitting Machines	73.2
Sewing Machines	78.7
TV Cameras	70.2
Broadcast-band Radio Receivers except Automobile	72.1
Tape Recorders, Tape Players and Dictating Machines	94.4
Motorcycles, including Parts	77.0

Source: Tabulations Prepared by the U.S. International Trade Commission.  
 (Sewing machines include parts thereof including furniture especially  
 designed for such machines.)

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1 Ratio of 1983 U.S. Imports to 1983 U.S. Apparent Consumption

trend can be seen in Table I-3. In 1976 64 percent of U.S. patents were awarded to U.S. residents, less than 36 percent to foreign residents. By 1984 U.S. residents got only 58 percent of the patents, foreign residents 42 percent.

Perhaps one of the most disquieting trends has been the invasion of the U.S. market by foreign investors. In 1960, when post-World War II currency and exchange restrictions were beginning to fade, foreign investment in the United States stood at less than half the value of U.S. investment abroad (Table I-4). Ten years later the ratio was close to 60 percent. By 1980 it had climbed to over 80 percent. Although both U.S. and foreign investment continued to climb in absolute terms, the ratio was relatively stable until 1983. At that point it jumped to over 88 percent.

In the first months of 1985 both the Chairman of the Federal Reserve and the Secretary of Commerce have called attention to the fact that, if current trends continued, foreign investment in the United States would soon exceed U.S. investment abroad. In statistics release on September 16, 1985, the Department of Commerce confirmed that this threshold had been crossed.\* Not since early in this century -- prior to the first World War -- has the United States been a debtor rather than a creditor nation.

This new stage of international relations has been the product both of the growth and prosperity of other free-world nations and of the attractiveness of the United States as a place for investment. Unlike the trading environment in Japan, for example, no system of hurdles was set up

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\* "U.S. Now Debtor Nation as Trade Deficit Rises," The Washington Post, September 17, 1985.

Table I-3  
 Proportions of  
 United States Patents Issued to  
 U.S. Residents  
 and  
 Foreign Residents<sup>1</sup>

Year	Portion of Patents Issued to --	
	U.S. Residents	Foreign Residents
1976	64.2%	35.8%
1977	65.0	35.0
1978	63.3	36.7
1979	62.0	38.0
1980	62.3	37.7
1981	60.8	39.2
1982	60.0	40.0
1983	58.8	41.2
1984	58.0	42.0

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1. Source: Annual Reports of the Commissioner, U.S. Patent and Trademark Office.

Table I-4  
Increase in Foreign Investment in the United States  
In Proportion to  
U.S. Investment Abroad

	Foreign Investment as a Percentage of U.S. Investment Abroad
1960	47.8%
1970	59.0
1975	74.7
1980	80.1
1981	78.2
1982	79.8
1983	88.1

Source: Calculated from tables prepared by the U.S. Department of Commerce, Bureau of Economic Analysis.

in the United States to limit or curtail foreign investment.[4] And while relatively high "real" interest rates have been cited as one encouragement to foreign investment in the United States, probably a more basic reason for its secular growth has been the relative stability of the American economy, and a perception on the part of foreign investors of superior prospects for security in the future.

A major source of the funds available for investment in the hands of foreign nationals has been the burgeoning U.S. import market already referred to. At the same time, some of the investment has doubtlessly reflected an effort to retain access to U.S. buyers in the face of threatened protectionist restriction on imports. Such restrictions are already evident in the actions taken against foreign steel producers and the limitations earlier negotiated on textiles and automobiles. The U.S. production facilities of Honda and Volkswagen, and the contemplated link-up between General Motors and Toyota are obvious examples of investment responses designed to preserve access to the American market.[5]

What have been the results of this increasing international exposure of the American economy? In the short term it has yielded many benefits. What might otherwise have been severe inflationary pressure tied to the mounting U.S. national debt has in recent years failed to make itself evident. Prices on many types of products have been held down by lower production costs overseas and even, gradually, by the introduction of

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4. "Easing Access to Japanese Capital," Business Week, August 30, 1982, pp. 10-11.

5. "Made in the U.S.A.," (Japanese automotive manufacturers and suppliers in the United States), Forbes, April 22, 1985, pp. 50-51.

superior production techniques in the United States as the more efficient foreign producers set up shop here. Securities markets have benefited by the flow of capital into portfolio investments. Multinational companies have found operations easier as capital became accustomed to crossing national boundaries with fewer concerns about multiple "residency".

But the United States may be on the verge of returning, in some part, to the vulnerable status of a colonial economy. That is, we could experience certain difficulties in controlling the economy, particularly in times of crisis, with much of the ownership in the hands of foreigners. For example, the Under Secretary of Commerce has called attention to "the significance of foreign direct investment in the United States as it pertains to our basic national interests and national security" as one of the recent developments raising a significant issue for the United States.[6]

One demonstration of this "conflict of sovereignties" arose in the sixties, when the American embargo on shipments of wheat to mainland China was defied by the Canadians, placing U.S. firms operating in Canada in an anomalous position.[7]

More recently, the U.S. embargo on high-technology equipment for the Soviet gas pipeline to Western Europe was certainly effective in controlling the outflow of such goods from the United States. But there is

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6. Lionel H. Olmer, "International Direct Investment," U.S. Department of Commerce, August 1984.

7. "Wheat, Canadian and American," Nation, December 2, 1961, p. 443.

some question about what strains could have developed with allied nations if the U.S. had continued to stand firm in its opposition to making the equipment available, because of the internationalization of free-world production and ownership.[8]

All of this needs to serve as a background in considering U.S. vulnerability in international economic emergencies -- not just our more limited ability to react in our own defense in the face of emergency conditions imposed on us from overseas, but also our potential for supporting allied economies when they face international economic emergencies.

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8. "In Defiance of Sanctions," (commenting on the completion of the Soviet pipeline), Time December 19, 1983, p. 53.



II. AGENCY ROLES

A. PRINCIPAL PLAYERS

## II.A.1. EXECUTIVE OFFICE OF THE PRESIDENT

### a. GENERAL

#### AGENCY FUNCTIONS

While the President, as chief officer of the Executive Branch, plays a vital role in international economic emergency affairs, he does not ordinarily involve himself in planning functions. His is basically the role of activating and authorizing any of the emergency plans. However, many elements of the Executive Office of the President do play an important role in international economic emergency planning. Specifically these are the Office of Management and Budget, the Council of Economic Advisers, the National Security Council, the Office of Policy Development, and the Office of the U.S. Trade Representative (which is dealt with in a subsequent section of this report).

Also of special significance are four interagency committees (in addition to the Cabinet itself) that deal with international economic questions: the Cabinet Council on Commerce and Trade, the Cabinet Council on Economic Affairs, the Trade Policy Committee, and the Senior Interagency Group - International Economic Policy.

The primary tasks of the Office of Management and Budget are to assist the President in maintaining effective government operations by reviewing organization and management practices, to assist in developing efficient

coordinating mechanisms among agencies, and to assist in the preparation of the budget and the formulation of the government's fiscal program.

The Council of Economic Advisers analyzes the national economy and its various segments, advises the President on economic developments, appraises the economic policies and programs of the Federal Government, and recommends to the President policies for economic growth and stability.

The statutory function of the National Security Council is to advise the president with respect to the integration of domestic, foreign and military policies relating to national security.

The Office of Policy Development assists the President in the formulation, coordination and implementation of economic and domestic policy, as well providing the policy staff for the President's Cabinet Councils.

The Cabinet Council on Economic Affairs (CCEA), chaired by the Secretary of the Treasury, considers both domestic and international economic issues. Members include the President, Vice President, representatives of the Departments of Commerce, Treasury, Agriculture, Housing and Urban Development, Labor, State, and Transportation, as well as the U.S. Trade Representative, Council of Economic Advisers, Office of Management and Budget, Counselor to the President, White House Chief of Staff and Assistant to the President for Policy Development.

The Cabinet Council on Commerce and Trade (CCCT), chaired by the Secretary of Commerce, has predominant responsibility for trade issues. Members include the President, Vice President, representatives of the

Departments of Commerce, Treasury, Agriculture, Energy, Justice, Labor, State, and Transportation, as well as USTR, CEA, Counselor to the President, White House Chief of Staff and Assistant to the President for Policy Development.

The Trade Policy Committee (TPC) provides the initial highlevel route for consideration of most trade issues. It is chaired by the U.S. Trade Representative. When issues cannot be resolved in the TPC they are sent for resolution to the CCCT. Membership in the TPC includes the Department of Commerce, Treasury, Agriculture, Defense, Energy, Interior, Justice, Labor, State, and Transportation as well as USTR, CEA, the International Development Cooperation Agency (foreign aid), the National Security Council and OMB.

Differences within the current administration over international economic issues -- such as the controversy over the embargo of high-technology materials for the Soviet-West Europe gas pipeline -- led to the establishment by the National Security Council, in 1982, of a new high-level group, the Senior Interagency Group - International Economic Policy (SIG-IEP). The Secretary of the Treasury is Chairman, and members include the Departments of Commerce, Treasury, Agriculture, and Defense, as well as USTR, CEA, CIA, NSC, OMB and the Assistant to the President for Policy Development.

#### DISCUSSION

International economic policy considerations and decisions are currently the product of a number of channels. While this is due in some part to the fact that such matters are typically related to both

non-international and non-economic problems, the variety of channels suggests the possibility that (a) matters could reach the President without a proposed resolution, and (b) decisions could be recommended and even implemented that are not consistent with one another, as far as international economic policy is concerned.

Against this background, international economic emergency planning could also be adversely affected. In the past, in certain administrations, a single body has existed for the consideration of international economic policy. President Nixon in 1971 established the Council on International Economic Policy (CIEP) to develop and coordinate international economic policy and its relationship to domestic economic policy. Although CIEP achieved some success in resolving varying views within the administration on international economic policy, it was often in conflict with the Departments of State and Treasury and the National Security Council, and these agencies on occasion sought to override its actions.

Accordingly President Nixon in 1973 created the Council on Economic Policy (CEP), and President Ford in 1974 absorbed CEP into the newly created Economic Policy Board (EPB) to serve as a focal point for all economic policy decisions. Because such an instrumentality -- considered by many to be a more effective policy-creating mechanism than the current Executive Office structure -- does not exist today, recommendations have been made for a new coordinating group.[1]

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1. "Report to the President," The President's Task Force on International Private Enterprise, Washington, D.C. December 1984. The discussion of CIEP, CEP and EPB is drawn from this report.

In 1984 the President's Task Force on International Private Enterprise recommended the formation of an Economic Security Council (ESC) to formulate and coordinate international economic policy. At the same time, the Task Force recommended, the President should designate an Assistant to the President for Economic Affairs, who would "have the President's ear" on economic matters so as to guard against contradictions or inconsistencies in federal economic policies or programs on the national or international level. The Task Force made its recommendations as a means of facilitating the attainment of its objective: to promote private enterprise as an "engine of development" for Third World countries. Nevertheless, the recommendations deserve consideration also for their potential benefits with respect to international economic emergency planning.

To illustrate with an imaginary example, if international agricultural policies were focused primarily, at a given period of time, on the disposal of domestic surpluses when strategic needs might suggest alternate approaches, the cause of international economic emergency planning would not be well served.

Trade is a more typical example. It has been suggested that the cause of terrorism may have been advanced when an export license was granted for the shipment of bulletproof-vest material to Syria. Yet the issuance of the license was presumably motivated by the proper desire to maximize exports for balance-of-trade purposes.

In view of the federal deficit problem there may at some point be major debates within the then-existing administration on whether it is desirable to make substantial expenditures for the stockpiling of anything from petroleum to industrial diamonds.

The above examples are intended to suggest the possible value of a single high-level channel through which international economic emergency issues could be resolved. The benefits to international economic emergency planning seem apparent.

b. OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

AGENCY FUNCTIONS

Successor to the Office of the Special Representative for Trade Negotiations, created by Executive Order in 1963, the Office of the U.S. Trade Representative (USTR) was authorized under the Trade Act of 1974 and an additional Executive Order in 1975, since amended. The Office is charged with setting and administering overall U.S. trade policy. The Trade Representative, who is directly responsible to the President, is the chief U.S. representative in all bilateral and multilateral trade and commodity negotiations.

