

ADMINISTRATION AND EXECUTION
OF GOVERNMENT CONTRACTS

22 March 1950

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Mr. H. K. Clark was born in Gridley, Kansas, and was educated at Purdue University and the Armour Institute of Technology. After several years of experience in construction work in South America he became associated with the Norton Company at Worcester, Massachusetts, and served as Vice President and General Manager of this company until 1940. In September 1940 he was called to Washington as a member of the Advisory Committee for Defense and later was in the Office of Production Management. He was commissioned in the Navy as a lieutenant commander in July 1942 and assigned to the Army and Navy Munitions Board. On 26 June 1944 he received a letter of commendation from the Secretary of the Navy. After his promotion to Captain, USNR, in June 1945 he was assigned to the Office of the Special Assistant to the Secretary of Navy. In November 1946 he became associated with the Carborundum Company at the present time he is president of that organization in Niagara Falls, New York.

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COLONEL HENRY: Gentlemen, in the course of arranging a lecture schedule, it is extremely difficult to synchronize the time, place, subject, and speaker for a lecture, particularly when you choose the subject first and then try to choose a speaker. But, fortunately, sometimes it becomes a "natural." That is the case today. Our speaker is a "natural" for his subject.

Early in the war, when the late General Knudsen came to Washington, one of the first men he reached out to obtain from industry was Mr. Clark, who ably assisted him for some time. Later on, Mr. Clark was commissioned in the United States Naval Reserve and served all during the remainder of the war, finally having responsibility for over a hundred small war plants. Today's subject, "Administration and Execution of Government Contracts," is one that should be touched upon from both sides, and Mr. Clark can do that.

It is a pleasure to introduce Mr. H. K. Clark of the Carborundum Company and Captain, United States Naval Reserve. Mr. Clark.

MR. CLARK: Thank you very much, Colonel. It is a great pleasure and a privilege for me to be invited to talk to this particular group. This is so because I am deeply gratified to see this sort of investigative and educational effort being started well in advance of any plans and preparations for an emergency.

When the subject "Administration and Execution of Government Contracts" was assigned to me, I thought for three or four days about it. Finally I decided that I should probably telephone and ascertain just exactly what might be contemplated in a discussion of such a subject by an industrialist speaking on behalf of industry. A little more reflection indicated to me that the administration of war contracts could be discussed from one viewpoint only, the viewpoint of the agencies which administer those contracts from Washington. We all know industry is not free during time of defense preparation, during actual emergency, and during wartime to administer its own affairs in the fashion that it normally would. It then became evident that probably the thing I should discuss is how industry might best and most quickly produce against the war contracts given to it in any preparatory stage or during actual hostilities; how this particular group might be able to influence some of the thinking which is going on in respect of planning at the present time for such programs, and that sort of thing.

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My plea on behalf of industry is to avoid the confusion, the bewilderment, the red tape, and the multiplicity of connected and involved agencies despite which industry, in my belief, did an excellent job in production during the last war. We need simplicity in a war production program.

I think that program should be well under way of development at the moment. The plans should be pretty well laid at this particular point, subject to change as general conditions might change in the future.

What I observe with great fear and with a high degree of nervousness is that some groups are "planning a plan." That can go on indefinitely, and, as it goes on in peacetimes such as these, it usually becomes completely involved and completely bewildering, particularly to the people who are supposed to make it operative—industry itself. I think that a simple, clearly understood plan and program should be instituted at once, with the cooperation of industry, for the benefit of industry, to shut off some of the theoretical "planning" which is getting so well started at the present time.

I know that it is customary to present arguments, present an outline of a proposed program or plan, and then come to the points of conclusion. That is the orderly fashion in which lawyers and orators would proceed. I am going to reverse it by outlining, briefly, the things which I believe should be prepared immediately for inclusion in an over-all program, for promulgation and effectiveness on the day of emergency.

That program would not be too involved. It would require, first, of course, the passage of a Third War Powers Act. The thing that would interest you in this College and would interest us in industry is that such an act would have to include designation of a civilian war production agency. This agency would be delegated full power to control and direct production; to grant, or delegate authority to grant, priorities; and to effect allocations.

