

November 10, 1927.

MEMORANDUM - Colonel Irving J. Carr,
Assistant Director, A.I.C.

The attached notes on Priority are suggested as helpful to clear up some of the interesting questions asked during my talk before the School. Notes may be of interest to those particular officers asking questions.

R. R. Nix,
Major, Ord. Dept.

1 encl.
(Supplemental Notes)

202
November 3, 1927.

Memorandum for Major Nix:

1. On page 1 is the statement "Priorities are not necessary except in case of shortages". Your Paragraph 6 emphasizes the necessity for giving functional studies a higher rating with regard to planning than commodity studies.

2. Now, our studies of commodities, of raw materials, and the finished products is our only means of ascertaining where these shortages lie. Requirements come first; allocations of facilities come second. Where allocations have been correctly made it means that the load has been properly balanced on the industries, to be later corrected and balanced by the restrictions of power, labor, transportation, etc. Our allocations and our industrial load for fabrication is the primary thing for us to adjust. So far, the greater bearing on this adjustment will come from our increased knowledge of commodities, raw materials and finished products. You have already stated on the first page that our knowledge of sequence of needs eliminates priorities. It would then seem that the methods for enforcing priorities would follow the completion of our knowledge of requirements and of material. In other words, priorities should not begin to be enforced until the emergency begins.

3. I believe there is a weakness in your plan - the one you say Mr. Rubens has commented on. I get from reading the paper that you will have no control over any of the ranks of secondary orders beyond the prime contractor; that you will leave the priority control to the patriotism of the average American citizen. This looks to me a bit dangerous and is not supplying the assurance that we require in war time. I do not believe that the industries of the country would be able to police themselves of the grafters in their midst to allow this to be put into effect.

4. In all other respects I think your paper on "Priorities" is very good and will give the class some subject for mature thought.

JAMES D. BIFE,
Lt. Colonel, Medical Corps,
Chief, Planning Branch.

Encl.

11/2/27.

MEMORANDUM - Colonel Fife,

1. I showed you outline of these notes, Monday, 10/31/27, (being prepared by Letham).
2. I intend to stress points in these notes before Army Industrial College, 11/7/27.
3. If you have time to glance over these notes and wish me to emphasize some in preference to others or omit some entirely, please indicate.
4. I do not intend to read these notes but have furnished copy to school. I shall talk from the outline which I showed you, (par. 1, above).

R. R. NIX.

ARMY INDUSTRIAL COLLEGE.
(Course, 1927 - 1928)

ORGANIZATION AND FUNCTIONS OF THE
PRIORITY SECTION, O.A.S.W.

Major R.K. Nix, O.D.

(Notes on Conference)

November 7, 1927.

AUTOMATIC PRIORITY AND ALLOCATIONS.

WITHIN FACILITIES. (M. J. G. D. 1927)

1. Allocation of Facilities obviates the necessity for priority as between military and naval orders with possible exceptions in the case of jointly allocated facilities.

"With proper allocations and the thorough understanding by industry of its task, the necessity for elaborate priority control of orders is lessened" - Annual Report, A.S.W., 1927. See Circular No. 4 of 7/1/18 Classifying Orders Automatically.

"A plan which provides for performance by dates or in sequence eliminates priorities because it includes them or it may be said that the plan establishes priorities and each demand has first priority when its time arrives. The plans when approved by the President will have first priority.

Priorities are not necessary except in case of shortages. The important thing is to take the General Staff statement of direct military priorities or the sequence of military needs in finished articles and determine the resultant sequence of industrial needs. Where the needs exceed the supply, the needs must be reduced or the supply increased. Until they are the same, we have no plan - only a project or vague hope" - Col. H.B. Ferguson,

5/18/26, Memo to Planning Br.

26

2. For the purpose of extending preferential treatment to war orders over civilian needs these war orders may all be graded "A" by appropriate certificate of purchasing officer on the order. Like certificates may automatically take care of indirect requirements back to the farms, mines and forests. This decentralization or automatic action serves to tie in the allocation of a facility for finished products with orders in the facility for intermediates and raw materials without the necessity of allocating all facilities the whole way back through intermediates, raw materials, etc. While factory plans and specific procurement plans may serve to control this flow of material as far as these plans go they can not be expected to cover the millions of items embraced in this automatic classification of orders.

