THE RISE OF CONGLOMMERATE CORPORATIONS

by David Horowitz with Reese Erlich

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Big Brother as a Holding Company

"The contract state of the postwar world must be viewed as a drastic innovation full of unfamiliar portents....Instead of fighting 'creeping socialism,' private industry on an enormous scale has become the agent of a fundamentally new economic system which at once resembles traditional private enterprise and the corporate state of fascism." —H. L. NIEBURG, *In the Name of Science*

[IT'S A SIGN OF THE TIMES]

"ACCORDING TO OUR COMPUTER," SAYS Robert Allan Jr., head of Litton Industries' Greek project, "there's less than 800 weeks before the present trend will be irreversible. . . . The need for food and the lack of capacity of technology in . . . underdeveloped nations will be overwhelming. . . . It's time that we got to work on it." To listen to Litton executives and to read their annual reports, one might suppose that Litton was some enormous social welfare agency rather than a multibillion-dollar defense contractor. In reality, it is both of these and more.

Litton Industries produces S&H Green Stamps and Stouffer Foods, missile guidance systems and nuclear attack submarines. It runs important programs of the War on Poverty at home. And abroad it recently secured an $800 million contract—to which Mr. Allan's statement referred—with the Greek military junta for the economic development of the whole geographical region of Western Peloponnesus and Crete. Litton is the perfect example of the new corporation extending itself beyond the limits that have divided the private oligarchies of business from the realms of responsibility traditionally reserved to government.

Already a new crop of names has appeared to describe this development, among them "New Industrial State" and "Contract State," as well as the older and more restricted term, "Military-Industrial Complex." The shape of the new social and economic system that is emerging from behind these labels is as distant from the classical image of "free enterprise" capitalism as is Allan's statement from anything that one might expect to hear from a Calvin Coolidge, much less a Henry Ford.

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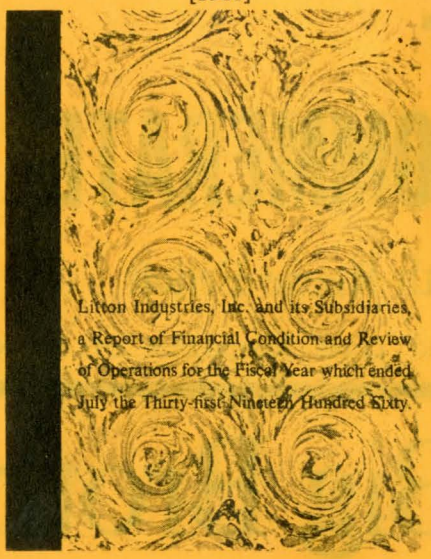

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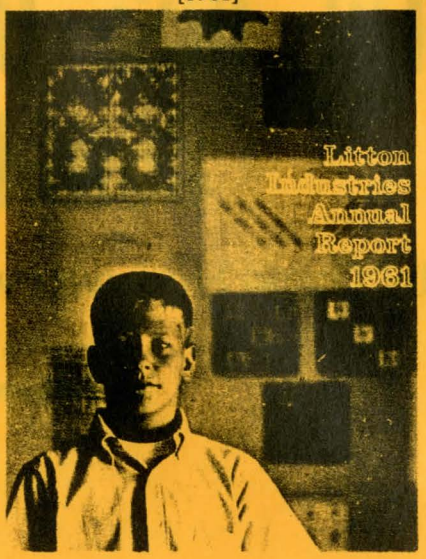

Among the corporate bearers of this brave new American future, Litton stands out as something of a paradigm and archetype foreshadowing the shape of things to come. It is not just the new corporation, but the Now Corporation. It has gathered about itself the full mystique of modernity: advanced technology, the "systems engineering" approach (a product of military contracting), electronics and space. And the mystique has paid off phenomenally well, with a corporate growth rate which Business Week says may well be the fastest in the history of U.S. business.

In 1953, when a group headed by Charles "Tex" Thornton bought Litton, then a small electronics firm, for $1.5 million, the company showed $3 million in sales. This year its worth has grown to a fantastic $1.8 *billion* level, making it the 44th largest industrial corporation in the U.S., ranking ahead of such traditional giants as Alcoa Aluminum, Coca-Cola and Dow Chemical. The aura of futuristic competence that surrounds and powers Litton's conglomerate explosion is reinforced by the higher circles of the business world: Fortune, the Social Register of the business establishment, describes Litton as "the very symbol of all that is modern in U.S. management" and calls its guiding captains "as brilliant a group as can be found at the head of any corporation in the world."

It is perhaps natural that the guiding forces of American society, frustrated by the nation's stubborn social ills which appear to be insoluble by traditional means, should turn to the methodology of military-space development as the Way to Get Things Done. Unable to confront the real moral and political dimensions of its economic and social crisis, the American leadership defines the crisis as basically a technical problem and is immensely comforted thereby: the technical problem is large, to be sure, but it is one that can be handled without any serious reassessment of American values and institutions—and without the social upheaval that might be necessary to restructure them. If engineers employed by private corporations on contract to the government can put men on the moon, it is reasoned, surely they can cure the social and economic crisis at home.

The social engineering approach to race and poverty is merely the logical extension of the pervasive liberal doctrine of pragmatic America and the "end of ideology." As John F. Kennedy, whom many look on as the last national statesman to bear the torch of idealism, affirmed in his famous Yale address in 1962: "What is at stake is not some grand warfare of rival ideologies which will sweep the country with passion, but the practical management of a modern economy. What we need is . . . more basic discussion of the sophisticated and technical issues involved in keeping a great economic machinery moving ahead."

The domestic upheavals in the years following President Kennedy's address have torn to shreds the mythology of the crisis-free welfare state. But the mythology of salvation through the application of technology by the Great Partnership between government and the private corporations has not only survived, it has risen to a new intensity of apocalyptic promise. The theme recurs across the political spectrum, though Democrats may call it a domestic Marshall Plan while Republicans and Wallacites more candidly emphasize Incentives to Business. And if the extension of the contract state means further entrance of a military-social-industrial complex into governance of American society, maybe it is just the right outfit for the job.

LITTON INDUSTRIES WAS THE FIRST corporation to take over one of the poverty program's multimillion-dollar job corps camps—whose large urban centers are now run completely by private enterprise—and was an early promoter of the "military systems" approach for other areas of national policy. As the idea has caught on, proposals have proliferated. General Bernard Adolph Schriever, special Administration consultant on housing and urban development programs, has already suggested that aerospace's management process be applied to these programs, and aerospace industrial teams have begun pushing for contracts in such areas as urban traffic management and water conservation (California's waste disposal program is in the process of being handed over to Aerojet-General). **Litton,** for its part, has offered to contract whole local school **systems,** promising to put them on a sound footing and **to run** them smoothly and economically—a logical step since it is already a major textbook **publisher** and runs a college of its own in Michigan. It is **a proposal** that may well appeal to harried parents and tax-ridden **homeowners.**

Litton Industries has been *the* corporate success story of the postwar period just because it is the perfect product of the times, custom-made to fit the outlines of the new order. For the same reason, it is a perfect image of the economic developments of this period: the vast expansion of the military budget during the Cold War and the largest corporate merger wave in U.S. history.

While the notion of a military-industrial complex has gained currency in recent years, the *technological* underpinning of the new intimacy between government and business has gone largely unnoticed. Yet fully 70 per cent of all research and development being done in the United States today (about $16 billion worth), is paid for by the federal government, whereas a little more than 20 years ago it supported almost none at all. The significance of this for the civilian economy was spelled out recently by Litton's number two man, Roy Ash, in explaining his company's relation to the military sector. Since "almost all new products have their first application in military uses," said Ash, "we always want at least 25 per cent of our business in defense and space."

Ash's statement and the facts behind it reflect the final collapse of the cornerstone of old-fashioned capitalism. In the old days private corporations would develop technological innovations at their own expense, risking the outlay with a view to being rewarded by future returns from the competitive marketplace. This was the very essence of entrepreneurship. However, technical research has now become extremely expensive, and because of the gentlemanly pace of competition among the monopolistic giants of the American economy, these corporations are no longer forced by fear of rivals to risk such investments. So they have become accustomed to getting the government to pick up the tab before they move. These corporations have grown economically lazy, in part because *they* really *can* live better on the largess of the so-called welfare state. One of the factors that has made it possible for them to pry such huge sums of research money out of the government has been the unprecedented increase in the concentration of economic—and with it, political—power in the last decade.