I propose the following:

1. Prepare now a basic priority regulation to be made effective immediately after the passage of the War Powers Act which would make it legal. That priority regulation might wisely be patterned after "PriReg" 1 and 3, with sensible inclusions from the remaining priority regulations, which, as I remember, got to the number of 11 during World War II.

2. Prepare now an inventory control order directing that all inventories be held to the absolute workable minimum, but in no case

to exceed 60 days; that is, 60 days in any commonly recognized bracket of production and distribution. This inventory control order should be promulgated at the earliest legal moment possible; that is, after declaration of the national emergency.

3. Prepare now a basic limitation order so that it would be possible of issuance concurrent with the priority regulation and the inventory control order. With a basic limitation order prepared, individual industry limitation orders should be drafted in consultation with industry, for use when required.

4. Prepare now for concurrent application an adequate production orders system, somewhat similar to the "M" orders of World War II, designed to cover critical materials and many component and end-product items. These orders, together with the "L" orders just described, would effect and continue production of critical materials, components, and items at a reasonable and proper supply level and thus hold a semblance of order until an over-all allocation program could be made operative; which program follows.

5. Develop now the mechanism of a Controlled Materials Plan, based on the final draft and the operative procedures in effect at the end of World War II. Those of you who participate in discussions with the other agencies that, at the present time, are planning, discussing, and reducing to writing priorities and allocations—I would urge you all to combat every effort to alter the three controlled materials, either by subtraction or addition. Those three materials should be steel, copper, and aluminum. Likewise, I would suggest that you combat equally strongly all suggestions or programs to evaluate requirements or allocations of these critical materials in any measure other than the ones used in production and in which an industrial consumer buys, in tons and pounds, and not in yardstick measurements of any other sort.

6. Prepare now for immediate concurrent promulgation of proper conservation orders covering the use of critical materials.

7. Prepare now for concurrent announcement of a proper and adequate distribution order.

Those are the things I should have done immediately if I had a voice in preparing such a program. Industry could understand those things. It understood them after the legalistic documents which covered industry operations during World War II were reduced, by diligent effort, to ordinary, monkey-wrench machinist's language.

I am going to describe, briefly, just two or three personal experiences to indicate how thoroughly confused and bewildering a

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situation can become when the practical requirements of production are regulated or directed by people who have had no production experience and people who have not specialized in this subject, as have you.

In the summer of 1941, I was loaned--being loaned to someone else to do a specific job seemed to be one of my greatest chores--to the Priorities Division of the then newly born Office of Production Management to make a quick trip to the west coast to discover why the telephone lines at Los Angeles, San Francisco, and the Northwest were jammed and why stacks of telegrams were piled up on the desks of the director of priorities and all his secretaries every morning because of log jams on the part of contractors. I was told to go out and solve the problem.

I flew out overnight and got to Los Angeles about seven o'clock in the morning. I grabbed a quick cup of coffee and went down to the office of the Inspector of Navy Material. That was supposed to be one of the centers of complete confusion. I got there about seven forty, and the street in front of that completely inadequate set of office quarters already, at that point, was blocked by a line of people that went down to the corner and doubled back on itself to the next corner. All the individuals in the line had well-filled envelopes or portfolios. I went up to the door, let the guard see my ID card, and went inside. As eight o'clock approached, a lot of tired, worn, sleepless ensigns, JG's, and lieutenants came in and occupied the desks in the room. Promptly at eight, the doors were opened, and the mob scene rushed in.

I asked the three-striper in charge what was going on--"What are you giving away?" He said, "They are here to have PD-3's authenticated."

I sat there for two hours, first at one desk and then at another, watching this bewildering job go on.

I brought back some of the PD-3's as souvenirs. They are framed in the library in my home. The most amusing one is for 17 cents' worth of copper sheet. If I remember correctly, a producer had to make seven copies of a PD-3 before he could take it in for authentication. He had to have an application accompanying it. I am sure the preparation of those papers cost 30 or 40 times the 17 cents the copper would have cost. I have another one which calls for five battleship's bolts.

