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WAR PRODUCTION IN SMALL PLANTS

13 December 1946

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Students

THE INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

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PUBLICATION NUMBER L47-54

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13 December 1946

CAPTAIN WORTHINGTON:

We have as our speaker this morning Mr. W. Darlington Denit. Mr. Denit received the degree of B.M. from the Beall Conservatory of Music in 1931. He studied pre-law at American University 1930-31 and received degrees from Southeastern University as follows: LL.B., 1935; M.P.L., 1936; LL.M., 1936. In addition to these degrees he has taken courses at Pace and Pace and other institutions in accounting. He has specialized in the problems of taxation, administrative law, patent law, and international law. From the period 1932 to 1942 he was employed by the Department of Agriculture. Among the positions held by him in the Department of Agriculture were the supervision and direction of the financial activities and financial system used by the Puerto Rican Coffee Corporation. Most of his work for this corporation was carried on in Puerto Rico.

In addition to his duties with the Coffee Corporation, he organized the program for the New York Metropolitan Milk Marketing Industry. He instituted its accounting system and supervised the installation of its fiscal and budgetary control. This activity was one of the most important milk control programs ever instituted. It handled over 13 million pounds of milk per day. Other activities in Agriculture concern themselves with the Southern Rice Industry and the Dairy Products Marketing Association, Incorporated. His activities in connection with the Southern Rice Industry included the supervision of the activities of fifty highly skilled auditors who were examining the rice industry. Under his supervision there were developed uniform systems of accounts for rice mills and rice milling enterprises.

In the Dairy Products Marketing Association he reorganized the fiscal program in the butter and cheese industry and installed inventory control methods.

In 1942 he left the Department of Agriculture to take employment with the War Production Board where for a brief period he served as Chief of Budgets and Accounts. His duties with the War Production Board were followed by a short term of duty as Budget and Finance Officer in the Office of Strategic Services. In May of 1942 he became Chief of the Administrative Branch of the National Office of the Office of Civilian Defense. His duties there included supervision of finance, personnel, and administration. In May of 1944 he left OCD to become Director of the Office of Administrative Finance and Management of Smaller War Plants Corporation.

On November 8, 1945, he left the government service to engage in private practice as a consultant in Management and Governmental Affairs. At the present time he is the head of W. Darlington Denit and Associates, and Vice-President and General Manager of the Alamos Corporation. Mr. Denit has at various times been a member of leading civic organizations including the Washington Board of Trade and the Municipal Finance Commission.

He is the author of "Legal Aspects of Expenditure Control in Federal Government," "Contemporary Importance of the Monroe Doctrine," and a frequent contributor to magazines and periodicals.

His subject is "War Production in Small Plants."

MR. DENIT:

It is perhaps needless to say that an invitation to address a group of this kind is regarded by the speaker as a privilege not only in terms of enabling his return to the scene of so many bureaucratic experiences but because the speaker believes, and believes deeply, in the vital importance of the things to which you gentlemen are addressing your collective intelligence.

Before the war, I owned a small corporation and a plant. I closed the plant during the war because of shortages. Since going to the West Coast I have acquired a substantial interest in a larger manufacturing plant. Between those two business ventures lies a period of experience in connection with the only organized government effort in relation to small plants. That brings me fortunately or unfortunately, as the case may be, to the Smaller War Plants Corporation, an organization created by statute June 11, 1942.

Before embarking upon an analysis of the Smaller War Plants Corporation, its programs, its deficiencies, and its lessons, I should point out that I consider it the prerogative of a retired bureaucrat to be somewhat caustic in his analysis of bureaucratic shortcomings. I shall, therefore, attempt to depict for you today a realistic picture of the Smaller War Plants Corporation's operations. It will be a picture which will not be recorded in the administrative history of the Bureau of the Budget.

Small Plant Program Prior to SWPC

The Smaller War Plants Corporation was the outgrowth of three rather futile gestures in the direction of a small business organization for war production purposes. I need refer only to the most pronounced gesture, to-wit, the organization of the Contract Distribution Division of the War Production Board.