This tremendous concentration movement in the economy has been spearheaded by the advance of the "conglomerate" corporations, formed by the acquisition of companies operating in diverse markets. Litton is the star of this movement, with enterprises in 18 distinct industrial categories.

To an uninitiated observer of the conglomerate phenomenon, Litton's fantastic rise has a distinctly mystifying air about it, like some kind of psychic levitation. For despite all the hullabaloo about new technologies and go-go management, Litton can point to no revolutionary innovation which has benefited the civilian economy and represents a tangible basis for its surging nonmilitary growth (about two-thirds of Litton's present sales, according to Roy Ash, are in civilian fields). One has only to think of Xerox and Polaroid, where jet-powered corporate growth and revolutionizing technology have gone hand in hand, to bring the contrast into focus. It is not that Litton produces nothing innovative or useful (if inertial guidance systems for missiles and fighter planes can be considered useful), but rather that nothing Litton has marketed seems to warrant its unparalleled record of corporate expansion. Indeed, most of Litton's technological innovations were already being developed in the 70 and more businesses which Litton has acquired—*before* they became part of the parent firm.

Yet to be mystified by this is merely to confuse what Thorstein Veblen called the "business system" with the industrial system—that is, to mistake the system of developing and implementing technologies to meet human needs for the system of making a buck off them. Litton's success is a function almost entirely of a brilliant, if sleight of hand, business strategy, with the U.S. government as silent partner. If the constituents of its success seem somewhat insubstantial to the ordinary man, the cash it has made is real. And in the "business system," it is the cash that counts.

To mastermind such a success in the business world, as in the theater, one must learn to live in an attenuated universe where the fictitious is more tangible than the real. At a very early age, Tex Thornton, the brains behind Litton, learned just that.

[GROWING UP WITH TEX]

"Tex Thornton—good abilities along a few lines but not a good all round man; is unprincipled, ruthless and is universally disliked; cannot be trusted."

—FROM A CONFIDENTIAL MEMO PREPARED BY A MEMBER OF THE PRESTIGIOUS WALL STREET ACCOUNTING FIRM OF HASKINS & SELLS; MARKED AS AN EXHIBIT IN THE STEELE VS. LITTON CASE.

TEX THORNTON IS THE PARADIGM new corporate manager of the paradigm new corporation. His career follows the now well trodden path from civilian Washington to the military to the corporate elite.

Thirty years ago Tex Thornton was a $1400-a-year clerk in Washington; today he is a university trustee, a member of the President's Advisory Commission on Civil Disorders (the Kerner Commission) and head of its special Advisory Panel on Private Enterprise. He was one of a handful of nominees considered to succeed Robert McNamara as secretary of Defense, and according to a Washington Post columnist he is—with typical military-industrial bipartisanship—presently being considered by Richard Nixon for that job. He has already achieved the coveted seat next to the President at White House business meetings. In addition to being chairman of the board of Litton, he is an "interlocking director" of such giants as TWA, Lehman Corporation, General Mills, the Western Bancorporation (a bank holding company for the Bank of America interests) and Union Oil. Needless to say, in Thornton's new circles being a millionaire is not at all unusual, but he has already made $80 million and is aiming for the status of centimillionaire. If the market for Litton stock holds up, he will soon make it. Tex Thornton has come a long way, and the Horatio Alger award he received in 1964 was shrewdly given.

Soon after Tex was born in a small north central Texas town, his father ran off, leaving his mother to drill him in the manly art of finance. When he was just twelve, she was already encouraging him to use his earnings from odd jobs to buy land, instead of frittering his money away like a kid. He eventually accumulated nearly 40 acres. By the time Tex was fourteen, every store in town would accept his personal check. And he was all of nineteen when he launched his first real business venture: a combination gas station and Chrysler-Plymouth dealership.

Later, setting his sights always higher, he enrolled in Texas Technological College, starting first in engineering, but switching quickly to business administration—after all, the engineer

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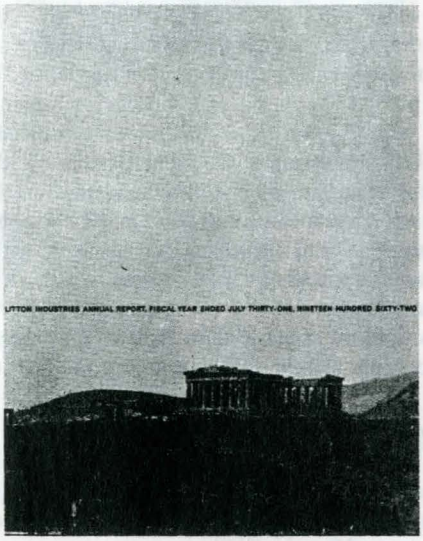

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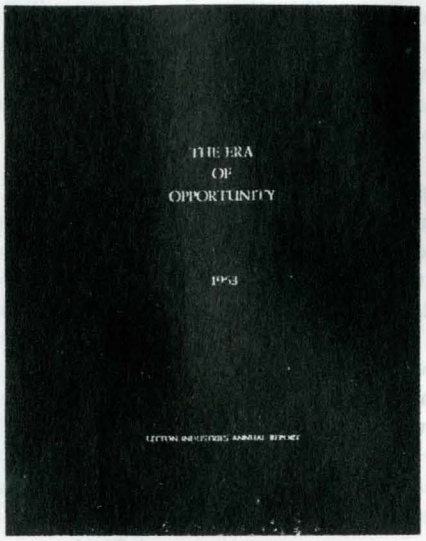

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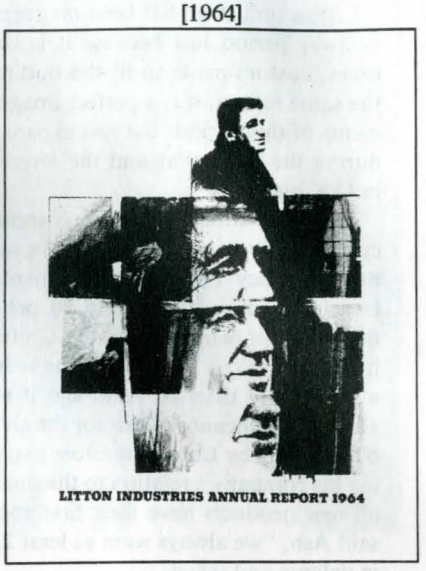

works for the businessman. He quit Texas Tech in his junior year and took off for Washington to check out the action in the School of Life. In Washington he returned to college and got his Bachelor of Commercial Science in 1937. His first job was as a clerk in the Department of the Interior.

For four years Tex was unable to find that combination of business-military-political influence which he needed to power his ascent. When he did find it, its name was Robert Lovett, Wall Street banker and assistant secretary of War. Lovett was not just a run-of-the-mill Wall Street banker, either; he was destined to become—in the euphemism of such a scholar as Arthur Schlesinger Jr.—one of the co-chairmen of the American establishment. Highly impressed with the twenty-eight-year-old Tex, Lovett suggested that he join the Army (it was pre-Pearl Harbor 1941) as a second lieutenant. Apparently a brilliant officer, Thornton received his first promotion within 48 hours. A series of such jet-assisted takeoffs made him one of the youngest full colonels in the U.S. Army, at one point with as many as 2800 *officers* working for him around the world. Like the present secretary of Defense, Clark Clifford, whose military career had a striking resemblance to Thornton's [see RAMPARTS, August 24, 1968], Tex never left his desk. Yet the War Department honored him with a Legion of Merit, a Commendation Ribbon with two oakleaf clusters, along with a Distinguished Service Medal that Tex still wears on his lapel. "It's the kind of thing a guy would wear," observes one of his detractors, "if he wanted you to think he had been a big combat hero during the war."

It was at this point that Tex's instinct for the Combination manifested itself. The federal government, with an assist from banker Lovett, had gathered, as if for Tex's own benefit, an array of managerial talent which, if offered in the right package on the business market, could command a premium price. So Tex organized nine of his subordinates into a team—later known as the Whiz Kids—and offered it to Henry Ford II with price tags of around $10,000 a year each on the nine, and $16,000 on himself, the commanding officer. With Lovett's blessing, Tex sold his package. Ford did not do too badly on the deal, gaining four future divisional bosses and two presidents of the company, including Robert Strange McNamara who was later to become—on Robert Lovett's nomination—secretary of Defense.

