

## PRODUCTION IN ALLIED COUNTRIES

5 March 1956

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Washington, D. C.

Mr. William L. Batt was president of SKF Industries (American subsidiary of the Swedish Ball Bearing Company) from 1923 until his retirement in 1950. He was born in Salem, Indiana, and attended Purdue University from which he received the degree of M. E. in 1907. After graduation he was employed by Hess-Bright Manufacturing Company, in a research capacity. In 1919 this corporation was merged with SKF Industries and Mr. Batt was elected general manager of the latter company, becoming president in 1923. He was a vice-chairman of the War Production Board, American member of the Combined Raw Materials Board, Combined Production and Research Board, and Combined Joint U. S. -Canadian Production Board (all during World War II). He received the Bok Award, 1942; the Gantt Medal, 1950; Hoover Medal, 1951; and American Standards Medal, 1952. He is an honorary member of the American Society of Mechanical Engineers, of which he is a past president, and of other scientific societies. He was chief of the ECA Mission to Great Britain and Minister for Economics and Finance to the Embassy, and U. S. representative of Defense Production Board, NATO, 1950-1952, and has been a member of the advisory commission on Voluntary Foreign Aid.

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GENERAL HOLLIS: Gentlemen: We have this morning a distinguished lecturer in the person of Mr. William L. Batt. You have read his biography.

This lecture represents a consummation of my first official act as Commandant. I grew up in the shadow of the clock tower at Purdue University, and for a good part of my life I have heard of Bill Batt as one of the distinguished alumni of that institution.

It was my pleasure, though, to meet him for the first time last summer at a ceremony at Valley Forge Military Academy when there was a review for Mr. Wilson, and Mr. Batt was also there. Knowing I was coming here, having some orders in my pocket, and without any authority whatsoever, I insisted at that time that he should come and lecture to us this year.

He has had a full life in industry and has managed to superimpose on that busy life a long, almost full-time career as a distinguished public servant, as you know.

Whether or not it is a practical viewpoint that he brings to us, such a viewpoint I thought was brought out by a remark he made to me quoting Abraham Lincoln, when I met him last summer. He told of the remark of Lincoln in which the President stated, "I can make another Major General in ten minutes, but an Army mule will cost sixty dollars."

It is a great pleasure for me to introduce Mr. Batt to the Class of 1956.

MR. BATT: General Hollis and Gentlemen of the Industrial College of the Armed Forces: I am here under some difficulties this morning, as you will gather when you listen to me. I have a cold that I have not been able to get rid of, and I would much rather have been home in bed today, but I had said I would come, and I haven't seen a cold kill anybody yet. So I am here, but it is going to be difficult for me, and it may be unpleasant for you.

The advantage of a meeting like this is that one can talk informally, as I intend to do, and then subject himself to what is called audience participation, question and answer, which sometimes brings out the most useful part of the subject. If I were well enough I would enjoy this morning because what you are doing is what I have fussed around with in Government for the last sixteen years, one way or another, starting with the War Production Board, or its predecessor agency in 1940. I came down for two months and stayed six years. I was with the Government informally in one fashion or another after the war and particularly in the setup of the Marshall plan. I went to London in 1950 when I left business as Chief of the Marshall plan for Great Britain and was in touch with our governmental problems there very directly for three years, and indirectly and somewhat unofficially since. During my official stay in Europe, I had the honor of representing the Defense Department on all NATO Production Matters.

What you are studying is the line along which my experience has been cast. I know nothing whatsoever about strategy or the fighting side of a military man's job; but I know something about the supply side, and am keenly interested in it. It seems to me that it is likely to be of increasing significance in any future emergency rather than less.

You are fortunate that you have this opportunity for such a wide and varied training. It should greatly increase your interest in your work and your value to your country.

I propose to talk about production here and abroad, first from the citizen's angle, the interest that a citizen has in exports and imports, and second, the concern that the military man in the United States has in production here and abroad, finally contrasting the two. I shall go into some little detail as to the experience of our allies abroad to support themselves, to support not only the personnel which they provide but to support the material which we will have furnished them in the period from 1951 down to whatever date one may be considering. We shall consider the differences in production here and abroad, and indicate reasons why those differences exist. It is important to conclude whether those differences are likely to increase or decrease. I shall talk about the effectiveness of steps taken toward the pooling of resources between our allies abroad, and between ourselves and those allies. I shall go into offshore procurement at some length, because it is the one large, practical piece of experience which the United States has had in buying military requirements abroad. Then finally

I shall talk about considerations of security as they affect the production of critical items here and abroad.

As to export and import, all that needs to be done is very hastily to throw up a sort of backdrop as to the kinds of goods we import and export and their relation to the productive capacities of this country and abroad. You know we import largely raw materials, metallic and nonmetallic ores, some of which we are almost wholly without, and some of which we have only a part-time supply--iron, copper, tin, nickel, zinc, oil, bauxite, and manganese. Those are typical of the principal metallic and nonmetallic materials imported in large quantity, and on which we depend upon the rest of the world, in whole or in part, for our supply.

In the area of finished goods, bicycles and watches are two outstanding consumer-goods items. There are some woolen textiles, and, of course, such a thing as whiskey. The extent of our importation of finished goods is largely related to the kind of restrictive or permissive legislation we may have, the tariff or other barriers that may limit the flow of imported manufactured goods.

