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THE CONTROL OF MATERIALS IN WAR

7 February 1951

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Mr. Manly Fleischmann was born in Hamburg, New York, 15 July 1908. He was appointed Acting Administrator of the National Production Authority on 24 January 1951. He was General Counsel of NPA since it was established last September and he succeeded William H. Harrison who was appointed Administrator of the Defense Production Administration. Mr. Fleischmann has been a resident of Buffalo, New York, for a number of years. He is a senior member of the law firm Fleischmann, Augspurger, Henderson, and Campbell of Buffalo. He has specialized in corporate and litigated practice and has argued many appeals before State and Federal courts, including the United States Supreme Court. For the past two and one-half years he has operated the Sterling Engine Company of Buffalo as receiver appointed by the U. S. District Court. The company manufactures both Diesel and gas-type marine, stationary, and locomotive engines. In 1929 he was graduated from Harvard University and in 1933 from the University of Buffalo Law School. He first entered Federal Service in April 1941, serving until August 1943 as assistant general counsel of the War Production Board and its predecessor agencies. He was coauthor with WPB general counsel John Lord O'Brien of "War Production Board Administrative Policies and Procedures." In August 1943 he was commissioned a lieutenant in the Navy and assigned to the Office of Strategic Services. He served in India and Burma directing OSS operations while attached to the XV Indian Corps. He was awarded the Bronze Star and a Presidential Unit Citation and was also decorated by the Government of Siam for his work in that country. Upon his return to this country, he was placed on inactive status in September 1945 in order to serve as general counsel for the Foreign Liquidation Commission in the State Department. In that capacity he was in charge of the legal work involved in the wind-up of the Lend-Lease accounts. He resigned that post in February 1946 to return to private law practice. He is a lecturer on international law at the University of Buffalo and is a former president of the Buffalo Council on World Affairs. During the summer of 1950 he was consultant to the ECA on Asian problems.

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GENERAL HOLMAN: Gentlemen, history has a strange way of repeating itself. We study the lessons of past wars and other experiences so that we won't make the same mistakes twice. In any study of the economic and production problems of World War II, some of the first questions to arise will always be: What about basic raw materials? Did our munitions program suffer for lack of materials? What types of controls were used? Were they effective? In any new emergency will new problems present themselves? Will new problems arise next time?

That next time is today. Industry is presently looking to government for the answers to materials shortages, to controls of materials. The control agencies of the Government are digging very deeply into both past history and its fund of current information to provide these answers.

Here at the Industrial College we are greatly interested in basic raw materials, because we realize fully that material shortages today may mean equipment shortages tomorrow. And so it is very timely, and we are very fortunate, to have with us the Administrator of the National Production Authority, Mr. Manly Fleischmann, who will address us today on "The Control of Materials in War."

Our speaker has had a great deal of experience as a government administrator and as a consultant. He was the assistant general counsel for WPB in World War II up until 1943. He was then commissioned in the Navy and served in the Far East with the Office of Strategic Services. Since the war he has held important assignments with the Foreign Liquidation Commission and as consultant to ECA on Asia.

We are certainly honored to have you with us, Mr. Fleischmann. I can assure you that we are very much interested in materials control and also in the work that the National Production Authority is doing.

MR. FLEISCHMANN: Gentlemen, when I was invited to come over here and make a talk shortly after I was appointed, I accepted with a great deal of pleasure.

I am going to talk to you about the problems of materials control in a wartime or mobilization economy. I won't confine myself specifically to materials control, because that is inseparable from production control. We are interested in material control only insofar as materials go into end products—either combat or supporting military end products, or indispensable industrial end products that are needed to keep the system going.

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I am going to talk very briefly, first, about the experience in World War II. I can describe the experience of those of us who are going through it for a second time only as being like that of a person who is seeing the same movie again but at a highly accelerated rate of speed. For better or worse, we are doing the job very much as we did it before, but compressing our mistakes. We are eliminating at least some of the major mistakes we made before and most, I think, of the minor ones. As to the other major mistakes, we are making them faster and getting over them and getting on to a firmer basis. So, to go to the end product, it seems to me, after having been through both experiences, that after approximately five months of effort in the field of economic mobilization, we are at a point that required about two years to reach in World War II.

Let me briefly recall the experience of World War II. Originally it was thought that the whole job of materials distribution could be accomplished with what was called a priority system. I will give you a brief description of it.

The priority system was one under which the Government--originally it was only the military--would issue a piece of paper which commanded the supplier of a particular material or item to give preference to a particular order, usually a military order. In the early days that priority was not extendable. It applied only to the supplier upon whom it was served.