AT THIRTY-TWO TEX HAD BECOME director of planning for one of the giants of U.S. industry. Within only a few years, however, Thornton's ambition brought him into collision with his superiors at Ford. So he offered his services to Hughes Aircraft. Apparently, Thornton was not exactly welcomed with open arms. Noah Dietrich, then financial head of the company, strongly objected to hiring him. But with the help of two of Tex's old Army buddies, Generals George and Eaker, who were on the board, Dietrich was overruled. As assistant general manager Tex took command of operations and hired his future right-hand man, Roy Ash—a Bank of America statistician with no accountancy training—to be assistant comptroller. Ash had been one of Thornton's subordinates during the war.

Hughes' business, especially with the newly independent Air Force, boomed. In 1948, Hughes did a total of $2 million in sales. By 1953, when Thornton left Hughes, the figure was $200 million. The biggest boost came from the Korean War and an exclusive contract to produce a special Fire Control System (a device to regulate the firing of aircraft guns). The contract with the government for the control system was on a "fixed price, redeterminable" basis; that is, a price was agreed on at the outset which could be "redetermined" if costs increased. Based on the ongoing costs of material, Hughes received periodic "progress payments."

Thornton and Ash were very anxious to have Hughes Aircraft make a profit on this contract—a little too anxious, it would seem. According to sworn court testimony which convinced the jury in the case of Steele vs. Litton Industries (although the judge suspended the verdict on a legal point), and a number of other suits and counter-suits, the following picture emerges:

Hughes Aircraft's accounting department was unable to keep track of the costs under the fire control contract and began falsifying the affidavits they were required to submit to the government regularly, stating the current costs. Thornton and Ash found out about this, but far from stopping the procedure, they encouraged it. James O. White, one of the company's accountants, gave the following testimony:

Q: In substance, did somebody tell you that Mr. Thornton had said that, "We want to file false affidavits"?

A: In substance, yes.

Q: Who was this?

A: Ash.

Q: What did he say?

A: He said, "Tex wants to get the money and we're to do it any way we can to get it."

Another means of cheating the government was artfully described as "midnight requisitions." Clerical personnel were called in after-hours and on weekends and told to fill out millions of dollars worth of phony requisitions. Again James White's testimony explains:

"They [the requisitions] were filled out by people who had no knowledge of the facts, who had not used the parts, who had not withdrawn them from stores. They were put into the records as though they had. They were made to look as though they had been proper. They were backdated. They were made to look as though they had been handled by factory people instead of office people, dirtied, in other words, to make them look old and genuine as having come through the shop. They were complete forgeries."

Eventually a group of five CPA's revolted and refused to continue these procedures for fear of losing their certificates. When they told Thornton they would resign, he told them to be quiet and be "good company men." They went to General Harold George, nominally head of the company, but his position was that, "This is something . . . generally indulged in by other military contractors," and he "didn't think there was anything out of order."

The CPA's resigned after taking their case to the Hughes directors. But Secretary of the Air Force Harold Talbott had already learned of the indiscreet management at Hughes and had given Howard Hughes himself an ultimatum: "Either change your management or sell the company. By God, I'll give you 90 days."

On September 1, 1953, Howard Hughes locked Thornton and Ash out of their offices. By February of 1954, Hughes Aircraft had paid back some $43 million to the Air Force which had been "misappropriated" during the stay of Thornton and Ash.

THE LOCKOUT AT HUGHES WAS TEX Thornton's lucky day. For at the same time as he was being kicked out, there was a massive walkout of disgruntled top engineers and executives, men who went on to found such stars of the conglomerate aerospace field as TRW and Teledyne. Tex managed not only to lose himself in the exiting crowd but also to take some talent with him. Emmett Steele, with an ingratiating personality and invaluable contacts in the Pentagon, was to become his sales manager, and Hugh Jamieson his top engineer.

Meanwhile, Charles V. Litton, owner of Litton Industries, having suffered a family tragedy, was ready to sell his small electronics firm. And Thornton and his team were on the lookout for just such a deal. However, Litton apparently regarded Thornton as untrustworthy and was reluctant to sell to him. At one point he even broke off negotiations. According to Litton, it was Jamieson and Steele who finally convinced him to sell. (This was a key point in the breach of promise suits which the two later brought against Tex for allegedly defrauding them of their original shares of founders' stock. Jamieson, who had agreed to testify in Steele's case as well, suddenly settled out of court for a sum estimated at anywhere from $3 million to $20 million.)

With Litton ready to sell, all that Tex needed was cash to consummate the deal, and that meant a trip back to Robert Lovett's milieu and the giant investment banking house of Lehman. Joe Thomas, Lehman's partner and a fellow Texan, provided $1.5 million to buy Litton, in exchange for 75,000 of the original 575,000 shares. Common stock cost Lehman's investors ten cents a share. During the next decade and a half it sold for as much as $150. It was no doubt one of the best deals the Lehmans had cut since they helped finance the slave South's cotton crop during the Civil War.

[NUMBERS GAMES]

". . . it was obviously only a question of time before some smart fellows would start building companies not around the logical progression of a business but around what would beef up the numbers." —"ADAM SMITH," *The Money Game*

WHEN TEX THORNTON AND COMPANY took over Litton, it was essentially a laboratory production office, a very modest enterprise. After four years under the new management, Litton's annual sales had risen from $3 million to $100 million—and that was just the beginning.

The traditional conception of the growth of a business brings to mind images of the firm selling more of its products, creating new ones, and building new plants to produce more to sell. Only a fraction of Litton's growth, in fact, was achieved in this way. Of the $97 million increase during Tex's first four years, for example, sales from Charlie Litton's original firm accounted for only $11 million. The rest of the increase in sales resulted from the acquisition of some 17 previously existing companies and their incorporation into a new overall financial superstructure: "Litton Industries, Inc." As Thornton explains, "We had to grow fast. There wasn't time to learn a business, train people, develop markets. . . .We bought time, a market, a product line, plant, research team, sales force. It would have taken years to duplicate this from scratch."

Buying, not building, was the formula of Litton's growth. To understand how a small firm with limited resources *can* buy itself into bigness, one must understand how corporate growth can feed on itself. For the very act of merger creates new power to merge on an even larger scale through its effect on the value of the corporation's stock.

The value of the stock and therefore of the corporation is not determined by adding up the values of tangible assets: cash reserves, inventories, equipment, plant and so forth. The value of the stock is determined by what people are willing to pay for it, and they will pay more now if they expect its value to rise in the future. Of course these are not just expectations of expectations, but are ultimately derived from an assessment of the potential for real growth of corporate assets and earnings.

Expectations, however, are by nature intuitive, and intuition can be influenced by all kinds of intangible factors. Jack Dreyfus, head of one of the biggest mutual funds on Wall Street, once commented wryly on the subjective "glamour" factors which have gone into making the stock of corporations like Litton highly valued on the market, by offering his own prescription for such a success: "Take a nice little company that's been making shoelaces for 40 years and sells at a respectable six-times-earnings ratio. Change the name from

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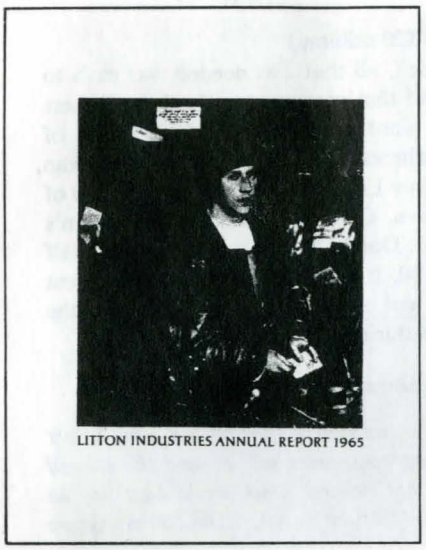

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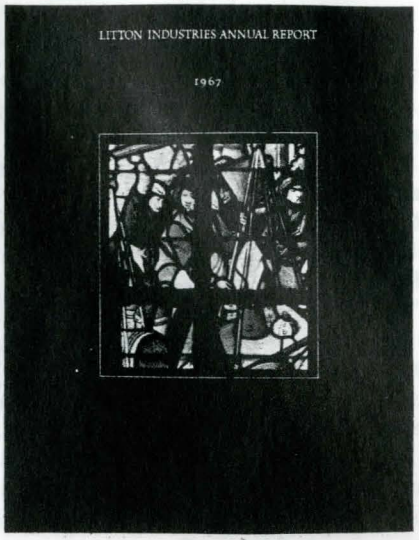

Shoelaces Inc. to Electronics and Silicon Furth-Burners. In today's market, the words 'electronics' and 'silicon' are worth 15 times earnings. However, the real play comes from the word 'furth-burners,' which no one understands. A word that no one understands entitles you to double your entire score. Therefore, we have six times earnings for the shoelace business and 15 times earnings for electronics and silicon, or a total of 21 times earnings. Multiply this by two for furth-burners and we now have a score of 42 times earnings for the new company."