On the export side there are again raw materials, but an entirely different kind--largely agricultural, cotton, wheat, tobacco, apples, and the like. These represent the bulk of our raw-material exports. But a whole range of highly developed manufactured items go abroad, largely the products of mass production, or the things uniquely developed in the United States because of our high-wage costs. Automobiles, machine tools, office equipment, and electrical equipment are typical of the manufactured items. Most of these as I said, have been developed in the United States to a point where they are superior to what can be had in Europe; it is important to note that we have developed them in considerable part at least, because of our high and steadily increasing wage levels.

Now, of course, the way we meet those mounting wage levels, or attempt to meet them is by increased productivity, and that increased productivity requires heavily increased capital investment.

In summing up the export-import picture, it seems to me a sound conclusion that the larger the volume of world trade, the stronger our military posture, since there will have been developed in the world a greater versatility in manufacture. There certainly will have had to be

an improvement in productivity in Europe if it is to compete effectively with us in manufactured goods. Most importantly as this comes about, there will have been developed in Europe what is so critically needed, better management and better distribution.

It seems to me therefore a reasonable conclusion, that a higher standard of living in other parts of the world, greater interchange of people, and a larger movement of industrial capital, all of those creating more peaceful conditions, represent more safety for the world; of course safety is the ultimate objective of military people, as well.

I emphasize this peacetime characteristic in the nations of Europe, because, as I indicated at the outset, it seems to me that a future defense will depend more largely on the resources of the countries involved than ever before, and that those resources will have to be those which are developed in normal peacetime activities.

It will be my conclusion therefore that military considerations rest heavily on productive capacities and on certain peacetime elements closely related thereto, very much as our normal peacetime life does. Perhaps one could find an example today in the attempt of the services to validate their claims for more or less financial support from the Government, based on the comparative productive capacities of our only potential enemy and ourselves. The moment someone makes an official statement with any substance to it, to the effect that the Russians are now able to do something--perhaps it is an aircraft program, or guided missile, or whatever it may be--something better than they have been doing, or that we think they have been doing--what follows? You find immediately a desire to enlarge our program. The services ask for larger appropriations, and they are likely to get them. Correspondingly, if we find ourselves more comfortably situated vis-a-vis our only possible enemy, productionwise, then you find appropriations for military programs easing off.

It is my concept that, of these basic civilian items with which the military must be concerned in developing a future defense program, the most important has to do with management. I specially emphasize that conclusion, because it is not adequately appreciated. When we think about increasing productivity, it is usual to think in terms of a nonefficient or more cooperative labor force. This is of course an essential, but such a result will ordinarily come only through management skill and aptitude. I venture to say that the overriding importance

of good management is something which the military have not in the past, fully appreciated. They may be beginning to appreciate it today, but it would seem to me that the Defense Department could well have a strong group studying management and management methods.

In everything I say today you will find emphasis on better management at all levels. If I leave no other thought with you save that one, that a strong defense position can not be developed here or abroad save on the basis of better management, then I shall feel that my time has been well worthwhile.

That brings me to comparing management here and abroad in some detail. You know how it is in generalities such as this. One is apt to be sweeping and say some things which are not applicable to all situations. I hope you will make such allowance for me today. When I talk about productivity, I certainly have in mind much more than the number of widgets per man per hour per machine, because productivity in the sense in which America has developed it, and which, as a matter of fact, was one of the main themes of the Marshall plan, is something far broader than merely producing additional pieces. Productivity, as that concept would have it, covers the whole gamut of producing goods and distributing them and getting paid for them; indeed, getting them adequately used, because it will include intelligent service supervision.

In Europe, unfortunately, there is almost no concept of "more goods for more people at lower prices." The European generally has little competition to contend with. If there were one, single, outstanding difference between Europe and the United States in this area of productivity--broadly stated, it would be, I think, in the general absence, of competitive pressure. I emphasize that, and I cannot emphasize it too much, because it is the very heart of the difference between what happens in the United States and what happens any place else.

When I come home from my many trips to Europe, it is invariably with a new respect for the United States. Surely we do a lot of things in a cockeyed way--there's no doubt about that--but, basically, when it comes to developing, producing, and distributing goods and providing a better standard of living for our people, there is no country in the world that can touch us.

Let me repeat the conviction that competition is the largest single factor responsible for that. Competition is something a man running a business doesn't always like. It is fine for everybody except himself. It is difficult medicine to take, but it is good for us, and we know it. Competition brings about new designs. When does Europe bring out new designs on anything? Oh, well, maybe when the tools run out and it is just as cheap to bring out a new design or when, for some reason or another, it is convenient. When do we bring out a new design? We bring out a new design because we damn well have to, or die. Improvements that are calculated to stimulate buying; lower prices that may bring about larger markets--those are an element of the American philosophy of distribution that you don't find very much of in Europe.

The cartel philosophy, which is so common over there, doesn't get very far in the United States. I don't say American businessmen are necessarily more moral than European businessmen. But, fortunately for the United States we have the Sherman Anti-Trust Act, and we have a pretty good enforcement of it.

If any of you--of course most of you have been in business--have ever been in the midst of a price-fixing situation--you know it is about the only thing you ever agree on--you might fix a price with a competitor, but, with all the other elements that are a part of making a sale, you still compete like hell. That is not the European philosophy. Profits come first in those countries, and to fail to agree with a competitor on everything would be to them a rather silly kind of a way to run a business. Of course, it's really entirely wrong to use the term "competitor" in most European business.

