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THE MUNITIONS BOARD'S PROGRAMS
FOR MILITARY PRODUCTION

8 February 1951

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Honorable John D. Small, Chairman of the Munitions Board, was born at Palestine, Texas, on 11 October 1893. He was graduated from the U.S. Naval Academy and commissioned an ensign on 5 June 1915. He received his M.S. degree from Columbia University in 1920. On 24 April 1926 he resigned his Navy commission as a lieutenant to enter private industry. He served as executive vice-president of the Dry Ice Corporation of America from 1926 to 1930, when he became western manager of Publicker, Inc., the position he held until 1941. He was called to active duty with the Navy as a commander in February 1942 and appointed deputy director of the Army and Navy Munitions Board, in which position he served until March 1944. The following six months he was head of the Navy Material and Products Control Division, and during that time served as landing craft coordinator with the first Allied troops to land on the Normandy beaches on D-day. For outstanding service in those two assignments, he received a Letter of Commendation from the Secretary of the Navy. On 22 September 1944 Mr. Small became executive officer and chief of staff to J. A. Krug, chairman of the War Production Board, and for outstanding services in this capacity, he was awarded the Legion of Merit. On 3 November 1945 he was temporarily assigned as administrator of the Civilian Production Administration. He was relieved from active duty on 4 February 1947 and became president of Maxson Foods System, Inc. Mr. Small was appointed Chairman of the Munitions Board by President Truman on 10 November 1950 and sworn into office 16 November 1950, under a recess appointment. He was unanimously confirmed by the Senate on 5 December 1950.

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GENERAL VANAMAN: Gentlemen, the production of munitions today is really more than a problem of money, materials, machinery, and manpower. It is an extremely intricate problem of executive management.

The focus of the five "M'S" that I just mentioned lies in the Munitions Board. The Munitions Board has the responsibility of translating the requirements of the Army, Navy, and the Air Force into sound programs of production.

Our Nation is fortunate that this agency is headed by a man with military, governmental, and top-flight industrial executive management background. We are fortunate that this man is our lecturer this morning.

Gentlemen of the joint colleges--the Chairman of the Munitions Board, the Honorable John D. Small.

MR. SMALL: General Vanaman, General Bull, gentlemen of the joint colleges: I am delighted to be here with you. I have been here many times before and I have always enjoyed talking with you.

I have not enjoyed the question period quite so much. I have mentioned many times outside Washington that there is no brighter, more penetrating group of men that I have ever been before, and there is no other group that can ask more embarrassing questions, than the scholar-students you have here.

It is a very peculiar thing that, while I have been down here a number of times before, as I say, I have never been asked to talk twice on the same subject. Therefore, I cannot take my old talk, brush it off, and brighten it up a little bit. Why this is done to me, I don't know. I must always come down here and talk on something different. Today the subject is production, as General Vanaman has said.

I am going to try to answer your questions; I will also probably toss a few of them at you as problems I am up against every day.

I have a long prepared speech here, but I am not going to read it to you. I am going to try to talk off the cuff and follow the general pattern of the speech.

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I am very much concerned--I don't think that our country has ever before been in such peril as it is today. I think that we have never before faced such dangers. We have never before faced such difficult problems as those we face today, and the solutions to these problems are infinitely more difficult than they were the last time. There are a great many of us around who went through it the last time. We remember and we have learned some lessons, but the problems we are encountering today are things for which it is considerably more difficult to find sound solutions and work out sensible, wise decisions.

The last time we had all-out war; we knew what we were doing. There was no question in anybody's mind as to what to do, how much to do, and what kinds of things to do. Today we are in a "gray" period. What is the situation? Is it all-out war, or is it something else? If we do not have all-out war, I am convinced that we are in for a long trial of endurance which may extend for many years. How many years, I have no idea.

The Joint Chiefs have told us that, for a minimum amount of security for our country, we should develop a force strength by a given due date-- by a due date that is not far off. I presume you are all familiar with that force strength, because the President announced it in his State of the Union message. We are building as rapidly as we can toward that force strength in both men and the munitions which are needed to equip them. So we have a job of work to do, which is to get as quickly as we can all the things that are needed to support that force strength and to back up that force strength for a period of time.

In addition to that, as we are moving on our current procurement program, we have to develop production lines in being which can be speeded up as rapidly as possible in the event of need. We cannot do it overnight, because we cannot speed up the supply for production lines overnight, but we must do it as rapidly as we can get the materials into the plants and then speed it up enough so that we could support an all-out war.

God has given us time to do that. This Korean action has given us time to establish these lines, to tool them up, and to get production rolling--rolling very rapidly on those things that we need most urgently and at a slower speed on those things that we will not need until later. At least we are getting the lines established whereby, should all-out war occur at any moment, we will be able to speed up production and support it.