The key to conglomerate growth is the fact that a company's stock can be—and ordinarily is—the "money" that is used to purchase another corporation. So a smart businessman can make the process come full circle. By successfully creating a glamorous "growth image" on the stock market that excites expectations of real future growth, he can drive the value of his stock up. This then gives him new "money" with which to buy *real* assets in the form of another corporation: in other words, his business can grow in fact and not just on paper, thereby confirming the expectations he aroused and further strengthening the image. And so the circle becomes a spiral of increasing growth.

It is small wonder, then, that creating a glamour image is a major preoccupation of conglomerate managements like Litton's. Indeed, Litton was a pioneer in converting the traditionally staid Annual Report to Stockholders into a high-class Advertisement for Myself. Litton's reports look more like catalogues from Pasadena's Huntington Museum of Art than informational materials from a major industrial corporation. Abraham J. Briloff described it in the Financial Analysts Journal: "Litton's 1967 report is, as you undoubtedly know, a most beautiful document . . . which symbolizes the ethics of 20th century commercial life in the New Industrial State . . . distorted in my view is the series of graphs most beautifully set to type at page 55 of the annual report. . . . The curves which the eye is invited to make are optical illusions capable of inducing inappropriate investment decisions."

Another art which is employed in the production of a glamour image is creative accounting. This important technique of the Big Growth game is made possible by the looseness of the principles under which firms are audited. The usual methods are not as crude as those that were used at Hughes Aircraft, but their effects can be pretty significant.

As the pseudonymous "Adam Smith" notes in *The Money Game*, "Numbers imply precision, so it's a bit hard to get used to the idea that a company's net profit could vary by 100 per cent depending on which bunch of accountants you call in, especially when the market is going to take that earnings number and create trends, growth rates, and little flashing lights in computers from it. And all this without any kind of skulduggery you could get sent to jail for." An explanation for this legal generosity was given by the real Adam Smith, the 18th century prophet of the free enterprise system. The very purpose of government, he wrote, was "to secure wealth, and to defend the rich from the poor."

THE SPREAD BETWEEN ONE SET of figures and another can be the difference between a real glamour stock and a merely good performer, as evidenced by Litton's 1967 report, which with one flick of the accounting wrist boosted the figure for the increase in the corporation's earnings over the previous year from 15 to 26 per cent. This was accomplished by ignoring the pre-merger earnings of newly-acquired companies when estimating the increase. And this is only one of the gambits available to merger oriented firms. As "Adam Smith" observes, "If you are busy buying and selling companies, every time they pass through your accounting firm you get the chance to try to describe artistically some of the assets as earnings, to capitalize costs that have previously been expensed, and in general to create what Wall Street is looking for, which is a neat pattern of constantly growing earnings."

Conglomerates are so obviously based on highly speculative, not to say shady, principles that even the Wall Street Journal has been prompted to take off its gold-rimmed rose-colored glasses for an instant and ask a few probing questions about them: how much of their growth is based on improved products and efficiencies and how much reflects the attractive arithmetic of acquisition and the temptations of empire building? . . . Can they be managed efficiently?

This last question has an especially poignant ring for Litton's supermanagers. In 1968, Litton's second quarter report admitted a disastrous 30 per cent earnings drop (Litton's stock

price plummeted nearly 50 per cent at the news), reflecting managerial errors so gross that not even the most creative accounting techniques could cover them up.

The mistakes affected several of Litton's divisions, including its business furniture, Royfax duplicators, Monroe calculators, and its Royal typewriter line. But the biggest error of all provided the clue to the overall pattern of Litton's debacle. The Litton shipyard, which had been accustomed to a rich diet of cost-plus contracts at the government trough ("Your chances of losing money" under such contracts, admits a Litton executive, "are not too great"), had for the first time bid competitively on a package basis for the construction of automated merchant vessels—a *civilian* contract under which you don't get to come back for more money if you can't make it at the agreed-upon price. The result of this market test was that Litton underestimated the costs, submitted a bid that was too low, and instead of netting a profit, had to write off a loss of $8 million.

In what must rank as the understatement of the year, Fortune, after noting that the key to Litton's setback was its inability to stand the test of the relatively competitive civilian market, observed: "The requirements for profitability in government work are less exacting than those of the private marketplace." They certainly are.

Under government contracts there is a decided lack of competitive strictures. Little or no capital is risked by the corporation. If it makes errors of judgment, timing, cost analysis and so forth, there are no competitors to take advantage of its mistakes. And it has an enormously understanding buyer. If costs are underestimated, they can always be adjusted up through contract renegotiation. One former Litton executive with responsibilities in this area estimated that as a matter of *normal* practice, Litton in the course of production and development renegotiated its contracts to one and a half times the original price—a nice margin for inept planning and mismanagement.

In short, its vulnerable, soap-bubble growth strategy could never have carried Litton so far had it not possessed the ability, though a small firm at the outset, to get a front-line position in the prime military contract game and latch on to that secret fuel which alone can launch space age corporations towards the moon: the financial largess of the state.

[CONTRACTING NATIONAL SECURITY]

. . . the creation of the U.S. Air Force as a separate military service . . . may have had more important consequences for U.S. industry than any other event in recent decades."

—FORTUNE, SEPTEMBER 1968

THE HIGH POINT OF LITTON'S close connections in Washington was reached during the reign of Tex Thornton's one time subordinate, Robert McNamara, as secretary of Defense. Thornton, who was often a breakfast guest at the Pentagon, claims never to have talked business with the secretary during those visits. But, as the executive of another corporation in the contract field observed in a RAMPARTS interview, "A clever man would merely let it be known that he was having breakfast with McNamara every other morning. When talking to procurement officers and the like, he wouldn't even have to mention McNamara's name."

The subtle but far-reaching significance of good connections was pointed out by the leading student of the military-industrial complex, Professor H. L. Nieburg: "Officials in the lower reaches of the government bureaucracy (both civilian and military) charged with administration of contracts, find themselves dealing with private corporate officials who often were their own former bosses and continue as companions of present bosses and congressional leaders who watchdog the agencies. A contract negotiator or supervisor must deal with men who can determine his career prospects; through contacts, these industrial contractors may cause him to be passed over or transferred to a minor position in some remote bureaucratic corner, sometimes with a ceremonial drumming before a congressional committee."

Among Litton's vice presidents are Joseph Imirie, a former undersecretary of the Air Force, and John H. Rubel, a former assistant secretary of Defense (a key member of the McNamara team). But what may be Litton's most important connection is Tex's close friendship with George Mahon, chairman of the vital House Appropriations Committee. Mahon's Texas district lies near Thornton's home town, and Tex has been friendly with him since the Whiz Kid days at Ford. According to the previously quoted executive, Mahon "is a very dedicated public servant, but he doesn't know how to handle the power he has. This friendship [between Mahon and Thornton] has had more to do with the growth of Litton's military contracts than any other factor. Tex has played Mahon like a fiddle."

But political strings are only half the story. More than any thing else, it is the defense contracting system itself, as it evolved after World War II, which has created the new and sinister relationship between the giant corporations and the state.

Following the profiteering scandals of World War I, which revealed that American business had milked the American taxpayer by "sliding" price policies on military contracts, and had spent the lives of many American soldiers by producing cheap, shoddy equipment, the practice of competitive bidding on government contracts was instituted to simulate the open market. The two armed services developed their own "in-house" design and production capabilities which served to measure and check outside performances. Under the pressures of the Second World War, contracting procedures on aircraft ordnance and ammunition reverted to the cost-plus basis which had inspired the earlier scandals. Then a series of developments after the war produced the current unprecedented state of affairs.