Management promotion in Europe by merit--again making allowance, gentlemen, for generalities--is the exception and not the rule. It is a sad fact that in France they will take the second cousin of a second cousin, because he happens to be in the family, to head the business, rather than to promote somebody from the bottom up only on merit! I term this a tragic fact, because France and the rest of the world are surely suffering as the result of it.

If I were to rate the countries in Europe in which there is greater competition, greater sharpness with respect to distribution, I think I would put Germany first; next in order, perhaps, some parts of British industry, Italy third; and France last. It would not be too important where Belgium and Holland found themselves, except that they would be pretty well down the line.

Now, it is amazing that we in the United States should have this great productivity when we are paying wages so much higher than those in Europe as we do. Probably all of you know the hourly wages in those European countries run from one-third to one-fourth of ours. At the same time the cost of many of their finished products is as much altogether as ours. It seems extraordinary that that should be so.

Now I happen to be spending part of my time with the Committee for a National Trade Policy, set up by businessmen to try to help the President's program on liberalization of trade by lessening our various barriers to world trade, through the Congress. From the opponents of this program, all one ever hears is--"How can we compete with countries that have slave labor wages, one-third to one-fourth of those we pay in the United States?" It is obvious that if it were that simple and relative hourly wage rates were the real measure of costs, we could never compete. Actually, the cost of many things you buy in Europe, at least the selling price, is as high as in the United States where the wages will be three and four times greater-- the hourly wages: I emphasize.

Now, surely quantity has something to do with it. The fact that we have an integrated market of 165 million purchasers with appetites and a good purchasing power has something to do with it. That, of course, has been one of the reasons why the United States has urged so strongly a European Defense Community, or a European community of some kind that would tend to make one distribution area and one production area out of those 200 million people over there. Yes, quantity has something to do with it.

Raw-material resources have something to do with it. We have been more largely blessed with good coal resources, iron-ore resources, and the like. But certainly they have good labor in Europe. They have had an excellent development of the basic sciences in Europe; in some respects, better than we.

It is obviously impossible to evaluate these differences and say that Europe's productive capacity is less because of this or that in any particular degree. Certainly there are other elements than you and I are accustomed to think of when we analyze costs. It is interesting to quote from two European groups on this matter of American productivity versus that in Europe.

The first is from the French Association for the Improvement of Productivity. That was an organization set up by the International Management Association some four or five years ago. They have sent a number of expert groups to the United States to study our performance, and this is what they said a couple of years ago: "Productivity, speaking primarily of American productivity, is a state of mind." That is very well expressed for America, because, in a way, it is a state of mind with us. They go on to say:

"It is the mental progress of constantly improving what there is. It is the unwillingness to be content with the present situation. It is continuous effort to apply new methods and new techniques. Finally, it is faith in human progress."

Now, remember that is a group of Frenchmen drawing a conclusion as to why America is so far ahead, productively, of the rest of the world. I submit to you that it is a good philosophy. We do like to do things differently, just for the joy of trying new things. We are experimental minded. Our ancestors, obviously, were experimental minded, or they would not be in the United States, and our whole approach to life is to do something different and even difficult. We will pull down the Empire State Building without any respect for tradition if it happens to pay us to do it. We said many times during the war when scrap was so precious--and some of you will remember it--that we would pull down the Empire State Building for the scrap in it, if there was enough scrap there.

Now the British Editor of the London Economist said about the same time: "In the end, the real secret of American productivity is that the American society is imbued through and through with the desirability, indeed the morality, of production."

In Europe there is, generally speaking, no such respect as attaches in America to the successful businessman, whether he is little or big. You don't find people like our Charlie Wilson, or the head of AT&T, and such men as that, stand in, high in the national scheme of things generally, you don't find it in Europe, because, until recently, business has not had a particularly high place in the regard of the public at large. Their businessmen are just businessmen: ours, so frequently, are business statesmen.

But there are other, more technical, differences. Do you know that there is no system of public accounting, in the sense in which we know it, in any country in Europe, except England? They have

accountants, and they keep their own books, after a fashion, but there is no accepted public standard, and there is no means of measuring the costs of one company with the costs of another company.

In talking with one of the Cabinet Ministers of Belgium a couple of years ago about the basic weakness of Europe's taxing system, and in connection with this matter of costs and productivity, I said that one of the reasons for our productivity in the United States is that the largest part of our taxable income is from a profit after it is made, and not until it is made; whereas in Europe they taxed wherever they could get their hands on it and generally in such a way as actually to diminish corporate incentive.

France is loaded with turnover taxes. Every time an item changes hands there is a tax. As a general rule it is about 8 percent that gets slapped on each time. The result is that, where a firm has to buy parts from various sources, you will find a system of pyramided taxes that represent a big element of gross cost before the goods are sold and regardless of the profit.

This Belgian Minister said to me, "We have no way of knowing what our firms in Belgium earn." When I asked, "Do you have any kind of tax on corporate income?" He said, "A very rough one. From their public statements, if they make them from various round-about sources of information, we get some kind of estimate of what their income may be, and we assess a tax. They come in and argue, and we trade something. That is as far as we can get."

Now, in England there is a system of public accountancy, very similar to what we have in the United States. There is no turnover tax of any consequence in England. You can get an honest cost in England. You can compare it pretty well with ours, but you can't do that any place else in Europe.