I don't know how familiar you are with what must have gone on before that happened. Way back along the line some large producer had a large contract to make something for which he had a contract number and a priority rating. The contract number and his priority rating had to be passed down to each of his suppliers. It reached the

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point of ridiculousness, of course, when it got down to a pocketful of rivets, or one sheet of copper or brass, because, at that point, even the paper required to get the order accepted by a supplier usually exceeded the weight of the required material.

After watching what went on in the INM office for a couple of hours, I went to the Production Management office in Los Angeles and discovered the same thing, except with different-colored forms and differently arranged. Those were PD-1's. There were more people standing around, with their arms loaded with PD-1's, attempting to get those certified, while on the other side of the desk would be three or four order expeditors or procurement people from industry attempting to get the thing explained--as to how they should fill out a PD-1 and what happened after it had been filled out. There must have been 500 in that office, and in the stairways, elevators, and the corridor.

I then got quick transportation to San Francisco to see whether Los Angeles was a little funnier than the Bay area--funny things do happen there, and I thought the confusion might have been localized--but in San Francisco I saw an exact repetition of the pattern I had seen in Los Angeles.

So that you Army people won't feel neglected, I might say that you had offices of similar character and function which were just as besieged, when the contract originated in the Army, as the offices I have described. The same thing was true in your district ordnance offices, your procurement offices for the Air Forces, and your engineers offices around the country.

I saw what was going on. I knew that the statement about the telegrams and telephone calls was no exaggeration. Query: What to do about it?

I had come into the picture at the end of 1940. Since then, I had been immersed up to the waist in lawyers and statisticians, and I knew that it would take at least six months after a remedy was recommended before we would get relief.

The Office of Production Management had just completed and put into effect a so-called Defense Supplies Rating Plan that was supposed to be usable and valid only for little outfits. At the bottom of a single sheet describing the plan was a little certificate where a person swore, under penalty of the usual fine and imprisonment, that his estimate of the percentage of his production for defense orders was as accurate as could be drawn and was not a misrepresentation. I had seen that form for the first time just before leaving Washington and had grabbed a couple of samples and put them in my pocket.

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After watching the San Francisco fiasco and confusion and telephoning to Seattle and discovering they were going through exactly the same thing up there, I sat in my hotel room trying to figure out how we were going to stop it. I pulled out of my pocket the documents describing the Defense Supplies Rating Plan--each document consisted of just one sheet--and looked at the little certificate down at the bottom. Below that was a little note that anyone in hard-goods operations might reproduce the certificate in as large quantities as required, with no penalty, provided they did not change one word or one comma. The language on the form was more involved and legal than that, but I am telling you what the thing actually meant. I thought: "This may be it. Maybe I can tell these people out here to bucket, or pool, all the priority requirements, all their forms for small quantities of material, and not even go close to an INM or an Army district office for authentication. Let them add up the requirements for these things. They have their original priority certificate showing that they actually are honest in making the demand for the material. Let them sign just one of these, not for one item, but for everything they may need on that particular day from one distributor, one warehouse, or even one producer." The certificate did not need a notary seal because the man obligated himself to the facts given above.

I telephoned quickly, gathered together on the coast 8 or 10 service people who were friends of mine and who were on duty out there, and told them to go to every INM office, all the Army offices, and all the Production Management offices with a copy of an authority which I wrote and signed in my room, on stationery of the Mark Hopkins Hotel. Within 10 days, those little certificates were being passed back and forth like scrip on the coast, and there were no longer any tremendous jams at the offices of authentication.

I knew it was not proper, I knew it was probably illegal, but I figured it would take the lawyers and the CPM so long to discover what had happened that at least we would have some relief on the Pacific Coast in the meantime, and probably someone would discover the necessity of evolving a more simple system and a simple set of regulations.

