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ADDRESS BY THE HONORABLE HARRY H. WOODRING,
THE ASSISTANT SECRETARY OF WAR,
TO THE ARMY INDUSTRIAL COLLEGE

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Colonel Jordan and Gentlemen of the Army Industrial College -

When I was here the other day, I promised Colonel Jordan that I would return soon and have an informal chat with you. I am very happy to be here addressing the student body of my school. I call it mine because I take a deep interest in its being and appreciate the tremendous contributions that it is making to sound War Department business and industrial planning. In fact, it is a very major part of my office. I feel particularly at home speaking to you gentlemen of the Army and Navy who attend this school because you are "business-minded" and with my business background we can talk the same language.

It is gratifying to see so many officers from the Navy here. The growing spirit of mutual understanding and cooperation between the ~~sister~~ services is an encouraging sign of real progress. History shows that in those joint operations which attained success, cooperation between the Army and Navy was the keynote. That genuine "get-together" spirit cannot suddenly be obtained after hostilities begin. It must be developed and fostered in peace in just such schools as this and in all other contacts between the Army and Navy. I really feel that the present interest in Naval industrial mobilization is due to the missionary work of this school in impressing on its naval students the importance of building plans and making allocations of facilities now instead of after M Day

Today, I am not going to discuss the organization of my office nor the details of its functions. Some of these have been effectively explained by Colonel McFarland and Colonel North last week, and soon a talk on the Planning Branch and its accomplishments will be presented to you by Colonel Harris. In my appreciation of the desire of the military profession to keep itself informed of the developments of the day, I would like to branch out this morning and talk of the broader activities of our Nation, of the rapidly changing and far-reaching developments of Government that are unfolding before us day by day - sometimes hour by hour, and I would like to present these things as I see them - This whole

new Federal emergency program has a direct relationship with the national defense and particularly with the plans for industrial mobilization and war procurement. For this reason, I have selected a few of the outstanding elements of this program to discuss with you. As I have devoted most of my life to business, I will give you a "business-eye" view of some of the remarkable features of this governmental program and submit my personal views on them for what they are worth.

You have already studied the history of the World War munitions procurement and are thoroughly familiar with the war-time emergency governmental set-up. During this present peace-time emergency, in the past year and a half, the Administration has set up many agencies and put into effect many measures in an attempt to stem this tide of economic and industrial strangulation and to prime the pump of industrial recovery.

A New Deal was promised to the people of this country, and a New Deal they have, but it must be remembered that all the newly-formed institutions and measures are a product of a grave emergency in which action, quick and drastic in its form, had to be taken. As in all national crises, the Government took charge and tightened the reins of control over our social and industrial lives in order to guide them on the road to recovery. However, this control and many of the recovery measures recently inaugurated should be only temporary. When the emergency ceases to exist, they should go --leaving behind only those features which have been found by experience to have a place in the modern pattern of the normal economic and industrial life of this country.

From the military standpoint, the National Recovery Administration is probably the most important of the new agencies, because of the fact that in war our main economic problems are primarily of an industrial nature. The leaders of the next war --God forbid that there be one -- will still be confronted with many difficulties in production and in the distribution of supplies to the armed forces. Their task will be made easier if our plans for industrial mobilization are complete, sound, and up-to-the-minute. From the very beginning, I fully appreciated this and, being anxious to help and also obtain first-hand knowledge of the functioning of the National Recovery Act, I offered to General Johnson the facilities of my office which will have so much to do with the formation of the War Industries Administration in case of a national war-time emergency.

