

RESTRICTED

ALLOCATION OF ESSENTIAL MATERIAL

13 December 1951

CONTENTS

901

	<u>Page</u>
INTRODUCTION--Dr. A. J. Kress, Member of the Faculty, ICAF.....	
SPEAKER-- Mr. William C. Truppner, Assistant Administrator for Production and Distribution Controls, Defense Production Administration, Washington, D. C.....	
GENERAL DISCUSSION.....	

Publication No. L52-69

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

RESTRICTED

RESTRICTED

95~

Mr. William C. Truppner, Assistant Administrator for Production and Distribution Controls, Defense Production Administration, was born in New York City, 14 October 1911. He has been on the Controlled Materials Plan from its start and has had his hand in every decision made under it. Mr. Truppner is a graduate of the City College of New York, 1933 (B.S. and M.S.). He served as an economist with the U. S. Department of Commerce from 1935 to 1941. From 1941 to 1944 he served the War Production Board as assistant to the director, Production Controls Bureau; his major responsibility being the development and operation of the Controlled Materials Plan. From 1945 to 1950 he was with the U. S. Bureau of Census and was responsible for the conduct of the 1948 Census of Business and related programs in the distribution field. In 1950 he joined the National Production Authority as deputy administrator for Production Controls. Mr. Truppner is coauthor of "Wartime Production Controls," published by Columbia University Press, 1949.

RESTRICTED

RESTRICTED

903

ALLOCATION OF ESSENTIAL MATERIAL

13 December 1951

DR. KRESS: General Holman, gentlemen: Our speaker this morning is a working economist, making decisions day in and day out--has been since 1935--no halls of academic learning for him. In World War II he was in the heart of the War Production Board handling the Controlled Materials Plan (CMP) and; he had a great deal to do with developing that plan during World War II. After World War II he had some time to himself in which he found time to think over what had happened and to write down for your edification as well as instruction the problems of controlling strategic materials in a war period. This book is called "Wartime Production Controls."

As soon as the National Defense Production Administration had been set up, he was asked to come there; he serves as Assistant Administrator for Production and Distribution Controls and has had a great deal to do with developing the present CMP. He will speak to you on the broad aspects of the program and then we will show an executive training film which explains the work of CMP. He hopes that you will have lots of interesting questions for him. Gentlemen, it is a pleasure to introduce Mr. William C. Truppner.

MR. TRUPPNER: After that introduction, I was waiting for some hero to stand on the platform. Luckily, the General nudged me. I should like, if possible, to spend some 20 or 25 minutes in trying to convey to you some of the problems associated with controlling production in an economy such as that of the United States and try to create a backdrop for all the thousands of actions which we have to take. I have no intention of discussing CMP as such. CMP is a great volume of regulations written in very fine print. The only way that I know of for anybody to inform himself with respect to the literally thousands of rules and procedures associated with it is to study the fine print. I think any effort to convey to you any of those rules or procedures in 30 minutes of a discussion such as this is more or less fruitless. I should like rather to speak of the broad problems that face us and the way in which we are tackling them.

Now, we are engaged in a mobilization effort in this country which in many respects is without parallel in the sense than no other country that I know of has established a set of concurrent objectives which are of the magnitude and nature of those which have been established in this country. We are faced with an unusually difficult problem in our international relations in that once assuming that the country is in peril, as the national policy assumes, we are not engaged in a situation in which we must have the production of military weapons; we must

RESTRICTED

RESTRICTED

904

have a certain amount of guns, planes, tanks, guided missiles, ammunition, and what not; but we are not using such weapons up at a very great rate.

Consequently, we face the situation in which we want to be able to defend ourselves on a more or less all-out basis if the occasion for so defending ourselves arises but, unfortunately, the timing of the occasion is not being determined by this country.

Second, we want to create a situation in which, without producing the weapons, material, and equipment for the prosecution of an all-out war, we can in a very short space of time put ourselves in a position to produce a volume of military equipment, ammunition, and all the rest in the event that necessity arises.

