

## THE AUTOMOTIVE INDUSTRY

21 February 1956

## CONTENTS

	<u>Page</u>
INTRODUCTION--Rear Admiral H. T. Deutermann, USN, Deputy Commandant, ICAF.....	1
SPEAKER--Mr. Courtney Johnson, Government and Industrial Products Division, Studebaker- Packard Corporation, Washington, D. C. ....	1
GENERAL DISCUSSION.....	16

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ADMIRAL DEUTERMANN: Good morning. Gentlemen: We will leave this morning's period to our speaker, Mr. Courtney Johnson of the Studebaker-Packard Corporation.

This is not his first visit here. He believes it is his fourth--we thought, the third.

He has been in the automotive industry since 1950. I think you have his biographical sketch. He served some time with the Government in times of emergency, both in the military forces and on civilian levels.

His subject this morning is "The Automotive Industry" and its position with the national economy.

It is a great pleasure to welcome back to our platform Mr. Courtney Johnson.

MR. JOHNSON: Thank you very much, Admiral Deutermann. General Hollis, Gentlemen of the Industrial College of the Armed Forces: It is a pleasure and an honor to discuss again before this distinguished educational institution "The Automotive Industry" and its relation to the defense of our country.

On the three previous occasions, my discussion was limited to certain specific phases of these relationships. When Colonel Walker and Colonel Benedict told me that this discussion would cover "The Automotive Industry--its position in our national economy and its importance during a period of economic mobilization; the characteristics of the industry, its more important capabilities and limitations and its ability to meet the problems of a national emergency; the economic, technical, financial, governmental and other influences on the expansion or reduction of production for a partial or full mobilization"--I was almost appalled. I hope I did not indicate to Colonel Walker and Colonel Benedict my alarm--but I could not help but be reminded of an expression which was current when I was a small boy and someone started bragging about doing a big job. The expression was, "If you really want to do a big job, wash an elephant." Because, gentlemen,

this automotive industry which I shall attempt to tell you about today is a very large elephant. In fact, it is the largest elephant, from an industry standpoint.

It would be presumptuous of me to pretend that I could cover all aspects of this enormous industry in a limited time, or, in fact, in an unlimited time, and so, with your permission, I am going to confine my remarks about the role of the automotive industry in the event of war or national emergency to two particular aspects of that role: First, the relation of the automotive industry to the civilian population and its pursuits and activities in an emergency; and, second, the relation of the automotive industry to defense mobilization and the continuing supply of our Armed Forces during the emergency.

It is quite possible that I shall fail to discuss some matters in which you are particularly interested and, if that is the case, I hope they will be brought up in the question period which follows, and I shall do my best to cover them at that time.

Before getting into the main themes of this discussion, I think that some information about the automotive industry is pertinent as a background for what will follow and as a matter of interest to you as citizens and officers. In order to give you this quick picture of this astounding, gigantic, and colossal industry, its history, composition, and activities, I shall have to depend to a large extent on statistics, but shall try to keep them within limits and not bore you unduly with too many figures.

The automotive industry is not an old industry. In the year 1895, only 61 years ago, there were only four automotive vehicles registered in the United States. It was only 43 years ago, in 1913, and well within my memory and experience (in fact, I entered the industry in 1915) that registration of automotive vehicles in the United States reached a million. There were only a million in use in 1913. Now, at the end of 1955, we have an estimated registration of 61,334,000 motor vehicles in this country. I say it is estimated, simply because the final figures for the month of December are not yet completely compiled, but that estimate will be certainly within a few thousand, and perhaps within a few hundred, of the actual registration. Last year more automotive vehicles were produced (about 9,300,000) than were registered in the whole country by 1920.

It is interesting to note in passing that every man, woman, and child in the country could, simultaneously, get in an automotive vehicle and ride away in all directions, always provided that all did not try to ride away on the same roads. In fact, if the population of this country were twice as big as it is, in other words, if there were 130 million people in the country instead of 65 million, all of them could still get into current automotive vehicles and ride away at the same time--but there would not be very much room left for baggage.

We are apt to think of this industry in terms of the five companies building passenger cars, each of which also builds trucks. However, in addition to these five companies, which are, as you know, General Motors, Ford, Chrysler, Studebaker-Packard, and American Motors, there are twenty truck manufacturers who build trucks but no passenger cars, headed in point of size by International Harvester, Kaiser-Willys, White Motors, and the Mack Truck Company. With the exception of International Harvester the other independent truck manufacturers are relatively small in size compared with the giants of the industry, but are very important because they manufacture trucks and off-the-road vehicles of special design for special purposes. They make available to industry and agriculture special tools in the form of vehicles which are not manufactured by the large manufacturers because they do not lend themselves to repetitive mass production.

I now have to make an exception to that statement, because quite recently, within the last year, General Motors bought the Euclid Company, one of the leading manufacturers of off-the-road vehicles of the very kind of special nature that I am talking about, and I have no doubt they will dominate the off-the-road market in a very short time.

I suppose some of you followed the hearings in Congress when General Motors appeared, but it was interesting to note that they now make 76 percent of all the locomotives made in the United States.