The mistakes that we made in operating that system are legendary. Priorities were issued like the snowflakes fall--by the thousands, later by the millions. Even before the war started, in the summer of 1941, we were all inundated by a flood of priority papers which became debased just as an uncontrolled currency would become debased. There was no mechanism available for measuring either military programs, supporting industrial programs, or civilian programs in terms of doability--in terms of supplies of materials and fabricating facilities and all the rest that were available. As a result we issued far more tickets than there were seats in the theater; therefore, many people who should have gotten in were left outside.

As the fever became worse, the remedies applied were more drastic. Starting off with a single-rating band, we changed it almost every week. During one period it went from A-1 to A-2 and on down to A-10. Then we had a series of B's. After that failed to give relief, we put in AA, AA-1, and A-1-A. I can't recall all the gamut of experiments that we tried. We wound up with the final secret weapon, AAA, which did in many cases break the bottlenecks.

All that was most disruptive to the American productive effort for reasons that will be obvious. We didn't have the regulations worked out. We were starting from scratch. But, generally speaking,

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the regulations required that as soon as a producer received a higher priority he must drop work on the lower priority item and pull it out of his schedule, disrupt his production, if necessary, and put in the higher item, even at a loss of production. Sometimes the loss of production of very important items suffered because of this leapfrogging, as it was called, of priorities was as high as 25 percent.

Beyond that the priorities system, of course, would never stay hitched. The Munitions Board at that point was merely a theory; all the services were in competition with one another to get higher priorities. I may say that each of them was successful, because the last fellow who applied always got the highest priority. Then the service or the particular part of the industrial economy that was upset would come around again. At one time we handed out priorities to all who came in--like cigars when an heir is born.

Now, obviously, that system was bound to collapse and collapse it did. It was realized then that the difficulty with the priority system was that it attempted to impose a qualitative criterion on a subject matter that was basically quantitative in its most important aspects.

I will illustrate what that means. If you ask me, "Which are more important, tanks or baby carriages, at this time of economic mobilization?" I have no difficulty in answering--tanks, of course. If you say to me, "Generally speaking, which are more important, tanks or plumbing fixtures?" with my experience I have to think a little about that one. If you put this question, "Which are more important, tanks or the one plumbing fixture that is needed to keep the New York City sewer system operating?" then my answer would be, "The latter. If you have no choice, you have to postpone the tanks in order to get that one part you need to keep the New York City sewer system operating."

That is why no statement of comparative priorities or of comparative urgencies is in itself good. What you need is so many tanks, so many ships, so many cutting tools, so many power generators, and all the rest. In other words, you need the requirements for a balanced program. You need a system that will allocate materials, components, and facilities to a program which has been reviewed and balanced in the light of the available resources and materials. That was the problem that the early priorities system could never solve.

To mention another variable, with which you are very familiar--when we gave a priority rating urgency status to the tank program, again the urgency of the first tank was far different from the urgency of the one hundred thousandth tank. The preference rating system was never able to grapple with that problem.

It took us about a year and a half to get over the priority fever. It came to be realized that the ultimate solution was in cutting down the authorized demand to the supply.

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The biggest single step forward in the economic mobilization effort, I believe, was taken early in 1942, when we eliminated automobile production. There, at one stroke despite the priorities system, we released an enormous amount of material that was going into nonessential uses. With this was released into the American industrial complex, the automobile industry, which from then on was directed exclusively toward production for war.

After that things began to move along; and late in 1942, after a variety of other experiments, there was conceived the idea of an over-all plan. This later was called the Controlled Materials Plan. It was designed to set up a mechanism for quantitative analysis of programs and approval of programs from the standpoint of doability.

That plan, as it evolved in two or three years of operation, became the basic system for the distributing of materials in World War II. We have the good fortune now of being able to take off from that point.

The Defense Production Act, the basic legal authority, was passed early in September. The primary work had already been done in the Department of Commerce, the NSRB, and the Munitions Board. We were immediately able as a result of our past experience to put a priorities system into effect. This system had, I believe, all of the advantages and only a few of the defects of the past priorities system.

We considered our principal objective was to set up the economic mobilization plans that are now in operation. Our first job was to get the military program on schedule. We were operating then, in September, with production at an all-time high. The small authorized military program at that time was almost infinitesimal compared to the country's over-all production accomplishments.