Third, we want to accomplish both of these purposes and at the same time maintain the kind of a nation that we know in terms of its maintenance of conditions and characteristics of a free enterprise economy, with a price structure that has meaning and function. We want to create a condition in which certain civilian needs are satisfied on an adequate basis.

Now, putting all these things together as a set of simultaneous objectives, if I may use that expression, it says that, first, we want to create military weapons in sufficient volume so that we have all we need to prosecute the war in Korea at whatever rate is necessary.

Second, we want to have a stock of military equipment sufficiently large so that in the event the international situation takes a turn for the worse we have the arms, the weapons, and the equipment to prosecute that war for a sufficient period of time so that the wrenching of the industrial economy around to a point where it could produce weapons and armament at the rate needed for a large-scale chew-up could be achieved.

Third, during this period of time, in very simple terms, we want to continue to provide the material necessary for the maintenance of our facilities for schools, for public roads, for the remainder of our normal civilian services, such as fire and police protection, and all the rest.

Fourth, we want to continue the production of certain essential civilian products essential for the continuation of an economy such as you find in the United States: passenger cars, refrigerators, and the rest of the major appliances which are part and parcel of living in the United States.

Finally, we have two other objectives, which are phrased more or less in nonmaterial terms. We want to, if possible, minimize the

RESTRICTED

RESTRICTED

905

impact of the whole mobilization effort on small business, or businessmen in general, and we want to minimize the impact of this program on employment.

When you put all these objectives together, it means that we have a problem today which in very many respects is much more difficult and much tougher than we had in 1941 after Pearl Harbor. The rules in those days from the point of view of the men controlling production were very simple--either a certain production contributed to the prosecution of the war or it did not. If it did, it went ahead--it was given the green light; if it didn't, it was stopped. Today we are engaged in this rather subtle distinction between what contributes to the mobilization effort and what does not contribute to the mobilization effort.

To the outside world many of these distinctions, being subtle in their very essence, are not very easily discernible. The businessman who looks at the competitive businessman who is getting material to continue his normal business, while he himself is prevented from so doing, observes that the businessman getting the material is frequently engaged in his normal commercial pursuits; he is doing the same thing he did in 1947 and 1948, before Korea. Some omniscient genius in Washington has decided that this man's business is the type of business which contributes to this mobilization effort, while the first man's business does not. This is obviously a decision that apparently is most arbitrary, frequently resented, and most always misunderstood.

In this kind of a situation in which we have a number of objectives, of which the production of military weapons for use now is only one, it will happen, and does happen, that conflicts arise and when conflicts arise for materials in short supply, somebody has to make a decision as to which one gives way and which one does not. Now, to go back, if that conflict arises between a requirement for the construction of an atomic energy plant or, more subtly, for a Defense Electric Power Administration program for an electrical power expansion to support that atomic energy plant, or even more subtly, for the construction of residences, or refrigerators to put in those residences, so that workers can be drawn to the site of the atomic energy plant, we now have a conflict between refrigerator production and military aircraft for January.

I certainly would be the first to be able to forgive anybody for saying, "This is not a real conflict; this is senseless." Actually, if you think of it the way I spun the thing out for my own purposes, it essentially becomes a conflict between the military weapon of today and the military weapon of tomorrow. To make the analogy even more striking, if you are building a new aluminum plant to support an

RESTRICTED

RESTRICTED

906

aircraft schedule of October, November, and December next year for January through June 1953, schedules which are completely unattainable without a virtual doubling of our entire aluminum output in this Nation, then I think the case becomes very clear.

Unless we are willing to take materials now to provide essential civilian facilities--if necessary, houses, refrigerators, and what not--to draw people to work on the electric power expansion to run the aluminum plant to make the aluminum for the aircraft to be made in February 1953, the conflict of today is essentially a conflict not between soft civilian living and military aircraft, but it finally comes down to a conflict between the aircraft to be delivered in January 1952 and the aircraft to be delivered in February 1953.