When we talk about cost of production, we have first to reckon with the basic conclusion that there is no adequate means of comparing costs in Europe. The next thing is, there is nothing in Europe like our Securities Exchange Commission. You remember, most of you--I think almost everybody in this room is old enough to remember when the Securities Exchange Act was passed and heard the scream over the country about "one of these New Deal things to wreck American business." I think it highly likely now, if you submitted a popular

referendum to American business today asking, Are you willing to have SEC wiped out and have nothing to replace it? that the overwhelming vote would be, no. By and large it has been good for American business, because of the spotlight of public opinion turned constantly on all the operations of a business.

There is nothing of that kind in Europe. I failed earlier to mention the item of social charges as a part of European cost. In France and Italy, this is most burdensome. We have some of them here, but in general we don't include them in making up unit costs.

On the manner of treating capital replacement, or overhead abroad, there is no standardized approach. When you hear a discussion on European cost, you have no idea of what is in it in the way of depreciation. So you can't compare costs of things in Europe with those of the United States. All you can do is look at the final net result.

In any well managed American concern the spotlight is on cost, cost, cost. When the factory is faced with an added 10 or 15 cents an hour as a result of a new labor agreement, you have to find out how you can get it out of lower cost, since most American concerns are never sure of being able to tack it on to the selling price.

I proposed earlier to talk about offshore procurement. It bears on this question of cost. We have in our offshore-procurement record the most elaborate amount of undigested material on purchasing abroad that anybody has ever had. I use the term "undigested," advisedly. When I knew I was going to make this talk, I came down to the Defense Department to see whether they had ever made a study on this whole business, and I found they had not. Everybody was helpful and people were talking about it. There are individuals who know a good deal about it. The head of the Frankford Arsenal, General Colby, has done a lot of procurement in Europe, and General Colby knows a good deal about it as an individual. But I can find no organized study. There is a tremendous amount of experience involved as to management in Europe, its methods and its costs, which I think ought to be the basis of a thorough study. Now this is the way offshore-procurement got under way.

I think you all remember one of the first things the North Atlantic Treaty Organization did. In the fall of 1950, at its Brussels meeting,

it set up a Defense Production Board, and a Standardization Board. I represented the Defense Department on the NATO Production Board until NATO went to Paris, together with General Daniel F. Callahan, whom some of you Air Force officers may know. He was my deputy; but actually did most of the work.

There we tried, with high hopes, at the beginning, to lay out some kind of an integrated program of production, some kind of a pooling of resources, but I hate to tell you that we got just about nowhere as far as concrete production results are concerned. These countries abroad are not too different from us. Our own Defense Department is not very good at pooling, if it can avoid it, and the same thing applies abroad.

The French want to make everything they use. The British want to make everything they use. So it goes everywhere. We have a good deal of difficulty, at the outset, with some of the same old problems that some of you may remember as vexing during the war. How do you determine spares requirements, or replacement requirements, or depreciation requirements? You get about as many determinations, gentlemen, as there are men involved in the operation, unless the condition has improved in the last couple of years.

That was one of our difficulties in Europe. We simply could not agree with the Europeans as to what constituted a proper base for the requirements of a military force. The French would say--for instance, take trucks as an example-- "We don't provide any trucks in advance. We can't afford to. When we get into war we just take trucks." We in the United States don't set up our table of requirements on the basis of taking anybody's truck away from him.

There was great headway made in two items in Europe, which probably justified the NATO Defense Production Board, if nothing else did. These are standardization of the ammunition system and the fuel supply, where very remarkable headway, it seems to me, has been made.

But we made almost no headway on the pooling of manufacturing resources, partly because of these national prejudices, partly because their budgets were small, and they could readily spend whatever they had available in their own countries.

I had an amazing experience once, with a general from France who was heading up their supply program for jeeps. France at that time, by our calculation of requirements, needed, as I recollect, about 30,000 jeeps. They ought to have been able to produce something like that too, because France was the home of the automobile industry of the world at one time, and they have a good industry today. Their Ordnance Department had developed a Delahaye jeep which they wanted to make. They wanted aid funds from us to produce 8,000 of them, I think it was. I said to this French general, "Now, look, you were at one time a great automobile industry; you still are a large automobile industry. Why shouldn't you bring all the manufacturers of passenger cars and trucks together in a room, bring your supply people together, lay the drawings out and tell them what is needed, and say to them, 'Now, gentlemen, go do it.'"

He laughed at me, threw out his hands, and said, "Of course, Mr. Batt, I suppose you do that in the United States. There are two reasons why we could not do it in France. One is that they would never believe what we said, and the other is, we would never believe what they said."

So, having tried throughout the latter part of 1950 and the first half of 1951 to get some kind of pooling program in Europe, and getting nowhere fast, we tried this experiment. We first threw out before the meeting of the military and the civilians in Europe the idea of procurement in Europe. It was a civilian concept at the outset, and the Department of Defense here liked no part of it, for obvious reasons. In the first place, it was much easier for a man who was responsible for a truck program or an ammunition program to get an appropriation from Congress and have the stuff made in the United States under his own supervision by people who knew how to do it, and ship it to Europe. That was much easier than taking funds allocated to him to spend and turning them over to somebody in Europe to spend.

We had a good deal of difficulty at the outset developing the program. Ammunition was decided on, as a first venture, partly because there were certain considerations touching ammunition use in wartime that seemed critical.

We figured at that time that in a war there might well be afloat--only afloat, mind you--at any time about a billion dollars. That represents a lot of money tied up but, much more importantly, a lot of vital shipping tied up.

