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THE UTILIZATION OF SMALLER PLANTS IN WAR PRODUCTION

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COLONEL CAVE: The newspapers and the radio attest to the importance of the subject we have this morning for discussion--the place of small business in our production effort.

The agency of government that is charged with the responsibility of aiding small business and helping government to work with small business is the Department of Commerce, and, during peacetime, the Office of Domestic Commerce is specifically charged with that responsibility. Our speaker, prior to recent events, was the assistant director of that office and in charge of small business and marketing. In the last few weeks he has put on another hat and he is now the Acting Director of the Office of Small Business of the National Production Authority.

I don't believe there is anyone anywhere in government who is more clearly attuned to the problems of small business in production and it is with great pleasure that I welcome to the Industrial College, Mr. James Kelly, the Acting Director of the Office of Small Business. Mr. Kelly.

MR. KELLY: Gentlemen: the subject is "The Utilization of Smaller Plants in War Production." It is quite appropriate, I think, to talk with you after you have just finished your work with respect to procurement and are now embarking on the field of production. As we face this job that we have in NPA of determining the country's production and matching the requirements of the military program, not only is it fitting to talk with you about it as a part of your course, but it fits exactly into the things that we are working on with the Department of Defense and the Munitions Board day by day as a current program in our responsibility to utilize the smaller plants in the production effort.

The Small Business Committee of the Senate feels that the pre-empting of materials to meet the defense program is running too far ahead of the actual production requirements and contract placement and leaves it rather in the air as to whether NPA should slow down on its material program, or whether the military department should speed up on its contract placement. At least, there is a gap that is quite serious and is getting more serious day by day. The whole mechanism is one that must necessarily pre-empt the materials ahead of the actual contracting program; that is serious to a small fellow who is likely not to get a government contract soon, but has been depending on particular kinds of materials for his civilian endeavors.

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I suspect that perhaps we ought to talk for a minute about the framework in which we view small business. In spite of the reaction to and conversation about small business on the "Hill," we do not regard it as a political convenience; we do not think of small business as being a social worker's problem in any sense of the word.

There are people who become quite emotional when you talk about small business. They make emotional speeches and point out the businessman as a sort of poor derelict in our economic society who requires subsistence, tender care, and, to be sure, some reform. The crusader who follows the small business theme decries big business simply because it is big and demands justice and special privilege for the little fellow.

In the Department of Commerce, and particularly now in NPA, we do not subscribe to any of those emotional or extraneous sorts of appraisals of small business. We think it is an economic matter. Small business is the core of the production centers of many communities. It is the business of manufacturing as the second echelon below those we normally call the "giants" in industry.

If we restrict ourselves now to manufacturing and get away from the distributing field, small business is practically everywhere. Every community has some sort of small production center.

There it employs people and it employs money. The capital or investment side is every bit as important as the employment of people. We think that both of these considerations in the small-business world must be considered alike and that it is important that capital and the men utilized by the small firm be kept at work.

I don't know to what extent you ponder the definition of "small business." Everyone does and everyone always will. We do not believe there is any one definition that can adequately define what we mean by small business.

The War Powers Act in the World War II defined small business as any firm employing 500 or less people. The Selective Service Act and the Armed Services Procurement Act of today define small business as any independent business employing less than 500 people.

That sort of definition is a convenient thing for statistics, for reporting, and for the contract officer when he considers whether he is placing a contract with a large or a small business. It is handy to have just one definition and during this particular defense program we do not intend to interfere with that, although we don't agree with it.

Our staff has made considerable study of the Census Bureau's Census of Manufacturers, of the data available from the Bureau of Old-Age and Survivors Insurance, and of research done by many private sources, to try

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to determine where the cutoff line should be. The Census of Manufacturers established 452 separate industries for the United States. Our staff has studied each of these. It has laid out the array of firms in each of these categories and has taken into account the value added in manufacture, the capital investment, the percentage of the total gross product within that industry, and many other statistical and economic facts; it then arrived at a point which appeared to be the cutoff place for small business. That point varies in nearly all these 452 industry groups, all the way from 8 people in the concrete block industry to 2,500 in the aircraft manufacturing business. Of the 452 industry groups, 58 go far above 500 which is the accepted definition today for small business.

So we say there cannot be a single bench mark, a single place for distinguishing between small and large manufacturing plants when analyzing the distribution of procurement contracts and other things.