I cite that one thing because there is one plan, which, I think, has been discussed before you and advocated strongly by people who were in production allocation or priority activities of the services during the war, which, in operation, even though it is not actually so presented, would simulate exactly the operation of the old PD-1 and PD-3 system, with all its paper and confusion. The system which has been advocated would trace down, through a so-called warrant or coupon system, from the prime contract clear to the very bottom, to the producer who may be required to supply only two special rivets

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in a contract which might be for something valued at one million, two million, or three million dollars originally. Anything of that sort should be avoided completely.

In my outline, I suggested the immediate preparation of a general basic priorities regulation. I want to discuss just one or two factors in connection with priorities.

I have seen three or four drafts of programs which have already been prepared, which include a recommendation for one priority band only, that one band to be supplemented by an emergency priority rating usable only for bottleneck items. I am happy about that.

I am extremely unhappy to discover that other documents have been and are being prepared which call for ratings such as we attempted to use during the last war--ratings from "AA-1" down to "AA-10," each one supposed to contain items only in accordance with the degree of urgency. Gentlemen, that will never work. It never worked in World War II.

I think someone else may have told you that the priorities system broke down once and had to be revised. That is inaccurate. It broke down three times. We started with "A-1" and ran down to "A-10" as the lowest rating. By a process of leapfrogging, because no one would ever be satisfied with the rating granted his individual program or his individual contract, a contractor would come in and put pressure on to get his particular job up-rated. That would be repeated until, finally, everything on a manufacturer's order book that he might expect to deliver during the year was all at the top rating. Then there was a new series of designations for a new series of programs. Those became diluted and inflated within 20 days after that system was put in operation. So it was done a third time. And if you could collect the records of their order boards as of 14 August 1945, in manufacturer's plants around the country, I am sure you would find that 90 percent of their production for the forward 18 months was all, again, in the top rating band.

That is the reason I hope that the plan will include only one military rating band and one essential-civilian rating band, with the inclusion of the "AAA" or emergency rating for single items only.

The military ratings in the first band should be extendable, of course. The rating should be given when the contract is issued, so that we don't have the confusion we had in the last war when some contractors were told they did not need a priority and to apply for one only if they did need it. If a contractor saw his neighbor across the street with a priority, he dashed to some agency to get one. He was not going to be overlooked! That is what filled up

offices in Washington a great deal of the time. The latecomer got started in a low priority and then stayed down here, or one of his expeditors stayed here, always putting on pressure to get his rating jumped. The military ratings should be granted simultaneously with the issuance of each contract--and that should be it!

The emergency rating should not be extendable and should never be issued for more than one item, and just the bottleneck item which is holding up the contract at the moment. It should be granted only after thorough, intelligent investigation.

Just a few words of explanation on my recommendation to have a limitation order prepared immediately. One of the greatest problems in the early part of World War II was, "At what date and in what fashion are we going to direct that no more automobiles or refrigerators be produced?" Endless debates went on over that question, some of them extremely theoretical. I think the basic limitation order should provide that individual limitation orders for industries be prepared in cooperation with representatives of those industries and that a percentage reduction of activity could be directed at any moment by those in charge of the programs. I know that it is necessary to keep people at work while we are shifting from the civilian product to a military product, but that can be worked out in an orderly fashion if it is worked out by people who know what they are doing and not by a lot of long-haired, starry-eyed individuals who attempted to direct that particular program last time.

I already elaborated on the Controlled Materials Plan. I think the whole mechanism could be completed at the moment so that industry understands it. Industry understood it during the last year of its operation in World War II. It worked as excellently as anything could work during a period of emergency such as that, and it did that work with a minimum of paper work and confusion.

I have one or two pet peeves, strong recommendations, to include. Just how those are going to reach the proper ears through you, I don't know. But every time I get an opportunity to talk to the people at the Industrial College--either when they come to our plant as visitors or when I am invited here--I am going to repeat them.

I am going to urge that you all attempt to sell to those who are devising these programs complete decentralization of the operation of administering the contracts after they are once placed. Get that into the field, close to the scene of activity. That is not popular in Washington, I know. Usually the person at the head of one of these sections realizes that the only way he gets his pay increased or his prestige enhanced is to require a new temporary building built for his division and filled with paper knee-deep in people. I mean it

in just that way, because when we went into most of those places, the first thing we saw was all the paper and then the poor devils who were trying to operate. The more those things are centralized here and attempts are made here to direct every move in every plant around the country, the more the program will bog down.