This is a concept that is not very easy to understand, but it is at the root of all the difficulties that face us today, which stem from the establishment of the five-point mobilization which I mentioned at the beginning of this discussion. All of these objectives are calculated to create a nation such that would discourage an aggressor from striking now, because we have sufficient weapons to make life very difficult for him; but at the same time we don't invest so much of our resources in this objective so that we lose the whole war without anybody firing a shot; which becomes possible if we don't invest part of our current output of basic materials and resources in the gradual strengthening and building up of the Nation.

This is a very difficult problem that faces the country. My own view of the thing, and I grant I am biased, is that I believe this country is actually on the verge of achieving a miracle; for we have stepped up military production at an impressive rate and I think the delivery schedules do not come even close to reflecting the actual production of military weapons, much of which is not counted in delivery schedules because of the lack of some component or subassembly.

We have the pipelines filled; we are right on the verge, as I see it, within the next three or four months, of seeing the delivery of military weapons increase substantially. At the same time, essential civilian needs have been substantially met as can be demonstrated by taking one small example in a field with which I think all of you are familiar in your civilian capacity--public school construction. I chose that because it has been the subject of much controversial discussion regarding the degree to which the civilian economy has been cut back. If you look into the facts of the matter, in the year 1951, the last half of which was primarily devoted to the objectives I mentioned before, our construction of elementary and high schools rose to the highest level ever achieved in the United States. Our projected construction for next year will be only slightly below this year and will be the highest level of any in the United States except this year.

RESTRICTED

RESTRICTED

907

Those are the facts. That is an example and I can give you many others. That is the one I chose because it happens to be one with which you are familiar.

At the same time we are engaged in such operations as increasing our yearly steel supply in a very short space of time by a total tonnage which exceeds, with one exception, any other nation's annual capacity; we are engaged in a three and one-half year program to increase electric power by an amount equal to the amount the Nation increased it from 1882 to 1939 inclusive. These are two examples which illustrate the fact that we are engaged in this country in an expansion of our basic resources and facilities which in many respects makes the industrial revolution pale into insignificance. That is the kind of thing we are doing in this country.

While the expansion program of those proportions has been proceeding, and essential civilian needs have been met, I think it is fair to say, and I think responsible people in the Defense Department and the Munitions Board, have publicly said, that no essential military weapon or piece of equipment has been held up more than temporarily for lack of materials or components, this far. That is the condition which has been created. I think this country, we can certainly say, has been beforehand in preparing for the mobilization impact.

How did all this happen? I think it happened because during the last war this country learned something which it has had very little occasion ever to learn, namely, how to manage a controlled economy. This whole Nation lives and breathes in an atmosphere in which a controlled economy is the last thing that concerns the citizens. It is the last thing that concerns the Federal Government, and I say "the last thing" advisedly. We have a price structure and a set of industrial conditions and relationships which govern the actions of thousands upon thousands of people in literally millions of transactions. The distribution of materials and products are determined by the price mechanism and basic demand and supply as they affect those thousands of individuals. In the aggregate they result in the kind of production, distribution, and consumption we have in this country, for better or worse.

Now an emergency comes. The Federal Government steps in and says, "We don't want to make the things that will be made as the result of the operation of this system. This is a fine system, but not during an emergency." We now want to implement the national policy that I mentioned above. "We don't want to make copper ash trays, whether the people are willing to pay for them or not. We do want to make tanks and planes; we do want more materials for war; we do want aluminum expansion, 10,000 freight cars a month," and so on. These are national objectives and they are only established because the executive department of the Government,

RESTRICTED

RESTRICTED

908

with authorization from the Congress, says the Nation is in sufficient peril so that these objectives must be imposed on the Nation.