When we move into a defense program, or a war production program, invariably we make an assumption that this is going to be a big program, this is a big undertaking, or it is a big war; therefore, the orders are going to be big and they must be placed with big business. The whole thing revolves around the basic concept for a while. It did so during World War II and it is commencing to operate that same way today.

Of course, you cannot go to a small manufacturer to build battleships or B-36's or tanks. They have to be put into the production system and production line of big, well-organized business. But there are many things that drift into the big section of business which could well be done, and perhaps better done, in the smaller plants.

Usually this general practice continues until we commence to develop bottlenecks and until there commences to be an overflow of orders. Then the big contractor, the prime contractor, rushes out madly to find additional subcontracting connections. And then they are not there. The reason they are not there is that they have suffered this lack of materials in the meantime, they have been unable to get these contracts in the meantime and their labor has been dispersed and has gone somewhere else. The owner has probably locked up shop and taken a job in one of the bigger concerns, and that little unit which becomes vital at that particular point in the production scheme is not there.

Somehow, it seems to us, this whole situation has to be reckoned with right at the outset.

Smaller manufacturers of the country represent 31 percent of the production output and provide about 30 percent of the manufacturing jobs in the United States. That is an important segment of the economy and

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is not to be toyed with. Over 90 percent of the manufacturing concerns of the United States employ less than 100 people. That is a rather startling figure. So you have to think of small business and small manufacturers as a potent production source. With that many people, that many skills, and that portion of the gross national product, it does not fall into the category of the alley shop which we so frequently think of as being small business. Small business, by any definition, is an important, potent part of our manufacturing scheme.

There has been very little study made by any central agency, Federal or otherwise, of the actual situation in the small-business community. There are no figures to indicate how many concerns manufacture this or that particular kind of product. There has been no definite study made of the material-use pattern of these smaller firms. There is no particular set or body of data concerning the facilities of these small concerns.

We are now in the process of working along this line with the Munitions Board and the procurement officers of the three services as well as the civilian agencies and we can take advantage of data collected on a local basis by a local chamber of commerce, by a county manufacturers' association, or by a state industrial development commission. Perhaps you read in the New York papers about the survey made of some 1,400 plants in New York. Many other places in the United States have done the same thing. We are now preparing to put a staff of people in our field offices to work with the procurement officers of the Department of Defense and with the prime contractors in each of these local areas in order to bring to bear on the prime contractors in a local area the data collected locally in that area, and, at the same time, to bring to the attention of the procurement officers the competent small manufacturer who is eligible and ought to have an opportunity to handle a prime contract. The general pattern, therefore, is one that utilizes the local data and involves working with local primes.

The geographical distribution of contracts in order to fit into production schemes, we believe, is important. If you disperse your procurement over wide areas, you create little nests of subcontractors all around the placement of the prime. The Ordnance Department now, in its tank program, is placing its contracts in seven or eight centers throughout the country, rather than in just one as they did once before. They are scattering the tank program around over the country and encouraging the prime contractor to develop his own set of subs around him, so that we have little groups, each completely autonomous.

That arrangement has some strategic value. It has considerable value for the small manufacturer in procurement and production planning, because he does not have to go to Detroit to seek a subcontract on a tank program; he can go to Kansas City or wherever else this thing has been dispersed.

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The wide distribution of production activity that is represented by small business is something that bears some consideration. The availability and flexibility of having small manufacturers in all parts of the country lead toward the desirability of utilizing his services in any production program.

A recent study of the pattern of small-business participation indicated that last year, ending the first of January, the Department of Defense placed 27 percent of the dollar value of its contracts by competitive bid and 73 percent by negotiated contract. Of the 24 percent placed with small manufacturers, however, 14 percent was advertised and 10 percent was handled by negotiated contract. That sounds worse than it really is. Percentages fool one in that kind of case. The fact is that the negotiated contract covered, to a very large extent, the big things that could not be produced by small business.

When you calculate this on a dollar-and-cents basis, it appears that small business has its best opportunity to participate in a program when it is given a competitive opportunity to bid; when it can make available to the buyer its facilities for low overhead. The flexibility of small business in changing its production pattern, in securing labor and in changing its own sources of supply lends itself not only to speed of production but also to economies in production. The military people tell us that the increase in the number of bidders last year reduced the prices of a great many of the items. They procured just as good an item, but the competition that resulted from a larger array of bidders saved them many dollars.