When there is only one program to be expedited, the priorities system works well if you can confine the priority treatment to that one small selective program. It is only when you give out too many priority tickets, when you give them out without measuring their effect, that you get into trouble. I would say that the danger mark usually comes somewhere near the point where you have given out priorities for more than 50 or 60 percent of the available supply. Then you have the kind of interference of which I speak. But when you regularly test priority applications from the standpoint of doability, then the priorities system becomes a working instrument that can be used. I think the principal accomplishment to date, one in which we can take some pride, is that the military and civilian agencies have agreed to confine the priorities system at this time basically to the military programs.

It has worked very well in that respect. Up to the present time we have given priorities only to the military and closely related

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programs, one example, such as AEC. The result, generally speaking, has been that no military program to date is in any serious difficulty as a result of interference by nonessential civilian production.

You will notice that I qualified that statement a little. I said "in any serious difficulty." That again is the result of experience. About two weeks ago I was up before a congressional committee and during the course of the hearing I made the flat statement that the priorities system had worked very well; that, insofar as I knew, no military contract was in any difficulty due to interference by civilian production. I got back to my desk and found a three-page letter from my good friend Jack Small listing about 15 contracts which were in such trouble. So I will never make that unqualified statement again.

Nevertheless, the fact that he was able to list only 15 or so is to me a good indication that the system actually is working very well. Of course, when you have interference of only that kind, you can go out and clean it up very easily. In World War II we had interferences by the thousands and later by the hundreds of thousands. To date, we have been able to avoid that.

Now I want to jump to 1 July 1951, because only in that way can I make clear to you the problem, as I see it, that we are grappling with today. We are now setting up, under the leadership of Mr. Skuce, who I think has been over here and talked to you, a Controlled Materials Plan much on the model of the Controlled Materials Plan that we used in World War II. I assume the elements of it are generally familiar to most of you, but I will sketch them very briefly.

The theory is that if you take the three basic metals, aluminum, copper, and steel, and if you decide what programs can be accomplished in terms of the availability of aluminum, copper, and steel and authorize only as many programs as can be taken care of, you have about the best test of general doability that anyone can devise. Of course, you could test in terms of the availability of either manpower or kilowatt hours. You could use textiles or some other test. But, generally speaking, it has been the experience that those three basic metals go into more important elements, that they are used more across the board, than any other testing commodity which could be thought of. On the whole we find that if a program can be accomplished in terms of the supply of those three materials, that is likely to be a program for which the other supporting materials can be located. So we get programs that have been measured and reduced to fit the supply of those materials. That is the underlying theory of the Controlled Materials Plan.

The Controlled Materials Plan has two aspects. The first is a presentation of requirements by, as we call them, claimant agencies.

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Those include the armed services, which as you know, now present a unified program cleared by the Munitions Board. Among the other claimant agencies is the Department of the Interior, for example, which presents the requirements for the petroleum industry and the electrical industry; also the National Production Authority which presents the industrial requirements. These requirements are presented in terms of needed copper, steel, and aluminum going into the end products for which the military or the other claimant agencies are responsible.

Now, you gentlemen know this, but I will just remind you of it. There has been an enormous amount of criticism of the military services in the press and elsewhere because they don't tell us what their requirements are. That is the way it frequently has been stated. But anyone who has gone through this experience knows how inaccurate that charge is. Some of you, I am sure, will be doing this on a big scale. Many of you have. But when you say, "We want the military requirements," let me just outline to you what that means.

First, there has to be some kind of strategic objective agreed on, because, until you know what kind of war you are going to fight, you don't know what end products, what combat items, are going to be needed. When that decision has been made, you can translate it into kinds of equipment and kinds of combat items that you will need.

Second, those items have to be translated into tons of copper, steel, and aluminum. That, I can assure you, is a labor of Hercules. Of course, that is only one step in the process. You can't allocate or hand out copper, steel, or aluminum as such. What you allocate is particular shapes and sizes of copper, aluminum, and steel. So the tonnage requirement has to be broken down into shapes and sizes. Finally, only over-all quantitative requirements are insufficient. You have to schedule those out in terms of what quarter you need the deliveries in order to accomplish the military program on its own schedule.

Nothing like that can be done overnight. So, when I hear somebody say, "The military hasn't given us its requirements," I at least don't share the feeling that it means the military has been derelict. I believe the military services will come through with their requirements on schedule, as they have done in the past. I often share the wish that they might do it a little more speedily; but, on the other hand, I know the difficulties involved.