The Federal Government, under these conditions, assumes an unusual responsibility. It is difficult enough for the Government to decide how many freight cars, how much electric power expansion, and how much steel and aluminum expansion should be undertaken. Similarly, schedules can and are established for aircraft, ships, guns, tanks, and the like. That is tough enough, but it is basically very easy as compared with another part of the job it assumes. There is another part of the industrial economy which is much greater in size, namely, the production of so-called components, fractional horsepower motors, switch gears, and, in general, products which are made only to support other industrial production. Nobody in Washington knows how much of those things should be made to support the production schedules for the end products which we can and do establish.

This brings about the most difficult part of the whole mobilization program in terms of the production control problems that face the Government. One obvious thing we should like to do is to take the end products we know about and authorize the level of production we should like to have and then provide for simple extension of preference ratings and suballotments of controlled materials through the chain of suppliers. Obviously that is the simplest and the most direct way to go about this problem, but we soon discover that the very method of industrial operation of the very great bulk of industry at the subcontracting levels is such that there is no way of relating much of the material purchased to particular customers; that particular customers at those levels frequently buy in mill runs for common inventories, maintain common material control systems, and many of them actually buy, manufacture, and sell on a more or less off-the-shelf basis.

For example, when you want an industrial fastener, most of the time you want the vendor to take the product he has already manufactured and sells in his normal course of business; deliver the fasteners he has already made, or manufacture them out of material on hand.

I am trying to say that while I feel it would be convenient from a controls point of view if purchase authority could follow financial subcontracting in all cases, in a complex industrial society such as ours, industry does not work on that basis in many areas; in some, it does.

To meet this problem, the Controlled Materials Plan, which is our basic production-control system, invented two classes of products and called them "A" products and "B" products. The essence of this distinction is very simple in concept. An "A" product, normally, is a product made to specification for a particular customer, normally against a

RESTRICTED

RESTRICTED

909

particular order, and the purchase authority can therefore go down this "A" chain in these cases because the allotment authority is following normal industrial procedure anyhow. But in those cases where material is not procured on this basis, we term the manufactured product a class "B" product. Since there are normally a great many claimant agencies, either directly or through their subcontractors making purchases from this type of manufacturer, we concentrate authority for each production in one place in Washington, that is, in the Industry Division in the National Production Authority (NPA). The claimant agencies sit around the table with the NPA division in charge of each production and place their anticipated claims for such products at this one place. The division translates the total claims into material requirements, goes to the Requirements Committee of the DPA, obtains allotment authority, and authorizes production of such products accordingly. When you people, or your subcontractors, go to buy these kinds of things, they will be there to the extent we did a good job in calculating requirements. That is the essence of the so-called "A" and "B" products under CMP. That is why we have the two kinds of systems operating.

Unfortunately, while this does meet the problem of dealing with the industrial system as it operates in providing a production control system which is workable, it has another great danger, namely, the degree to which we are able to calculate the real demand on these so-called "B" components which will arise three, six, or nine months hence and authorize production to meet all the needs under approved programs. This is essentially the most difficult part of any production-control system. Just recently there was a very strong recommendation made, mostly from the military and the Atomic Energy Commission, to provide for a preferential status in the procurement of "B" components for military programs. That request was turned down; it was turned down because we felt that if we did that it must follow that the procurement of those "B" components which would be obtained, and in effect guaranteed, with a preferential status, must come at the expense of some other program. If they were not obtained on the basis of a conflict, there would be no need for a preferential status in the first place.

We, therefore, concluded that if this was the case, all we would be doing in effect, by such preferential status, would be redetermining the pattern of the end-product programs again after they had been established and determined, and if we gave preference to one of the basic mobilization objectives over the other four, we would be doing it on a hit-or-miss basis--without a full knowledge of the consequences.

Instead of that, we said, on the constructive side--we do try to be constructive--"We will, in effect, essentially reorganize the operations of the NPA around a new concept. Whenever one of the suppliers of a "B" component for a military program, or a defense plant expansion program, finds he conflicts with a nonmilitary or

RESTRICTED

RESTRICTED

910

nonexpansion purchaser of some subcomponent or material, you come down and tell us and we will put him ahead of the nonmilitary fellow by directive." What we are saying, very simply, is that whenever a military order conflicts with a nonmilitary order, we will put the military order ahead, but we won't give a particular preference ahead of time to all military orders over all nonmilitary orders. We don't think that the thousandth tank made is more important than the first freight car. We said, "We don't think it is a good idea, we don't think it is right because many of these competing so-called non-military demands"--as I pointed out before--"are nonmilitary only in the sense that they relate to tomorrow's military schedules instead of today's."