However, the Willys Jeep is a very good example of an automotive vehicle which can be used as a tool for many purposes. With various attachments, such as plows, harrows, drills, cranes, trench diggers, personnel-carrier bodies, and cargo-carrier bodies of various types, it has been adapted as a tool for both civilian and military purposes particularly for off-the-road work.

The five passenger-car manufacturing companies manufacture products other than vehicles in varying degrees, some of them directly

related to the automobile industry, and some of them, like the products of the Frigidaire Division of General Motors and the Air Temp Division of Chrysler, that are quite separate from the automotive industry. Also, it should be noted that these five companies are composed of "divisions" which, in most cases, operate autonomously, and which in themselves would be large companies if they were not parts of large corporate structures. The number of these divisions is about 75 for the five companies. So that, instead of thinking of the industry as the five major companies in it, we should remember the 20 independent truck manufacturers and the 75 divisions, and think of the industry as nearly 100 prime producers.

In addition, there are between 25,000 and 30,000 subcontractors and suppliers who sell their goods and services to the prime producers in the industry. General Motors has made a count of the number of subcontractors and suppliers who deal with their divisions and have announced that there are 21,000 of them completely unconnected with General Motors, who contribute to the manufacture of their products. Since there is a great deal of duplication of subcontractors and suppliers with the different companies in the industry--for instance, all of the automobile companies buy from all of the steel mills--I have estimated that the total number of subcontractors and suppliers would approximate 30,000.

I have been able to get floor-space figures for the five passenger-car companies only, and we shall have to use our imagination for the 30,000 subcontractors and suppliers engaged in this business. However, these five largest companies have 289,682,000 square feet of manufacturing floor space, equivalent to 6,500 acres, or 10 square miles. They and their subcontractors and suppliers constitute the greatest reservoir of machine tools--tools, dies, jigs, fixtures, manufacturing equipment, skilled metal workers, mechanical engineers and engineers of other arts and skills, management talent, and manufacturing capital to be found anywhere in the world.

So far, I have been speaking of manufacturing alone, but, if you included in the industry all the companies that not only manufacture, but also sell, service, and operate the products of the industry, then we find there are 701,000 businesses in the country that are automotive in nature.

I am trying to give you in concise form a picture of an industry that is an enormously significant part of our economy. For instance,

not only is one business out of every six businesses in this country automotive in nature, but to manufacture, sell, service, and operate the products of the industry requires 10 million workers. One out of every seven workers in our economy is engaged in the automotive industry in one way or another. Seventy-seven percent of all the tons of freight moved in this country is moved by truck. Please do not be deceived, gentlemen, by the statistics that are given out generally by the railroad industry, who always talk about freight-ton miles, because obviously, if you put 50 tons of coal in a freight car and take it 1,000 miles, it is 50,000-ton miles, but it is still just 50 tons of coal.

I repeat, 77 percent of all the freight moved in this country measured in tons is moved by truck. Seven million automotive vehicles are on farms which now support only 4-1/2 million horses and mules. The automotive vehicles finally exceed the horses and mules on our farms.

Twenty-four thousand four hundred cities and towns are served by motor vehicles alone. They have no other form of transportation for the movement of people, to bring them supplies, or to take their products to the market. Of all the 65 million workers in this country, 44 million get to and from their work in motor vehicles--like, I guess, all of us in this room. Not only have one-fifth of all patents issued in this century been patents which relate to automotive transportation--408,000 in number--but also the industry has developed leadership in Diesel power, in locomotives, in bearings for freight cars, in railroad electrical equipment and marine power units, and is an important contributor to the manufacture of airframes, aircraft engines, bicycles, baby strollers, lawn mowers, lawn gymnasiums, farm tractors, household appliances, and a list of other products too long to enumerate.

I will tell you an interesting incident that happened in the hearings over there at Congress. Senator Dirksen of Illinois was questioning Mr. Sloane, and of course the big question that was being brought out continually was, "How big is General Motors going to get?" and all the questions relating to that. It was said that General Motors will expand into a new business, like the road machinery business, I mentioned, or the locomotive business, when they feel they have some ideas that will be good for that business, or have developed some methods that will be good for it, or that entering the business will be to the advantage of General Motors.

Mr. Dirksen repeated this to Mr. Sloane and said, "You told us that. Isn't it possible that, due to your use of varied things in the industry, you might get into other business?" Mr. Sloane said, "I don't know. I don't think so." Senator Dirksen said, "For instance you air-condition your automobiles, don't you?" Mr. Sloane said, "Yes, we do." "Well," he said, "having developed that art in that way, isn't it possible in the future sometime that you will get into the air-conditioning of houses?" Mr. Sloane said, "Well, we do air-condition houses." Senator Dirksen said, "Well, that is a bad example. Now let me see. Let me take another one." He said, "You manufacture refrigerators, don't you?" "Yes." "That is a household appliance?" "Yes." "Don't you think, as a result of your experience in that business, that you might get into the manufacture of--well, let's say, washing machines and stoves?" Mr. Sloane said, "Well, we do manufacture them."