So we decided if we could get ammunition made abroad, or if we could get the groundwork laid for ammunition production later on, that it would be something worth while doing. Most of the ammunition plants, and, more particularly, the powder plants, had been pretty well destroyed in the war, and a program of this kind would rehabilitate those plants. Furthermore, it is much easier to say to a country, "Go ahead and build your own 105 millimeter ammunition, instead of our giving it to you," if you know they have the drawings, tools, jigs and fixtures, and know-how, as compared to the situation in which they don't.

So we civilians proposed that program to the Defense Department, and, on 17 August 1951, they bought it, with this language:

"A sound logistic future for the NATO forces requires that they be able to support themselves in combat from local sources. The establishment of a substantial indigenous production is therefore an indispensable part of the medium-term defense plan. The results of efforts to date toward stimulating military production in Europe are far short of European needs."

(That was an extraordinary understatement.)

"This directive initiates the principle that increasing munitions production on the Continent of Europe is an earnest military necessity. In furtherance of this principle, it will be the aim of the Department of Defense to foster a self-supporting military production capacity on the continent, which will be self-sufficient, and which at the same time will not conflict with the security interests of the United States."

In that program, which became effective the latter part of 1952, and which has pretty well run out now, the United States spent about 3 billion dollars in Europe. France got 40 percent; Italy 17 percent; the United Kingdom 20 percent. Of that 3 billion dollars, about 40 percent was ammunition; aircraft and supplies about 15 percent. I have indicated the reasons for ammunition being such a large percentage of the total.

What did we learn from that large and novel venture? In the first place we learned that there was no such thing as a solid knowledge of costs in Europe, or, if there was, our procurement people were never

able to put their hands on it. We started out proposing to buy 105 m/m howitzer ammunition. We had a permissive limit from the United States of 110 percent of American cost, that 10 percent representing, roughly, the cost of packing and overseas shipment. If any of you have studied figures supposedly representing American costs, you will know that that is sometimes a flexible and undetermined figure, even with us. It is infinitely worse in Europe. We never got any quotation at the outset that represented a figure within 10 percent above our costs, even with labor rates of one-third to one-fourth of those paid in the United States. Our procurement people hammered at it, and finally, the British Ministry of Supply came through. This Government agency has been sharply criticized but it had one advantage in a situation of this kind in that it was like a monopoly in the United States. If it really wanted to take a piece of business it could take it by simply telling the suppliers how much it was going to allow them. That is, in substance, what would have happened with this first purchase of 105 millimeter howitzer ammunition. But, the minute the French found we were going to allocate that order to the British, there was a terrific protest.

We finally split it and gave the French part. The French Government subsidized it, as I recollect, at about 14 dollars a round, at the outset. I think we were paying in the United States somewhere in the neighborhood of 30 dollars a round, and the first French figures were about 47 dollars. I will conclude on this by saying that the situation got to a point where we did purchase a very substantial amount of ammunition in Europe, and those European countries did rehabilitate their sources of supply, and did learn how to make ammunition. So far as I know, no one country ever bought any from any other country. Therefore, I only support what I said at the outset, that there has been only very limited pooling of resources; but I do conclude that there was a great deal of worthwhile substance that came out of that offshore procurement program.

Another part of our overseas procurement program was the developing of a base for fighter-plane production in Europe. The British were the only ones who had any kind of production of such planes, the Hawker Hunter being the one on which they had pretty well standardized. But the French were fussing around with a so-called Mystere fighter. Holland, which had a good peacetime aircraft industry, being the home of the Fokker, as you remember, wanted to get in on the program. Belgium's good engine industry was anxious for part of it, too. We

finally developed a program in which these countries would do something different from the offshore procurement I mentioned, in that these countries would match our dollars with theirs. We were putting in about two dollars to their one, as I remember the proportion.

It was decided that the major production type would be the British Hawker Hunter. Again the French put such pressure on us that we had to give them an allocation for the French Mystere. We never expected anything out of it however. That was surely true in 1953 when I was in Paris. But when I was there this winter and saw one of our leading Air Force Generals it was a good opportunity to find out what had actually happened. I knew the British had been having trouble. He said, "You remember how you fought giving any of this business to the French for the Mystere, don't you?" I said, "I certainly do." He said, "Well, they have made in some ways, a better showing than the British have. The British have been a disappointment to us. They have fussed and fiddled. They have not got a real Air Force for themselves, and they have made no contributions to ours, although they are now, I hope, pretty well out of the woods."

I cite that as an interesting personal byproduct, personal to me, because we were so wrong in attributing to the British a production capacity which they did not have and in taking away from the French credit for diligence enough to develop as they have done.

If you then ask the 64-dollar question: Can NATO in Europe sustain itself as of today, remembering that I have no classified information to support my judgment, I should certainly say, "No, not remotely." But I do say that it can make a much better contribution to its own support than it could have done four or five years ago. I should say that there is a steady improvement taking place in Europe in production techniques which would, I assume, find Europeans continuously in a production posture. In France, for instance, there is a comparatively new organization of young management men, limiting themselves to 40 years old, who are trying to imitate American management methods. There is steadily a little more competition in Europe, for which in some part, we thank the Germans. The Germans are competing today in Europe, and making the situation, accordingly, difficult for the other countries, particularly the British and the French. That, I think, is the hope for the future--greater competition, greater awareness of the factors of production that we take into account as normal in the United States.