First, as part of a movement heralded as a return to "free enterprise," plants, factories and facilities built by the government during the war were either sold to private corporations usually at a fraction of their original cost, or were leased at nominal fees to contractors, to use for military contracts. This largely deprived the government of the performance "yardstick" of its in-house facilities.

Second, the Air Force was established as an independent military service. Naturally, it did not have the already built in-house capabilities of the other two services, so it hired out the entire process of designing, producing and even maintaining weapons systems, instead of presenting its own designs to contractors for production. This necessitated a cost-plus contractual basis, since no prearranged price could

be fixed for so indeterminate a process. In addition, the Air Force's prime contracting corporations, now responsible for complete weapons systems, had to establish, in the words of one Congressional Report, "procurement organizations and methods which proximate those of the government." These prime contractors were thus in a position to force subcontracting small companies out of business, acquire their proprietary information, make or break geographical regions and decide a host of other critical issues of national import, without even the quasi-democratic checks imposed on the federal bureaucracy. No wonder H. L. Nieburg has warned of the ominous erosion of public control by the giant aerospace companies and has dubbed the whole relationship "the contract state."

Once established, prime systems contracting quickly spread to the other services. A losing battle with the Air Force for responsibility for missile program development taught the Army that its extensive in-house capabilities and technical independence were a distinct disadvantage. For in the political struggle over missile development, the Air Force's corporate prime contractors constituted a powerful lobby in Congress against which all the in-house expertise of the Army was of no avail. A quick learner when the future of its bureaucracy is at stake, the Army began to disband its in-house facilities and to surrender its jurisdictional and discretionary capacities to private industry and the latter's impressive political power. For any corporation in advanced technologies on the way up, prime contracting soon became the indispensable order of the day.

FROM THE OUTSET, THE NEW Tex Thornton team at Litton had its eyes on the really big electronic equipment and systems markets. They were determined not to be pikers and they knew their way up the federal escalator, but they needed a break. In 1954, a team of Litton scientists headed by Dr. Henry Singleton appeared ready to give them one. He outlined a project for miniaturizing an inertial navigator and guidance system. Perfecting such a system was of paramount importance to the military, for it would be the only kind of navigational system that could not be electronically jammed. Further, a missile guided by such a navigator would not emit signals that would disclose its whereabouts. The military had already set out the objectives of such a system and various working devices had been produced, but they all weighed from 500 to 1000 pounds, too heavy for aircraft and missiles. Thus, Singleton was proposing an innovation that would revolutionize the field.

All that was needed to attempt to develop the system was capital. Of course the Litton management, well oriented towards the new age, had no intention of putting up their own money, or of raising it through old-fashioned loans or investors. For to raise capital in that way would entail risks and obligations. What Litton really needed was a banker who would not seek repayment of capital (with interest) if the investment bore no fruit, and if the project should come through, who would not insist on reaping any return on his investment. Could there *be* such a banker? Litton thought so.

With nothing but a wooden mock-up of the proposed navigator and a ten-cents-a-mile expense account for its station wagon, the Litton sales team set out to sell a miniaturized inertial navigation system to the Army Air Corps. In 1956, they finally convinced the purchasing agents at Fort Huachuca, Arizona, to finance the development of a prototype. For its proposal, Litton got a fixed price redeterminable contract for $214,902.

With the Fort Huachuca contract safely tucked away in their display kits, Litton salesmen then made the rounds of various other government agencies and aerospace firms, stressing the advantages of getting in on the ground floor with contracts for the navigators while the opportunity lasted. In 1957, Litton contracted to produce for Grumman, the chief Navy aircraft supplier, 68 of the navigators for Navy planes. By 1959, this contract was worth some $7,400,000. In subsequent months, Litton used its new foot in the door with Grumman to sell them additional items, until their total contracts amounted to a full $10 million.

According to the Steele case testimony of John McDonald, then head of Litton's electronics division's contract negotiations, Litton's engineers did successfully achieve the new revolutionary design. But Litton never delivered the prototype navigator to the Army, which had originally paid for it; instead, it used the design to fulfill its contract with Grumman Aircraft. All the Army got was a bagful of disassembled parts. In 1960, the Army purchasing officials canceled Litton's contract "for the convenience of the government."

As for Litton, it had won for itself a tremendous future contracting position for electronics and guidance systems in missiles, planes and even ships, on which all the federal giveaways on costs and profits would be multiplied a thousandfold. No longer a little laboratory but a real comer in the field, Litton was now ready for a really golden opportunity: a major subcontract for the guidance system of the F-104 Starfighter jet. And when Germany decided to incorporate 700 F-104's into its postwar *Luftwaffe*, Litton bought two German companies just to produce the guidance systems for their version of the plane. Unfortunately, the *Luftwaffe's* Starfighter turned out to be, in the words of Business Week, "an essentially American product that now bears the blackest name in the history of German aviation." At least 83 of the planes crashed, killing 42 pilots and forcing Litton to modify the guidance system. Some time later a further modified version of Litton's navigator was installed in America's newest fighter plane, the ill-fated F-111, McNamara's notorious pet project and one of the costliest boondoggles of all time. The prime Navy contractor for that plane: Grumman Aircraft.

[CONTRACTING A MODERN INDUSTRY]

"*The aerospace industry, with its intimate contacts in the Department of Defense, is making its move now to take over the entire maritime industry in the United States. Unless the maritime industry recognizes its real enemy, the military-industrial power of the aerospace industry will suceed.*"

—FROM A FULL PAGE AD IN THE NEW YORK TIMES, OCTOBER 24, 1966, PLACED BY THE CHAIRMAN OF THE BOARD OF THE NOW DEFUNCT SAPPHIRE STEAMSHIP LINES.

THE AMERICAN MARITIME INDUSTRY had been ailing badly since World War II. Even the captive business of the U.S. Navy and a big federal subsidy on non-military business (paying the difference, up to 50 per cent, between U.S. shipbuilders' inflated prices and those of foreign rivals) couldn't sustain sales. The Swedes and the Japanese had surpassed them technologically, and protective government assistance had merely allowed the gap to widen. So

in the early 1960's, the U.S. Navy, which bought 80 per cent of the industry's output anyway, decided to act.

The Navy—then the last holdout—decided to adopt the Air Force's "total package" or "weapons system" approach: a single shipyard would be given a supercontract to design a ship and build a fleet of them. The extraordinary scope of the order would require the contractor to build a new shipyard with modern assembly line features unavailable in then current U.S. shipyards. And because the contract was for a total package, the contractor would have to plan everything from the skills of the crew to the maintenance requirements.

Of course no one in the maritime industry at that time was even remotely equipped to handle this kind of operation. In essence, it was a plan to vault over these moribund corporations, arriving in one jump at a new technological level by turning the shipbuilding business over to the only corporations who were already equipped for the "systems" approach: in a word, aerospace. And among the aerospace corporations, those fortunate enough to have had a head start in the maritime field would naturally be ahead of the game.

The Navy did not announce its decision to adopt this new approach until after 1963. But long before the announcement came, Litton somehow managed to get a sniff of what was in the wind. As Roy Ash explained, "We saw some developments coming and thought we could be a part of them. One thing we foresaw was an expansion of the practice—it was already established in the Air Force and for Navy aircraft—of turning to industry for help in developing total weapons systems." So in 1961, Litton picked up Ingalls, an ailing shipyard with $60 million in annual sales, for $8 million and an agreement to pay $9 million in debts to the Navy. Ingalls got a number of contracts over the next few years—for one amphibious assault ship here, six cargo ships there.

Then in November 1965, the big deal went up for grabs: McNamara announced approval of a large integrated system of Fast Deployment Logistics (FDL) ships. These "floating warehouses"—perhaps as many as 30 of them—would be stationed strategically around the world, ready to move quickly into "trouble spots" to back up U.S. troops with ammunition, C-rations, tanks, etc. The FDL was the first ship to be handled under the Navy's new weapons system approach.

Several shipbuilding companies were in the initial bidding for the contracts, but they all either dropped out or were eliminated. The final stage of bidding included three aerospace giants: Litton, General Dynamics and Lockheed. Each got $5 million in contracts to finish plans for the FDL and the yard. Of course each would need a site for its yard. According to the Wall Street Journal, climate ruled out New England and the steep cost of steel and highly unionized labor made the West Coast undesirable. That left the U.S. domestic colony of cheap labor: the South.