Well, I give you my word, it took some time to find something that General Motors does not manufacture.

Our dependence on the automotive industry is shown in other ways. For instance, to get to market the food we eat, it is interesting to note that 80 percent of all the cattle moved by truck, 72 percent of the butter, 99 percent of the fresh eggs, 89 percent of the frozen eggs, 99 percent of the live poultry, 91 percent of the dressed poultry, and 52 percent of the fruit and vegetables. In fact, gentlemen, any serious interruption in automotive transportation would create havoc in almost all aspects of our economy.

I could go on at even greater length to tell you, for instance, that the industry uses 44 billion gallons of gasoline per year, and 12 million tons of steel, and 154,000 tons of copper, and 439,000 tons of lead, and that in the last two years there has been 2,440 million dollars invested in plant and equipment in the business, and 1,900 million dollars is estimated as the additional investment this year, and so forth. But surely these amazing statistics have at least served to prove my point--that here is an industry that is in every respect vital to the economy of this country and to modern civilization.

All of this remarkable growth, particularly the recent growth in the business, has not been accomplished without some growing pains, some of which you have seen highly publicized and advertised in the newspapers during the last two years. The public demand has increased so rapidly, requiring a fantastic increase in the volume of

business, that we have been experiencing some of the less admirable attributes of the competitive, free-enterprise system. In a competitive system, when a big increase in business is in sight, everyone in the business, of course, strives in every way to get as large a portion as possible of the increase in order to establish a better position for the future. In the last few years, this has been true of both factories and dealers in our industry.

Factories, in their desire to capture a higher percentage of the market, have overproduced, and dealers, likewise, in order to get a higher percentage of their markets, have cut prices, stretched credit terms to the limit, made fantastic claims in their advertising, offered exceptional and, I am afraid, sometimes fictitious trade-ins, engaged in bootlegging, and conducted on a grand scale what I would call an Oriental type of merchandising.

All of this will pass, as it has in similar periods in the history of the industry. We must console ourselves with the realization that a competitive, free enterprise system can be very rough and tough at times, and it is always hard on the losers. A good deal of the crying that we hear, gentlemen, is by the losers. The things that will not change are the continuing demand of the public for individual, personally-controlled, transportation and the fact that the larger and better equipped the automotive industry becomes, the better it is prepared to take care of a major portion of the defense load.

I am going to spare you any further statistics. But, if with this background, we are next to examine the relation of the automotive industry to the civilian population in the event of war, I think we would do well to ask ourselves the fundamental reasons for its growth within 50 years to the largest industry in the world and the most vital to our modern civilization.

To me, the reason seems quite simple and quite evident. For the first time in the history of civilization, man has found a way to move about freely and independently and to move his products and necessities where he wants to, when he wants to, and in any quantity needed. Suddenly individuals find themselves free to travel over this continent and to enjoy different scenes, different climates, different people, and different occupations in a way never before possible. Suddenly people find themselves no longer tied to the city but rather, to a greater extent than ever before, able to live in the country and work where they please. Suddenly the people find that they need great highways in constantly increasing thousands of miles.

In this respect we have not done too poorly in this country, although I know every man in this room is thinking perhaps we have, and after just my experience coming down Massachusetts Avenue this morning I would agree with you. However, there are 3,400,000 miles of roads and streets in the United States, of which 2,228,000 miles are hard surfaced. Nevertheless, I think, from your own experience and observation, you know that the highways are inadequate and that the streets are crowded. The movement of automotive vehicles is not as free as it should be. That is, I think, the understatement of the day!

I have no doubt at all that this situation will be changed. Since the use of automobiles and trucks is so close to the hearts of all the people, popular demand will gradually bring us the roads that we need, even though the needed additional highways and improvements to the existing highways are estimated to cost about 100 billion dollars. Let me point out that the improvements to the highway system forced by automotive transportation greatly increased our mobility for defense and our ability to survive under attack.

In the event of national emergency, I am sure that we cannot consider the automotive industry as a manufacturing enterprise organized solely for profit, but rather as the binding, the warp and woof that holds our present form of civilization together. While it is, of course, obvious that nothing should stand in the way of proper supplies for our defense, on the one hand, nevertheless, on the other hand a very careful adjustment of the whole of the automotive industry to meet a national emergency is essential if we are to avoid a serious disruption of most of our activities and a serious crippling of our defense effort on that account.

I can best illustrate what I mean by reciting what happened at the beginning of World War II. Immediately after Pearl Harbor a meeting was held in the Social Security Building, right over near here in Washington, attended by two men from each company and conducted by Mr. Knudson and Mr. Leon Henderson. I was at that meeting. The main question was the continuance or discontinuance of automotive production. The decision was made in an atmosphere of alarm, naturally, and in my opinion, without careful consideration of the effect. The decision was to shut the industry down within two weeks on the theory that this would hasten conversion to defense production and save materials.

The effect was unnecessarily disturbing to the economy. In the first place, a half-million men were thrown out of work because, with the best intentions in the world, it is not possible to convert from one type of production to another type of production in our industry, or in any other industry, until the defense contracts are negotiated and signed, subcontractors and suppliers are located, orders are placed, plants are rearranged, machine tools are acquired, the necessary dies, jigs, tools, and fixtures are manufactured, and the men are trained in their new duties.