3. In jointly allocated facilities where the military necessity in time of war does not upset accepted schedules of production or factory plans prepared in peace, the rating "A" of all war orders should prove satisfactory. A rating "AA" should serve to grant higher preference when it becomes necessary for one or more war orders to displace "A" orders. "AA" orders are not automatic. This rating is granted only by Central Priority office.

4. Automatic ratings of orders by certificates of purchasing officials may likewise apply to critical essential civilian needs arranged in class "B", and with certificates in classes "C" ; (including pledges).

21

5. A centralized control of the flow of raw materials (i.e. steel) or intermediates (i.e. motors), where practicable by means of commodity committees using a "Schedule System", will insure deliveries in accord with military needs without the necessity for rating the orders within such facilities. This is a form of "rationing" which might apply to any critical and strategic materials. To quote:

(Extract from Records, War Industries Board,
Inquiry into effect of the War upon Industry).

"Question: 'After the contracts were let, came the question of the supply of the material to the Government plant or to the Government contractor or sub-contractor. This was effected through priorities'.

"Answer: 'Yes, and later, within the last few months, on a schedule system'.

"Question: 'Explain that'.

"Answer: 'About four months ago, beginning about July, it became evident that in certain commodities, plates, shapes, projectiles steel and rail particularly, the Government's and Allies' requirements were going to be equal or greater than the production. It then became a question of distribution of steel as between the various Government Departments. The Director of Steel Supply inaugurated a system of scheduling mills, allotting to each mill a given tonnage of a given com-

25

4

modity for each of the Government Departments. The requirements of each mill for each Government Department for each commodity were submitted to the Director of Steel Supply and when all such requirements had been received for any given month, a trial balance was struck between the total requirements both for each mill and for the commodity itself and the probable production. When such requirements were in excess of the total expected production, it was necessary to confer with various Government Departments and adjust the requirements to actual production. After this had been effected, complete schedules for each mill for shipment to each Government Department during each month were sent to the various mills. A letter was sent to the mills with instructions that they secure from the consignee an order of reference as to the various orders to be shipped up to the total tonnage. Instructions were also given the mill that the exact tonnage as nearly as possible assigned to each consignee should be shipped. Explanations of under shipment or over shipment were required from each mill. The mills were required to submit at the end of each month a statement showing the original tonnage allotted to each consignee and the amount shipped to each consignee. That was our method when we had more asked for than we could possibly produce and it worked out

well. It became evident in July that there might be a good deal of controversy between the Government Departments as to the preference among themselves. The best way to adjust these differences seemed to be by talking it over with the various Government departments. The Emergency Fleet was the big demand and we roughly allocated about 45% of the plates and shapes to be produced in the country to the Emergency Fleet and if their requirements exceeded the 45% they were requested to cut down as a whole and also on individual mills." - Memo., 3/18/17.

WITHOUT FACILITIES. (*Ratings facilities*)

1. A list of facilities placed in Classes I, II, III and IV should be published for the information and guidance of all concerned. (See Circular No. 20, 9/3/18).

2. Main factors used in determining classifications of facilities are -

(a) % capacity utilized by war orders or essential orders;

(b) ratings of such order, i.e., "A", "B", "C" and "D", or importance of products and time product was required;

(c) need of particular industry for stimulation due to its intrinsic value and because of peace economic conditions, i.e. surgical instruments.

212

3. Classified facilities would include all allocated facilities and such unallocated facilities and industries as the military and economic situations would demand.

4. Control of Power. Present plans contemplate a Power Director and the distribution of power in case of shortage in accordance with a Priority Circular similar to No. 45 of 10/7/18, that is in accord with the priority rating of facilities.

5. Control of Labor. The flow of labor to rated facilities and denial to non-war industries may be regulated largely by the people themselves through the instrumentalities of draft boards, local business and civic organizations and such other agencies as the U.S. Employment Service, Labor Boards cooperating with District Chiefs and Local Councils of National Defense, etc. Priority Control of labor should provide for directing the unemployed to essential industries and should provide a classification of essential professions, trades and vocations, discouraging employment otherwise. (See Labor Priority Bulletin No. 1, 9/17/18).