In doing this, we are, through the civilian agencies, having to take materials away from the civilian economy and devote them to munitions purposes. By taking those materials away from the civilian economy, we

are obviously creating unemployment wherever the materials are taken away. We are taking aluminum, let us say, from civilian industry and putting it into airframes. The airframes are made at a different place. The same labor that worked on the aluminum before can no longer work on the aluminum because it is being used for airframes. Something must be done in the way of taking care of those unemployment situations when they develop, by giving the affected companies defense orders, as best we can.

So it is an infinitely more complex problem we face today than that we faced before. Today we have manufacturing capacity all over the country crying for war orders. Yet the amount of dollars we have to spend is small compared with the disruption which has taken place as a result of the diversion of these materials. Spread that amount of money as thinly as we may, we still do not have enough to keep everybody as busy as they were a month, or two, or three months ago, when the whole United States economy was running at full speed, bursting at the seams, and with practically no unemployment. Unemployment in this country was at an irreducible minimum during the fall of last year. Somehow or other we--I am talking now not of the armed services alone but of our whole Government--must keep the economy going, keep the people employed, keep the earnings up, and, at the same time, develop this military machinery which the Joint Chiefs have told us is the minimum that we must have in the near future.

The Munitions Board's job on this front is to develop uniform plans, through the three services, on production schedules, on procurement, and on requirements. These three things all tie together. They are something like the three legs on a stool--the stool won't stand up on any one of them. They are all intimately connected.

The Joint Chiefs give us the force strength--so many air groups, so many divisions, and so on. The force strength is translated by the individual services into the munitions which go to equip the infantry division, the light-bomber air group, or whatever. Those quantities of items, whether they are bazookas or tanks or undershirts, are translated into feasible production schedules. Contractors--say seven--are selected to produce tanks; for example, they are tooled up and the production of those tanks is scheduled so as to produce the quantity of tanks needed for the force strength by the due date--plus the tanks needed for training and the tanks needed to back us up in case we are in all-out war at the due date. Then the production lines must be kept running at a slow rate of speed from then on so that we are ready at any moment to speed up and turn out the number of tanks we would need in an all-out war effort.

If, on the other hand, we went ahead at this juncture and produced a war reserve capable of carrying us through "X" years, if you like, of all-out war, we would go up to an enormous peak and build a mountain of tanks. By the time we had accumulated that mountain, if nothing had happened, we would have to stop the lines, the lines would go down, we would have the mountain there growing obsolete day by day as new developments took place. Should all-out war occur six months from the time we stopped the lines, the lines would not be there any more and it would take us another year to get back into production again.

That is the reason we are doing it in the fashion I described, with a broad mobilization base. We are spreading the contracts as best we can so as to make the base as broad as possible, not only geographically, but to support little business, mediumsized business, and big business, and to reduce the unemployment burden in any one locality to a minimum.

Now, within the services, we are organizing for this production job. We are preparing the facilities. We are tooling up the lines. We are going through all the headaches of getting things started. We are beginning to run into the same kind of problems we had last time. We have material and component shortages. We have not yet run into manpower shortages, except in spots. On the contrary, we have a problem of manpower overages in many areas, which, by our contract placement, we are trying to cure.

At the end of World War II we had many manufacturers who were skilled, trained, and expert in producing individual items of equipment. We tried, during the peace, not to lose all that know-how. When these people converted back to peacetime commercial production, we tried to hold on to some measure of that know-how by the use of a production planning assignment; that is, by taking individual key plants that were skilled and had the know-how, sitting down with the operators, surveying their plant, equipment, manpower, skills, techniques, and so on, and saying to each of the services: "Here is plant 'X.' It made such and such and such during the war. In the case of another all-out mobilization, what do you want that plant to make for you?" The services said, "We would like to have 10 percent of that plant's capacity"--or 20 percent or, in some cases, all of its capacity--"and we want to plan on producing this item of equipment in that plant."

Some 10,000 of these plants were surveyed in that fashion and were passed out to the services, the services agreed on production schedules for mobilization, the managements of the individual plants accepted those mobilization planning schedules, and there was a plan ready to work on M-day. But we do not have an M-day. So that mobilization planning idea, while very sound, has not fitted the "gray" period in which we find ourselves--not an M-day, but something less than M-day.

Under the Procurement Act, during the peace and until the declaration of the emergency, the services were required, in most instances, to advertise in order to get the lowest bidder. I am talking about the multitude of items, not about special things like the large major items of equipment that can be made in only a handful of plants in the country anyway, such as airframes and tanks. On the multitude of other items, when you advertised, you had no assurance whatever that the planned producer would get the contract. The fellow who bid the lowest got the contract. It was only by happenstance that the contract went to the planned producer on things other than airframes, tanks, or other major items of equipment. In these cases there are only a handful of plants that could do the work, therefore, the planned producers were the fellows who bid on them. We found ourselves in another difficult spot--these planned production schedules covered many items of equipment that are now obsolete; many of them we are not going to buy this time. So we have had to keep that in mind constantly in handling these planned producers.