I can illustrate this time element by a very recent happening in our company. Last June after four months of negotiation, we signed a contract with the Ordnance Corps for the manufacture of 2-1/2 ton 6 x 6 trucks. We had, during World War II and during the Korean War, manufactured some 250,000 of these trucks. We had all the necessary equipment in mothballs both for ourselves and for our subcontractors. We had knowledge of the suppliers and the subcontractors whom we would need on the contract. We had years of management experience for this particular contract and product, and a nucleus of men, particularly foremen who understand the manufacture of these trucks. With all of these advantages, the first vehicle rolled off the line in November, and we were really in production in December. And I can assure you that the Ordnance Corps considered this an extremely rapid performance under the new contract. Nevertheless, the negotiation period, plus the starting period, amounted to 10 months.

When automotive production was suddenly shut off at the beginning of World War II, the reemployment of the men involved took anywhere from three to four months at some of the suppliers' plants, to over a year at some of the prime contractors' plants, and the effect upon the economy and on the defense effort was not good. At that time there were only about 500,000 men employed directly in the automobile companies, whereas at present there are about a million--that is, in the direct manufacture, in these companies that I have been talking about.

At that time the dispersal of the cities had hardly commenced and the millions of people who now live in the country or the outlying suburbs and depend entirely on automotive transportation were living in crowded but easily accessible living quarters within the cities and towns. At that time automotive production was at the rate of 4-1/2 million per year; last year it was at the rate of 9 million plus per year, so that, consequently, twice as much material is in transit to the manufacturers and in process now as it was then.

In all respects, the shock to the economy and to the defense effort of a sudden shutdown of this leading industry would be twice as severe as it was in 1941 and 1942. For instance, about 200 million dollars worth of materials and parts in process were suddenly immobilized in 1941 and could not be used for any other purpose. I think we should all realize that the automotive industry has in the feeder lines from the sources of supply, from the mills, and throughout the whole system, three- to 4-months' materials in a form in which they cannot be converted to anything else. The same situation exists in regard to machine products, forgings, castings, or anything else.

With very slight additions, these materials could have been developed into finished products and could have eased the whole transportation problem throughout the four years of World War II. The manpower teams in the various plants could have been held together until the defense contracts were ready, and the conversion from commercial products to defense products could have been made in an orderly manner.

Fortunately, we learn by experience. For a year, the Business and Defense Services Administration of the Commerce Department-- I understand that Charlie Honeywell was here a few days ago--working with the Office of Defense Mobilization, has been preparing control orders which would go into effect in the event of a new emergency. The orders to control automobile and truck production have been completed, have been considered and approved by the Passenger Car Industry Advisory Committee and the Truck Industry Advisory Committee, and I am quite sure are in a form that will be approved by the Office of Defense Mobilization. These orders provide for a continuation of production for the three months after the declaration of an emergency at the rate which had been previously planned. During that time, the future can be determined to a much better extent, and the orders amended to meet the situation as it appears; but the transition will be orderly, materials in process will be used up, men will be employed, the transportation reserve will be increased, and the defense effort will be aided.

To implement that orderly transition from commercial to defense production it is, of course, desirable and, in fact, essential that the 30,000 companies involved in automotive manufacturing industry be assigned their projects and be given previous experience to the greatest extent possible.

That leads me to the second part of this, the relation of the automotive industry to defense mobilization and the continuing supplies for our Armed Forces during the emergency.

The concept of industrial preparedness which includes mobilization plans, the establishment of a multiple-unit mobilization base for all noncommercial items, a reservoir of special tools and tooling to carry out mobilization assignments, and experience in production of the vital defense items on a peacetime basis by those companies on whom we shall depend in time of an emergency all translates into a logical, comprehensive plan to insure our defense from an industrial standpoint under any circumstances. The virtues of this concept are so evident that I shall not even mention them.

There are, however, some policies relating to this concept, and some difficulties in accomplishment as far as the automotive industry is concerned, that it may be of value to bring to your attention.

In World War II, according to careful compilation of the Automotive Council for War Production, 25 percent of all metal-working production for the armed services came out of the automotive industry. This production covered all phases of defense production, including such precision work as the manufacture of bombsights and such massive manufacturing as the manufacture of tanks. More material for aircraft production was processed in the automotive industry than was processed in the aircraft industry in World War II. As far as I know, there was no kind of manufacturing job, no matter how intricate or difficult, but what the automotive industry was ready to undertake it, and did undertake it, successfully. However, in order to accomplish this kind of effort, all of the end product producers and all, or nearly all, of the thousands of subcontractors and suppliers in the industry were drawn into defense production. It is true that it took about two years to get them all in because of lack of previous planning and experience. Nevertheless, once organized and under way, the output of defense production from the industry was formidable and, perhaps, decisive.