I read one program which I think has been adopted by one office, and I think that program is considered at the moment as its official program. I studied it carefully over the week end. It made me very unhappy because it is a "plan for a plan," and I was as disturbed as I could be when I discovered that certain phases of that planned program are, as set forth in the book, to take place at M-day plus one year and a half. I don't know; maybe I have been reading the wrong thing in the newspapers about the next war; but I don't think any plan which provides an amendment effective a year and a half after the day of emergency is ever going to be operative; it will be too late then. I am not so sure that by that time the whole character of the war will not have changed to such a degree that we would not need the plan at all. Other phases call for certain things, which I consider very essential, to be done at M plus 180 and M plus 90. Even in the case of M plus 90, what are we going to be doing in those 90 days, when we require certain things to be done quickly, immediately? That plan was never developed with any assistance or participation of people in industry, on whom you must depend for all kinds of material that you are going to need to throw at any future potential enemy. And let's hope it is not going to be a war of paper wads, as it almost turned out to be in the first year of the last defense effort, when we were producing paper forms, requests, and approvals in greater degree than we were producing military materials.

My other pet subject is one I was asked not to discuss. In the last three years, I kind of got out of the habit of being asked not to discuss certain things. That subject is the one I mentioned in the first few moments of my talk--my gratification at seeing established an Industrial College such as this. I wish that it could be written into some permanent form of legislation or regulation which could not be altered and changed at the whim of some newcomer to the Office of Secretary of Defense, Secretary of the Navy, Secretary of the Army, or what have you; that this be a permanent institution; that those of you who complete the course be assigned permanently to this particular sort of activity.

I have the kindest feelings toward the Army, Air Force, and Navy personnel who were my superiors when I first went into this show, but they had been doing the thing for which they were trained for years, and they did not know industry; they did not know the way industry worked; they just could not possibly know. Most of them, happily, were sufficiently smart so that they surrounded themselves

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with some civilians they got from industry, put them into uniform, and let those fellows run the mechanism of the show. Once in a while we would encounter one who took his job seriously and insisted on making all the decisions, and that would be a little tough--until we could get him educated or transferred.

I have made strong recommendations in that direction, and it has been indicated that maybe I am attempting to develop one phase of operations which is solely the duty of the Joint Chiefs of Staff. I don't think it is that at all. I know that probably a lot of you, come M-day, would be lining up at some window attempting to get orders to go where something was going to happen. I hope you won't, because we in industry are going to need you; we are going to need people who have gone through this particular schooling, in lecture courses and in field trips.

One reason we could use you so well is that, in your contacts with industry during the course of this college year and your trips into the field, I think you will have discovered the thing that I am going to make a plea for now--a belief in industry. And I append a plea for a minimum of regulatory compliance with thousands of compliance officers running around the country checking records and attempting to find whether a manufacturer who is thoroughly beset and over his head in production problems is chiseling a little on material. That is what we went through the last time. It is my considered opinion, as an industrialist and from my experience during the war--six years of it--that 98 percent of industry in this country is honest. If we have just the regular requirements which would be written into priorities and inventory and limitation orders, if we have just exactly those and no other compliance measures, you leave it to industry to take care of the 2 percent that is off the course. Industry will get that 2 percent. Please use your influence to keep the lawyers and statisticians and economists from writing compliance orders which will load the good, producing 98 percent of industry with the increased paper work that they had to go through during World War II.

Simplicity of regulations, decentralization of supervisory offices and coordination with industry in programming will obtain the maximum in production results. Thank you.

COLONEL HENRY: Gentlemen, the last part of Mr. Clark's remarks makes me want to go back quickly and start rewriting my little talk for Friday afternoon. He sort of stole my thunder.

MR. CLARK: I am sorry, sir.

COLONEL HENRY: I am sure you can do it much better than I can, sir. We are ready for questions.