That same difficulty, I might add, is shared by every other claimant agency. Probably the agency that I represent, the National Production Authority, has the biggest claimant agency job. We must represent the whole industrial complex. We have to translate its requirements into the same terms as the others. All that has to be totalized by early May if we are going to have a Controlled Materials Plan operating by 1 July 1951.

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Very often the press and people who are critical of the effort say, "I think we should put the Controlled Materials Plan in effect immediately." That is like an article on how to play the violin by a person who has never tried it. It is just physically impossible to do that. Take just the mechanical side of it--when the War Production Board was operating the Controlled Materials Plan, it employed 23,000 people. Let us assume for the moment, if you are so minded, that half of them weren't doing anything. That still leaves 12,500 people gainfully employed in the 101 jobs without which, unfortunately, you can't operate an allocations system.

We believe you can operate such a system with 9,000 or 10,000 people, perhaps fewer than that, because the techniques are better developed. At the present time we have about 2,000 people over there. The job simply could not be done with that number, even if a miracle happened and the military and all other requirements could be wrapped up. It just couldn't be done. If we can get it into operation by the first of July, I assure you it will be under par for the course. We have set that as a firm target date. We are going to have some kind of Controlled Materials Plan operating by that time.

The one thing that will be accomplished, starting at that date, is that we will have in operation this quantitative way of adding up requirements. As a mechanical matter what happens is this: The military will put in its requirements, we will put in ours, and all the other claimant agencies will do the same. At the last count there were 31 of them. Representatives of the programs will gather around a table at which each claimant will advocate its position.

Now, I suspect that one difference between the first of July meeting and the last one will be that at this stage the military program presumably will still have the green light. The contemplated size of the military program does not at present as you know, represent all-out war. It is still at the level where those of us who have to do the measuring are convinced that it can be done in most respects without any substantial cutbacks. If we have an all-out war program, then it will begin to impinge on areas where there may have to be some cutting back, such as when it impinges on the health of the Nation, as in the case that I mentioned of the New York City sewer department. Interferences like that did occur in World War II; and at those particular points, as you all know, the military program had to be cut back. At the present time, with the exception of some items containing the scarcest materials, like columbite and things of that kind, it is not likely that the military program will have to be reduced.

But the supporting civilian programs will have to be cut. It will be no surprise to you to learn that in the Government virtually every agency wishing to advance a program labels it "defense." There is a defense administration for everything at the present time. I had a

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most impassioned plea recently from a gentleman who was prepared to demonstrate to me that one thing we would need in the case of an atomic attack is an unlimited supply of swimming pools all over the country. Just by coincidence his company made swimming pools. It sounded fantastic; but, nevertheless, he had an indorsement from a fairly highly placed military officer and from some police chiefs throughout the country.

Every agency which acts as a claimant will insist--and, I believe, absolutely sincerely--that the product or service it represents is absolutely indispensable to national defense. Take such a familiar thing as highways. There isn't any such thing any more as a plain highway just going from one town to another. Every highway is an absolutely integral link in our national defense system. The sad fact of the matter is that there just isn't enough steel, copper, or aluminum to do everything that we want to do. Somebody has to weigh and make those decisions; the Controlled Materials Plan gives us the means for doing that, so that competing programs--military, civilian, and industrial--can be weighed and cut down to balance and to size.

When that is done, the CMP then offers a vehicle for translating those determinations into operations. Tickets are then issued under which steel, copper, and aluminum can be obtained in accordance with the programs which have been authorized. Thus a balanced productive effort is pretty well assured. That is the kind of system that we hope to have operating by the first of July. I have already indicated to you that there isn't any way possible that we know of to put it into operation before then.

How do we get along, how do we exist, how do we insure that essential production is taken care of, in the period from now to the first of July when such mechanism will become available? We have about three conclusions that we have come to on that subject.

First, we think we should very gradually increase the use of the priorities system; it is a kind of delaying action. At the present time priorities are used primarily for direct defense. But we are authorizing now the use of priorities to obtain the expansion of the facilities that produce the basic materials of which we are shortest, such as aluminum, magnesium, tetraethyl lead, and other items that are familiar to you. We think that expansion of those facilities is second only to the military production, and may be on a par with it, because our long-range security is so intimately wrapped up in such expansion. So we are going to use the priority system gingerly for that purpose.

Second, we are going to use the priority system to a limited extent in the field that is known as MRO maintenance, repair, and

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operating supplies, MRO will haunt the dreams of any of you who get deeply into industrial work. It is not the stuff that goes into the end products, but the stuff that keeps the wheels greased--the pieces of wire, the petroleum, and all the rest of the materials without which machines cannot operate and production cannot be obtained.