So, therefore, the construction of an aluminum plant which is non-military, and which is competing with a particular component for a military program, is not necessarily less important. Again, if I may go back to my original remarks, all that is happening is that today's military schedule is uniquely identified by a symbol which was created to say, "This is military aircraft for today; it is competing now, not necessarily with nonmilitary production, but with the military program of tomorrow." We are creating a facility to provide the aluminum for aircraft to be made a year hence; we don't think that every purchase order placed for every military product today is more important than every purchase order placed for every military or nonmilitary product for tomorrow.

I think we must have a balance; we have to devote enough resources to today's production of military weapons to carry on a limited conflict today, but at the same time build up the Nation's potential so as to discourage a greater conflict tomorrow, and these are essentially military decisions.

Now, in general, where we stand today is that we have now almost passed through the basic-materials phase of the problem. I believe next quarter's operation under the Controlled Materials Plan will be almost fully effective. We have most of the kinks ironed out; most people understand the procedures and operate under the rules; we are rid of most of the mistakes we made in the first place, and, by and large, we will find, I think, that the first-quarter operation will be reasonably smooth.

However, if we did a good job in authorizing maximum production within controlled material supplies, it means essentially that we will be running into these component shortages again and again. That should be the next phase of our production problem and will be. It is obvious that if you have something in the neighborhood of several hundred thousand different components in the mill of the industrial system on which end-product programs depend, and we convert--as we do in CMF--

RESTRICTED

RESTRICTED

911

all end-product programs into their equivalent requirements of steel, copper, and aluminum, and we reduce these programs to doable levels within the supply of these materials, trouble spots are bound to appear in the component area. Even reducing programs in times of their controlled materials demands explains why the imposition of the Controlled Materials Plan creates so much talk, requires so much study, and has such an enormous impact on the economy.

CMP is not a device for channeling steel, copper, and aluminum to authorized programs. It does that, but that is not what it is for. What it is for is to reduce the authorized programs through allotment authorizations for steel, copper, and aluminum to doable proportions. That is what distinguishes it from the allocation orders which parcel out a limited supply of materials to a given set of demands, but never reduce the demands down to the point where people who have authorized schedules can have assurance of purchasing the necessary material. That is the great distinction. CMP is the basic production-control system in the Nation and as an incidental it channels steel, copper, and aluminum to the authorized programs.

But you heard from another speaker recently, regarding the program phase and the connection with the control system is very clear. We gather all end-product program proposals from the claimant agencies together with their equivalent demands for steel, copper, and aluminum. Having done that, we bring them all into conflict with one another for their share of the estimated supply of controlled materials. So, having done that, we make reductions in the authorized level of each of the programs, such that the steel, copper, and aluminum required to carry out the programs is available.

Having done that, we have the problem of providing the necessary quantities of tens of thousands of components. Let us suppose we do a good job on authorizing component production and have a .99 batting average, which is not bad--that means we are wrong a fairly small percent of the time. True, but if you get one percent of 100,000, it means, if my arithmetic is right, that we have a thousand tough component problems facing us because we could not translate all of the end-products programs into their component requirements of switch gears, fractional horsepower motors, and so on.

If you increase the tank program 10 times from now to next December, and triple the aircraft program, and reduce vacuum cleaners, refrigerators, and so on, by 50 percent, do you need more fractional horsepower motors next December? That's only a small illustration. Just think of all the enormous range of products that use fractional horsepower motors, some going up, some down, in terms of lead-time problems. Where you have literally thousands of problems like fractional horsepower motors, you can't authorize end-product programs doable in this sense at the time the basic program levels are established.