The Contract Distribution Division, which accomplished nothing, is important only because it marks the beginning of

a series of solecisms in organization and administration. The initial head of the Contracts Distribution Section was the Honorable Mr. Floyd Odlum. Now bear in mind that was a Division promoting, servicing and professing to specialize in small plants. Mr. Odlum was the President of the Atlas Corporation--anything but a small investment firm; a member of the Board of Directors of United Fruit--also hardly in the class of small business; and identified throughout his career with organizations of size and stature in the American business scene. I don't mean to imply that his sincerity was on trial, but I do mean to suggest that the administration erred in beginning this small business administration under the leadership of large business training.

As might be expected, the attitude of the military establishments was one of very restricted interest, an interest directed solely at production. For this reason there was a very justifiable emphasis upon the rapid conversion and utilization of large production units.

I must insert at this point that notwithstanding the eloquent utterances of some of the heads of small business interests in Washington and out of Washington, the big business units--the mass production units--rendered a service to the nation which history must record as being the outstanding industrial contribution in history to date.

Congress, in the meantime, began to grow restless under the number of complaints, which channeled from small plant operators the country over. Now let's be realistic about this point. The complaints of course, were to the effect that the small plant operators were not being given an opportunity to do their bit for the nation. Perhaps I am being just a little bit cynical when I say that my own concept of the situation was that the small plant operators mainly wanted a chance to fight for war profits. In any event the pressure which came upon Congress for an increased participation of small plants in war procurement became overwhelming. The congressional response was designed I am sure for the purpose of relieving Congress of the direct responsibility for arranging increased contract participation to small plants.

The contract distribution in the early stages of the thing operated something on the order of the overflowing bowl principle in which the large manufacturing units received contract awards up to the capacity of the bowl and the small plants received the overflow therefrom. In some respects that was by no means as critical as it would appear. We didn't have adequate knowledge of the capacity of the bowl from a management and engineering standpoint. Nor did we know the financial and tooling capacities of our small manufacturing units. Those units were untried, and the military establishments could ill afford to risk an error in experimentation while distributing contract awards to plants in the smaller plants category.

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When Public Law 603 (under which the Smaller War Plants Corporation was created) was enacted it recited in its terms a very limited objective. That objective was to aid war mobilization and production by making the maximum use of small plants. That is important to consider because Congress set it up in the plain wording of the act that the fundamental objective of the corporation was WAR PRODUCTION.

By some metamorphosis of thought the Smaller War Plants Corporation became symbolic of a crusade to save not small plants alone but all small business. Up to this time small business had not been considered to be in danger, at least not to the point of elimination. There wasn't any very deep dramatic quality in the purely legalistic aspects of the Smaller War Plants Corporation, however, so the drama was supplied by a crusade. As in all crusades, there had to be both an objective and an opposition. The opposition became the military establishments, the War Production Board, large business and virtually any other voices that would be raised quietly to point out the fact that the difficulty in World War II was our total economy; that perhaps we could defer the consideration of a program of discrimination in favor of one segment of the economy. Those voices fell on unheeding ears.

I mention at the beginning that an error was made by the Contract Distribution in the appointment of Mr. Odlum. The second suitable appointment was that of General Johnson to the Chairmanship of the Smaller War Plants Corporation. General Johnson, identified as he was with Johnson & Johnson, could hardly be classified as a small business management man or a man having more than an academic interest in the welfare of small business. Having committed two blunders the appointing authorities swung the pendulum far in the opposite direction. The small plant program had now become a matter of political interest. Mr. Maury Maverick was appointed as General Johnson's successor. It was pointed out in discussions shortly after Mr. Maverick's appointment that somewhere in the new chairman's life he had been a small business man. Politics, of course, had nothing to do with it! - - - Much! Mr. Maverick was appointed because of his ability to see and understand the workings in Washington; the relationship of those operations to production and the mobilization of small plants. The greatest error of Mr. Maverick's administration was the much more pronounced tendency which he displayed toward aggrandizing the program of the legislative powers given to the corporation. Thus the SWPC became a highly-publicized agency of the Government and one which became a center of constant controversy. An early Churchillian utterance of the Chairman was "We shall fight on every front; in the factories; in Washington; in the War Production Board; in the banks. We shall fight on all fronts for little business." And all this time little