With the declaration of an emergency, we were allowed to negotiate instead of having to advertise for the lowest bidder. The policy has been established that we should negotiate competitively; that is, get enough people in the negotiation to enable us to get the best price for the Government. That, I think, is proceeding very well. We are not improvident. We are getting good value for our dollar. It enables us also, however, to get these key plants rolling to some extent on the planned kind of production. It may not be the particular item that the plant was planned to produce, but is some item comparable to it, on which the employees know-how, which they still retained, could be utilized.

We are finding that, while negotiation permits us to place contracts with the planned producer or with a selected producer who has characteristics we want to take advantage of, it is not all a bed of roses. One result--and it is an extremely disturbing result--is that the amount of business that is going to small business is dropping very rapidly.

Small business is the foundation of our country. We must retain small business--individual enterprise--if we are to retain those things for which we are fighting--freedom, the liberty of the individual in our country. We cannot permit it to go the route of big business. I come from big business, but I say with complete sincerity that we have to take care of small business.

I said in the beginning that procurement, production, and requirements are all tied together. You cannot talk about one without the other. A great many of our items of equipment cannot be made by small business. Small business cannot make an airplane, it cannot make a tank, it cannot make a truck, it cannot make any of the major items of armament, but small business can make very many things that we do want and do need.

But the result of negotiation seems to be that we are getting away from small business, and we are doing the very thing that we should not be doing, which is to hurt small business. Therefore, intensive efforts are being made within the services now to place these production contracts, to the greatest degree feasible, with small and medium-sized firms and not concentrate them with the few--the large ones.

Of course, every contractor for one of our major items of equipment subcontracts to some degree. Some of the companies subcontract in a major degree; others subcontract in only a minor degree.

I was talking only this morning to Eugene Zuchert, Assistant Secretary of the Air Force, who returned from a trip just a day or two ago. He says that one of the big airplane companies on the coast, which company during the last war subcontracted 16 percent, is now subcontracting over 40 percent.

So here and there, spottily, we are beginning to spread the contracts out and to try to cure some of these very difficult and serious problems. The policy of placing contracts is outlined in the 18 December 1950 directive, issued by General Marshall.

I think this directive should be read with close attention; I think it is full of sound thinking on what we should be doing at this juncture in establishing our production spread, the mobilization load, as broadly as we can.

Put your contracts in areas where there is unemployment. Don't put them in the tightest labor market that you can find.

Don't try to build a new plant, as we did in the last war, and squander our Nation's resources on a new plant if there is open capacity in the country adequate and competent to produce the item. Of course, we will need some new plants. There is no question about that. But we don't need anything like the new plants we needed at the beginning of the last war; we do have a great amount of open capacity in this country which to seek out and use. We must aggressively encourage, or require, the widest possible use of subcontracting in order to get the load spread through industry.

In working out the contract prices, we must provide a maximum incentive to the producer for the reduction of his costs. If he will reduce his costs, he should be given more money, because his profit is only a small share of the money involved. You can increase his profit 2, 5, or 8 percent if he drops his costs 10 percent. You will have gained immeasurably, billions of dollars as a matter of fact, if you do it in that fashion.

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Place your contracts with a view to economies in the use of transportation facilities. We don't want to be crosshauling all over the place, as we did the last time. If we can place the contracts so as to avoid crosshauling, we should do so.

Something a little unusual in this directive is the reservation of special skills and abilities for the more difficult tasks. In other words, if you have a company that is extremely competent, highly skilled, and has wonderful engineering know-how, don't give that company the easy job. Give that company the difficult job. Pick the companies, then, for your production load, so that you give the easy jobs to the people who are able to do the easy jobs and give the tough jobs to the people who are competent to do those.

The spreading of this production load across industry and the building up of the force strength and the equipment that goes with it mean that we run smack into another problem. The services have reserves of all sorts of items of equipment which are good for use but are in a highly unbalanced condition. You have a great deal of this and nothing of that. Therefore, we have to go all out, at a high rate of speed, to produce this gadget of which we do not have any, but we don't have to produce another gadget because we have 5 million of them on shelves somewhere. You would be astounded at the amount of ammunition of many classes that we have in reserve at the moment. But there is an extremely large amount of some ammunition that we do not have enough of because of inventory unbalance. We find ourselves running at high speed on some things because we do not have enough, and at no speed on others because we have enough for the time being.