RESTRICTED

RESTRICTED

912

Under those conditions, we know in advance that balancing out in terms of steel, copper, and aluminum will create a condition where we may have a good batting average in the component area, but, as I said, if you have a good batting average and multiply your mistakes by thousands, you still have a large number of headaches.

We are almost up to that phase. That will begin, in my judgment, the beginning of next year. We will always have the components problem. We always will have it, I hope, for if we don't have it, it means we are not driving the industrial system very hard. We should choose to have the problems; that is the way to get a high output. A couple of headaches in Washington is a small price to pay for a high output. If we follow present policy, policy announced by Mr. Fleischmann just last week, we will not give preference to any one of these national objectives; but rather we will wait for conflicts to occur and, when they occur, we will decide in favor of the military every time. This requires a lot of work; but I consider it is work well invested, because I am confident that if the military did get a general preference, it would be very short lived because the other objectives are also very important. Deciding generally in favor of one of the five objectives at the expense of the others would create havoc in the other programs and when havoc was created, I assure you the importance of tomorrow's military program would soon lead us to say it should have the same preference as today's military program. Then the fat would be in the fire.

So, the kind of production-control system we have today is essential. It has balance; it reflects national policy; it recognizes the fact that you can't create a set of procedures and rules in Washington without taking due cognizance of the way industrial operations are conducted. It incorporates all that we learned in four years during World War II, and it has been created on a time schedule which most of our more sophisticated critics said was impossible. I think the results of the actions we have taken are such that we can all be proud of them. I think we have achieved almost a miracle by establishing workable mobilization controls in a free country not engaged in all-out war.

I should like to leave that as a general background, if I may, and show you a film which we have available today. It is a brand new film; our own boss, Mr. Fleischmann, has not seen it as yet. It attempts to capture the spirit and the essence of CMP. It picks off the high points--at least it is so intended. I should like to show you this next, not to get down into the detailed workings of the machinery, but rather to pick up the points of the operation in an intermediate level of procedure. Following that, as Dr. Kress said, I should like to engage in a much more informal two-way discussion with you for the remainder of the session. We will have the film next.

RESTRICTED

RESTRICTED

913

DR. KRESS: Gentlemen, we are ready for your questions.

QUESTION: How are materials allotted to the small businessman who produces things that are undistinguished, whether defense or civilian? For example, a small oil well operator has to drill wells to continue the oil supply; to do that he must have steel pipe. How can he get a good steel pipe when he has Standard Oil and that kind of competition?

MR. TRUPPNER: Small businessmen don't ordinarily come to Washington. As a matter of fact, they don't ordinarily even go to a field office. We have what is known as a small-user provision. There is a table in the regulations that sets up quantities of controlled materials for the manufacturer making class "B" products. Under present conditions he is permitted to make out his purchase order and certification and then convert it to an authorized controlled material order with an SU symbol up to the amount of the tonnage specified in the regulation. That tonnage is based on a quarterly consumption rate; that takes care of the great bulk of them. I guess somewhere in the neighborhood of 40,000 or more. Incidentally, the SU certification has just as much standing with a normal warehouse supplier as any other sort of certification, except for the A, B, C, E designations about which you know.

Then there is a second layer of manufacturers who are a little bigger than these, fellows who exceed the specified tonnages. These manufacturers are taken care of in the field offices. I guess in the next quarter there will be somewhere in the neighborhood of 20,000 of those. The 18,000 or 19,000 biggest manufacturers in the country file in Washington, in the Industry Divisions of the NPA.

QUESTION: I would like to approach to 1953 or 1954 when the military requirements are contracted for in the maintenance program. What do you predict will be your controlled material problems then?