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business was doing pretty well by itself. The Army and Navy were giving a few contracts to small business. We of course, used those contracts in our statistics, presented to Congress, and we did work out an agreement with Secretary Patterson and an agreement with the former Secretary Knox whereby the Army and Navy graciously consented to recognize our existence to the extent of reviewing sympathetically our certifications of small plants. Let me make one point clear: I don't contend for an instant that the procurement function, so-called, of the Smaller War Plants Corporation was a total loss. Through that mechanism some of the small plants which later compiled an enviable war record were brought officially to the attention of the Procurement Services of the Armed Forces. The important point is how much more effective a job of war production and war mobilization the small plants could have accomplished had the objective been precisely limited in accordance with the legislative enactment. As it is we instituted programs which were 90 percent interested in the future of small plants as contrasted with the business of the day-war production and the winning of the war. That error, condoned in Washington, is the most important error in terms of our consideration of small plant mobilization and production. We became paternalistic; we became crusaders; we became many things not required for the task at hand.

We have been talking here about small plants, and it becomes my painful burden to endeavor to define the small plant so that our thinking doesn't go beyond the thinking of the Smaller War Plants Corporation, the history of which we are using as a measurement of our future planning.

We arbitrarily adopted a rule-of-thumb that a small plant was a plant employing 500 or less employees. We found that this arbitrary definition was by no means infallible. Actually a small plant, for economic considerations, is better defined as a plant doing business on a local rather than a national scale having no subsidiaries, and operating under what may be called concentrated as contrasted with diversified management. This is by no means perfect. What we tried to do was fix our attention upon those plant operations which were lacking the characteristics of so-called big business--large research staffs, highly technical purchasing procedures, straight line scientific management, predetermined assured finances. Those are the things in which successful big business has an edge on successful small business.

At no time did we have any justification for referring to small plants as small business. Small business we may presume includes corner grocery stores, drug stores, valet shops and the like. The purpose of Public Law 603 was war production and we were not concerned with anything but small manufacturing plants--legally concerned, that is.

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We have indicated up to this point: (1) that great care should be taken in the selection of personnel and a determination to select personnel participating in and intimately associated with small plant operations, (2) the program should be limited to the objectives specified in the law; and (3) emotional gymnastics in the practical operation of the program should be eliminated. Violation of these fundamentals tended to retard the effective operation of the Smaller War Plants Corporation.

You are concerned, as I understand it, with an analysis of the lessons of the past to the end that you may adopt dependable and less erroneous rules for the future. That I believe to be the academic function of history. In looking ahead, therefore, we must give some consideration to present trends and tendencies insofar as small plant operations are concerned. I quote no statistics. Better statistics than those which I have at my immediate command can be obtained by recourse to the records of the War Department. I do say that although the small manufacturer was to be interred shortly after VJ-Day by virtue of the decree of unsympathetic bureaucrats and the insatiable appetites of big business, the corpse today is showing surprising vitality. To be sure the patient is ill, but his big business competitors are just as ill as he is. Small plant operators, of which I am one, possess a fairly uniform attitude. We don't regard the Ford Motor Company or General Electric as enemies. We don't even regard them as dangerous competitors. We compete with different products, we manufacture for different markets at different prices. We compete on a different level entirely. I positively refuse to admit, I care not what the statistics may be, that the small plants and the small manufacturing units in America are in danger of elimination. There are tendencies toward concentration--the statistics will certainly prove that--but when you analyze those industries which are being concentrated you will find that the answer lies not in the pyramiding of big business. The answer is found in the demand of a consuming public for greater efficiency, which may be found only through mass production methods. Mr. Wallace announced shortly after becoming Secretary of Commerce that he was going to fight against monopolies and expanding big business and fight for small business. In the next sentence he said that the way to save small business was by utilizing to the maximum extent our concentrated mass production resources. I haven't had an opportunity to plague the former Secretary with a request for an explanation of that apparently anomalous statement as yet, but somehow the whole Small Plant picture seems to consist of a ruinous effort on the part of politicians to silhouette and emphasize a problem which has little foundation in reality.