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As I see it, the trial- and-error phase of the National Recovery Administration is over. It is now ready for permanent moulding. Naturally, any organization which undertook the gigantic task of speedily repairing our broken down industrial and economic machinery had to make mistakes. It was thrown together in a hurry, and the psychology of the people was such that great things were expected to happen quickly. Immediate recovery, springing from the fairy wand of this agency, was hopefully anticipated. The "wait-and-see-tactics" days were over and something did happen. However, the raising of wages and prices of manufactured goods in the early stages of recovery, agreements to raise and fix prices, and curtailment of production as a means of raising prices were not wholly sound. The purchasing power of the consumer, save those in agriculture, has not been increased appreciably, and although there has been some material change for the better in regard to unemployment, the results have been far from the expected goal.

The business interests prefer not to abandon the trade practice policy but they are somewhat discouraged over the inability to enforce the trade practice features of the codes. Some of these were a little too binding on the small business man. However, I believe that much that is good, will accrue to the country at large and to industry in particular, from the results of the first year's operation of the National Recovery Administration. With its three new divisions - legislative, administrative, and judicial, controlled by a board instead of an individual, and with the proper appreciation of the mistakes made, not only by the Government but by business itself, the thoroughly renovated recovery machine will move along slowly during the coming year. I believe that many and important features of the recovery program, even if the National Recovery Administration organization ceases to exist, have come to stay as a permanent part of our national government.

The National Recovery Act, sponsored by the President and adopted by the Congress, is the temporary legislative charter providing for the new control of industry. This act may not be altogether wise. Some challenge its constitutionality. However, I believe it is generally accepted that the act itself, will be held by the Supreme Court to be constitutional. Doubtless, many actions taken under the act will be held illegal. The newspapers have recently referred to an opinion of the Attorney General, delivered in June, 1934, to the effect that every penal provision in the various codes is illegal and void, with the exception of the penalties specifically covered by the

act itself. I imagine, as a result, that there is little optimism among Government lawyers who face the necessity of going into court to sustain the validity of code provisions not specifically stated in the law.

Government control of business seems at present to be increasing rapidly throughout the world. In Russia this control is complete. Italy has launched the "Corporate State", which organizes all industry, including agriculture, into twenty-two corporations. The leaders of these corporations are expected to replace the parliament. It seems possible that this may result in complete governmental control of business. This is similar to some of the efforts of our own National Recovery Administration.

In the United States, there have always been some governmental restrictions upon individual liberty in business. No one will deny that some restrictions are necessary -- such, for instance, as those imposed by the pure food laws. There is adequate evidence that small groups of industrial leaders would, if unrestricted, exercise power inimical to the public welfare. The question is: What sort of restriction, and how extensive restrictions, ought to be imposed? In my opinion, the adoption of restrictions and regulations which would not leave to an individual the prospect of a material reward as an incentive for him to be energetic, intelligent and thrifty, would lead to stagnation and ruin.

The Administration should endeavor -- perhaps has endeavored -- through the National Recovery Administration, to adopt only such restrictions and regulations as are necessary to accomplish the greatest good for the greatest number, and to preserve the incentive of material reward for the intelligent, industrious citizen. The Administration has frequently reiterated, not with too great emphasis, that it intends to preserve the profit system. This is essential to our progress. This is truly an American heritage. This must be preserved.

Price control is a function of the Recovery Administration which becomes a serious war-time problem. The records of the past show that governmental price fixing in defiance of economic laws has never been a success. Today the economists differ in opinion as to the efficacy of the price fixing features of the codes. The entire recovery program was founded on the theory that prices must go up if values were to be reestablished. But the consumer, whose purchasing power had diminished, suffered on account of higher prices. I believe that price fixing, as it has been treated under the Recovery Administration, has

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prevented buying and has not always protected the small manufacturer in fair competition. A gap appeared between agricultural and industrial prices, but the Government's policy called for the raising of prices, industrial as well as agricultural, thus maintaining the existing disparity. To remedy this, an attempt is now being made to lower some industrial prices by manipulation of the separate codes, while agricultural prices remain on their higher level.