One of the difficulties that I see in the present mobilization effort is due to the rapid change of emphasis in the type of weapons and equipment which we see evolving. Supersonic planes, gas turbines, ballistic missiles, guided missiles, rockets, atomic products, nuclear power, electronics, radar, and other new developments mean new scientific knowledge on the part of the manufacturer, engineers with special

training, new arts, new techniques, new experience, new manpower, training, and, perhaps above all, new enthusiasm to undertake the manufacture of new and strange products. In our industry, as far as I can observe, the involvement in all of these new projects is not at all in proportion to the size of the industry, the place it must assume in the defense picture in the time of emergency, or the use of its buildings, facilities, tools, capital structure, management teams, and manpower skills. We are not involved to any really substantial extent in these new projects.

Perhaps to some extent this failure to use the industry to greatest advantage is the fault of the companies in the industry who are so busy with their own commercial occupations that it is difficult to get them excited by these new concepts and new products. Perhaps, also, the fault may at least be partially due to the procurement policies of the Defense Department.

This, gentlemen, is a subject which I can only approach with the greatest diffidence, realizing, as I do, that my knowledge is incomplete and that my view of the whole defense situation is limited. I do not wish my remarks to be construed as criticism, but rather as suggestions which may point the way to further thinking and investigation on your part as you continue through your present studies and take up your future assignments.

I think it is only natural, gentlemen, that, when those who are responsible for a procurement agency within the Defense Department are faced with the first procurement of a new and unusual item or development, whether it be a nuclear powerplant, a ballistic missile, a rocket engine, a new concept of a supersonic airplane, new guidance systems, new weapons systems, new applications of radar and electronics, and so forth, they should, and, in fact, they do, single out companies which seem to have the greatest knowledge and experience for the development and manufacture for each particular item.

But this first development of a new concept, if successful, is followed by other developments which may involve more capacity through second sources, kindred but not identical products, similar but not identical arts, and any number of additions, deviations, and variations from the original ideas. It is at this point, it seems to me, that procurement policies may bear careful scrutiny. Certainly it is human nature for the procurement officer and his superiors and for the scientists and engineers within and outside of the Defense Department to

reach the conclusion that the company that has been successful with the first development can be successful with the second, and, as with the first two, then also with the third. This policy obviously entails less risk than the development of new sources and, in case of failure, the responsible officers would probably be less criticized by any investigating body if their selection had been the established and previously successful source.

However, this natural human tendency will not bring into play, in our industry--the automotive--industrial talents of the 100 prime producers and the 30,000 subcontractors and suppliers who will be essential to the defense effort that we may be called upon to support in time of an emergency. To spread these new arts and skills and facilities throughout the automotive industry will require some risk-taking on the part of the Defense Department; will require, perhaps some extra expenditures; and will require the courage to face possible criticism in the event of an occasional failure.

I would like to illustrate that with two experiences that I have had within the last two or three weeks, and with two different agencies, which I will not identify. In each case the conversation went about like this. I pointed out that, while such and such a company, or group of companies, had developed a project, if the Defense Department now wished to expand the mobilization base and wanted additional capacity, that capacity should be developed by the establishment of another company or group of companies, as a source.

The answer was this: "We agree with you entirely in principle. We believe that this should be spread out over a broader base, but this particular project is so important that we can't afford to take any chances. We have to go back to the same people we had before."

Gentlemen, the question that naturally arises in your mind is: When do we come to the project that is not of any importance, so that we can spread this base out? No such time ever arises.

Another procurement policy, which I am sure will bear continuous examination, comes from the very laudable desire on the part of Congress and the Defense Department to buy everything at the lowest possible price, and thus save the taxpayers' dollar. There can be no doubt that this is a desirable policy, from the standpoint of less expenditure, lower taxes, and a minimum of criticism. However,

gentlemen, I strongly suspect that it is not always the best policy from a defense mobilization standpoint.

Let me give you a hypothetical situation. Assume for a moment that you have two or three companies in the automotive industry which have been established as defense producers for an important item, and constitute the mobilization base. It is inevitable that one of these companies can manufacture this item at a lower price than the others. This may be because of superior purchasing ability, lower overheads, larger commercial business, larger defense business of other kinds, willingness to absorb all the business by charging lower than normal profit or eliminating profit, or, perhaps due to fortuitous circumstances relating to geographic location, plant facilities, plant equipment, and so forth. If then the peacetime contracts go to the company which, for one or all of these reasons, can make a slightly lower price, then the other companies, upon whom we are depending for production in time of emergency, will have their facilities in mothballs--and I have already shown you that to get out of mothballs and into production on any complicated item within six months is a notable achievement. Their management teams will disintegrate in relation to this product. Their manpower teams for this product will be scattered. Their sources of supplies will become inexperienced and uninterested. Instead of reliable extra sources for defense, we shall have facilities in our mobilization base which are mere shadows of what they should be.

What I am saying is that it may be a mistake in our mobilization effort to award all of the important procurement to the lowest bidders.