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QUESTION: Mr. Clark, we have the distinguished honor of meeting such gentlemen as you here in this school, but we don't have a chance to meet the young people--not that we are very young--the people we will meet in industry in case of an emergency. In other words, we have no chance to rub elbows with them. What would your reaction be to having some promising man in your firm come to a school like this to take the same course we are taking and, what is better, rub elbows with us?

MR. CLARK: My individual reaction would be affirmative.

It so happens that when I went to the place where I now am, a complete reorganization was essential. I took with me about 10 or 12 youngsters, some who had served under me in the Navy, and others from Army and Air Forces activities I had encountered. They are people who had been in production before the war. They have responsible jobs in our company now. They are the people from whom the "brass" will be selected in five or eight years.

I certainly would welcome the opportunity of selecting a man to attend this College. I don't know how long the course runs, but that would be of no serious moment to me. I would like to arrange his participation so that at least once a month he could be back in Niagara Falls and conduct a course of his own for three or four days with the people on whom he would have to depend in a time of emergency.

I think industry would, generally look with favor on your suggestion.

QUESTION: Mr. Clark, you mentioned something about too much red tape controlling industry, and you spoke about 2 percent of industry being off the course and having to be checked. We have a new renegotiation law, presumably to check on such people. I cannot figure out any other reason for it. What do you think about this concept of renegotiation of contracts, the purpose it serves, and what is behind it? Industry says it does not like it.

In other words, you say that business is 98 percent honest. I tried to inquire some time ago from a lecturer as to what renegotiation of companies' contracts revealed as to how many people it was found necessary to keep honest. I used that expression. I did not mean it in a sense that a man was a thief; I was referring to a tendency to chisel. He made a point about honesty being a question of legal honesty and moral honesty. When you talk about 98 percent and 2 percent, you are talking, undoubtedly, of legal honesty.

MR. CLARK: The 2-percenters I mentioned were those individuals who would overprocure, hide, and hoard inventory and start raw material

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in process only to the degree that it could not be used for any other purpose, except, probably, their previous civilian line--individuals who would slip things from their order boards and give them to unauthorized customers, customers who did not require them directly for the early completion of war contracts.

Now let us get into the subject of renegotiation. Despite the fact that at one time renegotiation was part of my show in the Navy Department, I don't know why we had it. Yet, to me, it was a completely unnecessary step in conducting war contracts, because we have a Treasury Department that collects excess profits. In peacetimes, they are profits that we don't have. Why we must have that intermediate step of renegotiation of contracts is something I don't know. If it was believed that too much was being made on any one particular contract the money was recaptured, and, as you all know, it was put in the general funds. Come the fifteenth of March of the next year, the tax auditors from the Internal Revenue Bureau were just as active, just as thorough, just as complete in going over all the financial records, and they made sure that they scooped off all the different brackets which they were permitted to collect as taxes.

There has been a lot of discussion during the last year as to whether renegotiation should be considered and included in any future emergency. My voice has always been raised against it because I don't think that, over-all, we gained anything. I think that it actually was an impediment to the general war effort because it was one other thing that further diluted the manufacturer's activity and effort in the principal job of producing. It could affect a manufacturer's incentive adversely. It meant just one more group traveling around, calling on manufacturers, and taking up the time of people whose time should have been devoted to the main job of getting out the stuff that they had on their order boards.

Does that answer your question?

QUESTION: Yes, sir. I understand your explanation. But why do all the Congressmen think they must check the 2 percent.

MR. CLARK: I think, by and large, John Snyder catches up with all the stray dollars anyway.

QUESTION: Sir, I was very much impressed by the repetition of the word "now" as you enunciated your seven points in the beginning of your talk. We have had some discussion about that from other lecturers, and the point generally has been made that if an attempt is made to get legislation now, it will take one of two forms: either a very general type of law which says nothing and means a lot of things inherently; or a specific type of law which spells out all

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the details and becomes subject to political tactics, logrolling, and one thing or another. From a consideration of these two types of possibilities, the thought has been expressed by some lecturers that it is infeasible now to pass a law, but it is very important to have one ready so that, in the event of an emergency, it can be enacted. Would you express your opinion as to the point I have made?

