

Lockheed: Is It Private Enterprise?

POINT OF VIEW

Pentagon Controls 95 Per Cent Of Sales

By SEYMOUR MELMAN

Outwardly, the Lockheed crisis is that of a private company whose management has been unskilful. Actually, the Lockheed crisis involves the management of a division of the Pentagon's industrial empire and that management's relationship to the Federal central office that controls its affairs (95 per cent of sales). Lockheed is the largest Pentagon subdivision in the \$23-billion aerospace industry.

The prospects of bankruptcy or of Government subsidy are given significance by the essential identity of this enterprise: is it part of private or state capitalism?

The privacy of a business enterprise includes autonomy in decision-making, minimizing costs and optimizing profit for maintaining and enlarging decision power. Autonomy means that the management of a company has final authority over acquiring capital, the product, the quantity of output, hours of labor, the price and distribution.

In companies such as Lockheed final decision power in all these spheres is vested in the central office installed in the Pentagon during the Kennedy-McNamara era. Elaborately codified policy statements set limits for the operation of subordinate management. Compliance with these general directives is policed by the largest central office staff in the world. Thereby, the Lockheed top management is to the Pentagon's state management as the Chevrolet di-



THE NEW YORK TIMES, SUNDAY, JUNE 4, 1971

"The Lockheeds of military industry cannot act autonomously to maximize profits, since their prices are negotiated and allocations of cost are closely regulated by the Pentagon's state management."

—Seymour Melman

The New York Times

vision management is to the central office of General Motors. The Department of Defense maintains a resident staff on the premises of every major Pentagon-subsiding company.

Some people persist in explaining that many ex-managers of military contractors serve in the Pentagon and this enables the contractor management to control the Pentagon. This is just as absurd as the idea that the central office of General Motors is controlled by the divisions of the company because many executives in the central office were once executives in these divisions. The location of decision-making and not the pattern of individual career lines identifies the top management.

Neither is cost-minimization a general characteristic of military industry. The "cost growth" in the Lockheed F-101 airplane is typical of major weapons systems where final prices averaged three times initial cost. The C-5A was supposed to cost

\$22-million and at last estimate will cost about \$60-million a plane, having transferred who-care-about-cost space age technology and management practices to its civilian aircraft division, the Lockheed management produced familiar results.

The Lockheed's military industry control at autonomous to maximize profits, since their prices are negotiated and the allocations of cost are closely regulated by the Pentagon's state management. There was something of "Alice in Wonderland" in the Lockheed president's proclamation that a company failure over the L1011 project would cause a growth in overheads chargeable to the Department of Defense. In fact, the Pentagon's staffs oversee and vary the rules for allocation of overheads. "Profits" thus becomes a grant to the submanagement, rather than a reward for autonomous risk-taking.

Pentagon-dependent managements have little or no built-in capability for alter-

ing these patterns of operation. For the state management's control system has terminated the familiar self-correcting mechanisms of the private industrial concern. Access to capital has ceased to be a function of enterprise and management competence in competitive performance. Under the Pentagon, access to capital depends on the central office and its readiness to put pressure on the Congress where unusually large sums are involved.

In the free enterprise company poor management are replaced as a penalty. In the kind of the Lockheed, management competence means ready compliance with Pentagon orders. This is qualification for subsidy.

High costs are identified as problems in private enterprise, while in military industry the issue is how to pay for them with more public money. In the autonomous private company unusable products are not ordinarily produced. If undertaken, then production is

terminated to cut losses. With Pentagon management as the single customer there need never be an unusable product. Thus, poor product design is a source of penalties for the competitive company, but the occasion for more money for engineering services in the Pentagon subdivision.

Finally, bankruptcy has been a characteristic penalty for managements and their participating creditors in private enterprise. The state management uses its posture of public service and its association with the Congress to prevent bankruptcy and preserve a major unit of its industrial empire.

The military-serving enterprises are thus not a part of private capitalism, but rather of a Pentagon form of state capitalism. The state management, the Pentagon's industry central office, does what is expected of any management: It maintains and enlarges its decision power. However, the Pentagon management, whose chief is the President, does

this in an environment where capital is assigned from the national product by ready voice of Congress—in the name of decisions—and without competitive constraints on even the grossest inefficiency.

In my judgment, the central issue in the Lockheed affair is not to much its management and the position of this company, but the decision power of the state management. That is why the President and his Secretary of Defense, the chief executives of the state management, make haste to rescue their largest subdivision. That is why the Department of Defense refuses to release to the Congress information on Lockheed's affairs that are stored in abundance in the data banks of the Pentagon computers.

There are, of course, wider implications of the Lockheed affair: the possible loss of large sums by airlines and banks and other negligent creditors in a possible bankruptcy, and the disruption of employment for thousands of people. However, if public responsibility money is to be allocated, then the rescue of the company and control of its operations should be ranked among other public responsibility obligations, such as rescuing New York City, for example.

It is not surprising that at serious planning for moving from a military to civilian economy, Government officials, top managers, unions, labor and the public capitalism from the land of state capitalism now join forces in beseeching the Congress to sustain them with more public subsidies.

This society cannot long endure the massive economic, fiscal and monetary deterioration induced by priority to state capitalist as usual in aerospace.

Mr. Melman is professor of industrial engineering at Columbia University. He is the author of "Outrageous Capitalism" and is now preparing a volume on "Exit From the War Economy."