I don't suppose it is really the responsibility of the Defense Department to consider the effect of defense spending on our national economy; nevertheless, since we are trying to look at this whole problem, I would like to remind you that the greatest influence toward monopoly at present is defense spending. It must be evident that those companies which are chosen by the Defense Department for important defense production involving millions of dollars and who, thus, are able to meet a substantial proportion of their overheads and pay a substantial part of their profits as a result of defense production, are placed in such an advantageous position that companies which do not enjoy a proportionate share of the defense dollar cannot compete commercially. In fact, the situation reminds me of the old saying that "a specialist is one who knows more and more about less and less until he knows everything about nothing;" only, in this case, I would have

to paraphrase the wording to say that "the successful defense contractor is one who gets bigger and bigger as his competitor gets smaller and smaller until one source does everything."

Finally, gentlemen, one further procurement policy--or let us say, tendency--which I believe I observe in my limited contacts with the Army, Navy, and Air Force: When production of a new weapons system or a new missile or a new engine or any other new and unusual development is proposed, a list of companies is selected, including those companies which, from previous operations, have indicated their ability to handle this kind of proposition. The list may be five, eight, ten, or a dozen companies. From such a list a final producer is selected.

My opportunity to examine those lists can only be described, gentlemen, by a term frequently used by lawyers. It is "diminimus." But, even as small as this opportunity is, I have observed one interesting fact: The list made up by the Army, from which to negotiate a contract for these important projects, may contain many of the same names as the list made up by the Navy to negotiate another project, and a list made up by the Air Force may similarly involve many of the same companies.

The question I believe we should ask ourselves is this: whether the tendency to place these new developments with a comparatively few selected companies or "teams" of companies will lead to an "ingrown" mobilization program lacking the advantages of flexibility and dispersal. Naturally these lists are lists of competent, fine, well-known companies; but, as in the other two examples which I have mentioned, I think this tendency to concentrate our attention on comparatively small groups of companies, not completely representative of our industrial capacity, at least in our industry, is another danger to our ultimate defense setup and to our country's economy.

The strength of our economy has traditionally been based upon the individual initiative of independent men like Franklin, Westinghouse, Edison, Ford, Einstein, Kettering, Salk, and thousands of others who, at the start of their careers, when they made their great contributions to the country and to our way of life, were men not connected with large organizations. This kind of individual initiative by such men and by the 4,000,000 small businesses of this country is the foundation and strength of our economy and of our defense, whether in the automotive industry or elsewhere.

Thank you.

COLONEL BENEDICT: Gentlemen, Mr. Johnson is ready for your questions.

MR. JOHNSON: I hope I have not covered this subject so thoroughly that you haven't a question.

QUESTION: You speak about the concept of broadening the base from the point of view of supporting mobilization requirements, but I think as lately as December in "Business Week" there was an article purporting to be the "new look" in the Department of Defense from the effect that the war was going to be of such short duration that we were going to do that with a separate agency, so that industry is going to know what they have in that unique kind of reserve of tools, and in there there seems to be some indication that that policy is going to be liquidated.

What I am pointing out is, it appears that in some quarters there is a notion now that there is not much basis for any long-range plan for mobilization.

MR. JOHNSON: Well, there, of course, you are getting into a military concept, and I am not competent to discuss that; but I can repeat something I have read. There is a contrary point of view, that it is the country that can be knocked flat on its back and get up again that is in the long run going to win. That does mean a broad mobilization base, so that you don't get knocked out in the first few minutes.

I am afraid I can't answer that question. It has too much military significance for me to cover it. My own personal opinion is that the concept of a broad, trained base for the items which we will need in defense is essential. I know of one place which is being examined by a half-dozen of our people today. It is a group of factories making a very essential product, one of the new guided missile concepts. As far as I can see, if a bomb dropped on that conglomeration of factories that particular missile production would no longer exist. The scientists, engineers, and production men in those factories would no longer exist. There would not be anything. It would be gone. Now, I don't think we want to face a situation that may possibly result in that kind of an end to important projects.

QUESTION: Mr. Johnson, I think we would be interested in hearing your comments on the relative merits of negotiated contracts and advertised bids.

MR. JOHNSON: I think that competition is absolutely essential. We have to keep competition. Many products obviously don't lend themselves to advertised bids, particularly at the start of their existence, simply because nobody knows how to make them. There are no blueprints that can be followed. There are no specifications that can be followed.

We are just starting in on a guided missile in our company. It has been developed in our company, and it is successful, but nobody knows how that is going to be made in production, including ourselves, and we won't know until we have gone through a complete production-engineering study which will be authorized by a contract. When we get through with that we will know how it will be, and maybe then possibly other people can be given sufficient data so that they can get on a competitive basis with us. But originally that has got to be on a negotiated basis. There is no other way of doing it.

You can't say to two companies, one of which has developed a thing like that, "Now you bid on it, and another company over here who has never done anything but maybe look at it will bid on it." Suppose the company which knows nothing about it gets the bid. You still would not have part of your mobilization base. They would not know how to make it.