MR. CLARK: I agree with those people fully. My voice evidently came up too strongly on the word "now" and not strongly enough on the word "prepare." What I want to do is get over right now, while we are still in position to do so, all the debates, all the arguments, and all the fights between the practical persons, the military services, and the theorists, so that all those particular documents will be ready for operation when the need arises.

I am tremendously heartened by one thing, and that is the situation in the machine tool industry. I was in that industry, because it is so closely related to ours, for all the years between the two wars, and I have gone back to it again. The machine tool program at the present time is all set up to be in operation. That is a beautiful job. It is a beautiful job because it was done by people who knew what they were doing. You know how far it has gone along. That particular program can be expanded to include certain specific items of similar nature so that all these items will be in the clear as of the time they have to go into operation. It is not, however, applicable to all military or production items.

I certainly would not recommend that any of these things go any further than the final approval stage; I would, however, recommend that the programs then be locked up and available for use on the day we need them, but I want to get all this debate completed long before M-day arrives.

COLONEL HENRY: We have a number of visitors. They are welcome to ask questions.

QUESTION: Sir, as I understand your plan, you would have a decentralized administrator, say, in Buffalo, and he would have to check on the materiel orders of a company and its monthly inventory of materiel to see that it did not exceed its inventory, and then he would have to check on its output. Checking the military output would be easy, but the civilian output might necessitate quite a little investigation of the company's books in order to see that it was properly utilizing the material that it was allocated. Would that be your scheme? That would have to be done either by reports or by actual inspection of the company's inventory. I wonder if that is possible— if a decentralized administrator could actually accomplish that. And what would be the force necessary to do it?

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MR. CLARK: You have cut across three or four major points that I made. Remember the discussion of the 98 percent honest people. Most of the members of industry will attack the problem in just exactly that fashion.

Industry learned a lot during the last war in respect to inventory control. Industrialists were scared to death when the inventory came out limiting them to a minimum, workable level but, in no case, greater than 60 days. They discovered, to their amazement and their now profit, that it was a very good thing for industry. They are still continuing low-inventory levels at a minimum-working level.

As to the use of materials, industry will have no interest in procuring the special materials in excess of quantities required for their specific war contracts, because it would just be another item to attempt to settle at the termination of a contract.

I made a plea for a minimum of compliance. To do what you visualize in a field office--let's take Buffalo, for instance--would require a tremendous staff and, I am afraid, would put most of the people on that staff doing the actual inspection in the same unpleasant legal position the young officers were in during the early days of World War II. Those men in San Francisco and Los Angeles were working hard and diligently approving the PD-3's and PD-1's. Each authenticating officer had to sign below a little paragraph that said he had examined the case, was thoroughly familiar with it, and was satisfied that the application was actually for the war contract that it purported to cover. To sign such a statement truthfully and properly would be an impossible task. I don't know where we would get within six months enough people to put in this one Buffalo office you talk about to examine the war contracting plants in the Buffalo area--and examine them intelligently and know what they were looking at and what points they might pick out for discussion with the manufacturer. And remember that the people who would have to be taken and put in that job, if they were going to do a good job, would be exactly the ones that industry would need to keep its own show running.

The next time, I hope that at no point will we have the civilian agencies and the armed services with any more than one-third of the pencil-pushing personnel we had during World War II.

QUESTION: This is in respect to wartime controls. We recognize that we are going to have to repeat a lot of the controls of the last war, particularly wage controls. Organized labor says it will fight such wage controls to a fare-thee-well unless similar restrictions are placed on profits. I know that is one reason behind renegotiation versus taxing. Organized labor--I am only expressing its viewpoint--claims that taxing does not get to the true profits; and if there

is a wage freeze at a certain amount, organized labor will accept it voluntarily, provided profits are also limited. Would you comment from that standpoint? How do you, as an industrialist, feel about the limitation of profits?