Small business is normally the manufacturer of the smaller civilian items. You find small business engaged in the manufacture of the small shop and household items. We are of the opinion that the military departments should utilize small business in a production program by either negotiating or taking bids on those standard commercial "spec" items, so that small business has the opportunity to participate in that part of the military program. If all standard commercial items were offered on a bid basis, small business would make most of them. If those same commercial items were taken into consideration for negotiation, and if the small firms were given an opportunity to negotiate, they, too would move in on that type of procurement as well.

There seems to be no particular reason for negotiating shell caps or a multitude of other things that are procured by the Department of Defense when the degree of urgency is not great, when the type of production is general and can be done by a wide variety of firms, when it would benefit the smaller person to get a chance at that particular business, and when the Government would probably benefit too, by price and possibly by dispersal of production. It seems that there ought to

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be more consideration given to the method of distribution of contracts consistent with the way small business normally operates and in the fields of commodities normally produced by the smaller manufacturer.

In NPA we have quite a problem about the utilization of small business in this present defense program, because, as I said a moment ago, we are in the business of pre-empting materials. We get out an order, as we did a couple of days ago, listing some 150 items for which aluminum can no longer be used. A few weeks ago we put out a list of some 300 items for which copper could no longer be used. We are doing the same thing on nickel, stainless steel, and what not.

Those actions are necessary to meet the defense requirements, the military procurement forecasts, but they have to be made now so that the rolling schedules can be changed and so that the pipelines can be shifted from civilian flow to military flow of manufacturing requirements. All of that has to be done far in advance of the placement of the contracts. And you cannot have subcontracting until you place primes.

So we have a gap that is unavoidable, apparently, between the time we take aluminum away from the fellow who makes awnings, venetian blinds, and storm windows and the time he has a chance to get a prime or a sub-contract from the military for something that his processing can meet. In that interim the chore of keeping the small firm pulled together, of keeping the capital and men there, is one that NPA has a responsibility for performing. Our attempt, therefore, is to work with the military in its utilization of small plants, to endeavor to inform the military where the plants are in which we have created open capacity by our material control orders, and to channel contracts right back into the same places in order to catch that lag and minimize it for the local community and for the local capital investment.

The problem is that military procurement does not buy bits and pieces; it buys complete units, as a rule, except for maintenance and repair. Most of the plants that are affected by these material control orders are smaller ones that cannot make complete units. So we naturally move to the thought of subcontracting as the principal role of small manufacturers in any defense production program. We believe that subcontracting is the place where small business must find its niche, rather than in the prime.

You know as well as anyone that the small plant is flexible and can adjust and convert itself easily, so that it is an ideal place for development orders. Such plants can change their machine equipment quickly and easily without a tremendous amount of capital investment and adjustment. So there is a field in development orders for small business, but we

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believe, fundamentally, that small business belongs in the subcontracting field. How to get it there is a problem among the local community, the small business firm itself, and the prime contractor fortunate enough to get the contract for the military requirement.

Another field that needs some very careful consideration, if you are to utilize small plants in a defense program, is specifications. Great attention must be given not only to military but to Federal specifications if the small fellow is to benefit to any great degree in filling those orders.

The deviations that occur in military "specs" from general commercial "specs" sometimes appear unnecessary. At least they require some technical inspection to learn whether the tolerances on a steam table have to be plus or minus a few thousandths, or whether or not a proprietary item which appears to be available at only one source of supply is so special as to require proprietary specifications. The specifications even for packaging, shipping, and crating differ not only between the services but within the services.

That is one particular element that needs some serious attention if small business is to participate in a production program. They cannot meet all of the changes, they cannot meet the differing requirements from the different parts of the services, They cannot understand those requirements and they have a tendency to ignore the military requirements--and, again, you lose that production capacity because they don't come in.

Inspection is another element that slows down the small-business activity and makes it less likely to take part in a government program, because of the rigidity and wide variance in inspection requirements.

The payment of the invoice after the job is finished and the necessity for advance payments in process of manufacture--the financial side of the small business needs to be taken into account if we are to utilize smaller plants in defense production. There is no reason why advances cannot be made to help them with their working capital and tide them over a period of production. There is no reason why auditing cannot be speeded up and vouchers paid more readily. If you are going to do business with a small fellow, it is a matter of recognizing that his capital is spread most thinly and a quick turnover of his investment is necessary and then taking steps to correct that situation.