On the other hand, if you have a fully developed product that can be identified by specifications and blueprints, I think it is perfectly proper to put it out on a competitive basis. My remarks were that it is not even then necessary; it is not even necessary by procurement requirements, gentlemen, to always award it to the lowest bidder. If I am correct, and I think I am correct, the procurement regulation says that one of the reasons for not awarding a contract to the lowest bidder is that maintenance of the mobilization base can be used as a reason for paying a little more money for an item than the lowest bid. I think that results in a split quantity, and it probably should. In times of peace, when the quantities may not be large, we must watch such awards with great care, because otherwise you may find the years going by, with one company getting the business and another company never getting it. The one that never gets it will fade out of the picture.

QUESTION: I understand from your formal remarks that the lowest price is not necessarily the criterion on which to base a contract. My question is, if one of our contracting officers proceeds on the principle you outline, at the risk of incurring the wrath of the General Accounting Office, not to mention the congressional committees, how are we going to reconcile that viewpoint with the viewpoint of Congress and the people at large that price is the basis on which this ought to be done?

MR. JOHNSON: I think the only possible answer to that is that it is your civilian secretariat that has got to take the lead in this matter; in other words, your Assistant Secretary in charge of Logistics, or whatever he may be called, in the various services, has got to take the lead in it and authorize it, perhaps, in individual cases. Otherwise I think there is too much burden on the procurement officer. And yet in many cases it certainly is the right thing to do. I believe you would all recognize the fact, gentlemen, that there are companies, a group of very large companies of various kinds in the country--most of you can name most of them--who can underbid anybody on anything if they want to. That comes from two facts. One is that they are efficiently managed and have large producing power and other advantages, and for these reasons they can make a lower price. The other is that they will bid low, make a lower price, with a low profit, or even no profit, in order to bring this business within their orbit.

If that is allowed to happen time after time and time after time, you wind up with a very few active companies on your mobilization base. That is particularly true when you have such very new and unusual things in the defense program as we now have. The problem becomes more and more difficult as you get into things which are strange to a large part of the industry of the country.

To specifically answer your question, I think it has to start from, let us say, the Secretary of Defense, to the Secretaries of the services and the Assistant Secretaries who are charged with this part of the responsibility, to promote the kind of thing that I am talking about.

QUESTION: Mr. Johnson, you mentioned that in 1955 we produced 9,300,000 cars. My question is, is it possible that we are beginning to overproduce cars? As I drive down to work every morning I notice that the voices of the car dealers are growing more strident and more shrill, and we are getting a crescendo of this advertising: "Use credit. Pay 295 dollars down and have years to pay." People who can hardly

afford a Chevrolet are buying a 98 Oldsmobile. How can we keep on with this kind of credit without endangering the stability of the economy?

MR. JOHNSON: I think the answer to that question is found in the current sales. By the way, the 9,300,000 is cars and trucks. The cars were, I think, 7,890,000, or 980,000--something like that--roughly 8 million, and the trucks were the remainder. I don't think even the "die-hards" of the industry would claim that there were not at least a million automobiles too many produced last year, and sold--at least sold to dealers. Some of them have not been sold to customers, yet.

Now, the industry is going to suffer this year; it is suffering right now. You have read in the papers that various companies have shut down their plants or reduced, have cut out certain assembly plants. At the moment the production is down, compared to last year. The unfortunate part of this, gentlemen, if you really want to look at it from the standpoint of the company, is that the company that is least affected by this reduction is the largest company. In other words, under conditions like these, the largest company gets larger, and the smaller companies get smaller--and in this respect I would include Ford as one of the smaller companies.

That is happening right now. This free competitive enterprise system is a kind of a brutal system. I don't know whether you ever stop to think about it, but one of the deficiencies of free competition is that it is like a free-for-all. Maybe we haven't got enough rules. I don't know. At any rate everybody seems to be operating under the rules; but the results are pretty brutal, and can be more so to many.

The company which deliberately goes ahead and produces more of any product than can be absorbed, and uses its economic power to force that on the market, is at the same time making things extremely difficult for all its competitors. This was possible last year, and industry will suffer this year. I don't think it will suffer evenly. It doesn't look as if it would, at the moment.

I can't answer your question categorically. That is a little philosophizing I was just giving you.

QUESTION: In view of the fact that the road-building program in the country has gotten so bogged down, would it be logical or practical for the automotive industry to get into the road-building or bridge-building business, if only on a toll basis? Has any thought been given to a thing like that?

MR. JOHNSON: I don't believe that it is feasible from a political standpoint. Roads are the result of political action, either by the United States Government or by the State Government, whether they are toll roads or highways constructed with the result of taxpayers' funds. I don't think an industry could take that over. In other words, you might say you could not get a franchise to take a piece of territory across a State and build a road. As far as the building of the road is concerned--the contracting--I pointed out to you that one of our companies is engaged in the process of taking that over, at least the machinery with which it is done; and I think that within three or four years you will find that they are doing about 75 percent of it.

QUESTION: Mr. Johnson, what do you think of the merits of a graduated corporation tax to hold down this tendency of the monopolies getting bigger and bigger and reducing the mobilization base?