Therefore, we have to enunciate another policy. The Joint Chiefs have said that we need "X" infantry divisions. That number of infantry divisions requires so many tanks. The lead time on tanks, let us say, is 17 months from the day the contract is placed. The divisions, also require bazookas, jeeps, shoes, and a multitude of other things. There is no point in buying today the undershirts needed for a division when the tanks for the division are not going to be ready for 17 months. Thus, the procuring people have to phase their requirements by lead time so as to bring all the undershirts, shoes, tanks, and so forth, to the division at the time the division is activated.

That is against human nature. That is contrary to the easy way of doing things. The easy way is to go out and buy it all now and get it over with. But if we did that, we would be intensifying the shortages which exist to some degree anyway, and we would be depriving ourselves of many munitions we need quickly in order to get many munitions we don't need quickly.

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We ran into the same problem in the early part of the last war. We had ships without propellers. Or we had stacks of propellers in one part of the country, but the hulls were not ready. Or we had airplanes without landing gears. That was one of the tough ones. We are trying to do a more sensible job this time than we did last time on phasing. I believe that the services are alive to it and are trying to follow it, even though it is against human nature, as I say.

Every once in a while I get a bad one. This is one that hit my desk only this morning. One of the navy yards had put in an order for a million pounds of rope, I think it was, for delivery in 30 days. A check was made and it was found that the rope was for cargo nets. They don't need a million pounds of rope for cargo nets in 30 days; they need a million pounds of rope spread over some period of time, but not 30 days.

Then, one of the New York papers had an article a short while ago stating that the Quartermaster had bought 13 million pairs of shoes for immediate delivery. Well, how big is our Army? How big is our Navy? Who are going to wear 13 million pairs of shoes? I asked the Secretary and the Quartermaster General, "What about this?" It developed that the order was not for 13 million pairs, it was not for shoes only but for all sorts of footwear, and it was not for immediate delivery but was spread over 15 months. It did not turn out to be so bad when we investigated it, but it made a good story for that newspaper.

I suppose we will continue to have things like that cropping up-- some of them true and some of them distorted. But in broad generality, the services are alive and awake to the necessity of phasing out their requirements realistically and getting the items phased to be delivered at the time they are needed; not building mountains of these things ahead of time, but getting fast the things that we need fast.

I have no knowledge of how deeply you gentlemen go into these things. We have seven tank producers, each one of them coming in at a different time, as rapidly as we can tool them up and get them producing, and coming up to an ultimate production rate that we would reach only in case of all-out war and would be sufficient, under the JCS standards, to support an all-out war effort. But we won't run that fast until then; we will run at a lower rate so that we won't be building up a mountain of obsolete tanks but will be building up enough tanks to take care of us until these lines can be speeded up to run up to three shifts a day when need arises. We will run one shift or half a shift a day until that time comes.

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Each one of the major programs is being worked out on some basis very much like that. I am told you have charts of the various programs and are familiar with the way they are worked out.

The JCS says, "We need this force strength." The services translate the force strength into units of equipment. Those units of equipment are phased out productionwise so that they are feasible and you have the contractors who can produce them. Then those units are translated into the materials that go into them--steel, aluminum, copper, cobalt, or whatever. You thereby get a picture of your requirements by quarters necessarily, by months if you like. We add them up, and, having added them up, we squeeze the "water" out of them.

It seems that all the way through the services, from the bottom layer all the way to the top, everybody has to add a safety factor. The fellows down below say, "That may be conservative. I'll just put on an extra 10 percent." By the time you get to the top on these requirements, these "10 percents" add up to fantastic figures. I know that one requirement comes out to be six times the world supply. Well, you know you cannot do that, at least.

We had something very much like that in the early part of the last war. They came up with a requirement for copper for smallarms ammunition for the following quarter that was greater than our enemies and our own allies were producing in that quarter. I said, "You can't do it. What's the use of coming up with a requirement like that?" They said, "If you don't give us that copper, we are going to lose the war." That requirement, manifestly infeasible, was a result of the safety factors that had been added in.

Those safety factors all added up together amount to "water," which the services have to squeeze out at the departmental level. It comes up to us, and we squeeze more out. Then we present the figure to the civilian agencies, and they go to town. They always suspect us anyway. They think we want more than we are entitled to get, and they really take these figures apart.

Unfortunately, on these figures that we come up with in determining requirements and which we refine as best we can and as sincerely and as honestly as we can, the civilian agencies have a check on us, and the check is, what are the orders that reach the mills? The manufacturer who is making the gun barrels, for instance, does not care what we put in as requirements; he orders steel for the gun barrels he is going to produce. If we say that in the next quarter we are going to need so many tons of steel, and the steel mills don't get orders for that amount, the civilian agencies really have us over a barrel; they have proved then that our requirements have been inflated or ballooned.