I can't believe that these groups which have come to the United States, particularly from France and England--altogether some 50 odd teams from Great Britain and some 20 from France, and a continuing flow of businessmen ever since--I can't believe that these won't show some dividends.

It has seemed to me important that I comment on this problem of a protected production base here at home in terms of our national security, because I have repeatedly run into it on this tariff question. You know the last congressional act set up special consideration for concerns threatened with harm from imports from abroad, where such firms were essential to our domestic production base at home and to our own security. A flood of requests to the Tariff Commission has resulted. I won't say that the garlic industry has asked for protection on the grounds of national security, but almost every other industry has.

The classic case which has had the most publicity is the watch industry, as the result of the recommendation by the Tariff Commission and the Office of Defense Mobilization to the President to raise the duty on watches about 50 percent. That had a lot of publicity. On the surface it might seem a logical thing for him to do. It seemed logical to many people who had not studied it very carefully. I think it was a completely unsound conclusion.

Since this is one of the important thoughts I want to leave with you, I shall try to develop my reasons rather fully. I shall go on record as gravely questioning a line of thinking which proposes to set aside a group of specialized shop skills in the interest of national security; I further predict that the Office of Defense Mobilization will reverse itself, since I don't think the decision they made in the watch case is sound or will stand up.

Let me go back to World War II for the basis for my premise. There is nothing in watch manufacturing as exacting as, for instance, a Norden bombsight, yet the Norden bombsight--parts of it--were made by a great variety of people who knew nothing about it. The watch industry, so far as I know, made none of it. Sperry and IBM and General Electric and a large number of such well managed concerns, familiar with precision, were then and are today making items much more exacting than watches.

Remember what the automobile industry did in producing aircraft engines in the last war? There were people who said that Knudsen was just plain nuts in throwing the bulk of our aircraft engine production into the automobile industry. We know now what a fine job they did. I don't maintain that they could develop an aircraft engine, but I think the record is quite clear that they can build them accurately and in great quantity.

You remember the manufacture of machine guns? The first contract ever allotted to anybody else except a gun manufacturer was a contract which went to Pontiac, and they knocked the spots out of any record that the old established gun manufacturers had made, because they had the new approach of automotive manufacture, plus modern management.

I say, therefore, that what we need to preserve our national security is versatile management, plus design skills, most particularly design skills, people who know how to design tools, jigs, fixtures, and what not, as well as special machine tools. We need diversified skills. But, to set aside special groups of shop skills with a fence around them, to set up that principle seems to me very dangerous. I maintain that these defense skills that we want to maintain must always be subject to the sharp whip of competition, so that they will remain on their toes. Any other practice will be wasteful and misleading, partly because, of course, no one knows what our future production needs will be. It may be something like a watch-- it may be something very different.

Let me repeat that we must have versatile management teams and versatile design skills. I remember very well when we had the first large bag-loading program. When the war broke out, there was great argument in the Ordnance Department as to who should set up those plants. There had to be a large number of them. Bob Patterson made what we regarded as a very courageous move when he said, "Give me a stock-exchange list and let me pick out the blue-chip companies. I am happy to have them set up those plants because they have good management." His judgment was completely borne out. People like Procter and Gamble did an outstanding job in the business of bag loading during the war. Why? Not because they knew anything about it before, but because they had good management.

That is the way I think we shall have production security. The private-enterprise system, with full responsibility, is the ultimate

in our economic system. That, I believe, is the only way we can provide a substantial and dependable security base. We have that today, and it is because Europe, generally, does not have it in any comparable sense that we are so far ahead of them in our ability to produce and distribute.

Well, General Hollis, I am looking at that clock, which tells me that I should stop at this point. I hope I have said enough to provoke this audience into some useful argument. Certainly I have appreciated their courteous attention.

MR. HILL: Gentlemen, Mr. Batt will be glad to have your questions.

QUESTION: I think we are all agreed with you, sir, in regard to competition in America, but we keep reading about the success of the Russians in mass production and new technology, and how they are catching up with us. At least we read it. Since they don't have competition, will you sort of discuss the philosophy of how they get so good?

MR. BATT: In the first place, I don't know how good they are. I was only there once. I suppose I know that Germany did a fine job of production in the period of 1930 to 1939 under a dictator, and I will agree that dictators, who don't care where the shoe pinches when they want to put one thing ahead of everything else, as the Russians do, can get out production for military purposes too. I won't say they can't. It is not the sort of life that you and I want to live, and I am convinced that the only way to get the kind of life we want to live and the maximum of defense posture at the same time is through a competitive economy.

QUESTION: Sir, several years ago when this European Defense Community started out, it started out with quite big fanfare, to get everybody together into a common production pool and a common consumer pool. Has this thing, from what you read, actually died out in Europe? Are they actually working toward that?

MR. BATT: No, it has not died. It was never as alive as we tried to make it. One of the troubles with us is, we get to riding a horse and as we push it, we kid ourselves into believing that things are happening that are not always happening. That Defense Community never went nearly as fast as we tried to make it.

Europe has however, set up the Coal and Steel Community which has made substantial headway and which, while it has not greatly changed the producing and distributing basis of the Continent of Europe, has made some contribution to that.

They are now proposing to set up an organization of a similar type, for exchange of peacetime interests in the uses of atomic energy. Some headway is being made. There are many Europeans who believe in integration, but there are these strong national prejudices that operate there, the same as they do here. In any event, they have not got going as fast as America would like to see it.