If we are to have price control, the price control features of the codes should be more flexible to encourage the more rapid consumption of goods. If a hard and fast policy of universal price fixing is followed, a wholly artificial economic system will be set up. In war time, the purpose of price control is to prevent excessive price inflation and profiteering. The forces underlying price movements are basically the same in war as in peace; so let us watch carefully the treatment of price control under existing conditions. Somebody, in war, will have to determine the price fixing policy.

The role of the railroads assumes a most important place in our war plans and in those for industrial preparedness. The depression and the tremendous strides in the development of other means of transportation have made the position of the railroads very difficult. What operation can be performed upon the backbone of our transportation system in order to make it survive? The railroads have organized themselves as a large industry into the Association of American Railroads. They are arming themselves against the unprecedented competition. This requires coordination of policy and action, both to secure Federal and State legislation to equalize terms of competition in transportation and to develop facilities and methods that, in any case, can meet the inroads of the motor and other new means of transportation. During the past year the Federal Coordinator of Transportation has instituted intensive research to dig down and bring up the facts which will lead to a solution of the transportation problem. The cost of carrying each ton and each passenger has increased. Large economies in operation will be required to make possible the rates that will help to recover traffic or to increase the net earnings received from a reduced volume of traffic. To accomplish such economies it will be necessary to reduce and limit railway competition and make the railroad service speedier and more attractive to the public. The railroads are beginning to recognize this and thus the appearance of the modern light trains of new design driven by electricity or Diesel engines. I feel that the day of steam engines and heavy trains is gone and that the factor of speed will dominate the field of railroad improvement. I do not

believe that the Government should run the railroads any more than I believe that the Government should run business. It is important to note, however, that for many years the railroads, more than any other large industry, have been regulated by the Government, and lately under the Federal Coordinator this control has increased. I believe that the Government must coordinate motor and water carriers, as well as railroads, and put them all under the Interstate Commerce Commission and other Governmental regulatory bodies. Otherwise, the efficiency in our transportation system as a whole will suffer and the railroads may become increasingly ill.

As the stomach of an army is just as much a prime-mover today as it was in the days of Napoleon, you military men should be concerned with the problems in the agricultural field as well as those in the industrial. The plight of the business man has been no more pitiable than that of the farmer. I have been a business man in a farming state and am familiar with both sides of the picture. Six million of our wage earners are dirt farmers and depend upon agriculture for their income. Their purchasing power had to be increased. It was necessary to equalize the price of things farmers sell and the price of things farmers buy. Surpluses of agricultural commodities were among the principal price-depressing influences.

The farmers must have a greater share of the national income than they have now. Forty per cent of our population live in urban communities. Their role as customers of industry is a most important one. However, to receive a reasonable income, there must be fair prices for their products and a fair volume of production. In addition, benefit payments through processing taxes make the cooperative adjustment program of the farmer possible. This policy is certainly in the interests of business, as it makes the farmer a larger consumer. The farmer, in turn, is very much interested in seeing industrial production stepped up and reemployment increased. Factory payrolls and farm income are interdependent and maintain a close relationship. As I see it, better and more stable farm prices, together with increased stability of production, will pave the way to this necessary reciprocity between the farmer and the factory worker in the consumption of each other's goods.

The Agricultural Adjustment Act assumes that the relative prices of what the farmer sold and what he bought during the period 1909 to 1914 were average and fair. This relation had been arrived at by the operation of natural causes uninterrupted by any serious disturbance. From 1914 to 1929 the relative price was so disturbed by extraordinary circumstances that the unit of agricultural products in 1929 would

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buy only about 50 per cent of the quantity of industrial products that it would have bought in 1914.

Hence the desire of the Administration to restore the relative prices of the period 1909-1914. This is to be done by temporarily reducing agricultural production and by paying to the farmers who agree to reduce, funds collected by the Government from processing taxes levied on agricultural products and paid ultimately by the consumers.