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That has already happened. In December of last year General Harrison called me up one day and said, "Jack, how are your figures on copper for the first quarter?" I said, "I think they are pretty good. I wouldn't say that about most things, but I think on copper they are pretty good; 80 percent of our copper is for ammunition, ammunition is relatively easy to translate from shell cases into tons of sheet strip, and we know what the schedules are." He said, "All right. We are coming out with a copper order. We are going to cut back everybody in the country because you say you need this copper." I said, "Yes, I know that." "Well," he said, "I think your figures are far off." I said, "What reason have you for saying that?" This conversation was about the first of December. He said, "The mill schedules closed the fifteenth of November for January delivery"--the closing is normally 45 days before the month of rolling--"and the mills do not have orders in the amount you say you require." What is my answer to that? I said, "The figures are good for the quarter. I didn't say they are good for January." He didn't buy that one so readily. This instance merely proves the point that our stated requirements can be realistically checked by the civilian agencies.

So we have to translate these production schedules into material requirements, those requirements are given to the civilian agencies, and the civilian agencies, in turn, take such action ahead of time--and they must act ahead of time--as is necessary to restrict civilian usage and free the required copper, aluminum, or whatever it is for military use. And then if it develops later that we don't have the orders on the books to support our figures, we have just raised havoc throughout the economy for no good purpose.

I want to emphasize as strongly as I can to all of you that coming up with good sound figures, wherever that happens to fall into your field of activity hereafter, is something that is extremely vital, and that the figures must be sound, valid, and honest, because otherwise we will needlessly cause untold harm to our economy. What we are striving for is to keep this economy rolling and to keep up the standard of living we now have; and the only way we can do that is to keep employment up and to keep people working; and they can do that only if they have material. If we needlessly sterilize materials and capacity, and if the mills do not run to capacity because they do not have the military orders, the result is needless waste.

I said that procurement, production, and requirements are interrelated. The services determine what their requirements are--let us say, for steel--and those requirements are determined from the production schedules. We in the Munitions Board have to watch progress on these production schedules to make sure that the production schedules are not in fact going to absorb more material than we have asked for. If such is the case, we must give the civilian agencies warning so that they can take urgent action ahead of time. Or if we are behind on the schedules and we are not going to need that

much material, we must inform the agencies. Therefore, we have to keep pace with the production schedules, with the actual production resulting from those schedules (the schedules mean nothing unless they result in guns, ships, tanks, or whatever), compare the production with the requirements we have submitted, and keep constantly changing, flexing, and adjusting so that the people on the other side of the river have a clear concept of what lies ahead.

This effort we are talking about is doable. That is, the equipping rapidly and then the maintenance of this force strength over a long period of years ahead, during a long trial of endurance, is doable without wrecking the economy. But it is not doable if we vacillate, shift, move around, and come up with figures of which we are uncertain--if we run at 90 miles an hour today, slow down tomorrow, and start up the next day. That kind of chaotic condition is within the power of the procuring services to cure.

One of the problems we run into is that a great many of our extremely important materials come from abroad, from dangerous areas. They are what we call the strategic and critical materials. There are more than 70 of them on the list. Those are the materials which, largely, come from abroad, or from countries which might be overrun, or from countries where there may be internal upsets, or from which, for one reason or another, in time of all-out war, we may not be able to get our normal supply. Manganese from India, rubber from Malaya, and tin from Indonesia and Malaya are examples.

If we are not going to get our normal supply, what will happen to our economy over a long, continued, all-out war? And what can we do about it now?

We will get together all the agencies of the government that are involved. We will say that the supply we can anticipate getting in the event of all-out war is so much; there are so many tons of copper, let us say, that we can legitimately expect to get per year during an all-out war, under strategic assumptions that we have to make as to the number of sinkings of ships bringing it in, the overrunning of the territories, and so on. Then, what are the requirements going to be? We have the JCS and service figures on what the all-out war requirements are, and we have figures from Commerce, NPA now, or other civilian agencies on what the requirements for the essential civilian uses are going to be--how much steel will the oil country take, how much steel will the railroads take, how much copper will the utilities take, and so on. We add up all the requirements and subtract the probable supply; the difference is the deficit.

The size of the deficit determines the extent to which we would be able to run our essential economy; that is, the military and the essential

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civilian during all-out war. Even after you cut the civilian economy to the uttermost, you still have the residue that you must have to keep the country running--the trucks, the railroads, the utilities, the hospitals, and all the other things that enter into the essential civilian economy. This does not include the nonessential civilian economy. But we do not have enough in case of all-out war. So what do we do about it? We stockpile. We try to get into the stockpiles enough material to make up this deficit in order to carry us through the all-out war period.

We are stockpiling, as I say, some 70 different things. We are having a difficult time getting hold of some of these things, I can assure you, because the prices all over the world have skyrocketed and there just is not enough of many of the materials to take care of the world. Many other countries are getting frightened of what may happen, and they are setting up little stockpiles all over the place. The result is that we have enormous difficulty in getting many of these materials into stockpiles.