I said I wouldn't quote any statistics. Let me give just one. My plant is in probably the most permanently publicized area in America. Industrially, the Los Angeles Area is new, lusty, and vigorous. At the beginning of the war there were 2,600 plants in

that area. At the end of the war there were 8,400 plants in that area and all in the smaller plants category. Government officials and Chamber of Commerce officials put on mourning. They said "The trains will never be able to carry the people away from the area. These businesses are going to die like flies." Today there are 8,900 small manufacturing units! We simply can't find where these businesses are failing as rapidly as the statistics would indicate; therefore, I think you are safe - for immediate purposes at least - in considering that future mobilization for production must comprehend small plants. They will not be eliminated so soon that you won't concern yourself with them.

It should be interpolated at this point that the small plant is the proving ground, the experimental station. That in my mind accounts in large measure for the larger rate of failure. You never heard of Westinghouse or Ford undertaking an untried and completely new product of some itinerant inventor. Those companies will acquire the invention for consideration after its production and its engineering have been completed by a smaller unit. That condition it seems to me sets the stage for the perpetuation of the small plants operations. They will remain because they constitute the proving ground of industrial development.

One more point. We have in this nation a capitalistic system. The capitalistic system is a free enterprise system. Free enterprise is not synonymous with small business. It is synonymous with free business. It is not dependent upon bureaucratic encouragement for its subsistence. The tendencies to incorporate small business with free enterprise lead to peculiar premise. Mind you, government would propose to insure free enterprise by "protecting" small business against big business. I frequently ask the question "at what point is the progress of your business does the Government grow unfriendly?" All business has to operate with the objective of expansion; with the objective of greater earnings. The large business of today was the small business of yesterday. Deprive business of the objective of expansion and you deprive it of one of one of its competitive essences. I say, gentlemen, that we don't need in our government structure, in peacetime or in wartime, any agency purporting to beat its wings against the rest of the government structure in an effort to preserve some spinal segment of the economy.

The interest of the military establishments in time of war and in periods of war planning must be an interest in production. We know now that the industrial army and the industrial implements are of equal importance with the men in arms. At the risk of being criticized by every pacifist in the land and by representative purveyors of economy in government and by business men, I insist that we cannot afford, in years of peace, to permit a wide divergency of thinking and an utter lack of informational exchange between the military arm of our nation and the industrial arm. An intimate,

continued and unyielding conjunction between the two are essential to our future welfare. The military establishments cannot contract to build certain engines in an industrial plant unless there is a knowledge of the available industrial tools. Caught unprepared in this connection, we rapidly took an industrial census in 1939. I don't know how many years had elapsed since the time the previous industrial census had been taken. In 1945 it was proposed to Congress that it might not be a bad idea to take another industrial census. No money was appropriated for the purpose.

If the War and Navy Departments can do so, they should demand that an industrial census be taken annually. I ask you how can you deal intelligently, how can you plan intelligently when you have an absolute lack of knowledge of the current condition of your prime planning factor? We must know how many machine tools of each type are spread in how many plants, and what the geographical distribution of those manufacturing units might be.

The informational exchange should not be one-sided. Again taking the risk of complete military censorship, I advocate using the rule of reason to be sure that the military forces pursue the constant practice of across-the-board advices to American industry, - appraising American industry of the developments in the research in military sciences and procurement techniques of the armed forces.

Tooling changes are difficult to accomplish. Of what importance will it be to develop an implement which will largely insure a successful military achievement only to find that industry cannot produce it on a mass production basis for months because of special tooling problems? At the beginning of the war we simply didn't know how many plants we had, nor where they were. The errors that were in industrial reports obtained by military and civilian organizations as late as 1944 and the beginning of 1945 were appalling.

Now let's assume that our planning has reached a point where we have set the stage for a new period of mobilization for war production. What are we going to do in the interim and at that moment to overcome the mistakes of the past to which I have alluded?

Point 1: The small plant problem should be simplified to the point where it is recognized as nothing more than a need for incorporating in the military procurement services and in the civilian control organizations specialists-men who understand the management, structure, and the manufacturing methods of small plants. A separate organization like SWPC is both unnecessary and confusing. It becomes another bureaucratic stump to be pulled from the field of the Government.

The last memory of the Smaller War Plants Corporation was a hideous spectacle of bureaucratic self-perpetuation because the

purpose of the act as far as possible had been fulfilled and there remained only a selfish emotional effort to create some justification for a new act. The principles upon which the new efforts were made were as un-American as they were impracticable.