This action is undeniably class legislation. But Mr. Wallace was accurate when he said that the processing tax is the farmers' tariff. Since there is no likelihood that the tariff on industrial products will be removed, it is fair that some such equalizing procedure as that represented by the processing tax should be adopted. The Agricultural Adjustment Administration merely provides a means by which farmers may practically reduce their production and thus give them the same economic weapon which is employed by a small group of leaders in each industry who were able to and did reduce their production at will even prior to the enactment of the National Recovery Act.

During the emergency, we have been continually bombarded with comparisons between the cost of the World War and the amount of money being used by the Government to finance the country through this peace-time ordeal. As you know, the expenditure of Government funds has been tremendous. How will the Government, how will the taxpayer, pay? This brings up the subject of inflation. We hear much talk of coming inflation, when as a matter of fact we already have a degree of it. That is, we have seen the Government decrease the intrinsic value of the dollar to increase the price of goods, to counter-attack foreign efforts, by their inflation, to take our foreign trade; and to make it easier for the man in debt to pay off his indebtedness. This action in the aid of debtors is said to be justified by the fact that so much of the existing debt was incurred in a high price era, or in other words, when the value of the dollar was low; and that inflation and higher prices will enable private debts to be paid in the same cheap dollars.

Certain disadvantages of inflation are obvious. It decreases the purchasing power of the so-called white collar class - the class that all of us belong to - because our income increases very slowly even in a period of rapidly increasing prices. Likewise, it decreases the value of insurance policies and bonds and thus injures a very large group of our thriftiest and most unspeculative class of people.

Some inflation from the condition existing in March, 1933, was, no doubt, justified. Everyone would like to know when it is going to end and at what price level.

The President has not stated, and cannot state, his intention. So many unknown factors are involved, particularly international trade and foreign currency, that he does not feel justified in stating a definite objective until some of the uncertainties have been removed.

Uncontrolled inflation is a horrible thing. So far, inflation - if we may call it that - is still well in hand in this country. I sincerely hope, and I believe that we shall avoid fiat money and all semblance of wild inflation.

The Federal Government has taken a continually increasing responsibility in the adjustment of labor controversies in the last fifty years. Labor, as usual, has become a very important factor and at times a serious problem throughout this period of economic recovery. The codes have granted labor the right of self-organization and collective bargaining, free from the interference or coercion of employers.

Section 7-a of the National Recovery Act states that every code shall contain a provision guaranteeing to employees "the right to organize and bargain collectively through representatives of their own choosing" and it provides "that no employee . . . shall be required as a condition of employment to join any company union or to refrain from joining . . . a labor organization of his own choice."

The American Federation of Labor contends that this guarantees that if a majority of the employees of any company shall unite in electing representatives, then these representatives shall represent all employees of the company. If this contention were granted, union labor, after securing a majority of the employees of any company, could designate professional agents of union labor as the representatives; then, possessing the sole bargaining power, it could exercise complete control over industry. Employers contend that minority groups of their employees and individual employees are still free to select their own representatives to bargain with the employer, independent of union labor. Consequently, employers are encouraging "company unions". The "recognition" for which union labor contends today does not mean merely recognition of union agents as representatives of union members, but it means recognition of union agents as the only representatives of employees.

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Means to promote the continuity and stability of trade and industrial relations were furnished for the protection of the interests of the employers and the maintenance of contractual relations between them and their employees. But this provision has met great opposition - and an all-time record for labor disturbances may be made during our present administration. The effort, of course, has been to conserve the rights of both labor and capital, with undoubtedly a leaning toward labor. I believe the middle-of-the-road policy is the safest and the one the Government must continue to follow.

Various recovery measures have been directed toward increasing the purchasing power of the people for consumption goods; that is, raising wages and the prices of farm products. The disparity between this and the purchasing power for capital goods is too great. The Public Works program was instituted to help this situation by stimulating the purchasing power of heavy goods. The colossal sum of three billion, seven hundred thousand dollars was set aside for this purpose. The Army received four hundred and thirty-four million dollars. Although the greater portion of this was allotted for rivers and harbors work, the Army has been able to go ahead in many of its important projects, such as housing and the motorization and modernization of its forces.