We could put material into the stockpile by taking it away from civilian production at the moment. If we do that, we create unemployment to the extent we take it away. But some measure of that is vital for many of these things. We must accept the sacrifice now in order to prevent far more bitter sacrifice at a later date.

So the stockpile is itself national insurance, not military insurance, it provides a "blood-bank" of materials which will take care of hospitals, trucks, and everything else that is essential in our country, as well as the military, come the day of need.

We have a stockpile objective now amounting to almost 9 billion dollars. That sounds to me like a terrific amount of money. Anyhow our stockpile objective is now about 9 billion dollars, of which we have in the stockpile something like 3.5 billion dollars. That does not sound as if we have made much progress, but we really have. We have increased the stockpile in the last 12 months by some 30-odd percent, so we are making progress. And the stockpile objectives themselves have been greatly increased in the past two years.

We are placing particular emphasis on those things which are most vital to our country. The direct military interest in some of the things in the stockpile is relatively small. Take tin as an example. The military people don't use much tin directly as tin. Their contractors use very many tin cans for food and they use very much solder, but, by and large, the tin is for the civilian economy rather than for the military. Yet we must stockpile tin.

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We are criticized by the Congress if we don't stockpile fast enough; we also are criticized if we stockpile too fast. So we are always on the horns of a dilemma as to what is best to do for the security of our country. Our attitude is that, if we know an action is for the good of the country, it does not matter, we are going to do it. And we are making some progress in spite of the newspapers.

The machine-tool problem was a terrific one during the last war, and it is turning into a comparable problem this time. The war contracts that we are getting out during this transition period have to be translated into machine tools by the manufacturers, and they have to place their orders for machine tools. That is time consuming. In the meantime the machine-tool makers cannot get steel, they cannot get gears, they cannot get this, that, and the other thing. They have to hold their labor. They cannot wait or else their lines will go down. So we have had to place pool orders for about 450 million dollars' worth of general-purpose machine tools to be ready, when the contractors come in with their orders, to supply those orders. We will hold them in the meantime and thereby keep the machine-tool plants running, and permit them to expand because we think we must just about treble machine-tool production dollarwise during the next year.

Another thing that I will touch on for only a second is the international aspect of mobilization. As you read in the newspapers, we hope that the Europeans will rearm and produce in Europe, from their own resources as much of the munitions as possible. To do that, we are going to have to give them aid, not only in money, but in materials and in bits and pieces of equipment, and so forth. They won't have enough copper, sulphur, or this or that, so we will have to assist them, but we are hoping to get as much rearmament production going as possible in Europe and to intensify the will to resist that General Eisenhower reported he found growing on the other side.

We have had a staff of people working on this in London, in the NATO organization. Recently it has been reorganized. It is now called the Defense Supply Board and will be something like the Munitions Board or possibly a combination of the Munitions Board and the War Production Board. We have managed to get one of the best men in the country, Rod Herod, who is president of International GE and is thoroughly familiar with international production, to go over there to take over the job of running that staff. We have about 40 Munitions Board people on that staff at the present time. Herod and the staff will be international servants not United States. We will try to do our best to back up, from this side to help what they are doing to rearm themselves, and that effort is going to be increased.

The aid program (ECA) is being reoriented and the emphasis shifted over to rearmament rather than the long-term work that they have been doing heretofore. It is no easy task to get people to reorient their thinking and get them shifted to this far more urgent phase at the moment.

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I think I have talked long enough. To sum up: Our job of work is to produce as quickly as we can the things that we actually must have to equip and maintain our force of 3.5 million men for a period of fighting in the event war should come and, at the same time, to establish a mobilization base which can support an all-out war effort without having to wait for time to tool when war comes.

As I said, God has given us this time--it is a miracle that he has given it to us--in which to get ready. I never thought we would have it in this war. I thought this would happen very fast. But we have time now, we are moving ahead with it, and every day that passes our security becomes more solid and firm.

We are not secure yet, by any manner of means. We won't be for many months. But there is the will to do it in the country. There is the purpose to do it. Industry is solidly behind this effort. Industrialists are all eager to get rolling on it--eager to do more than we have contracts to give them. That is unfortunate but the fact is that we are not spending at any where near the rate of the last war.

We are getting our ducks lined up and getting industrially prepared far faster than we did the last time, because there are many people among the services who did the job before, who found out by bitter experience how to break bottlenecks, who found out the problems that come from mass production and the things that we should guard against, and who learned the techniques. We have learned, as I say, through bitter experience. We made many mistakes the last time, and we may have forgotten some of the experience but we still remember a great deal of it within the services. I hope and believe we will avoid many of the mistakes we made the last time.

It is a very heartening thing to get the feel, the swing, the upsurge, or procurement and production as it is now progressing.