That is a chronic problem in the country today. How do you keep from losing production because of one scarce item, like a piece of wire or a piece of cable? We are going to have some kind of across-the-board regulation which will permit producers to use materials for MRO.

We know that it is easier to start than to stop. When we start extending the priorities system, we will probably be in trouble. We hope we can do it skillfully, in fighting what I can only call a delaying action--using the priorities system and extending it gradually--and that we will come out all right; that we will have the CMP in operation before the priorities system breaks down. It is a nicely balanced and delicate operation, as you can see.

When I say I hope it will work, I am reminded of the comment that Dr. Johnson made when he was told that one of his friends had just married for the fourth time. He said it was the triumph of hope over experience. I must say that my own hopes might justly be described in that same way.

The thing that I think we can justly claim to have done better than was done in World War II is that we realized at the start that the CMP would be necessary and lost no time in setting it up. So, if we have trouble in the gradual extension of the priorities system in the intervening few months, at least there is a goal ahead. At least it isn't going to last too long, because, once we get the quantitative review under CMP, the fever I believe, will start to subside, just as it did before.

There are two other methods that we are using in this interim period. First, we are cutting down or eliminating the nonessential use of scarce materials, aluminum, copper, and shortly steel, as well as a variety of supporting items, such as cobalt, zinc, and all the other scarce metals. That in and of itself reduces the impact of this terrific unregulated demand, and, again, makes the priority system work a little better, because we eliminate the nonessential competitors for these vital materials. As I said before, it was the elimination of automobile production which enabled us to operate the priorities system successfully in the interim period in 1942. The military program is not yet large enough to require the elimination of automobile production. We hope that the reduction of automobile production and the restriction of other heavy consumers of metals will be the key to operating successfully in this interim period.

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Third, we are making liberal use of what I call spot or individual assistance; that is, the issuance of an individual priority or an individual legal directive to break a bottleneck when a particular military, industrial, or civilian program gets into trouble. We are issuing those now in small amounts, but their use is increasing.

Now, by that combination of methods, realizing that not one of them is very good by itself, we hope to get over this very trying period. The job is not going to be well done during this period; nor will it be very well done in the third quarter when CMP has its first period of operation. There will be plenty of "bugs" in it that we will have to shake out. But I do think that, with the aid of the extensive experience that we had, we will get over this period all right.

In closing, I want to call again your attention to the fact that we have reduced to a period of a few months the difficult and trying period which took us several years to get over last time. The job, as I say, is not being extremely well done. This job and all the other jobs are too big for any individual lacking divine wisdom. On the other hand, I do feel that a lot of the previous mistakes are being avoided.

One point I want to call your attention to is this: It is my view that, even in a period of limited mobilization, if that is what we are going through, the same kind of mechanics basically are needed as in a period of all-out mobilization. At such time there just is no such thing as a little regulation. There is no way devised whereby a large percentage of the available materials can be put into war production and essential industrial production, leaving the remainder to go where it will into nonessential uses. I know of no way to accomplish that short of some system such as the CMP. There have been suggestions that there may be an easier way to attaining this goal, but up to the present time I have heard no suggestion of how it may be accomplished.

That is a hasty, inadequate, bird's-eye view of what we are trying to do and what I see ahead. I will be glad to take on any questions that I can handle, and I guess Mr. Skuce will join me if you want to ask questions on the details. Thank you very much.

COLONEL SEAWARD: Gentlemen, before we start on the discussion period, I take this opportunity to introduce to you Mr. Walter Skuce. You have heard reference to him by Mr. Fleischmann.

QUESTION: In the implementation of CMP it is foreseeable that possibly the requests of all the claimant agencies will exceed the expected supply. What will be the mechanics of equalizing the

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requests and the supply then? Will it be more or less an arbitrary decision on your part, or will all the boys go back and reconsider their requests, as has been tried before?

MR. FLEISCHMANN: Well, you wouldn't expect me to admit that it would be an arbitrary decision on our part.

There has recently been a reorganization of the defense mobilization setup in which there has been established a Defense Production Authority, headed by General Harrison. The principal function of that agency, at least in the operating field, is to make those determinations, in other words, to round off programs from the standpoint of doability.

Now, what happens in practice is that several men sit around a table. It is something like a tobacco auction. There is a lot of high-level discussion, but there is also a lot of horse trading.