MR. TRUPPNER: I should guess that the year 1952, taking it all in all, will follow the pattern of the first quarter. The second quarter, I have a suspicion, may be our toughest point of all, from a materials point of view; that is, assuming no change in the international situation. Assuming we have a continuation of the present situation with respect to military procurement, I will guess it will be the beginning of the first part of 1953 before we have any substantial loosening of the supply of many materials relative to demand. I would assume that when that happens we have enough potential demand being built up right now in certain areas of civilian need so that we may then be in a position where we will have to guide the flow of materials to what I would call very essential activities whose production we have depressed up to the present.

QUESTION: Do you get reports of "B" product requirements from the Department of Defense, projected by close quarters ahead of time?

RESTRICTED

RESTRICTED

914

MR. TRUPPNER: We are now engaged in a program to develop the statistical machinery needed to get reports of a selected group of end items purchased by the departments. In other words we don't ask the departments to tell us the amount of ball bearings associated with their projected end-product schedules. It is too tough a job. We have to go at it by another route. We are now developing a system to permit them to tell us how many civilian type beds, how much metal furniture, how many calculating machines, and products of that kind will be projected by quarters. We must have it if we are going to have, six months ahead of time, the material ready so the manufacturers can make them, so they will be there when the Defense Department goes to buy them. We are engaged in developing that part of the structure right now.

QUESTION: Will that cover the full range of items?

MR. TRUPPNER: Only end items, sir. There is some difference of opinion on the subject. My own view is that it is a waste of time to ask the claimant agencies what their component requirements are going to be. I don't think that is a very good method of measuring component requirements.

QUESTION: Where do you all tie in with the manpower situation, particularly on the "B" products industries? Take the small motors, for instance--do you allocate additional materials to the account of a man in Philadelphia? You can make or break an industry very easily by your allocations. If a man gets additional allocation, where does he get the manpower?

MR. TRUPPNER: In general, what we do, to the best of our ability, is follow the provisions of the Defense Act of 1950 which says, more or less, that after we have taken the materials necessary to meet defense requirements, we should make an equitable distribution of the remainder as best we can. We try to follow that out by finding the manufacturers of civilian-type goods or commercial products--goods such as fractional horsepower motors--manufacturers who have orders connected with authorized military programs and cover their requirements on a 100 percent basis so they have enough material to meet those orders, but nothing extra. The remainder of their business we try to reduce--there is a reduction necessary, of course--by spreading the remaining material allotment evenly across the board.

As you know, we don't allot manpower in this country. We didn't do it at the peak of World War II, but we permit manpower to flow from plant to plant, from company to company, in accordance with the authorized production schedules of the companies. So, in a sense, we have no direct connection with the movement of manpower. However, we establish a condition such that manpower will move from one plant to the other in accordance with national needs. That is a rather vague statement, but

RESTRICTED

RESTRICTED

925

specifically, if Blank Electric Train Company is competing with a nearby shipyard, we will authorize a level where Blank Electric Train Company will have to let people go and they will go to the shipyard. If they don't go, another problem arises. You do have the possibility of making wage adjustments for the shipyard to attract them but that is not our department's responsibility.

QUESTION: Would you hazard a guess as to how many plants there are within the plants? For instance, in steel I presume you have people working specifically in structural steel, nickel steel. I presume copper and aluminum are the same. How many little plants go to make up the big plant?

MR. TRUPPNER: One of my basic responsibilities at the DPA is to see that all the control procedures--rather than "plans"--are integrated and directed at a common objective. The complexity of industrial operations makes it necessary to provide for departures from a single plan without sacrificing the objective of a well-integrated system.

An example of what I regard as a well-integrated procedure within a broad plan is provided by the melt schedule for nickel bearing steel. In this particular case we hand out alloy and stainless steel CMP tickets in the form of purchase authority for nickel bearing steel. This gives consumers the authority to place orders with suppliers. Suppliers prepare a melt schedule and send it to the Steel Division of the NPA. That particular section of the NPA has as its job the filling of every single one of those CMP tickets; so far they have done that job.