Our only hope in this difficult period is to build sufficient strength to make the aggressor pause, stop, and think. He may not be able to stop because of his own internal situation, but our only hope of maintaining what we believe in, our heritage of freedom, against these barbarians that shriek their hatred at us and boast that they are going to enslave the world, is to create such strength as to give them pause, or, if they start something, to knock their heads off. I can assure you, from where I sit watching the services, that we are going to be ready to knock their heads off if they start.

Thank you.

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QUESTION: Mr. Small, when people come down here clamoring for business, it is usually a sign that prices are too high and the business has to be rationed out. Taking that suggestion, and the other one you made--that after you got rid of competitive bidding on the nontank, nonplane items, the effect was that the business went to big business, why did you get rid of competitive bidding?

MR. SMALL: We have not gotten rid of competitive bidding. We want the services to use competitive bidding on all items that can be taken off the shelves, where they can advertise and get the lowest price. On the other hand, we want them to use negotiated bidding when they can place the contract where it will do the country and the services the most good.

There is no prohibition, I assure you, against competitive bidding, but, with the declaration of the emergency, the granting to us of the power to negotiate has enabled us to go ahead with this mobilization schedule, whereas we otherwise could not do it. It enables us, also, to spread the load geographically across the country, to disperse it, so that we won't have everything concentrated in one small area, which we might otherwise do, and so that we may accomplish a number of other things.

I don't follow your thinking when you say that the reason people are down here clamoring for work is that the prices are too high.

QUESTIONER: It seems to me it is the same thing as consumer price control, in reverse. If the price is set below what the market price would be in the absence of price control, you are forced to ration. Here, in effect, you are forced to ration business because there are too many businesses that want to take orders at the price you are willing to pay.

MR. SMALL: No. The reason why these people are looking for work is that the authorities have said to the copper-consuming industry, for example, "Cut your use of copper by 'X' percent"; or to the aluminum-using industry, "Cut your use of aluminum by 'Y' percent. That cut is clear across the board. Everybody who is using aluminum has to reduce his use of aluminum, except for munitions. Therefore, a thousand firms are cut down, but we have contracts that will fit into only a dozen, 100, or 200 of the thousand. Therefore, they are still clamoring for enough to get back up to their original dollar volume. It is not because of prices.

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QUESTION: You mentioned in your talk that the construction of new government-owned production facilities will be kept to a very minimum. I was wondering what planning is being done to cover this "very minimum."

MR. SMALL: I gave the wrong impression if I implied only government-owned plants. I meant any new plant expansion financed to any degree by government money; for example, by rapid tax amortization. It may be private funds that put the plant up, but if it is being put up for defense work and we give them the benefit of rapid tax amortization (five-year amortization for some percentage of the total cost of the plant), that is government money; that is a government subsidy to the extent of the rapid tax amortization. There is no point in the Government spending its money to build bricks and mortar if, in the next town, county, or other place, there is a plant with labor, tools, and everything else that is competent to do that same job. We say to all our contracting people, "Don't support any plant expansion where the government expense is involved, if there is open capacity elsewhere competent to do the job."

Is there planning for plant expansion? Yes. We are increasing our aluminum capacity, which is an enormous job of work, by some 500,000 tons of aluminum per year. We are expanding the steel industry. We are expanding a great many of the mines. We are expanding a good many petroleum and gas pipelines. We are building a new tank plant, or other munitions plants, here and there scattered through the munitions fabric.

There is a need for plant expansion, but it is primarily a need for plant expansion for the production of resources rather than the production of munitions. Only occasionally do we run across the need for expanding a munitions item. I say "only occasionally"--there are dozens of them, but they are out of hundreds of projects.

Does that answer your question?

QUESTIONER: Not exactly, sir. What I had particularly in mind was new construction that is purely government owned; not government financed through the various means of financing, expanding, or anything like that, but new construction facilities owned by the Government. What I have in mind is something comparable to the Defense Plants Corporation in the last war building new plants with purely government money, and either government operated or contractor operated, but government owned.

MR. SMALL: We believe we are going to have to get into it because we believe that the way in which the rapid tax is being handled will probably result in a number of the concerns that would normally, if given rapid tax amortization, build their own facilities, turning round to us

and saying, "No. You go ahead and build it. I won't put my money into it. If you want to get this gadget, you will have to put the plant up, because we don't think it is going to be worth anything after the end of the emergency." So we are probably going to get into it. We are not in it yet to any degree.

QUESTION: Is there any planning to increase the production of strategic materials in countries which we believe will be accessible to us after the outbreak of a war?

MR. SMALL: Oh, yes; a very great deal of work is being done. We are spending a substantial amount of the approximately 4.5 billion dollars of authorized stockpile money in expanding production in countries which we think are going to be accessible to us in the event of all-out war.