MR. JOHNSON: Well, one of the economists who testified in the General Motors hearings, one of the first ones, proposed several things, and among them he proposed that, after a corporation reached a certain size in worth--he did not attempt to state the size, he said 200 or 300 million, or something like that--and it may be different in different industries--as soon as it reached that size it got into a new category, and in that category taxes should go on a graduated basis, and be more than companies of a smaller size were taxed. As I remember it, any directors or officers of that corporation in that category could not be directors or officers of any other corporation. That was another of his proposals. I think there was a third. I don't remember it. They were all with the idea of penalizing a corporation for getting bigger and bigger beyond a certain point, but not forbidding it; in other words, applying the law of diminishing returns, the same thing we get in our personal income taxes, where the money that many people earn in high figures, they don't keep as large a percentage of as the people who earn small amounts.

If you want my opinion, I would like to see it done. In other words, it is the only intelligent suggestion I have seen as to how you could have an overall control of the size of corporations without a direct production control, such as we had during the Korean War, when corporations were told, "You can make so much and no more."

This other way would tend to make it desirable for a company to split up rather than to keep increasing in size.

I don't think, gentlemen, that anybody can question that the economy would be better off if, instead of the six vehicle divisions of General Motors, the four vehicle divisions of Ford and the four vehicle divisions of Chrysler, we had 14 independent companies--well, let's include the two vehicle divisions of American Motors and the two vehicle divisions of Studebaker-Packard, and say if we had 18 separate companies competing in this market, our national economy would be healthier. I believe that.

QUESTION: Sir, I want to get back to this idea that you are advocating of the Army, Navy, and Air Force exhibiting some originality in the manner in which they place procurement contracts, and the fact that the civilian Secretaries should take the lead in that respect. In my opinion the civilian secretariat would be very happy to be the leader in that area, but he is first an appointed servant of the people, and he is also to the Congress a party of interest. I think we will concede that the Congress is really the hub of the whole thing. The rules and regulations that they prescribe and place on us are what cause us to do what we are doing today.

Now, it would appear that relief would be much faster coming, and probably easier to obtain, if there was a unanimous opinion from the industry, a suggestion to the Congress from that side also, to assist in getting a little more latitude into our activity.

Would you comment on that aspect of it?

MR. JOHNSON: Yes, I will be glad to comment. I wish I had about an hour and one-half. Yes, if Congress would come out and say more clearly than they say now just exactly what they mean, it would ease everyone's burdens. I don't think they will. You have nearly 500 men over there. They have to be responsive to their constituents. Most of their constituents are not people who have any large amounts of money, or large contracts, or large ideas. It would be very hard for most of them to conceive of a situation where a defense service should pay a million dollars more to this company than to that one for the same thing, in order to get geographic dispersion, or in order to get a greater mobilization base, and the congressman who took that position publicly and aggressively might very well not be a congressman by the time the next election rolls around.

I think it is very difficult to approach it from that angle. Actually, the solution of this lies in the present procurement regulations. It is

there right now, but it is not used, or it is very seldom used. There are several clauses. I can't remember them all. One is geographical dispersion; one is certain maintenance of the mobilization base. There are several other reasons why you can buy from one company rather than another, and they are not completely dependent on price.

It is very difficult for, let us say, the contracting officer, who may be pretty far down the scale, to try to put through a policy like that. In fact, he can't. Of course you go on up and I don't think you can really get a policy like that established unless you get up to the top, which is the civilian secretariat. They would have to take the rap from Congress. Nobody likes to do that.

I can give you one experience, because it did not affect my company. It was told to me by a civilian Secretary two or three years ago. He said there were two companies bidding on an item--one of which was General Motors, and the other a small company. It had to be General Motors, because I am talking about my industry. He said, "General Motors bid lower. The other company was part of the mobilization base. Unless we gave them some business at a higher price they would disappear as part of the mobilization base. I took the responsibility of giving them that business. I had to appear before a committee and I had to answer questions. I had to testify as to my position very forcefully. I had to take the chance, and I did take the chance, that it was the right thing to do, and I succeeded in convincing the investigating committee that I was right."

It is going to take that kind of fortitude, gentlemen, to accomplish the kind of thing I am talking about. I am not at all sure uniformed officers can do that. I think the responsibility has to be put up to somebody who is there at the will of Congress, where Congress passed on his appointment very recently.

QUESTION: Sir, in considering the standardization of the mobilization base, what are your thoughts on exploiting foreign sources, or foreign trade, especially in the procurement of tools--the tool industry?

MR. JOHNSON: Well, I would first ask whether our tool capacity is completely absorbed. I think I would be a little selfish about that. I would like to see our tool capacity used to the utmost before we go abroad. We are going to need that tool capacity if we get into trouble. We may have great difficulty in using foreign tool capacity that has been developed as the result of our ordering from a foreign source. I would

like to be sure that the ordering is done simply because we cannot do the same thing in our country, in the United States rather than because we could not do it at the same price. We may have to pay a penalty. We have gone through two experiences now where our machine-tool industry had great difficulty in meeting the demands of defense. I would like to see everything possible done to keep the productive capacity of our own machine-tool industry in this country expanded to the largest possible point.

Does that answer your question?

COLONEL BENEDICT: Mr. Johnson, on behalf of the Industrial College of the Armed Forces, we wish to thank you for a most interesting lecture and discussion period. Thank you.