QUESTION: Sir, I assume from your talk that you are taking a swing at the management in the military. I would like to take a swing back, to see if my thinking is correct. In the first place, I claim we do have good management in the military. In the second place, we have the top people of General Motors, Standard Oil of New Jersey, and AT&T as our guidelines. Can you give us some for instance why the military management needs so much improvement?

MR. BATT: I didn't say quite that, although I agree it can be interpreted that way. I said that by and large I don't think the military has enough recognition of management as such. Many of our military institutions do have excellent management. I think, for instance, that our Ordnance operation, which I suppose is the largest single industrial operation in the world (if it is not larger than General Motors, it comes close to it) by and large has given an extremely good account of itself. But so far as I know there is no unit in the Department of Defense charged with better management as such. If there is, it has happened recently and I have not been informed about it. I asked that question of a man who ought to know within the last month and he said no, there was not.

When we started this offshore-procurement operation in Europe we never got much support from the Defense Department on the desirability of recognizing better management as one of the reasons why an order should be placed with a concern in Europe. They wanted to look only at costs. Our civilian concept then was, and it would still be mine, that we are concerned as much with the development of better management in Europe as we are with getting an order for shells filled at ten cents or a dollar lower or higher than some other price.

That was the reason for making that statement.

QUESTION: I would like to ask about how those European nations have been able to compete so long in the South American market, and even in cases in our own market. We have all heard of this generator case where we don't buy British generators, but I have actually seen transformers made in England and Belgium being put into American Government powerplants projects. How were they able to build them and send them over here and put them in cheaper, in spite of all the discrimination we have set up against them?

MR. BATT: I wish everybody would ask me a question I can answer as easily as that one. This matter came up when I was in Great Britain. The head of English Electric was a friend of mine, as both the presidents of General Electric and Westinghouse are. That is an unusual kind of a piece of equipment. It is not mass produced. Every one of those jobs is different from any other one. There is no doubt about the fact that English Electric, to be specific, has been the low bidder on those jobs. They have good engineers and they can design a piece of equipment for a customer substantially as well as General Electric or Westinghouse can, and their low-wage rates are an enormous help.

It is when we get into the mass-production field, where we develop techniques for both machine tools and the utilization of manpower that they won't bother to do in Europe, that we become so successful.

I cited a type of mass-production thing that could be brought into the United States successfully--the bicycle, and the watch. I could also have cited as another example on the other side, the custom-made unit, such as the generator or transformer.

QUESTION: Sir, we spent a great deal of time, effort, and money in developing productive capabilities in Europe, it seems to me, perhaps, to the exclusion of the other nations in our own hemisphere, which in time might be even more important to us.

MR. BATT: You mean Latin America?

STUDENT: Yes, and South America.

MR. BATT: Well, there is not much industrial production capacity down there. I am not being facetious. Among my extra-curricular

activities today, I work with the National Planning Association here in Washington, and particularly now on a grant from the Ford Foundation studying technical assistance in Latin America. The evidence is quite clear that there is very little manufacturing industry in Latin America that would be adaptable to the kind of military production we are talking about.

Surely I believe we ought to work closer with Latin America than we have in the last few years. We rather transferred our love from the good neighbor here over to the other side with NATO when we got as worried about Europe. That is one of our difficulties. We tend to blow hot and cold. When we are worried about Europe, all of our interests tend to go to Europe. I agree with you 100 percent as to the necessity for the closest possible relationships with Latin America.

QUESTION: Mr. Batt, you mentioned that Europeans have good basic researchers and their labor is good. Now, they are fast adopting our modern methods of production and incentive. Of course Soviet China and Soviet Russia are going to accelerate that, I think. Do you think they will become formidable rivals in productivity shortly, or is that quite a way off?

MR. BATT: I think if we operate as we have in the past we shall continue to keep ahead of them. For instance, automation is an American development of the last few years. If you used that term in Europe there would be very few people would know what you were talking about. If we don't keep on our toes they can catch up with us, of course. I should think the going will generally be more difficult in the next 5 or 10 years. As a matter of fact, it was expected that would happen a long time ago, that right after the war the Europeans would get into the American market. They bought some of our machinery, and there was a good deal of apprehension on the part of many Americans that they would turn out goods so fast as to hurt us competitively. You didn't see any such result.

There have, of course, been substantial advances in Europe. Most importantly there has been a great advance in the United States in the same period. Maybe we can keep that differential. I would hope we can. If we stand still, you would be right in your fears.

QUESTION: Sir, you mentioned that you would rate Germany tops in productive know-how in Europe. Is that attributed to the fact that the competitive element is in existence in Germany?

MR. BATT: Very substantially.

STUDENT: If that is so, shouldn't their serious competition, that competition with Britain and France brush off, so that there is a better competitive activity in France and Britain?

MR. BATT: I think that has happened. If you had said "productivity" in Europe in 1946 or 1947 there would have been few people who would have known what you were talking about. I make that statement with great definiteness. I have heard it discussed that Europeans have had no comprehension whatsoever, generally speaking, of the elements of productivity as it is practiced in the United States. I never did tell you why I think we are so far ahead. I ought to do that.

I spoke of competition, and of the differences in our habits, but I did not say much about the basic reason. I attribute a great deal to our unique industrial system. There is no system of engineering education in Europe that remotely corresponds to that in the United States. There is not a single business school in Europe that has any resemblance to the Harvard School of Business Administration, or to Wharton in Philadelphia, and others. There is not, therefore, any substantial segment of the young men of a country with some knowledge or some appreciation of production.