For example, one of the things very vital to our economy is manganese. Manganese goes into all steel. We do not have enough in this country to keep us rolling. By means of stockpile money, we are contracting for the output of a big mine in southern Brazil. That mine will be operated by one of the United States steel companies, with Brazilian capital sharing the investment. The Brazilians are putting up all the capital because we gave them a contract, extending over five years, to take all the manganese they could produce. The same thing is true in the Congo. The same thing is true all over the world.

In Canada we are doing the same kind of thing. We are not paying for the capital investment. The Canadians are putting in the private capital because they have a contract from us to buy the output of a nickel mine there. We are trying to expand the production of the critical and strategic materials wherever we can.

The ECA found the counterpart funds are also being used for that purpose. The Point IV program is being reoriented to that same purpose of increasing the output of these necessary materials in the underdeveloped countries. Thus the underdeveloped country is being helped by having it produce materials and bringing a flow of money in for them, thereby creating good will all the way around and staving off communism in a particular country.

QUESTION: Would you discuss the part the reserve plants are playing in the rearmament program?

MR. SMALL: Yes. We are taking back many of the reserve plants. We are getting down to the bottom of the barrel and we are beginning to have arguments between the services. It may be an Air Force plant, but the Navy wants it, or the Army wants it now. We are going to get into that problem

more and more as we reactivate these individual plants. Many of them have been reactivated, and all of them probably will be reactivated within the relatively short future, with some exceptions. For example, we have a number of ammunition plants that we are not yet ready to reactivate. But the plants which had been sold under the security clause--I suppose those are the plants you mean--we are taking back one by one as the needs of the services indicate.

QUESTION: Can you tell me if there is any plan for establishing a priority system for important production under the present defense order number system? I understand there is no priority except in point of time. If there is a plan for such a priority system, would the Munitions Board administer it?

MR. SMALL: I am not sure I understand the question. "Priorities" is a quicksilver word. Something we don't normally think of as a priority system, but it is really a priority system, is CMP--the Controlled Materials Plan, which is the giving out to individual firms throughout industry thus much steel, thus much copper, thus much aluminum, or whatever. CMP will be reinstated by July of this year. The forms and regulations will be out about the first of March, they will be issued to the industry of the country shortly thereafter, they will be returned, screened, totaled, cut to balance supply and demand, and sent back to industry; CMP will be in effect by the first of July for the third calendar quarter of the year.

We have been advocating the setting up of a multiple-band priority system in addition to CMP. In the multiple band we have the essential things as well as the military items. We have met considerable resistance in the civilian agencies to setting up such a system prior to the institution of CMP. If a system of multiple-band priority ratings is instituted, it will be instituted by the civilian agencies; they will delegate to us our proper share in the functioning of the priority system.

QUESTION: Mr. Small, in the event of full mobilization, how does the Munitions Board view the manpower situation--with concern or without concern?

MR. SMALL: In the event of full mobilization, we will be very short on manpower; you can be sure of that. We were at the end of the last war and we will be again. We are short on manpower in many areas right now. In other areas--one, for example, as in Detroit--we have the problem of unemployment on our hands. But manpower is one of the very critical things and always will be, under mobilization conditions.

QUESTION: Mr. Small, my question has to do with machine tools. I understand it takes about 6 to 18 months now for a contractor to get the

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machine tools that he needs. Is there any interference with his procurement and our pool orders? Also, have we unfrozen our machine-tool reserve and made the tools available to him?

MR. SMALL: The purpose of the pool order is to put DO orders into the machine-pool plants and enable them to keep their labor force and to keep them working, but a DO order will take precedence, of course, over the pool order. Normally, it should not interfere.

I take it from your question that you may have heard that somebody is having to wait 18 months to get a machine tool. As of a couple of weeks ago, I think, the DO order load on the machine-tool industry was less than 25 percent, and the DO does displace any civilian order that has not been put into production. Therefore, maybe he was trying to get a special tool from one maker and refused to shop around and get it from somebody else who could probably make the tool just as well as the fellow he wanted to get it from.

I had a complaint the other day from one of the services. It said that we had lost a certain amount of production for lack of machine tools in a certain plant. I said, "I just can't rationalize it because the machine-tool makers are down here crying on my shoulder that they haven't got any orders. I can't rationalize the allegation that this fellow can't get his orders placed by the machine-tool people." We sent a task force up to that plant to find out about it. The operator said, "Yes. I can't get the machine tools." "Why not?" He said, "I haven't gotten around to placing the orders yet. I haven't written the orders yet." He was crying before he was hurt.

So there is a lot of hysteria in this thing. Everybody wants a priority to ride a gravy train to make buying easy. Ninety percent of the time it really is not something that is troublesome; they just feel like having a priority. The same thing occurred constantly in the last war.

COLONEL CAVE: You have given us very liberally of your limited time, Mr. Small. On behalf of the two colleges, thank you very much, sir.

MR. SMALL: Thank you.

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