USTR has links with all the major agencies concerned with trade and international economic questions -- including the Departments of State, Treasury, Commerce and Agriculture -- through its chairmanship of the Cabinet-level Trade Policy Committee. The Trade Representative is also a member of the Boards of Directors of the Export-Import Bank and the federally-chartered Overseas Private Investment Corporation (OPIC).

EXECUTIVE ORDER 11490

Despite the important responsibilities cited above the USTR is not mentioned in the current Executive Order or in the redraft under consideration.



## DISCUSSION

As far as export trade policy is concerned, USTR is the chief international negotiator in matters dealing with East-West trade. In an emergency USTR would represent the United States in discussions with our allies, for example in the COCOM (Cooperative Agreement to Control Exports to the Communist Bloc), dealing with either the liberalization of Western trade with the Soviet bloc or with its restriction.

On the import side, USTR would exercise Presidential authorities for the limitation or encouragement of shipments from abroad to the United States. For example, essential imports, in the event of an international economic emergency, might be authorized to enter the United States free of regular customs duties and/or beyond otherwise-established quotas or administrative regulations. In an opposite example, imports might be restricted through the imposition of higher duties, quantitative restrictions, or other impediments. To cite two possible contingency measures recently discussed in the press: the imposition of a surcharge on all imports as an emergency measure to counteract a dangerously high trade deficit, or the institution of a certification requirement on telecommunications equipment imported from Japan as retaliation for what might be considered an equivalent requirement on U.S. exports of such equipment to Japan.

Two recent events may be cited as instances in which USTR initiated import-limiting action in response to international economic emergencies: the imposition of limitations on trade with the Soviets following the

invasion of Afghanistan,[1] and the raising of tariff rates on imports from Poland in response to the martial law restrictions in that country.[2]

Notwithstanding USTR's potentially critical role in acting on matters of international economic emergency, the office of the USTR seemed inadequately informed with respect to interagency economic emergency planning efforts.

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1. "Economic Sanctions--Grain Embargo," Newsweek, January 21, 1980, p. 76.
  2. "Poland--Martial Law," Department of State Bulletin, February 1982, pp. 1-23.

## II.A.2. DEPARTMENT OF THE TREASURY

### AGENCY FUNCTIONS

The Secretary of the Treasury, as a major policy adviser to the President, has primary responsibility for formulating and recommending domestic and international financial, economic and tax policy, participation in the formulation of broad fiscal policies that have general significance to the economy, and managing the public debt. The Secretary serves as chief financial officer of the government, as Chairman of the Cabinet Council on Economic Affairs and the Senior Interagency Group on International Economic Policy. He is also the U.S. Governor of the International Monetary Fund, the World Bank, and the regional development banks of Africa, of Asia and of Latin America.

Key officials of the Treasury Department with respect to international economic emergency planning include the Under Secretary for Monetary Affairs, who is responsible for the development of policies and guidance of Treasury Department activities in the area of international monetary affairs, trade, development and energy policies; the Assistant Secretary for Economic Policy who is responsible for the review and analysis of both domestic and international economic issues; and the Assistant Secretary for International Affairs, whose office supports the Secretary and Under Secretary in policies dealing with international monetary, financial, commercial, energy and trade policies and programs.

The functions are performed through staff offices that conduct financial diplomacy with industrial and developing nations, work toward improving the international monetary system, monitor the foreign exchange markets, oversee U.S. participation in multilateral and bilateral development programs, and coordinate policy regarding U.S. investment abroad and foreign investment in the United States.

EXECUTIVE ORDER 11490

The Secretary of the Treasury is to develop emergency plans for (1) stabilization aspects of the monetary, credit and financial system, (2) stabilization of the dollar with respect to foreign currencies, (3) collection of revenue, (4) regulation of financial institutions, (5) supervision of the federal depository system, (6) direction of transactions in government securities, (7) tax and debt policies, (8) participation in bilateral and multilateral financial arrangements with foreign governments, (9) regulation of foreign assets in the United States and of foreign financial dealings (in consultation with the Secretaries of State and Commerce), (10) development of procedures for the issuance of securities and currency, (11) development of systems for the issuance and payment of Treasury checks, (12) maintenance of the central government accounting and financial reporting system, (13) administration of the customs and tax laws, and (14) granting of loans for the expansion of capacity.

The Secretary is also to assume the initiative in developing plans for sharing war losses and for the coordination of federal monetary, credit and benefit programs of other agencies dependent on the Treasury Department.

#### FUNCTIONS UNDER CONSIDERATION FOR REVISED EXECUTIVE ORDER

Only minor changes in language are contained in the draft. Plans shall be made for the regulation, preservation and restoration of financial institutions (underlining added). In view of the advent of electronic funds transfer, plans are to be made for the development of systems for "Treasury payments" rather than just "Treasury checks." In place of the language referred to in (9) above, the Treasury is to plan for the regulation of financial and commercial transactions within the scope of Section 5 (b) of the Trading with the Enemy Act, the International Emergency Economic Powers Act and the United Nations Participation Act, in consultation with the Attorney General and the Secretaries of State and Commerce.

#### DISCUSSION

Treasury representatives have played an active role in the work of the Emergency Mobilization Preparedness Board (EMPB) chaired by the National Security Council, and we are given to understand that some of the

scenarios dealt with by the Economic Stabilization and Public Finance Committee have included various of the possibilities discussed in other sections of this report.

However, within the Treasury Department there seems to be a distinction between war planning (i.e., post-nuclear attack) and non-war planning, the latter encompassing the types of international economic emergencies discussed in this report.

To the extent that international economic emergency planning has taken place, the leadership within the Department has been undertaken by the Office of the Assistant Secretary for International Affairs. Two years ago the Treasury Secretary reportedly directed that a department-wide approach be made to international economic emergency planning, but it was unclear to the respondents whether consolidated efforts of this type have continued.

More often than not, international economic emergencies, as they arise, tend to be dealt with on an ad hoc basis. Examples:

(1) When the possible impact on the U.S. banking system of debt defaults by the developing countries first become a matter of U.S. official concern, various individuals were instructed to prepare a large number of "option papers" to consider the alternatives open to the United States.

(2) Treasury's Customs Bureau is the locus for dealing with trade embargoes.

(3) The Assistant Secretary for International Affairs monitors the relationship of the dollar with other major world currencies.

(4) When President Carter froze Iranian assets in the United States in response to the hostage crisis, the Foreign Assets Control Office planned and executed the program.

Notwithstanding the dispersion of international economic emergency planning responsibilities within the Department, it appears clear that the financial aspects of any international economic emergency would be dealt with under Treasury's leadership, assisted by the State Department, and armed with any necessary mandates from the White House. At the same time, close consultation would certainly take place with the Chairman of the Federal Reserve Board who, notwithstanding his autonomous powers, would doubtlessly serve as a member of a unified official U.S. team.

In discussion with Treasury representatives, the thought was offered that to some extent the absence of a high degree of formal planning for international economic emergencies may reflect, at least in part, an unwillingness of an administration and a Congress, both committed to the maximum emphasis on a free-enterprise system, to appear to have elaborate federal emergency control measures "ready to go". Further comments on this page appear in this report's section dealing with economic stabilization (Section II.B.5.).

### II.A.3. DEPARTMENT OF STATE

#### AGENCY FUNCTIONS

The Department of State advises the President in the formulation and execution of foreign policy. The Department's primary objective in this respect is to promote the long-range security and well-being of the United States. The Department ascertains the facts with respect to American interests overseas, makes recommendations on policy and future actions, and takes the steps necessary to carry out policy as established by the President.

With respect to international economic emergencies, the focus for policy formulation would be with the Under Secretary for Economic Affairs, assisted by the Bureau of Economic and Business Affairs, and the Under Secretary for Security Assistance, Science and Technology, assisted by various bureaus including the Bureau of Oceans and International Environmental and Scientific Affairs. Necessary background research and analysis would presumably be available from the Bureau of Intelligence and Research. And, depending on the location of the international economic emergency, one or more of the regional bureaus -- African Affairs, European Affairs, East Asia and the Pacific Affairs, Inter-American Affairs or Near Eastern and South Asian Affairs -- would play a key role.



## EXECUTIVE ORDER 11490

The Secretary of State is to develop emergency plans for the operation of existing functions of the Department of State and such additional functions as may be required during an emergency, and provide guidance for emergency planning by other federal agencies where foreign policy is concerned.

Specifically mentioned are plans for (1) contingency and post-emergency relations with allied governments, in consultation with Defense and other agencies, (2) execution of policy with respect to neutral nations, (3) strategy and objectives for dealing with hostile states, (4) maintenance of diplomatic and consular representation abroad, (5) reporting on overseas emergency conditions, (6) carrying out economic measures with respect to other nations, including coordination with the Department of Commerce on export controls, (7) arrangements for mutual assistance activities in behalf of other nations, (8) the provision of foreign assistance, (9) protecting or evacuating American nationals and their property abroad, (10) protection and/or control of international organizations and foreign diplomatic personnel or property in the United States, (11) documentary control of persons seeking to enter or leave the U.S., and (12) export control of items on the munitions list.

### FUNCTIONS UNDER CONSIDERATION FOR REVISED EXECUTIVE ORDER

All of the functions named above are repeated in substantially equivalent language. However, the preamble mentions consultations with

FEMA as appropriate. Presidential direction is mentioned with respect to to relations with other nations. In connection with economic measures, consonance with the financial and commercial control functions of the Treasury is mentioned, and export control of items on the munitions list is to be in conjunction with the Secretary of Defense. Protection of American nationals abroad is to be in consultation with the Departments of Defense and of Health and Human Services. A new function is added: formulation of policies and provisions for assistance to displaced persons and refugees abroad.

#### DISCUSSION

The State Department is one of the few civilian cabinet agencies with a permanently staffed emergency facility: the Operations Center. (The Department of Transportation was another example observed.) The Center's function is to be ready for action in any international emergency, and its staff even has a plan for an alternate location if needed.

However, the Operations Center is essentially a communications headquarters, charged with alerting the necessary responsible elements of the Department, briefing them on the nature of the crisis, and coordinating their efforts in dealing with it.

Thus, for example, the main staffs having to take action in a typical international economic emergency would most likely be in the Economic and Business Bureau and the appropriate regional bureau.

This allocation of responsibility somewhat reflects the nature of the Department's role in federal operations. Any international emergency would involve the State Department because of its task of handling U.S. foreign relations, but the primary agency responding to the emergency might be Commerce, Energy, Transportation, etc. Because the State Department has the most numerous U.S. staff abroad, the input of information would presumably have to be through State channels, and the implementation of action would most likely involve the Department's Foreign Service as well. Additionally, when the emergency requires negotiation, State would normally lead the team, backed up by the necessary technical experts from other agencies.

Because of current international tensions, and particularly because of the rising wave of terrorism, the State Department is focusing its main emergency-planning attention on mechanisms for maintaining the security of Americans abroad, ranging from stepped-up measures for Embassy protection to readiness to handle civilian evacuations from areas of armed hostility. This is essential, but it may be deflecting some of the attention necessary to anticipate international economic emergencies.

On the other hand, the Department cannot be expected to have contingency plans already drawn concerning a wide range of possible international economic emergencies because of its "associate" rather than "lead" role in most of these situations.

However, any task group studying methods and techniques for U.S. international economic emergency preparedness should include State Department representatives -- from the action bureaus as well as from the

Operations Center -- in its deliberations. The State Department must be considered a partner in coping domestically with any international economic emergency, both in terms of its role with U.S. agencies and its international coordinating role with counterpart agencies of foreign governments.

## II.A.4. DEPARTMENT OF COMMERCE

### AGENCY FUNCTIONS

The Department of Commerce has two major roles to play in international economic emergency planning: industrial mobilization and trade administration.

While both functions stem from the Department's authority, in its 1913 organic act, to "foster and promote" the commerce of the United States, they are otherwise quite dissimilar. Trade administration, primarily in the form of export controls, but also involving certain limitations on imports, is an ongoing operation of the Department, with its scope largely related to the degree of tension between the United States and the Soviet bloc.

Industrial mobilization, on the other hand, is almost entirely a "standby" function, requiring the preparation and maintenance of elaborate plans for various degrees of industrial mobilization which might be required for emergencies, including those of an international economic nature.

### EXECUTIVE ORDER 11490

The Department is instructed to prepare emergency plans and programs for the production and distribution of all materials, with exceptions covering energy facilities, food processing and storage, farm equipment and

fertilizer, housing and welfare services, communications services and facilities, and minerals. Functions related to maritime, air and other forms of transport have been transferred to the Department of Transportation.