General Hollis spoke of Purdue, where I was a graduate. Purdue is a byproduct of the Land Grant Act, the Morrill Land Grant Act passed by Congress in 1868 or 1870, passed because, primarily, you know, the North was desperately short of officers in the Civil War. We had West Point while the South had, I think, six military schools. They had a flock of good generals. If we had had the generals that the South had, I suppose it is a safe statement that the Civil War would not have lasted a year. Our Congress recognized that we needed to have a nucleus of skilled military men, and the Morrill Land Grant Act set aside sections of the public lands in the West (the result of the Louisiana Purchase) to those States which would set up colleges to teach agriculture and the mechanic arts and give at the same time, some military training. We have such colleges all the way from Rutgers, which I think is the most easterly one, through the Middle West and the Far West.

They have graduated large numbers of so-called engineers. I am one of them. I don't consider myself much of an engineer. But those

men have drifted into the various aspects of industry, aside from the engineering department, so that you find the heads of many of our largest American companies graduates in the engineering of the American Land Grant College System. We take a boy off the corn field, with mud on his shoes, and give him four years of that kind of exposure and graduate him as an engineer. He is not much of an engineer, but he knows what it is all about. If he wants to be a good engineer, he knows where to go.

Europe has none of that. The Germans have a little of it and have had that for a longer time than any other country in Europe. That, I think, contributes in part to their mechanical aptitudes and more aggressive business development.

QUESTION: Sir, we have had a lot of discussion here in the last few months on the possibility of a fourth service of supply. You mentioned something about the Ministry of Supply and its experience in Britain. Is there anything we can learn from that type of experience that would give some rationality to their position?

MR. BATT: That question was asked before we came in. I know nothing about our discussions on this side. I watched the Ministry of Supply in England for three years, and would not want to duplicate it here. It has to be a politically motivated thing between the services and the producer, and I would regret to see the United States copy it.

QUESTION: Mr. Batt, could you comment on the effect of organized unions in Europe, and particularly in France and Italy? I say that because of the effect of unions in this country. I am thinking, of course, of the Communist influence.

MR. BATT: There is no labor movement on the continent comparable to that which England has, or which we have. The unions in France are small in number. Only about 25 percent of the people in industry are organized, and they are not very effectively organized in the interests that motivate our better unions. They tend to spend their efforts in political activities and certainly the Communist infiltration in unions in France and Italy has been substantial. They are not an economic force in the sense in which unions are in this country. Union organization here is certainly a headache many times.

But the union in this country must be given much credit for the fact that generally it is not opposed to mechanization and to additional

productivity. In Europe they still fight it. Over here the union knows pretty well that they will get some part of the saving, and they know they have fared well by and large. In Europe they don't know that. As a matter of fact, they don't fare well.

So I think you can say that unions, while they have been a troublesome force here, on the whole have not been too bad for the country as a whole. In Europe they are not a considerable force, except for the political heat they generate.

QUESTION: Sir, I have read of the tremendous advances in the standard of living that have been made in Sweden. How would you rate the productivity of Sweden against the United States, or against other European countries?

MR. BATT: Well, I think, actually, it is above any country in Europe. I did not include it when I spoke of Germany, because I was talking about the big countries. We have a big element of Scandinavian population amongst us in this country. They are an enterprising people. You know the SKF Company, with which I was for so many years, had a block of Swedish stock in it. I know Swedes very well, and admire them. They are an enterprising people. Many of the qualities we have are those which the Scandinavians had long before.

They do a good production job. They have a pretty good balance there between socialism and the free-enterprise system. They are nominally a socialized country, but they don't push it unreasonably. Their production is good--better than any other country I should think. It is such a homogenous country--they are all Swedes!

I should like to ask the representative from ODM, if he was involved in the watch question about which I spoke relative to our security. If you were, you may have more facts than I, and may be willing to comment.

STUDENT: No, sir. I was able to stay out of that. Interestingly enough, the Department of Defense decision I believe was released later in an inclusive dispatch. Their position supported your position, in the sense they decided the watches were not required for military production. My own personal feeling is that the situation was critical to localized areas, and it was those areas that forced some of the decision, the way it did go.

MR. BATT: I spoke about tariffs and said at the beginning--I didn't emphasize it as much as I might have--that our civilian interests are mixed up with our security interests.

I saw the other day that Governor McKeldin of Maryland sent a strongly worded protest to both Congress and the Treasury Department, saying, "For goodness' sake, don't do anything more to Switzerland. Please take that increase off. It has hurt our tobacco sales to Switzerland. Switzerland is our biggest customer for Maryland tobacco and their purchases have been very severely reduced as a result of their decreased dollars."

We must realize that Europeans have to have dollars to buy American goods. If they don't have them, they can't buy American goods. If we don't buy watches and bicycles, among other things, they won't buy machine tools and adding machines. Since the war, we have been exporting more than we have been importing, and making up the difference by gifts of one form or another. We can continue that, if that is the way we like it. It is a poor way, it seems to me, to procure a balance of trade. It tends always to stabilize on a lower and lower level. I believe a country's best interest is stabilization on a higher and higher level. It seems to me that contributes to military security. I have certainly tried to emphasize that many times this morning.

MR. HILL: Mr. Batt, there is no substitute for the thoughtful conclusions of one of the founding fathers of industrial mobilization planning. On behalf of the Commandant please accept the thanks of all of us for your appearance here this morning.

MR. BATT: Thank you.

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