As I said before, at this stage of the game, the military program--which, remember, is one integrated program presented by the Munitions Board--is not going to be subjected to very many cutbacks. A program of that size can be done without much interference with any essential industrial needs. I think that on the whole the initial military programs will not be very closely reviewed. Later on, if they increase to a point where some essential civilian or industrial need is threatened, they will have to be.

There is an attempt, obviously, to review programs from the standpoint of essentiality to a mobilization effort. You saw roads mentioned in Mr. Wilson's letter to Governor Dewey. Things like roads--which we need--schools, and all the rest, have to take second seat in a mobilization operation. That is sad but true; there just are not enough materials to go around. Programs like the expansion of electrical capacity have to be reviewed not only from the standpoint of their desirability but of the use that can be made of those facilities. It does no good in our present peril to bring in facilities five years from now. We have to put our materials where they are most needed. This means bringing in things that we can use in a couple of years.

All of these considerations are weighed. The theory of the Defense Production Administration is that there will be an official who will take all these productive needs into account and who will put the stamp of approval on a balanced program. I can't describe it any better than that. It is a matter of weighing all those relative considerations and coming out with a balanced program which best fits the needs of the mobilization.

QUESTION: In the formulation of a system of controls for conversion, is consideration given to the removal of those controls in the event of a reconversion to a peacetime or stepped-down program?

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The problem is one that has received consideration from the standpoint of what happened the last time. I believe Mr. Skuce has a point to make on the subject.

MR. SKUCE: In the stage when you, Mr. Fleischmann, were in uniform and I was trying to decontrol the setup in 1945, we used the Controlled Materials Plan as an affirmative plan that would give manufacturers an affirmative, authorized schedule and the supporting authority to carry out certain definite or war and supporting essential programs. You have restrictive orders, on the other hand, that tell you the things that can't be made, that cut off the production of nonessential items.

As the need for war and war-supporting items diminishes, you open up these restrictive orders and make production permissive in those things. Then you open up the CMP so that people can make more than what you authorized in accordance with the removal of the restrictions over here. So you generally open it up, as materials become available, to make the production of other things permissive rather than directive.

The biggest safety factor that you have in working this particular question out is that the system, any system like the CMP, is so complicated and requires so many people to run it as a central production control system in both the civilian agencies and the defense and military agencies, that, when those people are no longer employed to carry out those particular tasks, the plan flops of its own accord and the controls are gone.

QUESTION: Will you explain how the B-products problem will be handled this time?

MR. SKUCE: We expect to handle the B-products problem very much as it was handled the last time. This is not because of an opinion of how it ought to be handled, but because the manufacturers of B-products and components in particular represent special problems in manufacturing rather than of opinion.

MR. FLEISCHMANN: I think it would be of interest to have you explain the distinction between A-products and B-products. Maybe some don't know what that distinction is; it is a very important one in our work.

MR. SKUCE: The basic principle in the Controlled Materials Plan is that programs are designated to be handled on a vertical basis, from the prime right down through to the mills so that everything flows up that vertical chain that the prime commands for the claimant agency and is responsible for carrying out. There are a lot of component parts that are not produced on an order-to-order basis that

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enter those programs. Actually what happens is that the manufacturers mass-produce the parts and custom-assemble them to the requirements.

For example, you start with things like fastening devices--nuts, bolts, screws, washers, rivets, pins, and things like that. Then you go to ball bearings, small motors, controls. With 55 sets of parts you can produce 1,360,000 standard motors between one and two hundred horsepower A.C.

If you tried to control that on an individual order basis, there wouldn't be enough people in the world if you tried to keep it on a straight vertical control basis. The very method of manufacturing controls the necessity for setting up a B-product procedure. That is diametrically the opposite of the original intent of having everything flow vertically. It is done because of the practical limitations of having everything vertical. But we integrate the B-product requirements in such a fashion into the A-product schedule that what might seem to be an academic stumbling block actually works out to be an accepted productive method of doing it.

MR. FIEISCHMANN: Let me make that a little less technical, for some people like myself.

If the military is manufacturing tanks, the military presents a claim for the amount of steel that goes into the tank itself. That is approved as a part of the military program. Tickets are issued to the tank manufacturer; those tickets enable him to buy the amount of steel that goes into the tank body. However, that doesn't include the amount of steel that goes into what Mr. Skuce calls the B-products, which may be nuts, bolts, bearings, and the other things that the tank manufacturer buys. He doesn't present any tickets for that amount of steel.