The necessity for the melt schedule being superimposed on CMP arises because when we hand out alloy steel tickets, the basic limiting factor is the nickel necessary to make the alloy steel which will be requested. Obviously we can't calculate requirements all the way down to the contained alloy elements. We find when tickets are cashed in for nickel bearing alloy steel they may request steel containing more nickel than we have available for the purpose. The purpose of the melt sheet is to cash the CMP tickets or nickel bearing steel by reducing nickel content through specification changes on individual orders. In addition broad use restrictions are contained in Order M-80, amended the week before last, which says, "If you are buying nickel bearing alloy steel for this product, you can't order more than 2 percent nickel content."

The melt sheet provides for an accumulation of additional information so we can publish more complete rules in public documents and tell the manufacturers there is no sense ordering alloy steel with nickel content that exceeds specifications, in terms of percentage nickel, if they want to use it for a listed purpose. On the other side, we work on a more or less informal basis with the military people. We are constantly trying to get them to change their specifications in their placement of contracts.

RESTRICTED

916

QUESTION: How do the steel mills tie in with that? I understand you make allocation on the steel mills. You might allocate all the product of the steel mill for the next quarter or the quarter beyond that. Those tickets won't always come in, in that quarter. The steel mills can only sell if they get tickets. What if they get tickets for only half the production? What do they do--just put out half?

MR. TRUPPNER: You are describing a day I dream about at night. What we do--first of all, we now have every steel mill in the United States under production directive; every steel producer in this country at present produces steel only in those particular shapes and tonnages which we tell him he should produce. This is a side of CMP which is not visible, normally. It is a part of our internal operation. When we authorize programs and we hand out carbon steel tickets, we don't just measure those programs in terms of carbon steel requirements in order to see if we can authorize them or not. We measure them in terms of tonnages of rod, bar, sheet, plate, strip, structurals, and all the rest. We calculate the impact of those authorized programs on the particular steel facilities, on the particular steel product groups. Therefore, we are authorizing programs so that we can calculate the particular steel product requirements. Authorized controlled material orders will be placed on the steel industry in the particular quarters our lead times indicate. In the operation of the supply side, the Steel Production Directive Committee tells the steel mills what they should make in each quarter. This very frequently is not in full accord with company objectives, in terms of providing the various types of products for sale. Consequently, we have to tell them what to make and we do tell them.

At present we have 100 percent of the steel output in the United States under control by product shape. As I say, if the situation you describe should arise, it does arise simply because there is a substantial difference between the mill price and transportation cost from some mills as opposed to other mills. Some people have tickets for part of the supply, which happens to be very high priced and badly located. We have now the situation that those people cannot cash their tickets on the mills of their choice. They come to NPA and we endeavor to place their orders with the most acceptable mill. We are in constant check with the mills; we know where there is space. We tell people where open space is. If they want to pay the price, we fill the mill up. If they don't, there's nothing we can do. Some mills have a high cost and there's no simple way of changing this basic condition.

QUESTION: Does your controlled materials allocation have any effect on inflation on end items when they come out? In what way does it affect inflation in terms of price structure?

RESTRICTED

RESTRICTED

917

MR. TRUPPNER: It gives us control, so to speak, by providing this machinery, beginning with the initial authorization. Take it in its simplest terms--if we don't have this type of control, if we simply pick out the things needed for defense and then tell everybody else to scramble for the remainder, I am sure that the production of refrigerators, passenger cars, irons, and so on, would fall 90 percent. It is not so much that they could not get steel--they could get steel, but every one of those programs would reach a level of production determined by the single component item in shortest supply in each plant; in a complex thing like passenger cars you could be sure there would be some item somewhere such that they could not get more than 5 percent of their production requirements which would determine the total output. Obviously, if production of purchasable consumers' goods fell 80 or 90 percent, I believe it would contribute to the forces that lead to price pressure.

DR. KRESS: Gentlemen, Mr. Truppner had a bout with a virus yesterday, and in spite of that he was called in an emergency session last night for the Steel Industry Committee. Yet he has served us very well today. On your behalf, I think him very kindly.

(1 May 1952--750)S/fl

RESTRICTED

918