I have been out on several trips with representatives from the Munitions Board and from the military, meeting with the business people of the country at the clinics which they have been having. I have heard

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representatives from the procurement people say over and over again that doing business with the Government is not easy and never will be because of certain requirements that are set up for the protection of the Government and the protection of the bidder or the contractor. But doing business is not easy these days no matter where it is done.

We repeatedly say to the small businessman, "The Government is not going to lay a contract in your lap. Commercial business does not lay a contract in your lap. You have to go out and get it."

So if the production potential of the small manufacturer is to be used in a defense program, a great share of the burden is on him. He must show what he can do. He must bring his whole pattern of operation to the attention of the military or the General Services or whoever else is doing the buying, in order to make them aware of the type of production he can deliver.

It is not going to be easy and no one is going to spoon-feed the small businessman with contracts, with engineering, or with materials. He must meet his own obligations. If he is worthy to participate in the program, he will--if he gets the opportunity to bid or to negotiate.

And if you gentlemen, and others who are handling procurement and production now in the services, will acquaint yourselves more directly with the facilities that are in each local community, will recognize the economics of keeping the small business going and what it means to the community to have orders placed there, and will encourage prime contractors to subcontract to the widest possible degree, then you will be able to use small business in any defense or war program. It seems to me that it is the general task of the military forces to protect our economy and its institutions, but unless they do recognize these economic and local community facts--the fact that small business is the foundation of our economy--and unless they come to grips with them and cope with them, they may destroy the economy in the process of protecting it.

We are today endeavoring, in every way we can, to bring the small-business potential into the production picture. General Harrison has developed a special committee on production and procurement policy that will start to meet this coming week end. This committee will study all these various programs that arise with both large and small business; to evaluate the picture as presented by industry against NPA's balance sheets of material supply and demand and against the specific requirements of the military. The committee will endeavor to work out a program that will utilize smaller business in with the general production capacity of the large firms in the large centers, spreading out in a network to the small communities, where many of the smaller shops are located.

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I think that you people who are giving your attention to production today must learn all you can about the general pattern of small manufacturing throughout the country. I hope that some of you will find your way into planning places in the military departments where you can do something about a more continuing study of the potential that lies in those smaller plants. I think it is a military program that ought to be carried out day after day; you should not wait until an emergency arises. As you move into other positions where you have a responsibility for this type of thing, I hope you will give even more attention than you will in the few days you are going to be thinking about small business now; that you will give it your very careful and thorough attention from the standpoint of a continuously planned program to meet the requirements of the military and to keep the small shop going.

Thank you.

QUESTION: Sir, I wonder what you really think of the so-called "five-percenters." I don't mean, necessarily, those who have taken advantage of their positions, but the local representatives of small business. I don't think the newspapers have been fair in their coverage of them.

MR. KELLY: I do not think so either. The "five-percenters" connotation got off to a bad start here in the hearings, of course. We have always had manufacturers' agents and they have served a very useful purpose. The smaller concern cannot possibly expect to find its way into the buying channels without the use of specialists. It cannot afford to have its own representatives scattered all over the country. It is necessary for the smaller businesses to use manufacturers' agents--commission men, if you please--and we think they serve a very useful purpose. The "five-percenter" who has fallen into disfavor--and should--is the fellow who sells prestige and other things besides actual services or commodities.

QUESTION: Sir, during this period of partial mobilization the big firms that get contracts are anxious to build up their own organizations; they disfavor going to subcontracting if they can expand their own plant. That kind of lets out the small business. Is there any incentive, other than just conversation, during this temporary period of partial mobilization, to try to get them to subcontract a lot of their work to the local manufacturers in the same area rather than expand their own plant?

MR. KELLY: Yes, there are some inducements. Let me talk first about the preventive methods that we have in force today to prevent expansion when it is not necessary.

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Usually the plant that wants to expand now, under the provisions of the revenue act, wants the certificate of necessity permitting it to accelerate depreciation of any capital investment. An application has to pass through NPA to determine whether or not the added capacity is required and we review it to determine whether or not the service proposed by the expansion can be provided by subcontracting. If it can, we deny the application for the certificate of necessity.

That same thing applies to applications for loans. If facilities ask for a loan for the purpose of expanding in a field that we think can be covered by subcontracting, we take action having the effect of denying the loan.