The Department of Commerce is also responsible for emergency planning with respect to scientific and technological services, and for census and related statistical services. The Department is further responsible for the regulation of exports and imports under the Department's jurisdiction in support of national security, foreign policy and economic stabilization objectives, and for the regulation and control of capital transfers and reinvestment of earnings by affiliated foreign nationals.

With respect to production functions, the Department is to develop plans for priorities and allocations systems for materials and other resources, for the review of proposals for the construction of new production facilities, for the evaluation of the essentiality of industries, for analyzing the post-attack capabilities of industry, and, in coordination with the Small Business Administration, for the provision of emergency loan assistance to smaller enterprises, as well as for a system for essential industrial water claimancy requests.

#### FUNCTIONS UNDER CONSIDERATION FOR REVISED EXECUTIVE ORDER

While the basic structure of the Commerce Department's functions would remain unchanged, certain revisions appear in the draft under consideration. In place of "materials" for which the Department's general

responsibilities extend, the phrase "manufactured goods and processed materials" has been substituted. The exceptions remain the same as in the current Executive Order. Regulation and control of exports and imports is stated to be subject to the policies established by the Trade Policy Committee. Regulation and control of transfers of capital and reinvestment of earnings by affiliated foreign nationals is to be conducted in cooperation with Treasury, the SEC and the federal bank supervisory agencies.

New sections have been added as follows:

(1) The Department is to assist FEMA in formulating and carrying out plans for stockpiling strategic and critical materials.

(2) The Department is to plan for the execution of voluntary agreements to help provide for the defense of the United States in consultation with representatives of industry, business, agriculture, labor organizations, financial and other interests. Prior approval is required from the Justice Department (Antitrust Division) and the Federal Trade Commission.

(3) In cooperation with FEMA, the Department of Defense, the Department of Energy and the General Services Administration, the Department is to decide which machine tool orders to activate under the Machine Tool Trigger Order Program.

#### DISCUSSION

Both of Commerce's major international economic emergency preparedness planning functions are located within the International Trade

Administration. However, they are separate entities under ITA's Assistant Secretary for Trade Administration.

Other functions in the Department of Commerce with supporting roles to play in international economic emergency preparedness are located elsewhere in the Department. Within the Economic Affairs Administration are the Bureau of Economic Analysis -- the source of macroeconomic analysis and projections -- and the Census Bureau. The latter bureau has the basic data banks used for industrial mobilization planning on the location and capacities of the nation's industrial establishments.

Also elsewhere within the Department are certain functions which would provide technological support for international economic emergency planning, particularly the National Bureau of Standards and the National Oceanic and Atmospheric Administration.

In discussions incident to the preparation of this study it was learned that most components within the Department have typically in the past conducted their planning functions with a considerable degree of autonomy. That is, there was little coordination at the department level. While this provided certain short-cuts -- FEMA directives dealing with industrial mobilization, for example, often would have gone directly to the Office of Industrial Resources of ITA, which has key responsibility for this phase of planning -- it appears in many instances that no single source within the Department was fully cognizant of all of the international economic emergency planning under way.

Also, in situations like these, with specialized planning functions being performed in a number of separate locations within the Department, it is always possible that standards of performance could vary widely.



The development of such a situation can take place in an organization as large and varied as the Commerce Department, where lines of authority become long and complex. The Department has three Under Secretaries and nine Assistant Secretaries. Furthermore, Assistant Secretaries are not always the sole representatives of their areas. For example, there is an Assistant Secretary for Productivity, Technology and Innovation, to which the National Technical Information Service reports. However, the Director of the National Bureau of Standards and the Commissioner of Patents and Trademarks report directly to the Secretary.

Under these conditions, the efforts of the Department's Emergency Coordinator -- who reports to the Assistant Secretary for Administration -- to coordinate international economic emergency planning (as well as other types of emergency planning) may have been difficult to achieve unless the Secretary's own office provided the necessary endorsement and support.

However, at the time of our interviews, the Emergency Coordinator had undertaken a thorough review and inventory of the Commerce Department's locus of responsibility for all types of relevant national and international emergencies. The product of this review was a comprehensive report with recommendations to the Secretary on ways to reorganize and better coordinate emergency planning and action. At the time of this writing, that report was undergoing internal review and could not be made available to us.

## II.A.5. FEDERAL BANK SUPERVISORY AGENCIES

### AGENCY FUNCTIONS

The federal bank supervisory agencies include the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Home Loan Bank, the Farm Credit Administration and the Federal Deposit Insurance Corporation.

The Federal Reserve System, the central bank of the United States, is charged with administering and making policy for the nation's credit and monetary affairs. Through its supervisory and regulatory banking functions, it helps to maintain the banking industry in a sound condition, capable of responding to the nation's domestic and international financial needs and objectives.

The Comptroller of the Currency, a part of the Treasury Department, as administrator of the national banks, is responsible for the execution of laws relating to national banks and promulgates rules and regulations governing operation of such banks.

The Federal Home Loan Bank supervises and regulates savings and loan associations. The board operates the Federal Savings and Loan Insurance Corporation which insures deposits in institutions providing FSLIC coverage, and also directs the Federal Home Loan Bank System which provides reserve credit to savings and loan associations.

The Farm Credit Administration is responsible for the supervision, examination and coordination of the borrower-owned banks and associations that comprise the cooperative Farm Credit System. These institutions are

the federal land banks which make long-term loans on farm or rural real estate through local federal land bank associations, the federal intermediate credit banks which provide short- and intermediate-term loan funds to production credit associations and other institutions financing farmers and farm- or fishery-related enterprises, and the banks for cooperatives which make loans of all kinds to agricultural and aquatic cooperatives.

Although not named in the current Executive Order 11490, the National Credit Union Administration is responsible for chartering, insuring, supervising and examining federal credit unions. The insurance is mandatory for federal credit unions, and optional for state-chartered institutions that meet NCUA standards.

#### FUNCTIONS UNDER EXECUTIVE ORDER 11490

The federal bank supervisory agencies are to participate with the Director of FEMA, the Department of the Treasury and other federal agencies in the formulation of emergency financial and stabilization policies. Plans, programs and regulations for the following are included: 1) provision and regulation of money and credit, 2) provision for the operation of banks, savings and loan and farm credit institutions; 3) provision of liquidity for such institutions, 4) regulation of the withdrawal of currency and the transfer of credits, 5) provision for the assumption and discharge of insurance liabilities, and 6) development of policies and plans for the sharing of war losses.

## FUNCTIONS UNDER CONSIDERATION FOR REVISED EXECUTIVE ORDER

The National Credit Union Administration is added to the roster of federal bank supervisory agencies in the draft under consideration. A new section is added covering provision of emergency guidance and funds to banking, credit union and savings and loan institutions to assist in the stabilization of the nation's economy, to provide a sound economic base for continuing operations, combating inflation, maintaining confidence in public and private financial institutions, and promoting thrift.

### DISCUSSION

The United States is unusual in that its central bank possesses a degree of autonomy which on occasion results in conflicts or potential conflicts between the administration in power and the Governors of the Federal Reserve System, who serve for fixed terms and can be "holdovers" of appointments from a previous administration.

Nonetheless, cooperation is doubtless more common than conflict, and this can be expected to be particularly true with respect to emergency planning. With the exception of the Federal Reserve System, the other elements in the U.S. federal bank regulatory complex are highly sensitive to the policies of the administration, and can be expected to take guidance from the White House and the Treasury Department.

However the emphasis on emergency planning often seems to be on all-out war, i.e. mobilization problems, post-attack strategy, etc. An international economic emergency may be of a much different nature. The point can be illustrated with theoretical examples (for which the reader must judge the degree of possibility or probability):

1. A major financial crisis in the Third World, where one or more loan defaults result in a cascade of debt renunciations -- dangerous not just because of the disintegration of the international investment portfolios of many financial institutions, but because a major portion of world trade could be brought to a standstill by the loss of financial instruments for maintaining it.

2. Another major domestic banking problem with repercussions abroad -- something along the lines of either the Ohio savings and loan crisis or the Continental Illinois troubles -- which leads to a precipitous decline of the dollar in international currency markets and a consequent major disturbance to the U.S. economy. Foreign debts payable by U.S. institutions suddenly become sharply higher in dollar terms, possibly followed by other crisis eventualities such as a rush by foreign investors to "disinvest" from the United States.

3. Finally, there is a possibility that hostilities elsewhere in the world could cause severe financial and/or resource repercussions in the United States. A major outbreak in the Middle East might cause the removal of liquid investments by Arab investors on short notice, as a hostile act directed against the United States. An oil embargo could be instituted. The current depressed state of the world oil market could change

dramatically, and we might once again have to face the fact that the proportion of the U.S. petroleum supply derived from foreign sources is again rising (while reserves could provide a time cushion, panic situations create their own problems.)

Contingencies such as these require specialized planning. While the proposed additional section of Executive Order 11490 may provide some recognition of this need, there are currently indications that at least certain bank regulatory agencies are not well informed on emergency planning.

We are reminded that U.S. international dependence has increased rapidly in the last decade. A wide range of products are no longer produced in this country; the unprecedented inflow of foreign investment has taken us back to pre-World-War I days when the U.S. was a net debtor rather than a creditor nation. And finally, at the time this is written, notwithstanding some decline, the dollar is sitting on a plateau which many consider unrealistically high, and a collapse of investor confidence could have some of the sudden impact that the stock-market collapse in October 1929 had on the U.S. economy.

A technical paper by a staff member of the Federal Reserve Bank of New York[1] warned over a year ago that the United States should be able to continue financing its current account deficits provided investor confidence was not shaken by any "surprises". The possible surprises he cited were:

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1. Kubarych, Roger M., "Financing the U.S. Current Account Deficit," Federal Reserve Bank of New York Quarterly Review, Summer 1984, pp. 24-31

First, a sudden rise in U.S. inflation to well above current rates;

Second, a major adverse assessment by foreign investors of the medium to longer-term consequences of the likely course of U.S. fiscal and monetary policies;

Third, a sharp improvement in investment opportunities outside the United States, that is, a relative rise in the real rate of return on foreign currency assets; and

Fourth, some major relaxation of political and economic uncertainties in several regions of the world, since those tensions have contributed to shifts of capital to the United States for safety motives.

Planning for international economic emergencies should take these matters into account. The banks and the agencies that regulate them are, in effect, the economic first line of defense. While in some cases some of the planning alternatives could be like "medicine that is worse than the disease" -- for example, the restriction of funds withdrawal by foreigners could result in a worsening of financial panic rather than an amelioration -- judgments should be made in advance as to the options that are available, or could be made available, and some conditions postulated for their possible use.

II. B. SUPPORT PLAYERS



## II.B.1. FINANCE

### II.B.1.a. SECURITIES AND EXCHANGE COMMISSION

#### AGENCY FUNCTIONS

The Securities and Exchange Commission, an independent federal agency, was established under a 1934 law, since amended, for the basic purpose of protecting investors in the United States in their purchase of corporate securities. Issuers of securities making public offerings are required to make "full and fair disclosure" concerning their securities; securities markets, including organized exchanges and persons conducting a security business, are subject to SEC oversight; and certain types of companies, including mutual fund and other investment companies as well as companies controlling electric or gas utilities, are subject to special types of regulation.

#### FUNCTIONS UNDER CURRENT EXECUTIVE ORDER 11490

SEC is to collaborate with the Secretary of the Treasury in the development of emergency financial control plans, programs, procedures and regulations for: 1) temporary closure of security exchanges, suspension of redemption rights, and freezing of stock and bond prices, if required in the interest of maintaining economic controls and re-establishment and maintenance of a stable and orderly market for securities when the

situation permits 3) control of the formation and flow of private capital via new or expanded security offerings for the purpose of establishing or re-establishing industries nationally needed following an emergency 4) prevention of the flight of capital from the United States in coordination with the Secretary of Commerce and 5) the impounding of securities in the hands of enemy aliens.

#### FUNCTIONS UNDER CONSIDERATION FOR REVISED EXECUTIVE ORDER

The Secretary of the Treasury is to have exclusive authority over temporary closure of security exchanges. No other changes are made.

#### DISCUSSION

The SEC spokesman stated that in an international economic emergency SEC would expect to receive its instructions from the President via the Departments of State and Treasury.