We must assume in relation to planning for future mobilization that the time element will be important. I know nothing, absolutely nothing, about atomic energy or the relationship of atomic energy to production, but I have a right to rely as far as my common sense will let me rely upon what I read. It is a logical assumption, I suppose, that an atomic weapon in the hands of a belligerent can play havoc with industrial installations. We have, therefore, a problem that your planning must embrace, and that is the problem of the excessive concentration of industry on a geographical basis. This problem arouses an argument which again becomes more emotional than practical, because the argument says it is un-American to require the movement of an industrial installation from Detroit to Arizona. I don't gainsay that, but it is both American and it is sensible, and good economics, to encourage constantly the creation of good manufacturing and production units in Arizona. I say to you that the military forces must take an affirmative and unrelenting position in relation to this matter.

While on the subject of geographical installations I should like to mention that it has recently occurred to me that our planning should embrace a second line, a reserve if you will, of industrial plants in South America. It is a job appealing to a political ideology which in practice is not consistent with its preaching. On account of the lack of economic stability in all of the Latin-American countries, with the possible exception of Argentina. Moreover there is a resistance factor problem which is almost overwhelming. Be that as it may, the strategic location of a country like Ecuador or Peru in war to a vital artery like the Panama Canal is very important. I think we may as well consider as a persistent element of our foreign policy as well as our military policy the advocacy of consistently amplified industrial installations in Central and South America. The resources are there but the management is lacking and the money is lacking. I can do little more than mention this matter. The underlying problems require the combined ingenuity of our diplomats, statesmen, economists, and military officers.

I should like to recapitulate the three points which I have described as basic in your thinking upon Small plant mobilization.

1. Know the subject. Such knowledge can only be reduced to practicabilities by continuing intimate interchange of information between small plant operators and the military establishments. While it is not a part of our discussion this interchange is of equal consequence insofar as large plants are concerned.

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2. Develop an actual and effective program designed to encourage production, as to products and methods, in keeping with the military developments needs.

3. As to government structure, incorporate in your planning the following elements:

(a) Do not consider the small plant problem as an isolated part of war production.

(b) Do not create a separate agency of government for small plants, but employ a sufficient number of small plant specialists in the machinery of the War Department and the next counterpart of the War Production Board to insure that procedures followed embody maximum use of small plant facilities.

In the course of my remarks, I have made casual mention of finances from time to time. The small plant characteristically involves financial problems. There can be no doubt, therefore, that maximum utilization of small plant facilities must involve some collateral financing program. Immediately upon the establishment of this premise, it will be argued that a separate agency is required for small plant financing. Our experience in World War II shows this not to be the case. Let us take, for example, the W-Loan Program of the War Department.

This program was not a banking venture. It operated on the simple theme that when a war contract was granted there might be simultaneously granted an advance of funds to enable contract fulfillment. Financial plan assistance in relation to war production need involve no more obtuse thinking. By way of contrast to the W-Loan Program, we should look at the financial program of the smaller war plants corporation.

There are many who contend that whatever may have been the shortcomings of SWPC in general, the lending program was a great boon to war production. You may decide this for yourself when I tell you that the smaller war plants corporation made total loans of only about 200 million dollars which amount is equal only to about the sum expended every ten minutes for the prosecution of the war. Loans were made to only five thousand plant operators. I cannot conceive that a loan program confined to this insignificant record would justify the recreation of a separate lending agency for small plants in the next war.

Another interesting angle on the SWPC loans is that 90 percent of such loans were secured by contracts let by the military establishments. We had then the paradoxical picture of one Federal agency lending against the contract security of another. In wartime, more than at any other period, we need such management consciousness as will avoid a series of overlapping functions.

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In concluding this point then, I say that any financial aid program required for future contracting programs of the armed services should be incorporated within the framework of the military establishments themselves.

The prescriptions I have outlined today, even if you saw fit to adopt them literally, would not be easy to accomplish. Action program and a democratic government are difficult to effectuate efficiently. We argue, we confer, we conjecture. We investigate. Since freedom of thought and expression is an essential part of our political ideology we cannot wipe out these impediments. Irrespective of what plans we adopt, however, your planning will be absolutely meaningless unless it is translated into a program of accomplishment. In time of peace nothing is more difficult than to obtain national consent to programs which have as their essence a planning for future war.