Litton, of course, luckily already had a location in the South, in Pascagoula, Mississippi: Ingalls shipyard, to be exact. But they still needed to find a way to finance the new yard, which according to informed sources at the time would cost $100 million to build. And this time the federal government was not putting up the money. But there are state governments too. Already the largest employer in Mississippi, Litton went straight to the state capital and threatened to take their new yard to Tampa, Florida, if they did not get cooperation. Mississippi quickly agreed to build the most modern shipyard in the world and hand it back to Ingalls on lease at a minimal price. Governor Johnson called a special legislative session in order to pass a $130 million bond issue (the extra $30 million was interest). In October 1967, the bond issue was approved by Mississippi voters.

Of course the people of Mississippi would "own" the leased-out shipyard, though they would not reap the profits from or control its operation. For their $130 million investment they would get an estimated 12,000 jobs, at Pascagoula wages and under special "long-term" union contracts ("yellow dog" is such an old-fashioned phrase). Litton also rewarded its Mississippi friends by writing into its contract the latest in sophisticated legal loopholes to help the shipyard bosses keep blacks out of the good jobs for as long as possible.

Yet, despite all this stage setting, Litton still had not been awarded the contract. So they set 200 experts to work on a winning design, under complicated and difficult new CF-CD (Contract Formulation; Contract Definition) procedures that had been worked out by McNamara's assistant secretary of Defense, John H. Rubel.

Once again, Litton was in luck: in the interim Rubel had shuttled over from the Defense Department to head the Litton team working on the bid. Having helped toss the plum in the air, he was right on the spot to catch it. Unfortunately, however, just as Litton won its $2 billion prize, the project hit a snag. Congress refused, first in 1967 and again this year, to appropriate the money for the FDL's. In the Senate debate even Richard Russell, chairman of the Armed Services Committee, expressed concern that the ocean-going bases might contribute to "an impression that the U.S. has assumed the function of policing the world and can be thought to be at least considering intervention in any kind of strife or commotion occurring in any nation of the world." Of course, an embittered Litton backer might note that military land bases may have a special place in Senator Russell's heart, since he has blessed the construction of 19 of them in his home state.

But do not fear for Litton; it is an unwritten law of the contract state that what the Navy brings to birth it does not allow to die. The Navy will see that Litton, its answer to the decrepitude of the U.S. maritime industry, is well taken care of. Since the first congressional slash, the Navy has already salved Litton's wounds with at least $1.2 billion in new contracts.

And Litton's now modernized shipbuilding enterprise, which has already become the largest producer of automated cargo ships in the world, can still, like the older maritime companies, mark up its price to civilian buyers 50 per cent above the prevailing world market price and have the difference paid by U.S. taxpayers—through the nose. Litton's relationship with the Navy was summed up quite well by Senator Stuart Symington: ". . . Litton has got the whole bag now."

Part Two of this article, appearing in the next issue, describes the most recent—and far-reaching—developments in the odyssey of Litton Industries and the contract state, the further supplanting of the political process in the governance of American society. Chapters in this episode include the disturbing stories of Contracting International Development (in fascist Greece) and Contracting Poverty ("welfare" and the education of the poor).

Researchers on this story: Jan Austin, Lee Webb, Peter Wiley.

Litton Industries; Proving

"Business and industry are our last hope. They are the most realistic elements of our society." — KENNETH B. CLARK, PSYCHOLOGIST, TESTIMONY BEFORE THE KERNER COMMISSION

[TITANS AND OLYMPIANS]

WHILE MOST EYES WERE FOCUSED on the presidential elections, an unprecedented humiliation was being visited upon one of the dinosaurs of the American corporate community. The United Fruit Company—whose board directors and presidents were accustomed to serving the nation as secretaries of State and directors of the CIA, and whose divisional branches exercised unchallenged supremacy over sovereign republics in the banana belt of Central America—found that it was the target of a series of takeover bids. Who would have the nerve?

Twenty-five years ago Textron, Incorporated, was only a diminutive manufacturer of textiles. Since then, however, the firm has acquired a new name and scores of companies spanning 27 industrial categories, and has taken a prominent place in the military-industrial complex. On election eve Textron announced that it was adding United Fruit to its family.

This was not the biggest merger of the year, but it dramatically symbolized the tremendous upheaval that is shifting the corporate foundations of American society. The U.S. is currently in the midst of the largest merger wave in its history, already twice the magnitude of any previous wave and still on the upswing, with no sign of peaking. The main action in this incredible concentration of economic power, accounting for about 90 per cent of all acquisitions in 1968, is going to a new species of corporate organization: the conglomerate. Led by such aerospace giants as Litton Industries, Ling-Temco-Vought (L-T-V) and Textron, the conglomerates are already regarded by many as the heirs apparent to American corporate power. With their feet solidly planted in the military-industrial complex, each has managed to absorb close to a hundred other corporations and to create a composite giant whose scope of industrial enterprise is truly awesome.

This explosive velocity of conglomerate expansion makes the most fantastic projections seem plausible. Litton Industries provides a typical case in point. Fifteen years ago Litton was a $1.5 million electronics firm. Today, employing about 100,000 people in 28 countries, it is worth more than a thousand times as much. The record of L-T-V is equally spectacular. Twenty-two years ago, James J. Ling invested $3000 in an electronics shop in Dallas. Today the successor of that firm, L-T-V, is even bigger than Litton, with $1 billion in assets and $2 billion in sales. Moreover, the expansion of these conglomerates over whole empires seems to have no natural limit, unless it is the economic system itself. Indeed, one enthusiastic reporter of the L-T-V octopus has already run his story under the headline: "It is Theoretically Possible for the Entire United States to Become ONE VAST CONGLOMERATE Presided Over by Mr. James J. Ling." Nor is the prospect one from which Mr. Ling would shrink.

[THE TECHNOLOGY OF PROFIT]

THE VAST ACCRETION OF POWER in the last decade to military-based conglomerates like Litton and L-T-V has caused remarkably little public concern, considering the implications for an ostensibly free society. There are many factors behind this default, but probably the most important one is the least conspicuous. It is the universal conviction that bigness and even monopolistic concentration are inevitable, being the natural and necessary consequences of technological modernity. To protest therefore seems merely to stand in the way of progress, mindlessly repudiating the bounty of the age in favor of nostalgic illusions.

John Kenneth Galbraith, the New Monopolistic State's most urbane, unabashed and best-selling apologist, has expressed the wisdom of the times most eloquently: "By all but the pathologically romantic, it is now recognized that this is not the age of the small man." Is it the quest for monopoly profits that has resulted in the gargantuan enterprises which now dominate the American economy? Certainly not, says Galbraith: "Size is the general servant of technology, not the special servant of profits. The small firm cannot be restored by breaking the power of the larger ones. It would require, rather, the rejection of the technology which since earliest consciousness we are taught to applaud." Modern technology, says Galbraith, requires "planning, specialization and organization," and these require that the market be "superseded," "controlled" or "suspended," which is accomplished primarily by monopolistic concentration.

These statements, exuding all the natural plausibility of conventional wisdom, are wholly seductive. To offer empirical support for the generalizations seems almost superfluous. Yet the actual empirical studies that have been made provide no substantive basis for the thesis that technology requires monopoly—indeed they point strongly in the opposite direction.

Thus, the authoritative study in the field (Joe S. Bain's *Industrial Organization*) concludes that for 80 to 90 per cent of the industries investigated, there is no need for high concentration to make production and distribution efficient. On the other hand, many of the new technologies have a decidedly decentralizing thrust, and as Dr. John M. Blair, chief economist for the Senate antitrust subcommittee, has pointed out, highly monopolistic industries like steel have been decentralizing their assembly plants at the same time that another model of monopolistic concentration, General Electric, has "shut down its huge Schenectady factory while making a veritable religion of decentralization."

If relatively high concentration is not technologically justified for single industry firms, it is hardly justified for the conglomerates, which are made up of randomly acquired companies encompassing diverse product lines and categories.

Poverty Pays

For that reason among others, the heads of Litton, like all conglomerate managements, don't like to admit that they are such an enterprise (although their more than 80 companies operate in 18 distinct industrial categories). According to number two man, Roy Ash, Litton's acquisitions have been in fields where its technological capabilities give it a competitive edge. "In truth," comments Fortune, "considerable mental agility is required to perceive an impending technological revolution in some of the businesses Litton has bought—e.g., office furniture."