While not specially focused on international economic emergencies, the SEC has a set of emergency plans, updated annually. Perhaps more important, since the U.S. securities markets are primarily self-regulated (by exchange management and dealers' associations), elaborate private emergency plans exist.

Determinations of facts needed for coping with international economic emergencies might be facilitated through a new network designed to allow both U.S. and foreign companies to submit the periodic financial information required by SEC directly through computer hook-ups.

A major type of emergency affecting the securities market in the United States could be anything which either sharply increased or sharply decreased the value of outstanding securities. Such an emergency might require the prohibition of trading in affected securities for a shorter or longer period of time. Examples could include: a) decision by a major government to default on its international obligations, b) a seriously hostile situation involving a major country, or c) a major resource crisis positively or negatively affecting certain countries.

In any one of the above instances, the Commission may summarily suspend trading in a particular security for a period of up to 10 days, or for up to 90 days with Presidential approval. Presumably, in a sufficiently serious international economic emergency, continuance of such suspension could be Presidentially authorized for additional periods. However, the Commission's power might be chiefly important for the speed with which it could act, since organized exchanges, after being contacted, could normally be expected to carry out requests of the Commission to suspend trading in the securities involved.

However there could be instances in which it would take time for a determination as to the secondary impact on various companies' securities of a particular international economic emergency. A financial institution in the United States, for example, might be found to be in serious difficulties because of the degree to which its loans were involved in the foreign area affected by the emergency. Planning for such eventualities in other than broad terms may not be practical because the facts would have to be ascertained after the emergency occurred.

More pressing, potentially, might be the task of preventing the flight of capital through the "unloading" of securities by individuals or organizations seeking to convert their portfolios into transferable liquid assets -- for example, to secure funds for the support of hostile acts not in the interest of the United States. The Commission's ability to identify the individuals or organizations that might take such action and its authority to move quickly enough (presumably in concert with Commerce and Treasury) in freezing the assets concerned are subjects that would profit from additional investigation.

## II.B.1.b. EXPORT-IMPORT BANK

### AGENCY FUNCTIONS

The basic purpose of the Export-Import Bank, a federally chartered financial institution, is to assist in the export of U.S. products, particularly capital goods. It does this by furnishing financial services: for large transactions through the direct provision of loan funds to foreign borrowers, and for other transactions through guarantees to banks and other financial organizations extending credit to foreign borrowers. Export credit insurance is provided by the Foreign Credit Insurance Association, an association of commercial insurance companies formed by the Bank.

### FUNCTIONS UNDER EXECUTIVE ORDER 11490

Under guidance of the Secretary of Treasury, and using the resources of the Bank, or resources made available to it, the Bank is to develop plans to (1) expand production capacity abroad for essential materials, (2) make foreign barter arrangements, and (3) acquire emergency imports.

### FUNCTIONS UNDER CONSIDERATION FOR REVISED EXECUTIVE ORDER

No substantive changes are proposed in the revised executive order under consideration.

## DISCUSSION

The Bank's representative indicated that there is no written plan prepared for use by the Bank in the event of an international economic emergency. However, Bank officials have been participating in FEMA exercises, including a recent one that focused on economic matters and, as a result, have made various relevant policy decisions.

The Bank's representative pointed out that the Bank would not expect to take action in an international economic emergency without guidance from the Department of Treasury. Furthermore, major economic actions are not under the Bank's jurisdiction.

The Bank's representative stated that in recent international economic emergency situations its actions were keyed entirely to instructions received from other agencies. Loans to Iran or Iranian organizations were suspended upon instructions from the State Department, relayed from the President, after the hostage crisis in Tehran, with further disbursements on such loans cancelled. The Bank also provided information on loans by federal agencies and private banks to Iran when negotiations for the freeing of the hostages took place.

The Bank's major missions in an international economic emergency, it was stated, would be to (1) obtain raw materials, semi-manufactured and finished goods, and (2) to help sustain key sectors of allied economies by financing supplies of raw materials (including agricultural products) and manufactured goods.

Because the Bank has concentrated since the immediate post-World War II era on financing only U.S. exports, its expertise in handling imports would have to be redeveloped, should this be required by an international economic emergency.

No specific planning for barter arrangements exist, but by their very nature such transactions would have to be undertaken on an ad hoc basis, since determinations would have to be made at the time of the projected barter transaction as to both the materials needed and those available for trading.

Other questions relating to the Erimbank's authority to take action in an international economic emergency might include its power to withhold loans to a particular country (for example: South Africa) in the event of a need for implementing official U.S. foreign policy, its authority for loans to Communist countries for certain purposes, and its ability to waive the waiting period currently required by Congress for certain transactions, such as nuclear power and credits of over \$100 million.

## II.B.2 THE DEPARTMENT OF TRANSPORTATION

### II.B.2.a. GENERAL: AIR AND LAND TRANSPORTATION

#### AGENCY FUNCTIONS

The Department of Transportation, established by statute in 1966, drew together from eight other agencies such responsibilities as highway planning, development and construction, urban mass transit, railroads, aviation, and the safety of waterways, ports, highways and oil and gas pipelines. Its responsibilities include "coordinated, effective administration of the transportation programs of the Federal Government" and the development of "national transportation policies and programs conducive to the provision of fast, safe, efficient and convenient transportation at the lowest cost consistent therewith". Within the Department are the United States Coast Guard, the Federal Aviation Administration, the Federal Highway Administration, the Federal Railroad Administration; the Urban Mass Transportation Administration, the Maritime Administration (described in Section b. below), the St. Lawrence Seaway Development Corporation; and the Research and Special Programs Administration. The Coast Guard is a branch of the U.S. armed forces and would operate as part of the Navy in time of war or when directed by the President.



## FUNCTIONS UNDER EXECUTIVE ORDER 11490

The Secretary of Transportation shall prepare emergency plans covering: 1) overall national policies for providing all forms of civil transportation and storage (except designated petroleum and food storage), 2) movement of passengers and materials by all forms of transport, 3) determination of allocation of transport to meet essential civil and military needs, 4) identification of transport resources available to meet all degrees of national or regional emergencies, 5) assistance to States and local governments involved in transport activities, 6) rehabilitation and recovery of the nation's transport system, and 7) provision for port security and safety (See Section b).

In carrying out these responsibilities, the Secretary shall obtain, assemble and analyze the necessary types of data. The Secretary shall also develop systems for the control of transport movements except those under the authority of the Department of Defense.

Among the details spelled out are responsibilities for determinations with respect to the Civil Reserve Air Fleet and the War Air Service Program.

## FUNCTIONS UNDER CONSIDERATION FOR REVISED EXECUTIVE ORDER

The language of the revised Executive Order has been reorganized but most of the functions remain basically the same. Certain responsibilities

have been spelled out with greater clarity, for example, responsibility for the operation of the National Railroad Passenger System (AMTRAK) and for pipeline operations.

Added is language relating to the establishment of requirements for Coast Guard support of Defense Department military operations, as well as the security of emergency-use Coast Guard facilities. On request, the Department is to advise and assist on matters of foreign port security.

#### DISCUSSION

The Department of Transportation has a Crisis Action Plan which recognizes three levels of crisis situations:

Level One ("Normal Level") in which transport systems are operating at a normal or near-normal level, with interruptions, if any, not presenting a serious immediate threat to the economy or the national security.

Level Two ("Secretarial Action Level") where a crisis disrupts or threatens to disrupt civil transport service to a degree requiring some form of federal response. Actions at this level are within the existing authorities of the Secretary of Transportation or associated federal agencies.

Level Three ("Presidential Action Level") where the crisis escalates or threatens to escalate beyond the point where existing authorities are adequate. Presidential or legislative action would be required.

The distinction between Level One and Level Two presumably would reflect the difference between the recent United Airlines strike and a new oil embargo on shipments from OPEC countries to the United States. In the

former case, the United strike seriously impinged on travel to Hawaii, thus causing that state major losses in tourism income. However, essential supplies were presumably not threatened, and although United is the predominant air carrier between the mainland and Hawaii, there were alternate carriers. In the latter case, an oil embargo that had a major impact on the U.S. petroleum supply could require establishing priorities to assure that areas of the United States that were in major part dependent on imports received assistance in transporting oil from alternate sources.

Since transportation is in effect a part of any economic good, any international economic emergency that required the issuance of priorities for essential products or supplies would simultaneously require the issuance of priorities for transportation to assure their timely delivery to users. One of the most likely impacts of an international economic emergency could be on air transport. Hostile action that depleted the stock of aircraft available for international service, for example, could require measures to give priority to essential passengers and/or freight. Blockages of international air routes might require the imposition of new routing requirements on U.S. carriers.

While presumably less likely, land movements in the United States might have to be prioritized because of the need to respond either to the cutoff of essential-material imports or the need to rush heavy supplies to our borders in connection with an international economic emergency. In the

Parameters section of this report one of the scenarios mentioned conflict between Russia and China. In such an instance U.S. supplies in support of China might have to be so massive and so prompt that priority transport would be required.

The Transportation Department Crisis Plan provides an administrative framework for dealing with various levels of crises, complete with model documents for arranging delegations between agencies. The plan contemplates the appointment pro tem of a Crisis Coordinator, who would normally be the Secretarial level office or operations administrative chief responsible for the mode of transport primarily affected.

Included in the list of potentially affected departmental units are the Federal Aviation Administration, the U.S. Coast Guard, the St. Lawrence Seaway Development Corporation, the Federal Highway Administration, and the Research and Special Programs Administration (for pipelines), the Federal Railroad Administration, and the Urban Mass Transportation Administration. All of these are within the Department. When a crisis is "multi-modal" in nature (for example, calling on both rail and highway carriers to respond to transport priorities) the Crisis Coordinator would have to be determined depending on the situation.

It is obvious that any priority system for domestic carriers would have to be closely coordinated with industrial mobilization priorities issued by the Department of Commerce. Also potentially impacting on the ability of the Department of Transportation to prioritize air transport for

civilian purposes is the Defense Department's Civil Reserve Air Fleet Program. This has the purpose of increasing the military's air lift capabilities in times of need and operates through DOD contract with U.S. air carriers.

By memorandum of understanding between the Secretaries of Defense and Transportation, earlier levels of defense-oriented emergencies may be activated by DOD without consultation with the Department of Transportation, if found not to have an adverse effect on the air carriers' ability to provide essential civilian services. Should there be such an adverse impact, or should the highest ("Level Three") level of crisis exist, the Secretary of Transportation would have to exercise priority and allocation authorities.

## II.B.2.b MARITIME ADMINISTRATION

### AGENCY FUNCTIONS

The Maritime Administration, administering programs to aid in the development, promotion and operation of the U.S. merchant marine, was established under a Presidential Reorganization Plan in 1950, and was transferred from the Department of Commerce to the Department of Transportation in 1981. Its functions relevant to emergency planning include the authority to charter government-owned ships to U.S. operators, to requisition or procure ships owned by U.S. citizens and to requisition foreign ships lying idle in U.S. ports for emergency needs.

Key authorities of the Maritime Administration include the Merchant Marine Act of 1936, the Merchant Ship Sales Act of 1946, the Emergency Foreign Vessels Acquisition Act of 1954 and the Voluntary Tanker Agreement of 1951 (revised in 1983).

### FUNCTIONS UNDER CURRENT EXECUTIVE ORDER 11490

The following language is included in the responsibilities listed for the Department of Transportation: "Maritime safety and law enforcement . . . in the following specific programs . . . Operational readiness for essential wartime functions."

## FUNCTIONS UNDER CONSIDERATION FOR REVISED EXECUTIVE ORDER

Included in the revision are the preparation of plans and programs for emergency utilization of U.S. shipping resources, other shipping available to the United States under emergency conditions, shipping service to meet military and essential civil requirements. Also mentioned is the acquisition and operation of ships for service of the United States under authority of the Merchant Marine Act of 1936 and other laws.

## DISCUSSION

The revised version of the Executive Order under consideration provides much more detail on the role that the Maritime Administration is empowered to play under emergency conditions. It should be noted that the major emphasis in emergency planning is for shipping in support of military operations, rather than for economic emergencies.

The spokesman for the Administration indicated, however, that the power to requisition shipping has not been used since World War II with the exception of the Lebanon crisis in 1958, when American ships were diverted to aid in civilian evacuation.

However, the powers of the Maritime Administration to furnish shipping for U.S. use during an international economic emergency are broad and far-reaching. NATO ships may be secured by arrangement with our allies. The Emergency Fleet Reserve is also maintained by the Maritime Administration.