On the other side, the inducement at the moment, I must confess, is largely conversation, although the conversation is coming from rather high levels. It is being rather generally distributed to the procurement officers that all the contracting officers should actively engage with the prime contractor in a distribution of such parts of the contract as can be subcontracted and farmed out in the area.

Just yesterday we discussed a couple of plans that may or may not have some merit. One of my staff suggested that, in the drawing of the contract with the prime, he designate right at the outset what percentage of that contract he expects to put out as subcontracting; that we allow a percentage or a fee in his overhead item to cover the service in the form of inspection and engineering assistance that he will be obliged to give in the placing of that subcontract; and that there be a dollar-and-cent fee allowed in his prime contract for that portion which he will subcontract.

Some of the people who argued against that yesterday said, "Why should RCA get an extra fee when it subcontracts to Westinghouse?" That is pretty hard to answer. I don't quite know why they should, but that is not the kind of subcontracting we are talking about. How to separate that kind of subcontracting from the case where RCA subcontracts with some little fellow, the "XYZ" company, is rather difficult.

Some people from the Munitions Board suggested that instead of paying a fee for subcontracting the procuring agency allow, for instance, a certain fee for reporting, which, in my opinion, is a left-handed way of getting at the same thing. In other words, they say, "We do not know today how much subcontracting is actually taking place, and if we require all the primes to report each month on the volume of their subcontracting, we will allow them a fee for that reporting."

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The latter suggestion may be a dodge and maybe the two suggestions are the same in the final analysis, but the fact is that a lot of thought is being given today to creating some sort of incentive to subcontracting other than just the philosophical "it's a good idea" statement.

QUESTION: Sir, you indicated in your talk that small business can produce more cheaply than can large business, by getting the contracts under competitive bidding. Now, when a contract is put out under competitive bidding, it takes longer to get delivery of the production; in addition, much more government overhead is required. Also, when a contract is put out to small business, it takes additional government overhead to administer the contract--in the form of inspection, and so on--as compared to dealing with one large corporation. Has any study been made to determine whether or not the added government overhead, as I have mentioned, offsets the savings?

MR. KELLY: No, I do not believe there has been any systematic study of it. We are inclined to believe that it is a paper cost rather than a real additional out-of-pocket cost. The people who would handle the extra paper involved in a competitive bidding arrangement and in administering the contract among many little firms are already in the organization and would be doing something. This is true of the civilian agencies as well as the military. It is a case of what they are doing and maybe doing just a little more in the eight hours that they are there than they have been doing.

There has been no particular evidence, so far, that the competitive bidding program I mentioned a while ago required the hiring of any additional people. The military have told us it did not. It did require longer hours sometimes.

To go back to the first part of your question: To say that small business can produce more cheaply than large business is not always true, of course. The results of the competitive bidding program that was in effect during the last calendar year did indicate that the military services were receiving bids at lower prices than they had been obtaining under the negotiated system; this probably arose from the fact that there were more people bidding since a greater number had learned about how to do business with the Government. The three services have put out some very good publications on how to do business with the Air Force, the Army, and the Navy. They have had a wide distribution. People have learned a lot about obtaining contracts--that it is not quite so tough as they thought it was and that they could get in.

The publication that we put out in the Department of Commerce, in cooperation with the military, is a daily listing of all opportunities to competitive bid. The list is published the same night and distributed

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to over 6,000 outlets in the United States the next morning, indicating to the business community that here are the things on which the military people intend to take bids. It describes them and gives the name and address of the office in charge of each. It states the quantity, the symbol for the bid invitation, and the opening date; that goes out every day.

Once a week we put out a publication of all contracts of \$25,000 and over awarded during the past week. That type of information, going to some 6,000 places in the United States for handout to the businessman who wants to learn about the bids and contracts, has alerted the small businessman to his opportunity and brought in more bidders; and whenever you get more bidders, you get a competitive field that runs the cost down.

I do not believe there has been any study of whether that compensates for the extra man-hours put in by the Government. Frankly, we think that the Government should not gauge its programs on the basis of its convenience or whether it is a little tough for the Government to do this job. If it benefits the economy and the business community, I think it ought to do it. Even if it does take a few more people, even if there are a few more pieces of paper to handle, and even if it is a little tougher to inspect and administer a contract--if it means something to the economy of the country, I think we ought to do it anyhow.