Litton Industries cannot in fact seriously claim to provide any benefits of integrated production to its jumble of subunits. And if they are sometimes inclined to invoke the salutary but mysterious influence of their mode of central management, when they get down to it the feature of their organization about which they are proudest is just how decentralized it is—with each division manager given his head and acquired companies remaining autonomous and even rivals of their sibling subunits. So the occult potency of Litton's management is like that of the magician who claims to be twice as good as any other because he can conjure a rabbit in a hat *and* make it disappear, all faster than the eye can see. The idea of some arcane technology of management—a notion drawn from military and space prime contracting activities—is Litton's stock in trade. The alternative, that central ownership is just that, that its prime function is to own—i.e., to concentrate financial, industrial and political power—is of course unthinkable.

But the Wall Street Journal did manage to think of it when they interviewed officials of Textron, and they got a rather candid response. Asked the Journal "How can any group of executives maintain control over such dizzyingly varied businesses in most of which they can have had no experience? The answer to the question, say Textron men, is simple. The company has acquired unrelated businesses to make money."

Office furniture aside, Ash's claim that Litton's size facilitates technological innovation reflects another major technological myth of our age: that the giant corporation is a necessary agent for *creating* new technologies. As Galbraith puts it: "A benign providence who, so far, has loved us for our worries, has made the modern industry of a few large firms an almost perfect instrument for inducing technical change. It is admirably equipped for financing technical development. Its organization provides strong incentives for undertaking development and for putting it into use. . . . There is no more pleasant fiction than that technical change is the product of the matchless ingenuity of the small man forced by competition to employ his wits to better his neighbor. Unhappily, it is a fiction. Technical development has long since become the preserve of the scientist and the engineer. Most of the cheap and simple inventions have, to put it bluntly, been made." Once again the record indicates that the "perfect instrument" must somehow be too sublime to do the job.

In an authoritative study of 61 "major contemporary inventions," it was found that only 12 of these could be attributed to the laboratories of large corporations. The jet engine was originated independently in England and Germany by individuals who were unable to interest the aircraft producers in it (the Englishman even allowed his patent to lapse). Kodachrome arose from the experiments of two musicians, "sometimes working in their kitchen sinks between concerts." Other examples of products of individual inventors—often working with primitive equipment—were the first computer (ENIAC), air conditioning, the modern self-winding watch (which was rejected by the Swiss watch companies when it was first offered to them), stereophonic sound reproduction, the syncromesh transmission, neomycin, frequency modulation (FM; it was opposed by RCA) and xerography. In military technology, individuals without organizational support were either responsible for, or played a crucial role in the development of, the gyrocompass, the helicopter, the atomic submarine and the sidewinder missile.

A closer look at the inventions that do come out of the laboratories of the industrial giants should quickly dispel Galbraith's "perfect instrument" idea. Arthur K. Watson, the head of IBM, the very symbol of modern technology in business, pointed out to an International Congress of Accountants in 1962, "The disk memory unit, the heart of today's random access computer, is not the logical outcome of a decision made by IBM management. It was developed in one of our laboratories as a bootleg project—over the stern warning from management that the project had to be dropped because of budget difficulties. A handful of men ignored the warning. They broke the rules. They risked their jobs to work on a project they believed in."

Can it be that the supercorporation of the space age is really all that shortsighted and tightfisted about seeking new technologies? Private industry does after all spend $9 billion a year on research and development (four per cent on basic research, the rest largely on altering, refining, packaging and marketing existing technologies). And of that, the larger firms, those with more than 5000 employees, certainly carry their share. Though they make up only three per cent of the companies doing research, they spend 85 per cent of the total. That looks like pretty extravagant entrepreneurial daring. Of course this investment in the future is made considerably easier for them by the fact that the government puts up 60 cents of every R&D dollar that private industry spends. Moreover, two-thirds of the rest is ultimately charged off as overhead on government contracts.

So it seems that the real entrepreneur is the government, who is not only extraordinarily openhanded about putting up the investment, but agreeably lighthearted about not reaping the profits on it. So agreeable, in fact, that it goes on to buy the product that it financed, at a healthy profit to the surrogate developer. Like buying the Brooklyn Bridge, this must be looked on as an act of peculiar generosity. It is a game where the roles of politician, general, corporate manager and government official are shifted around so rapidly that an embarrassed player can even forget if he is to be the donor or the recipient.

But then again it's not their money. If the corporation is spending the government's money, the government is spending the taxpayer's. If he had a very clear idea of it, the taxpayer might frown on this happy arrangement and spoil all the fun, but his attention is turned toward the welfare pennies allegedly squandered on people who don't work. Whereas the men on the board at Litton have very good jobs indeed.

Litton Industries is a holding company for its decentrally managed subsidiaries. But Litton is not merely a Beverly Hills address where worldwide profits are mailed to be figured by accountants into grand totals. It is a focal point for an empire's growing economic power which it applies with consummate skill to the great financial and political levers on Wall Street and Washington.

LITTON IS A NEW LORD OF THE CORPORATE REALM; it has ascended to an order of nobility that had seemed at the time of World War II to be virtually closed by a stable system of fiefdoms which each of the major corporations had carved out of the Industrial Revolution, leaving no unclaimed ground on which a new economic power could be built. And in fact, although Litton has achieved sufficient financial strength—by playing an inflated stock market for all it is worth—to acquire properties in the economic heartland inhabited by the older corporations, the original and indispensable basis of Litton's strength was not successful competition in already allocated markets. Litton is first of all lord of a newly opened virgin territory. That is to say, Litton is not an industrial pioneer in traditional markets in the sense that one might characterize Polaroid or Xerox, whose spectacular growths have been based on new products which people have found highly useful. Litton is more the master of a "land grant dominion," dispensed and continuously subsidized by the federal government as part of the unbelievable largesse of the postwar contract state.

The form which these grants take is the military prime "systems" contract, and the region is electronics. A good example is Litton's contract to design, plan, produce and maintain, in accordance with broad requirements, a worldwide fleet of floating military bases. Since the price of a system not yet designed cannot be fixed in advance, in systems contracting the government in effect agrees to pay the corporation back whatever it spends, plus profits. The prime contractor is expected to turn around and subcontract whatever it can't do itself and the government advances funds to cover outlays by the contractor. So you don't really need investment capital or competence to get the job—or the profits.

Obviously it's nice work if you can get it. But who gets it and how? Since the criteria of cash and competence are consigned by government contracting policies to roles of distinctly secondary importance, the importance of a corporation's influence in the federal bureaucracies naturally looms inordinately large. For a long time, corporate political strategy had its focus on military decision makers, whether generals or civilians. However, as the military budget has become a permanent factor of major proportions in the economy as a whole, the ramifications of its spending policies have grown more and more extensive. From its contract to build the floating base system, for example, Litton gained facilities and expertise—at taxpayers' expense—which have given it the inside track on the civilian shipbuilding industry as well. More importantly, neither military policy nor the Defense bureaucracy is divorced from the rest of the national political structure, and the political power gained by the successful prime contractors in the military field has become an important basis for extending their field of operation to other areas where the federal government exercises responsibility and allocates its huge budget.

With an eye to the immense dominions of largesse still to be granted by the sovereign power, Litton has been careful to keep its representatives at court and to keep a foot in every available political door. Among its executives and directors are Defense Department secretaries and military generals, highly influential Democrats and equally important Republicans, liberal Humphrey supporters and the chief financial backer of Ronald Reagan—in short, the whole spectrum of legitimized political power (and potential contract dispensation). With its expansive political network as a foundation, Litton has been in the forefront of the move to extend systems contracting to nonmilitary fields. Litton was the first private contractor to take over responsibility for a War on Poverty Job Corps project and the first corporation to apply the systems approach to the economic development program of an entire geographical region (in Greece), and its distinctive mode of operation in these instances provides an ominous portent of things to come. Litton's career follows what may turn out to be the most natural line of development for the huge and continuously growing conglomerate corporations as they overflow the traditional limits which have contained them.