Those B-products, which are common to all production, get their steel by applying in a different way. They apply to the NPA which, on the theory that the number of end products will pretty well limit the number of components which are made anyhow, gives them their requirements in terms of capacity, or close to capacity, operations in turning out small motors, bearings, and all the rest.

The theory is that by limiting the number of end products that are authorized in the program, you don't have to limit so closely the number and kind of components; that this will regulate itself. The component manufacturer who makes what we call B-products then comes in and shows us his indicated schedule. That is reviewed in terms of probable orders that he might be expected to get, and he gets his material without reference to the particular end product that it will go into.

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COMMENT: I would like to go back to the letter to Governor Dewey. That has me a little confused because, as I understand it, that letter said that the amount of steel required by the military would be so large that none could be spared for the through way and highways. At the same time I understand that we are keeping a big production of automobiles going, which is one of the largest consumers of steel. With five million automobiles our biggest problem seems to be the congestion on the highways. See what happened in New York just the other day when that railroad strike went through. They hardly moved any traffic up there. So it seems to me that there ought to be some reconciliation between the need for better highways and the need for more automobiles.

MR. FLEISCHMANN: I am not sure whether that is a question or a statement, but I will try to deal with it.

The heavy demand, as I pointed out, is not for steel as such; it is for particular shapes, sizes, and kinds of steel. The predominant demand for steel today is of two kinds: plate and structural. Road building uses structural; automobile building uses sheet. We are cutting down on automobile production not so much because we need the sheet--there is enough sheet for the most important things--but in order that we may be able to convert sheet capacity to plate capacity. This you can do if you get rid of some of the sheet which you are putting out.

So there isn't any necessary contradiction in what Mr. Wilson said. He said that the military demand--and he didn't mean to confine it to the military; he meant the military and the supporting industrial demand, like the expansion of aluminum capacity--had to come first. I consider that expansion a military demand; and so did he, I am sure, when he wrote the letter. There the demand for structural shapes is so enormous that you just have to forego, as he said, most of the highway building and a lot of the schools and churches and all the other things that go to make up the American life in ordinary times. I don't really think that any contradiction exists there at all.

QUESTION: In the interim period are you thinking of using more than one kind of priority, as was done in the past; or, are you going to use just one kind of priority?

MR. FLEISCHMANN: Up to the present time we have stuck tenaciously to a single priority band and we hope we will be able to stick to it.

It is a question of degree. So long as you issue priorities up to the extent of maybe 40 percent of the total output of a product or material, the priorities system doesn't work too badly, because there is a minimum of interference. But, once you get over the 50 percent mark, no ordinary priorities system works very well because there is constant interference.

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If we, in this delaying action that I described, get over the 50 percent mark--and I think that is quite likely--then I predict that there will be such a demand for a multiple-band system--and I can see it starting from the military--that toward the end of that period we may have to put in one. I would hope not.

One factor that you should take into account is this: Once you get the CMP operating, you can do things with the priority system that you can't do before you have such a review, because you cut down the authorized demand about to doability. Then the priority system performs a very useful service as a traffic cop in regulating the authorized demand, so to speak. So toward the end of the period perhaps we may relax a little bit, though I hope not.

QUESTION: I have a leading question for Mr. Fleischmann. There are many people who think that the United States is entering into what we might call a virtually permanent semimobilization. We have heard one opinion expressed that it would last 20 years or 25 or perhaps even to the year 2050. Is the NPA assuming that, as we go into this long term of controls, the Lord will provide; or, are you making some calculations as to future availability? Right now we know that we have certain mining capacities that will take care of the needs for the next few years without worrying beyond that.

MR. FLEISCHMANN: I might say that I am counting on the Lord, but I am trying to think these things out as best I can.

In that respect the emphasis is certainly on the long-range expansion of every conceivable material resource that we have and the facilities for maintaining them. As I said earlier, I consider the expansion of our resources to be, if second, second only to the military and actually on a level with that.

The Administration, in setting up the President's Materials Policy Commission, of which Mr. Paley is Chairman, in the past two weeks, has recognized the problem that you describe; namely, that we may be in for a period of 10 or more years of this twilight zone, and that then the long-range character and amount of our resources will become a very pressing problem.

I would say that at NPA and in the Defense Production Authority we have concentrated rather on the immediate things, because there just weren't hands or hours enough to do anything more.

The second thing we have done is to concentrate on productive facilities which can be brought in within two years; that is when we think we will need them. Now we are getting into the phase where, with such help as may be given by the Paley Commission and others, we hope we will have time to plan a little further ahead. But up to the present time it has been first things first.