Many vexing problems were laid in the lap of the Current Procurement Branch of my office when the expenditure of funds for motorization and the purchase of aviation equipment began. Prior to the depression, many business concerns paid very little attention to obtaining government orders. Since the recovery agencies began to expend enormous sums and business of private concerns has diminished, government orders have assumed a role of major importance. Business houses, both large and small, have exerted every effort to get their share. Along with this, they have assumed a very critical attitude toward the Government's manner of doing business, and are constantly registering complaints, most of which have no merit whatsoever.

The objections of automobile concerns to the published specifications delayed the purchasing of motor vehicles for months and even brought to light the picture of the office of the Comptroller General attempting to tell the War Department how to write specifications for military vehicles. The firms objected to well established procedure which has been followed for years, and with which, because of former lack of interest, they were unfamiliar.

The usual epidemic of official investigations which are so intimately a part of all emergencies was brought on by this bellicose attitude on the part of business. As you know, one of the most prominent was concerned with the purchase of

aviation equipment, and involved the general policy of my office in regard to the letting of contracts. The press conveyed the impression to the country that the Army's methods of purchasing airplanes were tainted with some suspicion. The Military Affairs Committee of the House went on record as approving our large future procurement program of Army airplanes. This investigation developed a divergence of opinion in the interpretation of the Air Corps Act of 1926 in so far as it related to procurement.

I am going to take a few minutes to discuss my present policy in regard to the procurement of aircraft, as it is a matter on which I feel you should be correctly informed. The Air Corps Act of 1926, an unusually broad and conservative legislative act, permits three methods of purchasing aviation equipment. These methods are: Purchase after design competition; purchase by negotiation of units for experimental purposes; and purchase of quantity by open competition. The point in controversy was: Should quantity procurement be accomplished by negotiation or by competition? From the time of the passage of this act until last year, the policy preferred and followed by the Air Corps, and approved by the supervising office - that of the then Assistant Secretary of War for Air - was quantity purchasing by negotiation. In carrying this policy out, certain manufacturers were asked to submit detailed data and prices covering airplanes of the type desired. Conferences were then held with the Material Division of the Office of the Chief of the Air Corps, as a result of which, the firm which the Air Corps thought could best do the job was selected and given a contract based on these negotiations. These contracts covered aircraft in quantity for tactical units. A cost accounting system was kept by the firms and inspected by the Government so that the price agreed upon would return a fair profit to the manufacturer and permit the Government to acquire aircraft on a reasonable basis. It was thought that the most efficient and modern type of equipment could be obtained only in this way. The policy I just described, was placed in effect immediately after the enactment of the Air Corps Act of 1926 and was handed down to the present officers of the Air Corps now responsible for policies and procurement.

The Air Corps felt that only inferior aircraft of doubtful efficiency could be purchased if competition were open to any and all aircraft manufacturers. This industry is in its infancy; its progress is rapid; and there are only a few concerns which have the plants and the engineering

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talent to keep up with the great strides in the advancement of aviation. Only the very best equipment should be accepted, as the lives of men are at stake. These are reasons why negotiated contracts appeared best. On the other hand, this policy was not conducive to building up a large aviation industry in preparation for war, and was not in harmony with the traditional procurement policy of the government.

When the seven and one-half million dollars was allotted by the Public Works Administration for quantity purchase of airplanes, I gave instructions that the future purchases of aircraft in quantity would be made only after advertising for bids. The opinions of The Judge Advocates General of both the Army and the Navy confirm this policy. I would like to reiterate here that the officers of the Air Corps, the operating agency, cooperated willingly in the establishment of this policy and are doing their utmost to insure its success.