MR. CLARK: I favor very strongly limitation of profits in wartime. I think that the profits of industry could be properly regulated by the excess-profits tax that was imposed during the defense days and then during the period of actual hostilities of the last war. If that method left too much profit with some people--and probably it did with a few--I should examine the tax structure itself. Did re-negotiation always reduce the profit to the desired limit? If so why did we have an excess-profits tax, and where did its billions in collections come from?

I can see the point that labor is making but in my opinion, it would be a running fight during the whole period as to whose formula on costs would be used. Labor, or at least a segment of labor whose economists and spokesmen have revealed their thoughts on industrial costs and profits have a formula which is completely unacceptable to industry. Recall, please, their thesis of cost calculation last fall during the wage and pension dispute with the steel industry. Their formula is one which would prevent industry from perpetuating itself through constant rehabilitation and modernization of its physical plant from its own resources. Their formula, if used by industry for a five-year period, would leave industry just a step and a half ahead of the sheriff or lined up at a window for a government loan. Neither of these does industry want. The Federal tax people have their own formula, which is tough enough, on accumulation of profits needed to plow back into the business. I am sure that any formula which would be acceptable to labor in exchange for an emergency wage freeze would be impossible for industry.

I suppose that some compromise is going to have to be reached along the line, but I hope that it will not take the form, which it took during the last war--of wage stabilization and salary equalization boards, with their multitude of field investigators, field interviewers, applications, and all that sort of thing. They caused tremendous amounts of work and always left a bad taste in the mouth of the employees, be they producers or in the clerical brackets.

I think wages would have to be frozen during such a time because we certainly do not want to have to again go through the experiences of the last war in requiring seizure of plants because of labor difficulty. I don't want to be a seizure officer again.

QUESTION: I am interested in the government controls that went on during the war. All of us hate red tape, I think, just as much

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as anyone in civilian life, but were those government controls put on primarily because industry was not able to handle itself? You have recommended that we have less government control. I think we would all like to see that. Should we go to the extreme opposite, with the Government merely saying, "We need so many end items for the military," and let industry entirely run itself? That would be utopia, I think.

MR. CLARK: No. You remember, in my recommended program, I included strict priority regulations, limitation orders, "M" orders, or production orders, and controlled materials. Those provide in my opinion, the necessary regulation for industry--the ground rules.

I started in this show during the last war, as I told you, at the very tail end of 1940 and, consequently, lived through the development and introduction of all the "L" orders, "M" orders, priority regulations, and that sort of thing. There was too little cooperation with industry in the preparation of those orders and of the detail. In early 1941, I was loaned by Bill Knudsen to the Materials and Priorities Division of what was then the Advisory Commission of the Council of National Defense. They asked me to write three or four orders primarily in respect to machine tools, small tools, abrasives, and the necessary tools of production. I wrote those orders in a form that would have been easily understood by every producer of those items, but that is not the way it worked. I would send them to the legal division of that agency (which later became the Office of Production Management and then the War Production Board), and some three or four weeks later, after a long series of conferences, I would get a first draft, and, so help me, I could not recognize it as being the thing I had written--and neither could industry.

And remember, I commented on the fact that too many people were interested in getting too much control, too much power. They wanted people to come to them. That is one reason we had constant changes in these orders, in addition to the meticulous detail which industry had to provide in order to make a proper, acceptable application for anything.

There was too little coordination of organization, and that made possible the existence of simultaneous consideration of exactly the same problem. The preparation of orders covering one particular subject, down to the final draft stage, might be done in three different sections of government because each one thought it was running the show in that particular regard.

If we started ad lib again, if we got a civilian agency like the War Production Board without a firm, clearly defined set of ground rules, and if we turned the armed services loose as they were before, together with the Munitions Board and the National Security Resources Board, I think we would have exactly the same duplication of effort,

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exactly the same confusion. And industry's errors would probably not be of its own making but would come from complete inability to understand what all these people wanted it to do.

COLONEL HENRY: Mr. Clark, I am sure your talk and discussion have given us food for thought and an excellent preview for your seminar here with Mr. Skuce later on in the course. On behalf of the Commandant and the student body and faculty, we thank you for your interesting discussion and talk.

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