QUESTION: When the small businessman sits down across the table from the procurement officer, there is a pretty wide chasm. I personally don't see how it can ever be closed. The small man says, in the best of spirit, "I've got a shop here. I've got three lathes, two drill presses, and a couple of planners. What can I make for you?" But the procurement officer is thinking in terms of the end product. I don't believe they will ever be quite smart enough to interpret those end products into the machining and production operations required for manufacturing in order to talk a common language.

A suggestion, which, conceivably, is also too unwieldy for administrative reasons, would be a display of bits and pieces at strategic points around the country so that a man may come and see what they are. Your Commerce publications carry the information on daily invitations and awards, serving a minor purpose today. I believe their effect is somewhat reduced because the times of openings are being shortened by the military; it is much more on a rush basis now. If you could imagine a 30-day opening, the people all around see these invitations, but they still don't know what the piece is. They can determine that only by writing in and getting the specifications and drawings. Then you will have to extend the opening another month and you cannot afford that. So that particular plan seems to be on

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the downgrade. I wonder if any consideration has been given to some kind of display to help the little fellow.

Second, during World War II the Smaller War Plants Corporation had the power to authorize, and, I think, make mandatory, an award to small business, with premiums up to 15 percent. That hurts us as taxpayers. I wonder if we are aiming this in that direction.

MR. KELLY: There certainly is a wide chasm between the small business fellow and the procurement officer. I agree with you; I don't think they will bridge it.

I know of one instance where the owner of a little shop, looking at a certain piece up at the Signal Corps purchasing office in Philadelphia, said, "I can make that." A procurement officer said, "How many can you make?" "Oh," he said, "I expect I could make 1,500 or 1,800 of them a year." The officer said, "Make me 2,000 a month, and I'll keep you busy for the next three years." That was the end of that discussion.

That particular gap is bad. We think it can be bridged in only one way, and that is by pooling--by pulling together a group of kindred types of manufacturing concerns into an operating pool of production capacity; that is, having one responsible firm that can issue a performance bond and can be relied upon to do the assembly and bring the thing out as a final product, and merging with him a group of these smaller firms that alone could not produce the military requirement but together could.

That pooling arrangement causes some headaches. The military procurement people, however, are today looking with considerable favor on it. As a matter of fact, it came up from that source rather than from us. They asked us to do something about encouraging the pooling of smaller firms to accept prime contracts.

NPA does not want to go out and actively promote pooling, but we want to be prepared, and are prepared, to advise any local community that wants to form one of these pools how best to do it. We have studied the case histories of a great many pools that were formed during World War II. WPB estimated in 1942 that about 500 had been formed but that not more than 200 were then in existence--among them was one at York, Pennsylvania; one at Omaha; one at Seattle; one in Southern California. A number of them performed a very useful purpose. We think a pooling operation is one way to bridge that gap.

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The idea of bits and pieces, or displays, has been considered. Again referring to our session of yesterday afternoon, arrangements were practically completed for a display out in Chicago, which should be going by midsummer. Not only do we want to bring in the military procurement people with a display of things that can be bought directly by the military, but our arrangements are now to bring in the large prime contractors in the Chicago area and have those prime contractors display the parts for which they want subcontractors.

Manufacturers, mostly prime contractors, think it is worth while. The Munitions Board thinks it is worth while. The Army and Navy were with us yesterday; they felt it is worth while. If it works in Chicago, it will probably be carried to other places.

You will remember that the Smaller War Plants Corporation put about three trains, of seven or eight coaches each, on the tracks, to go around the country and display the things that the military wanted to buy directly. They carried an office car along. The officers had telegraphic communication with the procuring offices of the country every morning. They wrote contracts right on the train. They advertised the display in advance. The small businessman came down to the railroad yards, went aboard, looked things over, and said, "I can make this; I can make that." If there was a requirement for it, the contracting officer on board the train wrote a contract immediately. We were told--and there is statistical evidence--that during the three and a half months that those trains were going around over the country, they brought in 14,000 suppliers. How many of them would have come in otherwise, I cannot tell.

I have not been too well sold on the idea of the train arrangement. I rather like the permanent display. But I think we have to touch all the bases and try all the things in order to bring in the full productive capacity of the country.

The fact that we are in somewhere between a 30- and a 40- or 50-percent-defense program here today, where we are compelled to keep the civilian economy going as best we can with what is left, makes it much more difficult than it was in those days when we were all out for war. I hope we don't have to go all out. I wish we could drop back in the other direction so that the bite on the civilian economy will be less, but so long as it stays where it is and the dollar expenditures and appropriations for military buying are about less than half of what they were in 1944, we have just that kind of economy with which to work and we have just that kind of defense program to meet.