Had the United States required shipping in order to secure alternate supplies during the Arab oil embargo in 1973, the Maritime Administration would have presumably been able to mobilize extra capacity for that purpose. In 1973 the question was the supply of essential U.S. imports. An international economic emergency could involve, instead, the need to supply massive amounts to U.S. allies abroad -- for situations ranging from famine or natural disaster to the furnishing of supplies to a country subject to hostile action.

While maritime shipping is not ordinarily considered a ready resource, in contrast to air-lift operations for example, an international economic emergency of sufficient depth and length could make ocean shipping an absolute essential. The importance of making shipping available for American purposes in an emergency is underscored by the proportion of shipping currently serving American ports whose owners have registered their vessels under foreign flags. While many of these governments may be supportive of American needs, reliance on them alone would presumably be a cause for concern in the event of a prolonged international economic emergency.

Should emergency action by the Maritime Administration be required, the agency appears well prepared to deal with it. The agency has well secured and elaborate facilities which maintain close informational monitoring over American shipping. The Maritime Administration even has access to prompt information on the location of up to 600 ships of the NATO countries.



### II.B.3. DEPARTMENT OF ENERGY

#### AGENCY FUNCTIONS

The Department of Energy provides the framework for a comprehensive and balanced national energy plan through the coordination and administration of the energy functions of the federal government. Included in this plan is the long-term development of energy technology, marketing of federal power, energy conservation, nuclear and nuclear regulatory functions, and a central energy data and analysis program.

While most of the components of the Department would doubtlessly have a role to play in an international economic emergency, the most directly affected would be the emergency preparedness program which is under the direction of the Assistant Secretary for Environmental Protection, Safety and Emergency Preparedness and, more specifically, the Deputy Assistant Secretary for Emergency Preparedness. This office is responsible for the Department's energy emergency and contingency planning efforts and, in this connection, manages the Strategic Petroleum Reserve as well as the Naval Petroleum and Oil Shale Reserves.

#### FUNCTIONS UNDER EXECUTIVE ORDER 11490

Emergency planning functions which by now have become the responsibility of the Department of Energy are still referred to in various separate sections of the present Executive Order 11490. Fuel minerals are

referred to in Part 7 dealing with the Department of Interior. Energy research functions are addressed in part 14 entitled "Energy Research and Development Administration". A separate Part 14A deals with the Nuclear Regulatory Commission. Part 19 covers the Federal Power Administration.

#### FUNCTIONS UNDER CONSIDERATION FOR REVISED EXECUTIVE ORDER

A new Part 7 would consolidate discussion of all the emergency planning functions of the Department of Energy. In addition to preparing emergency plans and procedures for the continuing conduct of essential functions of the Department, DOE is instructed to consult with the Nuclear Regulatory Commission (an independent agency within the Department), the Departments of Defense, Justice and State, CIA, FEMA and other federal agencies in the preparation of emergency assessments and preparedness programs, and provide technical advice covering the scope of the Department's activities.

DOE is to plan for energy emergencies, including the conduct of the industry-recruited National Defense Executive Reserve Program, assist Commerce and Defense in identifying facilities needed for national defense and essential civilian programs, and establish procurement and production schedules. It is to allocate scarce materials for emergency mobilization and defense needs, allocate electric power, gas, petroleum and solid fuels "when such actions are clearly superior to the operation of the market as a means to achieve essential domestic and national security objectives", maximize domestic energy supplies, aid Commerce, FEMA and Defense in the

Machine Tool Trigger Program, and provide for essential nuclear production. The Department is assigned responsibility for providing operational safety and security of energy production, and providing scientific and technical information as well as information on energy supply and demand for federal, state and local agencies. DOE is also to maintain relations with government agencies, the public, and, in consultation with the Department of State, appropriate foreign organizations regarding emergency planning.

#### DISCUSSION

The most likely international economic emergency within DOE's field of responsibility would be related to oil.

In 1981 this assertion could have been documented with the opinion of informed Americans who were involved in various aspects of the production or distribution of petroleum. They were unanimous in their view -- in appearances and statements for the Senate Committee on Energy and Natural Resources holding hearings on the renewal of standby emergency authority [1] -- that the U.S. oil supply would be interrupted at some time again in the near future, leading to shortages and attendant economic problems for the nation.

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1. U.S. Senate, Hearings before the Committee on Energy and Natural Resources, May 19 and June 3, 1981.

Now in 1985 everything appears to be reversed. The OPEC ministers are struggling to stabilize their sinking cartel. Prices have been steadily eroding. The Economist predicts further, perhaps precipitous, declines in world oil prices. Three causes are described:[2]

a. Since the oil price increases of the seventies, production from non-OPEC countries has grown enormously.

b. Oil consumers have learned to live with considerably less oil per unit of gross domestic product than before.

c. OPEC countries, from desperate Nigeria to trade-deficit-burdened Saudi Arabia, are feeling increasing pressure to boost volume and revenues by dropping prices. Saudi Arabia, supposedly the country that could keep its reserves "in the ground" indefinitely, is actually facing hardship from the shortage of natural gas for local uses, since gas is a byproduct of oil production, which has been cut so drastically in an effort to maintain OPEC prices.

Why then is oil likely to cause an international economic emergency? Let's examine the problem of an oil glut and sharp price declines first.

The fragile web of developing-country debt obligations could collapse along with oil prices. Mexico, Nigeria and Venezuela could be weakened, and even though countries like Brazil and South Korea would benefit, at least temporarily, the disruption of the oil-producing developing countries could have a spreading effect. Wider defaults on debts held by the

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2. July 6, 1985, pp. 17-22

American banking system -- already impacted by domestic problems of falling oil prices (e.g., the Penn Square debacle) -- could create a financial emergency.

While this scenario is a convincing possibility, the United States must still also be prepared for the problems of an import disruption. This is so, not because there is a lack of world oil or because there is a scarcity of foreign suppliers currently anxious to sell it, but because of the panic factor and its effect on the U.S. situation.

Whether the day's headlines concern the Israeli adventures in Lebanon, the escalation of the Iran-Iraq war or the taking of hostages on international airways, the Middle East remains a center of international tension and a potential trigger for world economic problems. At some point a chain of events could easily lead to blocking the Middle East oil supply, precipitating a domino effect among the economies of Western Europe, Japan and the United States.

Even a relatively minor diminution of oil imports could cause panic buying and the development of a "shortage" mentality, as industrial and commercial firms hastened to build up inventories, thus blocking distribution channels sufficiently to cause a scarcity of end-products for consumers.

Notwithstanding the current world oil situation, planning for a supply disruption has not ceased within the U.S. Government. In June 1985 an interagency task group concluded:[3]

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3. Final Review, Task 3, Domestic Energy Economic Policy Subcommittee, Energy Preparedness Task Force, Dept. of Energy, Washington, D.C., June 12, 1985.

1. The free market should be relied upon to determine the price and allocation of crude oil and petroleum products.

2. Economic damage would be substantially reduced by a prompt drawdown of the Strategic Petroleum Reserve in the event of any disruption serious enough to produce a significant price increase.

3. The U.S. would benefit significantly if other nations were to engage in similar stock drawdowns in the event of any oil disruption.

4. General fiscal policy responses are not suited to a temporary energy disruption.

5. Monetary policy changes are not likely to be useful in a temporary oil disruption.

6. Additional energy taxes or tariffs could worsen the economic impact of a disruption.

7. Microeconomic policies are the most promising means of coping with an energy disruption. (A temporary, targeted standby program to assist low-income families may be needed. If so, the group recommends concentrating on home heating needs and the problems of low-income families most dependent on private vehicles.)

The degree of attention that the government continues to pay to the possibility of oil supply disruptions is justified by some sobering conclusions on the future of the energy supply including:

a. The lack of simple solutions based on alternative fuels, because of problems ranging from high costs or limited availability (e.g., solar power) to offsetting disadvantages (pollution problems from solid fuels).[4]

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4. "Solar Technology: A Whether Report," Technology Review, April 1983, pp. 48-54.

b. The continued elusiveness of technological solutions from fossil fuels (synthetic oil) or new atomic technology (fusion research).[5]

c. New and sharply reduced estimates of some of the Nation's oil reserves, underlining the increasing dependence of the U.S. on imported petroleum.[6]

There appears to be general agreement that the route taken by the government to cope with energy problems in the 1970's should not be tried again. Elaborate price and allocation controls not only saddled business firms with heavy bureaucratic burdens but in some cases were considered counterproductive, possibly even prolonging shortage problems that a free market might have cleared up earlier.

The difficulty is that, in a major energy crisis, some allocation would still be required for national security and essential civilian needs. Basic electric power supplies must be maintained, hospitals and ambulances must operate, and essential production must be maintained. Careful "dovetailing" of allocation and free market adjustments will require highly sophisticated planning. Appropriate emphasis in DOE planning documents has been given to the importance of prompt and adequate information systems in this regard.

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5. In connection with the abandonment of the Great Plains coal gasification plant, Energy Department officials are quoted as saying there was little reason to believe it "would ever be competitive". "Firms Will Abandon Synfuels Facility," Washington Post, August 2, 1985, p. A17.

6. New Interior Department estimates of offshore resources are 55% less for oil and 44% less for gas than projected in 1981. "Oil and Gas Technology," U.S. Congress Office of Technology Assessment, May 9, 1985.

Information is an urgent requirement to minimize the irrationality of market forces in times of extreme supply shortages -- shortages that are real or just perceived. When there are perceptions of extreme shortages of essential products, markets react on a panic basis. Regulations are required which under other conditions might seem nonsensical -- such as requirements for Minimum purchases of gasoline to prevent motorists from spending their days "topping off" tanks at every available gasoline station.

Market forces will roughly coordinate supply and demand, causing certain hardship conditions on special categories of the public -- such as families previously referred to dependent on private vehicles for access to jobs. But, in the main, market forces will promote energy conservation by the sheer force of economic necessity.

One of the major casualties from this interplay of market forces may well be the nation's financial system. Compelled by the exigencies of cost inflation to service various sectors of the economy at greatly escalated values, the banks and other financial institutions could stand in special jeopardy if over-expansion and over-valuation at some stage poison their loan portfolios. At the time of this writing just such a problem of energy-related loans has been responsible for shock waves that reached one of the nation's largest banks (Continental Illinois) and required urgent federal rescue efforts to preserve the integrity of the national banking structure.



Therefore, as also mentioned in the discussion dealing with the federal bank supervisory agencies, planning for international economic emergencies must importantly deal with plans to protect the nation's banking structure.

To what extent will the Strategic Petroleum Reserve obviate problems in a future international economic emergency characterized by uncertainty over imported fuel supplies? Increased production of oil from domestic sources has definite limitations ranging from cumbersome state laws to the danger of uneconomic "surge" well production that could cause a permanent loss of some of the U.S. in-ground reserves.

The value of the reserve depends largely on the public perception of the length of the probable international fuel supply crisis. Based on examples given by the Department of Energy in its commentaries on emergency planning, the blocking of a major oil route that can be reopened by salvage operations would be an example of an energy crisis perceived by the public as of finite length, and the reassurance of the availability of the Strategic Petroleum Reserve for emergency use would doubtless cushion against any serious national economic effects.

On the other hand, a concerted withdrawal of OPEC supplies due to hostilities against the United States or due to general hostilities in the Middle East, might largely negate the benefits of the Strategic Petroleum Reserve in terms of economic impact, since drawdowns from the reserve would be perceived as longterm losses to that reserve and consequently an increased exposure of the U.S. economy to energy shortages.

Accordingly, as indicated in Energy Department comments, there is in effect a watershed of planning activity in terms of the perceived time span of any international energy supply disruption. Unfortunately, "worst case" planning is always required.

Some interesting problems could be posed by the International Energy Sharing Agreement. Under given circumstances, the United States could be called on to supply petroleum to allied nations. Among the planning parameters that would need to be taken into account is the willingness of Congress, in a period of general shortages, to acquiesce in major exports of petroleum while there are severe energy problems at home.