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QUESTION: The NPA has placed a number of limitation orders on the civilian users of critical materials. Generally speaking, those are designed to cut down on nonessential uses. I am wondering why they did not exempt DO orders from that type of civilian use.

MR. FLEISCHMANN: There are two aspects to that problem. The type of limitation that was used at the outset was the so-called horizontal cut, where everybody across the board was limited to 75 percent of the aluminum that he used in a base period. The DO orders were exempted. They were a plus to anybody who got them. That is true of any of the orders except the tin order.

Now, however, there is another aspect to the problem, and that is where we say, "No one shall use aluminum to make ash trays." There we have not exempted DO orders. I don't want to sound antimilitary, because I might go back into the Navy myself; but the theory is that there is no more reason why a naval officer should use an aluminum ash tray than a civilian should.

QUESTION: The last time automobiles were controlled, they were pretty well cut off at one time. There is a very considerable difference in the amount of materials and manpower that go into the various types of automobiles. Some of them use twice as much gasoline as others. Is it generally intended to apply selective controls toward what you might call economical items?

MR. FLEISCHMANN: Of course, it is the intent that all of this business will be selective. The question, obviously, is, To what extent, how far, can you apply that? It is a matter of judgment in each case.

Take the question of automobiles--we might decide that an Austin or a Crosley, because it needs less material and less gasoline, is the thing to encourage. But we are at no such point at the present time. We can't put this economy in a strait-jacket.

What we need is to conserve materials. Therefore we say, "Not so much shall go into automobile production." But we are not yet at a point where we have to say, "You can make only a hundred thousand cars and they must all be Crosleys or Austins." It would be impossible to gain public acceptance for any such program. The point of austerity that would be represented by any such regulation has, in my judgment, not been reached.

QUESTION: I would like to know why there is a problem of decontrol so far as materials are concerned. What would happen if you just issued an order that, effective last night at midnight, there is no more control on materials?

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MR. FLEISCHMANN: It would all go into automobiles.

QUESTION: What would make it do that?

MR. FLEISCHMANN: That is the problem. The bigger concerns, with the established purchasing power, rush into the vacuum that is caused when there are no military orders, and they pre-empt the major portion of steel, copper, and aluminum in buying designed to let them get their production schedules rolling at top speed.

What happens then is that the small businessmen, many of whom are making very essential items, are unable to get the little copper, aluminum, and steel that they need. That is actually what happened in the past month. As materials have become short, exactly that has happened. The big man, the big concern, with the larger purchasing power, gets a very high percentage, maybe 120 percent, of his needs; while the small fellow, who may be making a more essential item, gets virtually nothing. That is the problem now.

Some people think the way to end controls is to just end them, to do what you say; that eventually the economy gets back to normal. As Mr. Skuce pointed out, that is pretty near what happens, because you don't have any people left to speak of to decontrol. But what happened the last time, as I recall it, was that it was found that we had to preserve a part of the regulatory power. You have to be sure that some items, like the indispensable parts of a sewerage system that I mentioned, get made. As the normal economy starts functioning, that area gradually diminishes; but it would be too dangerous to just say, "Tomorrow the controls are off."

QUESTION: I would like to ask, along that same line, what consideration is being given to that small business problem? At the present time an inability to stockpile is causing the gradual shutdown of some very important small but essential businesses.

MR. FLEISCHMANN: The small business problem basically is the same as the big business problem, in the sense that there isn't enough material to go around. That is the key to their trouble. It is made worse by the factor which I have mentioned; namely, that in the competitive scramble in a tight economy they get less and the big fellows get more. That is what makes their situation worse.

What is being done about it is that, by cutting down on the production of heavy durable consumer goods, which really comprise the biggest single metal user, you can eliminate or reduce that inequity. It happens that, generally speaking, big business is in that area of heavy durable consumer goods, whereas small business, generally speaking, is making smaller items, where there is less capital investment required. Our theory is that by eliminating the demand from the bigger concerns in this less essential area, there will be more material available for the smaller users.

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I was pleased, and I won't say "surprised," although that element was present also, to read in the "New York Sunday Times" last week for the first time that the metal situation seems to be easing up a little bit because of our restrictive orders. That is just what we hoped would happen. No one is more surprised than a planner when one of his plans seems to be working out.

COLONEL SEAWARD: Mr. Fleischmann, we certainly realize the momentous task that you have ahead of you; and we certainly wish you and Mr. Skuce the best of success in your problem. Thank you very much for your presentation this morning, sir.

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