If your thinking becomes the football of professorial discussion, political argument or business resistance, your earnest labors will be for naught. The lessons of the past must be the rules for the future. We cannot afford to let the prospect of repeated world destruction to become merely a matter of academic conjecture. A wise man has observed that "the price of freedom is eternal vigilance."

I say to you gentlemen and the departments which you represent I care not what opposition may be placed in the path of the logical conclusions to which your study must inevitably lead. I urge you not to falter. I urge you whatever the opposition to insist that the sound results of your planning be acted upon. The destiny of the greatest democracy this world has known is in issue.

CAPTAIN WORTHINGTON:

Are there any questions?

A STUDENT OFFICER:

I was interested in your statement that the personnel that was taken into the first organization of the Smaller War Plants Corporation was completely from bigger business. Is there any organization among the smaller manufacturers from which key personnel could be nominated to be taken into the military, say into an organization like this College, or put into a planning organization?

MR. DENIT:

Yes, sir, I don't think there was any worth-while organization or group that could have been used at the beginning of the last war, but fortunately small business and small plants have learned a lesson from the program of the Smaller War Plants Corporation; that lesson being that the most effective way for small plants to be

helped is for them to help themselves; consequently, there has been organized, with headquarters in Chicago, the American Small Business Association. Of lesser membership, but of no less significance there have been some organizations started in Boston, New York and I think in San Francisco. I have been advocating one in Los Angeles, not so much, I must confess, in the terms or for the use that the gentlemen has suggested but as a means of enabling the small plant management to compete with the labor organizations. In short, I feel the small plants must organize to meet the organized labor resistance.

I feel it is perfectly proper to incorporate in your planning the thought that there is a source from which competent personnel may be drawn in the future-competent in terms of intimate small plants experience. The few which have started are catching fire and I feel that associations will multiply and will ultimately go right across the Nation.

A STUDENT OFFICER:

It seems to me that in order to prescribe eligibility rules for admission to one of those organizations you would have to define a small plant. What are the eligibility rules of some of those organizations?

MR. DENIT:

Well, when an organization first starts it is a small affair, and if enough people will become interested in membership it may function. As I understand the organization in Chicago; which is the largest, pretty nearly any business not commonly identified in the public eye as being big business can get in. In short, rules or not, I find and I think that anyone who is out to be a friend of small plants, and perhaps an enemy of everything else, can get in. But that is not an unusual situation. Some young organizations need a lot more people to get going on so they just relax their requirements until they get a sizeable group; then when they become of stature they are more concerned with the correction of their principles and wish fervently that they didn't have some of the people in it that are in. I think that the general test at the moment is "are you a friend of small business?" The future test may come, with Chamber of Commerce conjunction, to involve some specific definition along the lines of SWPC conjunction, to involve some specific definition along the lines of SWPC qualifications; i.e., a small plant is a small plant if it employs five hundred wage earners or less. The definition should be flexible. If, for example, an automobile plant is involved, it would be a small plant relatively speaking if it had 1,500 wage earners. The employment factor, varied according to the line of work in which the unit is engaged, is the basis upon which a true

definition may ultimately be determined.

A STUDENT OFFICER:

In your experience how does production per-man-hour in the small business compare with that in the larger business? In the large business they have an efficient production set-up but they do a lot of hoarding of labor and other things that may counterbalance. Did you make any sort of estimate along that line?

MR. DENIT:

Is your question aimed at unit production comparable to the labor in the plant?

A STUDENT OFFICER:

Yes, man-hours.