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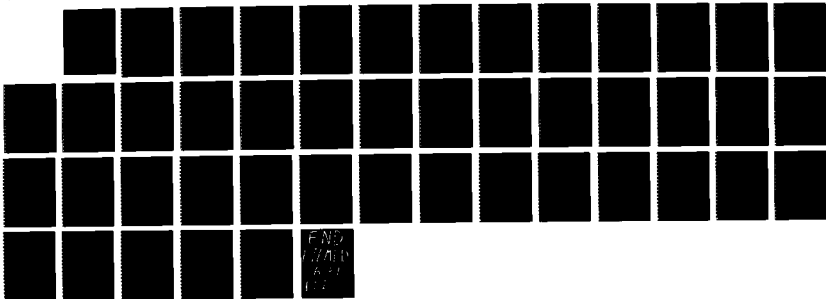
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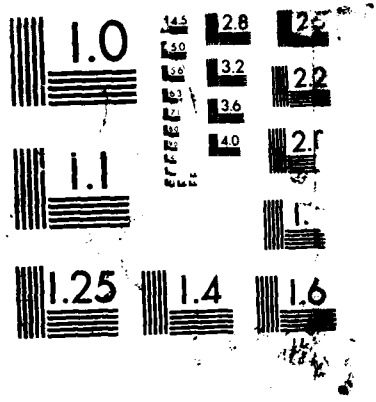
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## II.B.4 DEPARTMENT OF THE INTERIOR/BUREAU OF MINES

### AGENCY FUNCTIONS

Among its other functions, the Department of the Interior is charged with responsibility for carrying out the statutory mandate to "foster and encourage the private sector in the production of . . . minerals" The major part of this task is handled within the Department's Bureau of Mines, which was established under the Organic Act of 1910. The Bureau's goal is to help insure that the nation has adequate mineral supplies for security and other needs. This it does primarily through research and fact-finding. Typical areas of research include ways to use domestic low-grade ores as alternative sources of strategic and critical materials that must currently be imported. The Bureau has an in-depth understanding of domestic and foreign production and supplies through its collection and compilation of information on all phases of mineral resource development.

### FUNCTIONS UNDER EXECUTIVE ORDER 11490

The applicable section instructs the Department to "develop programs and encourage the exploration, development and mining of strategic and critical materials for emergency purposes".

## FUNCTIONS UNDER CONSIDERATION FOR REVISED EXECUTIVE ORDER

Language identical to the above is included in the proposed revision. However, the wording of the Executive Order is adjusted to take account of the creation of the Department of Energy, by specifying that the Department of Interior's responsibility applies only to "nonfuel minerals".

Added is a provision calling on the Department to assist FEMA in formulating and carrying out plans for stockpiling strategic and critical mineral materials.

## DISCUSSION

The importance of emergency minerals policy within the Department of the Interior is indicated by the inclusion of the Emergency Minerals Administration in the Interior Secretary's office, rather than in the Bureau of Mines.

While federal policy has traditionally been focused on emergency planning for minerals that are not available or are in short supply within the United States, planning for international economic emergencies should presumably also take into account the possible need to supply minerals to other nations on an emergency basis.

According to the Department's spokesman, the basic tool that would convert Interior/Bureau of Mines from an essentially research and informational instrument into an active participant in meeting national needs -- handling allocations, priorities and supply expansion in the event

of an international economic emergency -- would be the Defense Resources Act, which has been drafted to be presented promptly to Congress by the Administration in the event of need.

As far as the federal stockpile is concerned, FEMA's decisions concerning the release of critical minerals would presumably be based on Interior's recommendations.

While the Department's spokesman conceded that simultaneous shortages of all critical minerals could present insurmountable problems, the Department's information bank in the past -- for example, during a coal strike -- has proved capable of monitoring mineral production literally on a "mine by mine" basis. The Department has authority to collect monthly statistics on minerals production, exports and imports under various statutes on a voluntary basis, and on a mandatory basis under the Defense Production Act.

In addition to participation in FEMA planning exercises, the Department spokesman indicated that he attends periodic meetings of Interagency Mineral Commodity Committees to assess questions dealing with the availability of critical minerals.

Coordination with Canadian authorities under the aegis of the Joint Industrial Mobilization Agreement, although not as close as it has been in the past, is achieved through attendance of a Canadian Embassy representative at selected meetings. During the Korean War, 30 countries coordinated their minerals policies on 10 to 15 critical minerals, but no equivalent mechanism has been in place since then.

## I.B.5. OTHERS

### II.B.5.a. SMALL BUSINESS ADMINISTRATION

#### AGENCY FUNCTIONS

The Small Business Administration was created under an Act of Congress in 1953, to which act was added authority for investment assistance by an Act of 1958. In addition, the Secretary of Commerce has delegated to SBA certain responsibilities for promoting the use of small business firms in federal procurement.

The agency provides direct loans or loan guarantees to small business firms. Among its other functions are loans to minority-owned enterprises and loans for rebuilding after floods, riots, civil disorders and other catastrophes. It assists small business investment companies that provide funds for the expansion of smaller firms. It works with federal agencies to increase the participation of small firms in government procurement, and it provides managerial and technical assistance for small business.

#### FUNCTIONS UNDER EXECUTIVE ORDER 11490

SBA is to plan for the acquisition of prime contracts with subcontracts to be let to smaller firms, to provide data on the capabilities of small firms, to develop plans for small business procurement as well as plans for emergency loan assistance to essential



small firms, plans for promoting production or research and development pools of small firms, and plans for loan assistance for small firms for defense or essential civilian purposes.

#### FUNCTIONS UNDER CONSIDERATIONS FOR REVISED EXECUTIVE ORDER

No substantive changes are contained in the Revised Executive Order.

#### DISCUSSION

The role of the Small Business Administration -- in increasing the financial, managerial and technical ability of firms to contribute to the national economy -- would basically remain the same as it is now in the event of a national emergency, including one caused by international economic events.

Planning for any such emergency would call for the effective performance of the agency's current job but prioritized in terms of the national needs at the time of the emergency. The SBA spokesman indicated that guidance would probably be derived from Commerce's Office of Industrial Mobilization. SBA itself has a Continuity of Operations Plan, updated in 1983.

On a limited scale, an actual example of SBA's function in an international economic emergency was its loan program to help U.S. firms near the Mexican border financially injured when the Mexican peso was sharply devalued in 1983. Had the Arab oil embargo lasted longer and

impacted the American economy more seriously beginning in 1973, SBA could conceivably have concentrated on financing small-firm efforts to conserve petroleum products, to increase the availability of alternative sources of energy, to enlarge the importation of oil from non-embargo sources, etc.

SBA's existing programs could be impacted by an international economic emergency. A default by a developing nation on its international obligations could cause both affected financial institutions and small-business recipients of SBA loans or loan guarantees to fall back on SBA for support. Other types of international economic emergencies could cripple certain sectors of the U.S. economy, including smaller firms, and cause similar problems.

Current Congressional debate over Administration proposals for eliminating SBA programs also is cause for planning consideration. Should agency responsibilities or authorities be transferred or abolished, it would be desirable to establish plans to cover outstanding commitments in the event of an impacting international economic emergency.

## II.B.5.b. ECONOMIC STABILIZATION PROGRAMS

### INTRODUCTION

Programs for the mandatory control of prices, wages, rents and other income elements have been used both in the United States and Europe to counter various types of international economic emergencies. In developing countries some types of anti-inflation measures are regularly demanded by the International Monetary Fund as a quid pro quo for the extension of emergency credits.

The present U.S. Administration is firmly committed to the maximum reliance on free market forces. Accordingly, federal control of incomes would presumably be far down its list of preferences for meeting international economic emergencies.

Nonetheless, in a complete arsenal of weapons to meet the challenges of severe international economic emergencies, stabilization programs form a logical part. As a matter of fact, the last mandatory economic stabilization program -- initiated in August 1971 by President Nixon -- was a counterpart to the decision to free gold prices and move to a "floating" dollar.

### BACKGROUND

Attempts to control the rise of prices, wages, and other income elements can be of either a voluntary or a mandatory nature. The phrase

"jawboning" came into popular use in the United States to describe government attempts to limit increases in prices and wages through voluntary compliance.

In the period just prior to Pearl Harbor, when the effects of the U.S. defense build-up were manifesting themselves through increasing inflationary pressures, attempts, in part successful, were made to limit price and wage increases through government exhortation. But shortly after the entrance of the United States into World War II it was determined to be necessary to institute general controls on prices and wages. Elaborate and extensive administrative systems for price control, rationing, and wage control were established.

For a brief period mandatory stabilization controls were reimposed when the United States became involved in Korea in 1950. And as mentioned, controls were imposed in 1971 coincident with the adoption of floating exchange rates.[1]

The 1971-1974 experience is instructive because controls were instituted with relatively limited administrative machinery. Although mandatory in nature, controls were to a great extent both selective and voluntary, with smaller organizations generally exempted, and with

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1. A comprehensive source of information on the 1971-1974 efforts is the three-volume "Historical Working Papers on the Economic Stabilization Program," prepared by the Office of Economic Stabilization, U.S. Department of the Treasury, October 1974.

compliance supported in major part through voluntary cooperation of the larger U.S. firms. What enforcement machinery existed for price controls was borrowed from the Internal Revenue Service.

Labor participation was far from enthusiastic; yet the general stabilization structure was fairly effective in limiting cost and price increases during its initial freeze period and the following "Phase II". Later phases were intended to bring about gradual decontrol.

One element to be kept in mind when judging the admittedly temporary success of the 1971-1974 program was the public consensus, generally supported by larger business firms, that price and cost increases needed to be limited to prevent runaway inflation. This positive element was reinforced by the fact that the demand-push that typically characterizes a wartime situation did not exist. Indeed, throughout the period there were sectors of the economy with moderate to severe problems of limited demand and over-capacity.

In contrast to the partial success of the 1971-1974 stabilization program imposed under authorization of the 1970 Economic Stabilization Act, President Carter's attempt during his administration to establish a framework of purely voluntary wage and price controls was a failure. Business, labor and the public considered it a "paper tiger" partly because of the lack of legislative authorization for mandatory controls that might otherwise have been "waiting in the wings" and partly, no doubt, because of disillusionment that followed the removal of the 1971-1974 controls and the subsequent steady escalation of U.S. inflation.

## PRINCIPLES

Experience with the two mandatory economic stabilization programs, suggests a set of principles that might be considered when and if mandatory economic stabilization programs are deemed necessary. Such controls, of course, would first have to rest on a legislative base and this base would have to be presented to Congress only after an international economic emergency made their use clearly necessary.

1. The element of surprise -- necessary to avoid actions by both business and labor in increasing wages and prices in anticipation of controls -- would be minimized by the necessity of passing enabling legislation. To compensate for this, it would presumably be necessary to establish a "base period" (the date for calculating the price and wage freeze) prior to the emergency.

2. Wage controls would be based on rough principles, but experience shows that to gain acceptance (and avoid the possibility of disastrous strikes and/or general opposition to the program by organized labor) such principles would have to be tempered in major cases by consideration of special circumstances.

3. The 1971 experience showed that a temporary freeze -- a general suspension of increases for 90 days -- is the most practical way to launch a stabilization program, since it combines the virtues of prompt action and minimum administrative burdens.

4. The institution of Phase II controls in November 1971, after the temporary freeze, also illustrates various principles that could be applicable in a future stabilization program. One of them is that controls can be concentrated on larger companies as a checkrein on the entire economy. Also the computerization of corporate recordkeeping makes it possible to permit companies in some instances to establish benchmarks for compliance without policing every price change. The so-called Term Limit Pricing under Phase II permitted individual companies to make certain overall weighted price increases, with maximum "caps" on per-item changes.

5. The preceding statements must be reconsidered, however, to the extent that an international economic emergency imposes demand-push pressure on a limited or a broader number of categories or industries. For example, in extreme cases rationing might have to be instituted as a support for price stabilization.

On the basis of extensive experience both in the United States and in Europe with various stabilization programs or "income policies" it should be possible to develop a master plan for stabilization, including variable elements keyed to the severity of the inflationary pressures on the U.S. economy resulting from an international economic emergency.

III. FINDINGS AND CONCLUSIONS



### III. FINDINGS AND CONCLUSIONS

At the outset it was necessary to decide whether this study would cover planning for international economic emergencies (i.e., those that were by their very nature economic rather than general) or include the economic aspects of total international emergencies (i.e., recovery after nuclear attack). It was agreed, in view of the limited resources available for the present compared to the breadth and depth of general planning already undertaken for the "total" emergencies, that the former was the intended scope of this project. The research was conducted accordingly.