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The distortion that goes into the civilian economy is much greater than that percentage would indicate, because we get a shift in product mix at the mills. We have to roll plate; therefore we roll less sheet. It is not the matter of tons that amounts to anything--the military requirement for steel is some over 10 percent of the total ingot tons--it is the fact that the military needs plate and heavy structurals and not sheet. So when we roll plate we roll that much less sheet, and we throw the whole civilian economy out of gear.

Therefore, we have to come back to some method of bringing that economy into the military program. We believe pooling is one. We believe the permanent display of bits and pieces is another. We intend to pursue both of them.

QUESTION: In normal civilian production there is a pattern of supplier to producer, and so on. What happens to that normal pattern when we get into a war effort? Why doesn't it continue?

MR. KELLY: Do you mean the supply of materials?

QUESTION: Yes, bits and pieces. For instance, General Motors must have at least 1,000 subcontractors who always furnish them with bits and pieces. The same is true of Philco, and so on. If you go up to Philadelphia you find 100 little plants making one tiny part for a radio. What happens to that pattern when the war comes on?

MR. KELLY: For the most part it continues.

I believe I am correct in these figures: International Harvester, for example, has 26,000 suppliers. Coincidentally it has about 6,000 dealers. So they are in between two sets of small business people.

The normal pattern of subcontracting supply goes on, but here we are today trying to keep about a 50-percent-civilian economy going. The automobile industry is still buying hub caps from some little sheet-metal outfits. But the volume of automobiles is reduced, so the little hub-cap fellow gets only half as many hub caps to make. The minute the automobile fellow gets a prime contract from the Government he tries to maintain that source of supply, so he tries to figure out something in his contract that those presses can produce for him. But he soon fills them up. It is with respect to the next contract that he gets that he is seeking new subcontractors.

The first blush of military procurement does not disturb the normal pattern. Everything kind of spreads out into the normal channels. It is in the second shot that the prime contractor commences to have to

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seek new sources of supply. That is why right now in New York several firms are advertising for subcontractors. Curtiss-Wright is advertising for subcontractors. The Cleveland area is practically filled today. Every conceivable production center in the Cleveland area, running over to Sandusky and clear down to Marion, Ohio, and over to the Pennsylvania line, is full. They are hunting subcontractors in southern Ohio, in Illinois, and Pennsylvania today.

QUESTION: Each procurement office generally has to make up its own eligible list of sources of supply. There are always potential sources, even in a given area, that never get on such lists. If the small businessman, wants to get himself generally known around the country as being capable of making certain things, he can advertise his name in a fairly large number of publications. Those publications are not necessarily dependable and for that reason the procurement officers do not necessarily use them. It seems to me, however, that the Department of Commerce could serve a very useful purpose by putting out a catalog of sources of supply, particularly if you investigate those sources first. I wonder if that has been considered.

MR. KELLY: Yes, is has. That is one of the functions we want to serve with this field staff that we are going to put in our regional offices and district offices.

At present many contracting officers are using the so-called Munitions Board Register of Planned Wartime Materiel Supplies as their source of information for negotiation. That includes something over 6,000 firms that have been plant inspected.

The Munitions Board also has data on about 31,000 tentatively allocated plants. They are on IBM cards somewhere, but they are not listed, and the procurement officer does not have advantage of that information. As this volume of potentials gets bigger, it becomes so unwieldy that a procurement officer could not use it if he had it.

So we are convinced that you have to keep this down on a local area basis. Not that the Signal Corps in Philadelphia is going to learn only about the suppliers in the Philadelphia area. It is going to be our job to find firms around over the country that are eligible and could be considered as prime contractors, get them on this list, get their plants inspected, get them cleared for security, get them lined up and available for the Contract, and then inform these 55 major procuring centers of the country who they are. Then the next assignment is to work with the district Ordnance man, the district Corps of Engineers man, the electronics replacement operation of the Navy on the Great Lakes, and so on, to pick up the smaller ones that are in that immediate vicinity.

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Yes, we are going to try to meet that problem on a local basis, with our field staff working with the procuring officers.

GENERAL HOLMAN: Mr. Kelly, that brings up the question of the business clinics. I wonder if you would be kind enough to give us a description of how they come about, who organizes them and what happens in one of those meetings.