MR. DENIT:

The statistics show--atleast the statistics of the Smaller War Plants Corporation--that the small unit was just as efficient in production end results as the larger unit. Now all manufacturers, I think, will freely admit that, except under ideal circumstances and except in connection with a very limited assortment of products, the large plant producing on an equal basis with the small plant is going to have a better production. The reason for that is that tooling is the backbone of all industrial production, and advanced tooling and improved tooling are things which the large plant can accomplish within its own resources. There is a staff of tool makers; a staff of die designers; and a staff of machine designers as integral parts of the large organization. The small plant operator must wait until the deficiencies of his machines are disclosed, and must then seek through outside sources the answer to his machine problem. The difference between unit production results in a large plant and unit production results in a small plant would be larger were it not for the fact that the small plant operator has one distinct advantage. The proprietor of the small plant or the group of men who are the proprietors, depending on the type of organization, are closer to production because the proprietary interest is more intimately joined to production. Supervisory control of labor is more pronounced and more effective, while the larger plant, and the very large plant particularly, must depend upon the rules of shrinkage, management and a series of echelons, if you will, of supervisory control. The proprietary interest is seldom transmitted to the man who is running the machine. I think that is the best answer I can give you.

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A STUDENT OFFICER:

I was wondering whether in the larger plants they hoarded a reserve of labor for certain peak production times.

MR. DENIT:

The larger plants, particularly in the airplane industry, did do some labor hoarding with the advice, consent and help of the military forces and the war Production Board. I know how uncritical the labor situation was on the Pacific Coast at that time. Why a critical labor declaration was ever made has remained one of the mysteries of war production on the Pacific Coast, because it led to an encouragement of the very thing you are talking about; that is the hoarding of labor. Actually the labor shortage in small plant in unbelievably few instances was a factor in preventing performance and acceptance of war production contracts. There was a surprising abundance of labor and I don't think that the realities of the situation altogether support the statistics of the war Labor Board.

A STUDENT OFFICER:

You brought out very clearly certain aspects of those inefficiencies which I never suspected, but I want to get clear whether you recommended or suggested that the Smaller War Plants Corporation would have to come in in future mobilization since that could control only a set objective. Will you clarify that, please.

MR. DENIT:

I am very definitely and unalterably opposed to any renewing of the Smaller War Plants Corporation or any agency like that. My point is that as long as there is a specialized interest in small plants, (as there has to be) the military establishments as well as the counterpart of the War Production Board, should incorporate within themselves as an integral part a small business analysis group. The Smaller War Plants Corporation was a part of the government structure. If you create within government itself an agency dealing with small plants it could imply at least that all the other agencies were concerned with large plants, and the ensuing battle, while it would be one-sided, would nevertheless retard rather than aid war production.

A STUDENT OFFICER:

You have indicated that the military is interested in building up production in war with the bigger manufacturers with the larger machines such as airplanes and tanks--the locomotive industry. Then would you suggest a way of using the small plants, the plants that would be the subcontractors under the big ones which have the

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managerial and technical skill, to use those as the supply for components? Would you care to comment on that?

MR. DENIT:

I think our experience taught us, sir, that the major function of the smaller plant was subcontracting. The smaller plant, notwithstanding that fact, was of service in many instances as a prime contractor. I have in mind some plants that did precision work. Work requiring none of the characteristics of mass production or emphasis on quantity, the emphasis being entirely on quality and personalized skill. That is a field in which the small plant will produce much more effectively than the large one, at least our results here so indicate. It remains true, however, that the great contribution of small plants is in subcontracting. Maximum use would depend upon imparting to large plants a knowledge of available small plant facilities and insisting that the large plants use those facilities instead of creating duplicate resources.

A STUDENT OFFICER:

I would like to get some information about the procedures the Smaller War Plants Corporation used in locating, selecting, and pro-rating production for the small plants.

MR. DENIT:

Actually the procedure was very rudimentary, but it was fairly effective in at least ascertaining information. The Smaller War Plants Corporation organized an unusually large number of field offices. There were fourteen regional offices and 102 District Offices. The corporation wisely followed a practice of locating its offices at points of industrial concentration. The organization was thus enabled to have personalized contact with its small plants. It was inevitable, of course, that some form of questionnaire was employed.

Businessmen have developed a phobia on the subject of government questionnaires and registrations were largely obtained by direct communication methods in which the documents were used for record purposes only.

It is my strong belief that industrial mobilization involves the ultimate in decentralization of the government agencies concerned with war production. Experience seems to indicate that decentralization of operations without decentralization of policy controls is the best answer.

CAPTAIN WORTHINGTON:

Thank you very much, Mr. Denit.