A series of definitions were developed, progressively narrowing and focusing the meaning of the terms "economic", "international", "emergency" and "preparedness" for purposes of the study. In the process it was pointed out that economic emergencies can be of a non-adversarial nature (e.g., a super-disaster of the Mt. St. Helens variety), although in recent experience actual international economic emergencies have been adversarial in nature (i.e., have involved conflict with foreign groups or nations).

A further distinction was drawn between international economic and international political emergencies. The hijacking of TWA Flight 847 was primarily a political emergency. Yet, international economic emergencies usually have a political context as well.

Particularly important are "autonomous" international economic emergencies, which are imposed on us by others. The 1973 Arab oil boycott was of this nature. By contrast, many international economic emergencies may be characterized as "responsive" in that the United States deliberately

responds to a situation by taking economic action. The decision to support the United Nations embargo on trade with Rhodesia (before that country became Zimbabwe) is a typical example. We might add a very current note, that Congressional consideration of economic measures against South Africa, if approved, will lead to another responsive international economic emergency. While speed and effectiveness are presumably of greater importance in dealing with an autonomous emergency, they cannot be disregarded if we are to be fully effective in dealing with a responsive emergency.

A distinction also needs to be drawn between continuing and critical international economic situations, because it is only the critical situation that can reasonably be considered as an emergency. Thus, problems of supplying famine relief in Africa may be considered a continuing situation; but should food surpluses in other nations disappear, or shipping facilities become inadequate for famine relief, a continuing situation could escalate into a critical one, that is, a true international economic emergency.

Beyond these theoretical considerations, why should international economic emergency planning be a priority matter for the United States? Some answers are considered in connection with the increasing international exposure of the U.S. economy.

U.S. international trade as a percent of GNP has almost tripled over the last two decades. More important, imports as a percent of GNP jumped from 2.9 percent to 9.5 percent in the same period. Many types of goods, some of them of key importance, are no longer produced in the United States, or production is but a fraction of U.S. consumption.

It would be nice to believe that U.S. production has just shifted to high-technological products but there is evidence that the U.S. technological lead is also declining -- for example, the proportion of U.S. patents granted to foreign residents seems to be rising steadily.

In 1960 foreign investment in the United States was valued at less than half that of U.S. investment abroad. Twenty-three years later, foreign investment had reached 88% of the value of U.S. investment abroad, and in the second half of 1985 the Commerce Department reported that the stake of foreigners in the United States had exceeded that of Americans in other countries. In other words, the U.S. has reverted to its pre-World War I status as a debtor nation. This development could have potentially serious implications for our nation's ability to control its economy.

Multinational investments always raise the specter of a "conflict of sovereignties" between the foreign owners and the country in which the business is domiciled. For years Americans have discussed this issue from the standpoint of being investors abroad. Now we must face the question as to whether foreign businesses resident in the United States will pose challenges to the effectiveness of the U.S. in dealing with international economic emergencies.

In the part of the report dealing with federal agencies we begin with a consideration of the Executive Office of the President. Here must originate the decisions for dealing with international economic emergencies.

What we find, however, is a series of attempts to coordinate international economic policy which still appear to leave something to be desired in "reaching the President's ear" on the economic aspects of

international problems. A recent Presidential task force offered some suggestions in this regard, and they are reviewed in the report.

Separately considered is the Office of the U.S. Trade Representative, organized to provide leadership in the executive branch on international trade matters. While there may be emergency planning activities ongoing in some U.S.T.R. offices, there is little evidence that it is coordinated by or brought to the attention of the office responsible for emergency coordination.

Probably the key player in international economic emergencies is the Treasury Department. Here there seems to be a complete distinction between planning for "war" and "non-war" emergencies -- the latter encompassing our definition of international economic emergencies. It is not that the matter has not been considered -- but rather that we found no evidence of a continuing, unified effort to be prepared for the less-than-total-war emergency.

By its nature, the Department of State must be a participant in dealing with any international economic emergency. The Department has an excellent permanent emergency office, the Operations Center, but its task is to handle communications and coordination rather than to marshal the policy staff that will cope with the emergency. Yet any effort to improve the general level of international economic emergency planning within the government should include State as a major member of the team.

Commerce has two major functions related to international economic emergency planning -- its trade control program, which is in full regular operation, and its industrial mobilization responsibilities, which are in

full standby status. Partly because of this dichotomy and partly because of the complexity of the Department's various emergency planning operations, department-wide coordination would seem to offer major advantages and is currently being undertaken.

The federal bank supervisory agencies, including the Federal Reserve Board, the Comptroller of the Treasury, and several other more specialized agencies, are charged with certain responsibilities for the maintenance of the nation's financial institutions during time of emergency. Normally much in the background, their role has been dramatized recently by the failure or near-failure of certain major banks, and the collapse (thus far) of two state deposit-insurance systems. There is a heightened state of awareness in these agencies of the dangers faced by the U.S. banking system, including dangers from international problems. But there remains a need for effective contingency planning that would encompass all of the elements of what is in effect the nation's first line of economic defense.

Two financial agencies are discussed among those playing a supporting role in international economic emergency planning. The Securities and Exchange Commission has power over organized exchanges and those who trade in securities. Given the degree of foreign ownership -- of portfolio as well as direct investments -- this agency could face some demanding tasks in connection with an international economic emergency.

The Export-Import Bank, since just after the immediate post-World War II period, has concentrated on financing the nation's exports. This function could be of critical importance in an international economic emergency. However:

such an emergency could also project the Bank into the financing of imports and even the formulation of barter deals. This suggests the need for additional types of expertise.

Transport services contribute to just about every economic good. Accordingly, any mobilization of the nation's productive resources would also very likely call for mobilization of certain transport resources. The Transportation Department has three levels for emergency planning: Normal or near-normal conditions (requiring no federal action), a level of emergency with which the Secretary could deal on the basis of existing powers, and a level of emergency requiring Presidential or legislative authorities. While the mobilization of land transport for an international economic emergency might be the unusual case, there are scenarios which could easily involve the nation's air carriers. Complicating this type of planning is the possible requirement for diverting aircraft to the military to supplement the transport resources of the armed forces.

Authorities exist for the mobilization of U.S. shipping resources to meet an emergency, but the Maritime Administration can recall only one instance in which such emergency authority was exercised. However, the Maritime Administration has excellent informational resources on U.S. shipping and could locate resources almost immediately if needed.

With its predecessor agency at the core of the last major international economic emergency, the Department of Energy today is facing a situation in which -- in the shorter term at least -- a world glut of oil rather than a shortage seems to be the more likely problem. This too

could pose dangers to the nation's economy, as major bank problems related to over-valued investments in oil exploration have already demonstrated. The oil-rich developing countries could become similarly involved.

However, U.S. dependence on imported oil is still growing steadily, as a sudden crisis could point up. Therefore the longer term outlook suggests that the United States must keep a full range of emergency plans available for dealing with energy shortages. Such plans exist, some in exquisite detail, but the dangers to the banking system of the proposed extensive reliance on free-market forces might well be given fuller consideration.

The Interior Department, through its Bureau of Mines, is responsible for monitoring the supply situations in various minerals, including many which are either totally or largely imported. Problems of critical minerals have not been overlooked, and U.S. stockpiles of many of them have been a feature of American policy since World War II. The informational resources of the Department and its Bureau can project supply almost on a "mine by mine" basis, but there was some indication that staff members currently dealing with emergency planning are those who have long been associated with it. In this instance, as in others, it is likely that more attention should be given to agencies' "institutional memory" to assure that as experienced personnel retire or move on to other jobs, newcomers will possess the same grasp of emergency planning.

The Small Business Administration can be considered a support agency with respect to emergency financing for business firms. Perhaps the major concern here should be that, if the agency is abolished or cut back, some locus should be found for emergency planning with respect to these types of functions.

A final section is devoted to the question of economic stabilization -- measures to control prices and wages in a period of international economic emergency. Although there is some reference to the control of wages in the Labor Department's responsibilities under Executive Order 11490, economic stabilization is an international economic emergency planning function without an agency tie. In a period of emphasis on free market forces the Administration is unlikely to propose such a tie.

Nonetheless, such functions have been utilized in non-war situations -- the 1972-1974 program following the floating of the dollar, and the "voluntary" program of the Carter Administration. Some thoughts in this arena are offered with respect to planning principles.

The comment was made during an interview with one of the Agency spokesmen that the "institutional memory" of many of the agencies with which he deals is minimal or lacking. This impression was certainly borne out in some of our interviews. When the individuals who have dealt with emergency matters retire or leave, their successors do not seem to have adequate knowledge of the systems and procedures that were formerly in place. Put another way, there is a positive correlation between the degree of planning for international economy emergency preparedness and the tenure in office of the persons responsible for conducting that planning.

The authors of this report were presented with the task of analyzing the degree and nature of international economic emergency planning in the federal establishment today. They found considerable evidence of planning that can properly be considered relevant and appropriate to the anticipation of international economic emergencies, much of it well and comprehensively undertaken.



But international economic emergency planning in many of the agencies studied seems to be far overshadowed by emphasis on post-nuclear-attack planning. The very types of emergencies which have already repeatedly taken place -- in the international economic sector -- tend to be handled on an ad hoc basis, while planning for "ultimate emergency" problems seems to be almost the norm.

One is reminded of the old joke about the nearsighted young lady who wanted to impress her beau with how well she could see. In advance she planted a needle in a tree trunk on the other side of the meadow. When the time came she pointed it out to him, but then tripped over a cow on her way to retrieve it!

Does this suggest that in our desire to plan for the "needle in the tree" type of emergency we may be "tripping over the cow" by not anticipating types of international economic emergencies that are much more likely to occur?

APPENDICES

**APPENDIX A**  
**INTERNATIONAL EMERGENCY ECONOMIC POWERS ACT**  
**A REVIEW**

In 1976 when revision of the Trading with the Enemy Act was contemplated, the staff of the House Committee on International Relations summarized the history of the President's emergency powers in the following way:

The Trading With the Enemy Act of 1917 has been on the books for nearly 60 years. As amended during that period, section 5(b) has provided the President with progressively broader authority to regulate the nation's international (and domestic) finance during periods of declared national emergency. This section has been construed over the years as providing statutory authority for "emergency" actions as diverse as the "bank holiday" of 1933, an alien property freeze and consumer credit controls imposed during World War II, foreign direct investment controls imposed in 1968, and routine export controls in 1972, 1974, and 1976. It provides a statutory basis for the trade embargoes currently in effect against North Korea, Vietman, Cambodia, and Cuba.[1]

As described also by the House Committee, the Trading with the Enemy Act underwent numerous amendments through the years; but these served primarily to confirm the President's powers under section 5(b) and need not be reviewed in detail here. One of the more significant amendments,

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1. U.S. Government, House Committee on International Relations, Subcommittee on International Trade and Commerce, Trading with the Enemy: Legislative and Executive Documents Concerning Regulation of International Transactions in Tim of Declared National Emergency. (Washington, D.C.: U.S. Government Printing Office, 1976.) Page iii.

however, came through the Emergency Banking Relief Act of 1933 which in Title I, Section 2, rephrased Subdivision (b) of section 5 of the 1917 Act to state, "During time of war or during any other period of national emergency declared by the President, the president may..." regulate an all-encompassing list of transactions in foreign exchange, credit, banking, bullion, and currency.[2]

Under the influence of the Vietnam conflict and the attendant controversy over the President's powers, the Congress passed the National Emergencies Act (Public Law 94-412, approved September 14, 1976) which included such provisions as authority for the House and Senate to terminate (by concurrent resolution) an emergency declared by the President. However, section 5(b) of the Trading With the Enemy Act was among certain provisions of existing law deemed of sufficient importance to be specifically exempted from the new National Emergencies Act.[3]

Congress's next step, however, struck closer to the heart of the President's authority. This took the form of Public Law 95-223, approved December 28, 1977, which amended the Trading With the Enemy Act by eliminating the words "or during any other period of national emergency declared by the President" from section 5(b), thereby confining applicability of that law to "time of war". Instead under Title II of the

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2. Op. cit., page 241.

3. Op. cit., pp. 437-41.

new law Congress adopted a new International Emergency Economic Powers Act, which authorized the President to declare a national emergency "to deal with any unusual and extraordinary threat, which has its source in whole or substantial part outside the United States". It was specifically stated that authorities under the new act were not to be exercised for any other purpose than to deal with an unusual and extraordinary threat.