MR. KELLY: We think the business clinic is a pretty important operation. I think that public relations, in this kind of endeavor, is one of the most important things and the one that we are most liable to overlook. The clinic serves a public-relations purpose.

The so-called business clinics are organized, very frequently, by state or local manufacturing associations or by a chamber of commerce. In great cities defense mobilization committees, defense mobilization boards, or something of the sort, have been organized within the chamber of commerce; they sponsor these clinics. The Senate Small Business Committee has sponsored a number of them--and, I must say, they have kept entirely free of any political aspect; they have them strictly on a business basis.

There have been about 50 of these clinics around over the country. I have attended 10 or 12 of them.

As an example, the New Jersey Manufacturers Association conducted a series of four clinics in four cities of New Jersey and invited the small manufacturers to come in at certain hours. The team that went out there to form a panel and to discuss problems with them consisted of a representative from the Munitions Board, to discuss the general subject of military procurement; a representative from the General Services Administration, to talk about civilian procurement; a representative from the Labor Department, to talk about manpower; a representative from RFC, to talk about loans and other financial matters; and a representative from the Department of Commerce, to talk about the whole gamut of things that affect small business.

The clinics are conducted in about this fashion: The local president of the chamber of commerce usually opens the meeting. Then they call on this team, one at a time, to talk for about 15 minutes each--just long enough to create a framework of what each fellow is there to represent and what he is willing to talk about. Then they have a luncheon and some oratorical activity usually takes place at the luncheon. After that they settle down to a question-and-answer period such as this. They throw these questions at whichever member of the panel they choose, and that panel man endeavors to answer.

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The group keeps a record of the questions and answers. We bring them back, tabulate them, and exchange them among the agencies. They have been used to a very great degree in the development of certain policies. At least within NPA we have used that clinical material to great advantage. We believe that we have answered a great many questions for manufacturers around over the country who might otherwise have spent their time and money coming to Washington; they probably would not learn as much in Washington in two or three days as they can learn in two or three hours at a business clinic. It is better to take the information to them, because, as you know, they can waste a lot of time going to wrong places in Washington.

I think the business clinics are a pretty valuable contribution to the public relations endeavor.

QUESTION: We in the Air Force ran into a problem which indicates a situation just counter to some of the things you have been saying. In an expansion program in a midwestern town, a particular company was going to have to expand its production and, therefore, get more manpower. It had established a relationship with subcontractors in the same town when it had been operating on a lower level. When the company got this increase in contract, it immediately put out an order forbidding any subcontracts in this area, saying that subcontractors must be at least 50 miles away from the area. This created quite a furor with the chamber of commerce. We could do very little about it, except by moral suasion. The company was finally convinced at least that it should not cut off the subcontractors in that area entirely. It agreed to place contracts with the subcontractors in that area at about the same rate it had previously, but the company still insisted on going outside the area to avoid competing in the same labor market.

Is there anything in the NPA, or in this new setup, that would give a procurement agency more power than just that of moral suasion to try to correct a situation of this type?

MR. KELLY: I don't think there is. There certainly should be.

Perhaps the only source of help that a procuring officer could go to would be the Office of Defense Manpower. I think the Department of Labor would object to that sort of thing, where the large prime is moving his area of subcontracting out to the fringe so that he can pirate the labor out of the smaller firms that had previously been his subcontractors and were familiar with his kind of work. I think the Department of Labor and the Office of Defense Manpower would step into that kind of picture and give the contracting officer some help, but there isn't anything to prevent that sort of action.

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Every time you try to figure out some way to lick that kind of thing you find that the remedy, or the punishment, let us say, for that kind of operation would be unfair to 100 others who were doing a perfectly legitimate thing. I hope we don't have to harness and hamstring our private economy so thoroughly that we get to telling business exactly what it can do. I just hope we can let the free mechanisms continue to operate. The more you move into that field, the closer you come to controls that ultimately lead to nationalization and regimentation and all the other horrible words that we hope we don't get back in the dictionary again. We just have to let this competitive system work, I think. Of course, somebody is going to get hurt.

There is nothing being done now and I would not be too anxious to see it.

COLONEL DIEHL: Mr. Kelly, on behalf of the College, I wish to thank you very sincerely for taking your valuable time in coming here and giving us such a timely and up-to-the-minute discussion on this vital subject of small business. Thank you very much.

MR. KELLY: Thank you.

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