As a result of all this, the present policy of the War Department has been evolved. It is authorized by law; is fair to the aviation industry; and I believe will produce the best modern aviation equipment. It provides for the holding of design competitions for each type of military aircraft annually or biennially, depending upon the availability of funds and other conditions. This plan calls for designs, not completed planes, and permits even independent engineers, who have no funds for production, to enter the competition. The Government pays for the winning designs and may enter into a contract for manufacture by the winner, provided a reasonable price can be agreed upon. In effect, this is procurement of the required number of airplanes of the winning design by negotiation. In addition, the outright purchase of any advanced design of aircraft developed by any company on its own initiative is authorized where such a purchase of aircraft developed by any company on its own initiative is authorized where such a purchase is recommended by the Chief of the Air Corps as being in the interests of the Government.

The purchasing of aviation equipment by negotiated contract for experimental purposes is specifically authorized. There is no competition involved. This brought up a divergence of views on the number of airplanes whose purchase under this heading should be authorized. It is the opinion of the Air Corps that a sufficient quantity of aircraft to equip a squadron or a wing should be bought in order to permit a thorough test in formation flights under service conditions.

The Military Affairs Committee first was going to limit the number to four, but later decided to leave it to the discretion of the Secretary of War. He will undoubtedly keep the number to an absolute minimum in order to comply with the spirit of the aircraft act.

Lastly, in the procurement of airplanes in quantity, by advertisement and not as a result of design competition, my office, realizing that the introduction of wide-open competition into a field as technical and complicated as that of aircraft is fraught with dangers, took steps to introduce the necessary safeguards, the most important of which is to insure that the manufacturer is bidding on a real airplane and not on a promise or mere paper design. Invitation requires the submission with the bid of an actual airplane for test. Since proprietary design rights of manufacturers are recognized by the War Department, the competition is actually limited to a contest between manufacturers, each one submitting an airplane of his own design and development. The invitation to bid also contains a detailed method of evaluation, enumerating the factors to be considered in the order of their importance as determined by the Air Corps for the particular type airplane under consideration. As the War Department is interested in determining and procuring the airplane with the best performance characteristics from a tactical point of view, the price factor is not directly incorporated in the evaluation, though it may be given consideration by me in making the award. Though an award would normally be made as the result of this evaluation, it should be borne in mind that, under the law, the Secretary of War may, in his discretion, make award to the lowest responsible bidder who can satisfactorily perform the work to the best advantage of the Government. You may rest assured that this discretionary power will be used in cases where such action is required to obtain the finest airplanes for national defense.

The question of possible delay which may be brought on by a policy of competitive bidding deserves comment. It is virtually important that the Army Air Corps not only keep abreast of rapid development, but that airplanes of the latest design be placed in the hands of tactical units as quickly as possible. In order to avoid delay in the accomplishment of this, invitations to bid for planes purchased under current appropriations have been advertised for only thirty days, thus making the bids really quite restrictive; however, for future appropriations, bids will be issued sufficiently far in advance of the availability of the appropriation to permit the opening of bids and award of contract immediately upon

the funds becoming available. Since the specifications are written on a performance basis, such action is not only practical, but give manufacturers ample notice of the requirements of the Air Corps and time in which to meet these requirements. If investigating committees will leave us alone for as long as two years, I am confident that the new policy will have almost universal support. I feel very sure that the change is sound and will increase our preparedness for war; and that it will permit the Air Corps to keep abreast of the latest developments in aircraft and to get its planes - the best America can produce. Our air force should be second to none.

I have given you some of my ideas on the "State of the Nation" - as the Constitution expresses it. Many of the economic and industrial problems of the past few years are similar to those which will arise in war. We should carefully study and weigh the results of the emergency measures taken, so that we can profitably apply the lessons learned and keep up-to-date our plans for the industrial preparedness of this Nation.

Colonel Jordan - let me again express my appreciation for the opportunity of talking to your students.

Gentlemen - I wish you success in your work.