Subject to this qualification the President through declaring a national emergency would gain authority to investigate, regulate, or prohibit transactions in foreign exchange, credits or payments through any banking institution involving foreign interests, and the importing or exporting of currency or securities. While this act omitted the previous stipulation covering gold or silver coin or bullion, it included broad authority over "any property in which any foreign country or a national thereof has any interest". On the other hand, Congress affirmed its right to consultation and reports and to suspend all the authorities granted if it terminated the national emergency through a concurrent resolution.

## APPENDIX B BIBLIOGRAPHIC ASSESSMENT

This nation's lack of systematic attention to international emergency economic preparedness (as a unified concept) is reflected in a paucity of literature on the subject. Government-sponsored studies mention the problem with some frequency but then shy away from pursuing it. Newspapers and periodicals occasionally express their concern but may be excused for their lack of in-depth analysis. Professional journals have touched some aspects of the problem, e.g., increased dependence upon foreign supplies, trade controls, and multinational repercussions of fiscal policies, but seem not to have recognized that management of any emergency of appreciable scale in today's world will inevitably require attention to the foreign realm.

The pattern of literature to a large degree mirrors the nation's concern over the course of time with actual crises, whether military, political, or essentially economic. While now primarily of historic rather than practical interest, there are various thoughtful studies from the 1930's on the need for economic preparations for the anticipated world conflict. In the 1940's scholars did considerable work digesting the lessons of World War II, an exercise which had not been concluded when the expansion of the Korean conflict gave rise to somewhat differing assessments of U.S. economic capabilities and requirements. Broadly speaking the decade of the 1960's was one in which the Cold War gave some impetus to emergency preparations, both within government and on paper. However, such attention was already fading when the overwhelming issue of the Vietnam War seemed to discourage any attention to lesser emergencies.

The United States is probably fortunate that an issue of the dimensions of the oil crisis has now revived attention to the need for economic preparedness. The shortage of petroleum apparently led scholars, as well as the business and popular press, to take a renewed look at U.S. dependence on foreign sources of supply for critical materials, machine tools, and now

electronic products. The literature reflects not only that the degree of dependence in most cases is growing but also that the number of items which could create vulnerability in an emergency has increased. Another new factor gradually receiving more attention is the apparently rapid lengthening of the lead time needed to obtain sophisticated military products, a phenomenon which may extend to some critical civilian products. Most recently the ballooning of the U.S. foreign trade and payments deficits combined with extraordinary strength of the dollar in international currency markets has brought new awareness of economic interdependence as a factor in any forward planning.

As may be seen, military emergencies and military requirements lie behind much of the literature reviewed here. At the risk of making a virtue of necessity, one should not overlook the military lessons because mobilization is a valid concept, whatever the objective, and meeting an economic crisis may require taking steps in the same direction as preparing for war even if hopefully to a lesser degree.

A more valid criticism, particularly if one can assume that neglect in the literature is reflected in actual practice, is the tendency to ignore international repercussions of emergency preparedness measures. Some authors deserve credit for emphasizing the ever-greater degree of interdependence confronting emergency planners, but they still seem reluctant to pursue the topic in depth. Others still seem to feel that they can pursue economic preparedness measures in a national vacuum. Is this tendency only a reflexion of traditional American self-reliance? If so, one must caution that to "go it alone" in the modern world can seldom be wise. More generously, perhaps slowness to investigate the requirements of international economic preparedness is understandable, given the apparent difficulty of getting even a national commitment to prepare for the unpleasant prospect of catastrophic events. However, international preparations can scarcely be undertaken effectively until the need is better defined.

Although sharing the common characteristics of a military emphasis, one of the best works on economic preparedness is still George A. Lincoln's Economics of National Security (second edition, New York, 1954). The chapters on stabilization (both financial and direct controls) and on economic warfare are particularly valuable for enumerating the specific measures adopted during World War II and its after-math and for assessing their pitfalls and/or relative success. In contrast Olvey, Golden, and Kelly's recent work bearing the same title (published in Wayne, New Jersey, 1984) leaves the lessons of interdependence diffused in a maze of econometrics. Part VI of the latter work entitled "The International Aspects of the Economics of National Security" deserves some consideration. Although again tied to military requirements, it stimulates thought on the probable repercussions of economic preparedness measures. Of the two works Lincoln's primer provides the better guide to specific steps which might be undertaken.

Between these two studies prepared a generation apart one is hard pressed to identify any major contributions to literature on the subject. The work of the Hudson Institute (Elisabeth T. Crawford et al., 1963) may offer an exception. While focusing on civil defense, the indications of what various nations have been prepared to do may offer clues as to their potential willingness to cooperate in other aspects of emergency planning. The chapter in Volume Seven on "Civil Defense Planning and Coordination in NATO" offers an interesting description of how multilateral coordination for a time was actually practiced.

In 1977 the Office of Management and Budget developed an Economic Analysis Project for the President's Reorganization Project which offered a good affirmation of the interconnection between national and international economic programs. Like other works this did not extend to a unified treatment of international economic preparedness. Of course, FEMA's own studies have identified many of the problems. The work of the Systems Planning Corporation (Leonard Sullivan et al., 1981) includes a good list of agency



functions, many of which are clearly multinational in their scope. It does not, however, describe the methods utilized to achieve coordination with other nations, if indeed the inherent need to engage in advance consultations has been uniformly recognized by those concerned.

From the limited number of good broad treatments on international economic issues one can turn to a plethora of ad hoc documentation, that is, studies or news articles which treat such specific issues as trade controls, international finance, shipping requirements, and critical materials in greater or less detail. In due course some of the more authoritative and useful items of this nature will be identified. Also to be cited are some of the more effective expressions of concern about U.S. economic interdependence recently appearing in respected publications.

Still lacking is any clear recognition that these problems are anything more than aspects of a general issue of vulnerability to major disruptions in the economy, in which the United States may need to turn to any or many of the measures of international cooperation thus far mentioned in passing. Whether a given federal agency has paid much attention to building international bridges (or simply assumed that the time to put out a fire would after it started) each agency has tended to proceed in isolation. A uniform policy on means of achieving international economic preparedness, or even affirmation that such an approach is essential, is still lacking. Systematic coordination with other nations will not be possible until the United States enunciates its own program and goals. Perhaps the present paper will offer some guidelines towards achieving such preparedness both within the U.S. Government and in multinational coordination.

APPENDIX C  
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APPENDIX D

TREATIES IN FORCE  
(as of January 1, 1985)

AGRICULTURE: Amended constitution of the International Rice Commission. Approved at Rome, November 23, 1961.

ALIENS: Convention between the American Republics regarding the status of aliens in their respective territories. Signed at Habana, February 20, 1928.

ARBITRATION: Convention on the recognition and enforcement of foreign arbitral awards. Done at New York, June 10, 1958.

ATOMIC ENERGY: Status of the International Atomic Energy Agency. Done at New York, October 26, 1956.

Trilateral agreements signed at Tienna between the LAEA, the United States, and other countries for the application of safeguards...for cooperation concerning civil uses of atomic energy... /various countries and dates/.

AUTOMOTIVE TRAFFIC: Convention on the regulation of Inter-American automotive traffic, with annex. Open for signature at the Pan American Union, Washington, December 15, 1943.

AVIATION: Convention for the unification of certain rules relating to international transportation by air.... Concluded at Warsaw, October 12, 1929.

International air services transit agreement. Signed at Chicago, December 7, 1944.

Convention on international civil aviation. Done at Chicago, December 7, 1944.

Convention on the international recognition of rights in aircraft. Done at Geneva, June 19, 1948.

COFFEE: International coffee agreement, 1983, with annexes. Done at London, September 16, 1982.

ECONOMIC AND  
TECHNICAL  
COOPERATION:

Convention on the Organization for Economic Cooperation and Development....Signed at Paris, December 14, 1960.

ENERGY: Agreement concerning the establishment of a coordinating group to direct and coordinate development of international cooperation in the field of energy.... Communiqué issued at Washington, February 13, 1974.

FINANCIAL  
INSTITUTIONS:

Articles of agreement of the International Monetary Fund....Opened for signature at Washington, December 27, 1945.

Articles of agreement of the International Bank for Reconstruction and Development....Opened for signature at Washington, December 27, 1945.

Agreement establishing the Inter-American Development Bank....Done at Washington, April 8, 1959.

Articles of agreement of the International Development Association. Done at Washington, January 26, 1960.

Articles of agreement establishing the Asian Development Bank....Done at Manila, December 4, 1965.

**FISHERIES:** Convention on fishing and conservation of living resources of the high seas. Done at Geneva, April 29, 1958.

**FOOD AID:** Food aid convention, 1980 (part of international wheat agreement, 1971, as extended). Done at Washington, March 11, 1980.

**GATT:** The General Agreement on Tariffs and Trade, with annexes and schedules is attached to the Final Act of the United Nations Conference on Trade and Employment [sig], signed at Geneva, October 30, 1947.... is in force among the contracting parties by virtue of the protocol of provisional application and the subsequent protocols of accession.

Numerous protocols of rectification and modification.

**HEALTH:** Constitution of the World Health Organization. Done at New York, July 22, 1946.

International health regulations, with appendices. Adopted at Boston, July 25, 1969.

**INVESTMENT DISPUTES:** Convention on the settlement of investment disputes between states and nationals of other states. Done at Washington, March 18, 1965.

**LABOR:** Instrument for the amendment of the constitution of the International Labor Organization. Dated at Montreal, October 9, 1946; reentered into force for the United States, February 18, 1980.

**MARINE POLLUTION:** International convention for the prevention of pollution of the sea by oil....Done at London, May 12, 1954.

International convention relating to intervention on the high seas in cases of oil pollution casualties ....Done at Brussels, November 29, 1969.

**MARITIME MATTERS:** Convention on the Intergovernmental Maritime Consultative Organization. Signed at Geneva, March 6, 1948.

Convention on facilitation of international maritime traffic....Done at London, April 9, 1965.

**METEOROLOGY:** Convention of the World Meteorological Organization ....done at Washington, October 11, 1947.

**POSTAL ARRANGEMENTS:** Constitution of the Universal Postal Union....Done at Vienna, July 10, 1964.

Constitution of the Postal Union of the Americas and Span....Done at Santiago, November 26, 1971.

**RED CROSS CONVENTIONS:** Convention relative to the protection of civilian persons in time of war. Dated at Geneva, August 12, 1949.

Agreement constituting an International Commission for the International Tracing Service. Signed at Bonn, June 6, 1955.

REFUGEES: Protocol relating to the status of refugees. Done at New York, January 31, 1967.

RUBBER: International natural rubber agreement, 1979. Done at Geneva, October 6, 1979.

SATELLITE  
COMMUNICATIONS  
SYSTEMS: Agreement relating to the International Telecommunications Satellite Organization (INTELSAT)....Done at Washington, August 20, 1971.

Operating agreement relating to the International Telecommunications Satellite Organization....Done at Washington, August 20, 1971.

SPACE: Treaty on principles governing the activities of states in the exploration and use of outer space.... Done at Washington, London, and Moscow, January 27, 1967.

STATES, RIGHTS  
AND DUTIES: Convention on the rights and duties of states in the event of civil strife. Done at Habana, February 20, 1928.

SUGAR: International sugar agreement, 1984, with annexes. Done at Geneva, July 5, 1984.

TELECOMMUNICATION: Convention for protection of submarine cables, signed at Paris, March 14, 1884.

International telecommunication convention....Done at Malaga-Torremolinos, October 25, 1973.



**TERRORISM:** Convention on the prevention and punishment of crimes against internationally protected persons including diplomatic agents. Done at New York, December 14, 1973.

**TIN:** Fifth international tin agreement, with annexes. Done at Geneva, June 21, 1975. [Lapsed.]

**TRADE AND COMMERCE:** Convention establishing a Customs Cooperation Council, with annex and protocol. Done at Brussels, December 15, 1950.

Customs convention on the international transport of goods under cover of TIR carnets....Done at Geneva, November 14, 1975.

GATT-Related Agreements: [Various arrangements and agreements, notably codes on standards, subsidies, etc., done at Geneva, April 12, 1979.]

**UNITED NATIONS:** Charter of the United Nations with the Statute of the International Court of Justice annexed thereto. Signed at San Francisco, June 26, 1945.

**WHEAT:** Wheat trade convention (part of international wheat agreement) 1971. Done at Washington, March 29, 1971.

1983 Protocol for the further extension of the wheat trade convention. Done at Washington, April 4, 1983.

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