6. Control of Funds. Priority control of funds should assist in the conservation of financial resources, labor and material so that they may be available for uses essential to the prosecution of the war. This control may be effected by means of a Capital Issue Committee, Federal Finance Corporation and other similar agencies. (See Circular No. 1, Capital Issue Committee, dated 6/4/18).

21

7. Control of Transportation. Directions for preference or priority in transportation, embargoes, or movement of traffic under permit will be in accordance with Section 400, Transportation Act of 1920. Preferential treatment will be accorded to facilities in Classes I, II, III and IV with the assistance of advisors of the American Railway Association.

8. Control of Surplus and Non-War Production. By "rationing" power and materials, surplus and non-war production may be curtailed. Government Commodity Committees in agreement with Committees of the Industry may serve this purpose. This step should keep pace with the withdrawal of men from industry to the colors. (See Priority Circulars 1, 2, 3, 5, 6, 7, 21, etc).

FUNDAMENTALS.

1. The automatic system is based on the principle of decentralization. It should, therefore, fit into our District System. The back bone of this organization, like that of Allocations, is the District system. Nothing and no one should come between a branch chief and his mission. Decisions on rating orders "A" and below and facilities II and below, may be decentralized in the districts. This would decentralize over 90% of applications, appeals, decisions, etc.

3. While industry will in large measure police itself once it understands what is wanted, priority inspectors at facilities may be required to enforce these regulations. Otherwise the automatic system may be readily abused and defeat its own

212

purpose. In allocated facilities the regular Government inspectors should answer the purpose.

3. The regulations and instructions (called circulars and bulletins by the War Industries Board) necessary to effect this automatic priority control plan are to be agreed to in principle and prepared in draft form by the Army and Navy Munitions Board before being submitted to industry, procurement districts, and other agents within and without the War and Navy Departments for comments and criticisms. (See page 24, Par. 8, "The U.S. War Industries Board," compiled as of 11/10/18). The plan should, therefore, be intelligible to all concerned before final approval by the Army and Navy Munitions Board.

4. After studies outlined in Paragraph 3, above, are completed the following steps may be taken to assure an understanding by all concerned of the way the system works and to develop a going organization in time of peace.

(a) Rate orders "AA" in jointly allocated facilities where conflict cannot be prevented by planning and the military or naval situations so demands. It appears that this rating applies to relatively few orders in all and will depend upon a Joint Army and Navy Color Plan, which (Instances/have developed to date are optical instruments, wire rope, outpost and field wire, and searchlights. Where Army and Navy supplies are practically identical the first deliveries may be turned over to Navy or Army as situation demands without necessity for "AA" ratings).

(b) Publication of ratings of facilities in our Field Directory on A locations may have a beneficial effect by assuring the facilities that they shall be accorded the preferential treatment deserved. This is feasible irrespective of any joint Color Plan since the rating is based primarily on % Capacity utilized by Class "A" orders, (i.e. Arsenals, Navy Yards, the Aircraft and Surgical Instruments industries obviously fall in Class I). While the character of the industry may indicate the nature and extent of Class B, C and D orders, our knowledge of requirements with respect to capacities of facilities is not adequate to start rating facilities intelligently for some time.

5. This system cannot be tested out on a war basis but the organization and operation can be made intelligible to all concerned by planning as indicated in Par. 4(a) and (b), above, in time of peace.

6. While shortage of Personnel is the limiting factor in all of our work there appears an unbalanced assignment in those who are now engaged on commodity studies as against those engaged on Functional studies. The daily job of hundreds of thousands of men in industry prepares them to answer our commodity questions and help solve commodity problems. The very heart of our control system - Allocations, Progress and Requirements, Priority, Price Fixing, Labor, etc., is assigned for study only among a half dozen officers in the United States. Planning in the office of the

214

Assistant Secretary of War should keep in step with that of the supply branches. In preparing specific procurement plans the branches have no guide or check list at present on the subject of Priority.

7. The Priority system for an Industrial Mobilization Plan should be extremely simple and flexible, and not prepared in the precise detail which may be required in a Special Color Plan. For example, subdivisions of Classes "AA" and "A" may be required in jointly allocated facilities for Special Color Plans which simulate an actual war. While one supply branch can direct preferential treatment of orders within a facility allocated to it alone, to conform to changing military situations or errors of estimates in Factory Plans or Specific Procurement Plans, different priority ratings may be necessary as between different supply branches and the Navy on orders in the same facility.