[CONTRACTING DEVELOPMENT]

"*Litton is a world-wide organization dedicated to utilizing the discoveries of modern science by converting them into useful goods and services—products that bolster the Free World's vital economic base and defend the inflexible ideal of human freedom.*"

—LITTON INDUSTRIES' ANNUAL REPORT TO STOCKHOLDERS, 1963

ON APRIL 21, 1967, A SUDDEN coup d'etat in Greece sent a shudder through Europe. The coup, carried out by junior officers to forestall an impending liberal electoral victory, represented a shift so far to the right that the conservative monarchy was eventually thrown into opposition and the king virtually deposed. The epithet "fascist" was thrown in the face of the regime as it quickly filled the jails with thousands of political prisoners. And for the first time in non-Iberian Europe since World War II, the term rang true. The governments of Norway and Denmark immediately tried to have the Greek junta kicked out of NATO, and later out of the Council of Europe. Other West European governments signified their disapproval but reserved action. Even Washington, whose military and intelligence agencies were implicated in the coup, held back any immediate support. Then, three weeks after the overthrow, when the new regime was still unstable and the adverse worldwide reaction held out the possibility that the junta might disintegrate and fall, a gesture of support was made by one of the largest U.S. corporations, one with a reputation for having powerful connections in the White House and the Pentagon.

That corporation was Litton Industries. The gesture was the agreement by Litton to be prime contractor on a "development" program for Greece.

In keeping with Litton's usual strategy, the agreement was on a cost-plus basis, with Litton agreeing to procure $840 million in capital for Greece over a 12-year period. In return, the military junta agreed to repay Litton its costs plus 11 per cent, plus a commission of about two per cent on all capital that Litton succeeded in steering to Greece. For readers whose

minds are fixated on the concept of private enterprise as in some sense free or competitive, the significance of this kind of contract might be spelled out once again. Litton itself risks nothing. Every month Litton files invoices for its costs, and in 15 days it gets back everything it has paid out plus a profit of 11 per cent. As explained by Robert M. Allan Jr., president of Litton International Development Corporation and head of Litton's program in Greece, "The return on investment here, of course, is very large because we don't have any basic investment. Our real investment is our good name which of course is the most valuable thing we own." Litton's good name (and contacts) were indeed attractive assets for the military regime.

Another was Litton's promotional expertise, which was promptly directed to the vital task of convincing Americans —particularly very important Americans—of the virtues of iron rule in Athens. The key figure in Litton's PR work for the junta is Barney Oldfield, Litton International's chief public information officer, who, according to spokesmen for the Greek resistance, runs the pro-junta propaganda campaign both in Athens and in the United States. Oldfield, who was an Air Force colonel before going to Litton, got his PR training as chief public information officer for NATO in Europe and has excellent Pentagon and Republican connections.

To the uninitiated, it might seem strange that the former chief PR man for NATO—a military alliance allegedly formed to defend freedom—should suddenly become a salesman for a totalitarian dictatorship in Greece, but Oldfield's behavior is certainly within the norms laid down by Washington. Thus on May 17, 1968, a year after the coup (and a good deal of Litton politicking), Washington softened its attitude towards the junta. Secretary of Defense Clark Clifford went before the Senate Foreign Relations Committee to ask support for an administration proposal for $661 million in military aid to the dictatorships of Korea, Turkey, Iran, Taiwan and Greece. Of the latter, Clifford said: "The obligations imposed on us by the NATO alliance are far more important than the kind of government they have in Greece or what we think of it."

One of Litton's most important services to the junta prior to its reception into the Free World fold was performed by Litton's president, Tex Thornton, six months earlier in September 1967. Following a meeting of the governors of the World Bank in Rio de Janeiro, Costas Thanos, a high Greek official whom Columbia University has accused of plagiarizing his PhD thesis, and Demetrius Galanis, governor of the Bank of Greece, traveled to New York for a planned banquet with American bankers. At the urging of the U.S. State Department, however, the American bankers decided not to attend. Thanos then flew to Washington and requested meetings with Vice President Humphrey; Secretary of the Treasury Fowler; Congressman Mendel Rivers, chairman of the House Armed Services Committee; and Speaker of the House John McCormack. The Greeks wanted to talk to these powerful American politicians about increased foreign aid and a resumption of full military assistance. However, all four men declined to meet Thanos and Galanis, again because of a negative sign from the State Department. Faced with this crisis, the Greeks naturally turned to their powerful ally, Litton.

Tex Thornton immediately flew to Washington in his private plane, ostensibly to attend a meeting of the President's Advisory Commission on Civil Disorders, of which he was a member, but also to pull some of Litton's golden political strings. Within days, the doors of the four politicians were opened to the representatives of the Greek colonels, while the State Department fumed.

WHILE THORNTON'S BEHIND-THE-SCENES maneuvering was building up pressure for an eventual resumption of military aid to the Greek regime, the junta's first real break came with the announcement of a $12.5 million loan from the World Bank. This was the first solid evidence of external financial support for the regime. (After the coup, the European Economic Community —more popularly known as the Common Market—which had in 1962 made available $125 million in loans to Greece, refused the ordinarily automatic extension of time allowed for drawing the funds. Having used less than half of the total, Greece lost a $70 million credit.) It happens that the World Bank loan was one of the first issued under its new president, Tex Thornton's old breakfast chum Robert McNamara. So this might look like a classic case of friendly persuasion. In fact, however, most observers discount Litton's role.

Ironically it is Litton itself which, rather than issuing demure protestations of innocence, has sought to create the impression —among those who don't already know better—that it was not only responsible for the loan, but that if the Greek junta wants any more loans from the World Bank it will have to go through the Beverly Hills conglomerate. When you are marketing a reputation for prowess and success, Don Juanism can be a valued accusation.

Foreign capital, representing foreign confidence, was obviously a high priority for the Greek junta. One full page ad which the junta ran in the New York Times was headed: "Greece: Ideal Country For Investors." The ad underscored the stability of the internal political situation as a major encouragement to investment, in contrast to the turbulent days of Greek democracy. This was echoed in a speech two months later by Litton's Robert Allan. According to Allan, there were four basic ingredients of national growth in Litton's view: capital, know-how, incentive and "stability of environment." As Allan explained, "If a government will restrain itself from outbursts which create long pauses among investors, and potential investors . . . then we have a working partnership."

Allan's speech went on to attack such opponents of the Greek junta as actress Melina Mercouri and former Cabinet Minister Andreas Papandreou, who were described as "an aging actress without a play" and "an agitating professor out of work." "Their country," Allan declaimed, "which owes its very existence to soldiers who fought for its survival, they say is now in poor hands because the same men rule it." (Actually it was the Communist-led guerrillas who liberated Greece in World War II.)

Readers may be wondering if this kind of double-think is reserved by Litton executives for public occasions and formal addresses. Partly to find out, RAMPARTS went down to Beverly Hills to interview Robert Allan, who describes himself as working "for the Greek people." By the time RAMPARTS spoke with Allan, several authenticated descriptions of the terror in Greece and the torture of political prisoners had already been smuggled out of that country and circulated in the international press. Writing of one of the island prisons five months after the coup, Newsweek observed: "Tradition has it

that the Emperor Tiberius, one of the cruelest Roman rulers, refused out of simple humanity to imprison any of his subjects on the treeless, waterless Aegean island of Yioura. No such scruples, however, inhibit the present military rulers of Greece who, soon after their coup last April, filled Yioura's cellblocks and tent camps with 6500 of their fellow citizens."

Alluding to similar reports documenting the torture of Greek prisoners, Allan went into a monologue right out of 1984: "I satisfied myself that most of these prisoners in Greece are living on an island, the way you and I'd live on Catalina. They're free to come and go as they wish. A lot of fresh air and a lot of sunshine, but no communication. It isn't the way that you and I would like to see something done, but they couldn't stand any more riots. The whole nation was just going into chaos, and this was their way of answering it. I've also tried to my best ability to determine what went on, and as far as I could determine, there was no more torture or beatings than they would have in a normal police station anywhere in the world . . . which, God knows, none of us like, but do go on."

The reason that Litton likes the military junta, as Allan freely admits, is because the junta "provided the atmosphere in which things can get done," and in particular an atmosphere in which Litton could do them: prior to the coup, the Litton contract had been turned down by several Greek parliaments. The very structure and strategy of Litton as a business enterprise gravitates toward the military and the state, and toward authoritarian regimes. The Litton-Greece contract has been followed up by parallel schemes for Portugal and Turkey. In conversation, Allan's thoughts drift toward the dictatorships of Nicaragua, Indonesia and Taiwan, as examples of countries where he'd like to try the "Greek approach."

THIS GRAVITATION TOWARD THE STATE is a function of the systems approach, as is the particular preference for the state's authoritarian forms. The primary features of the systems approach are its dependence on state financing and its need to override the sovereignty of the people. So while one might think that the overall economic development of Crete and the Western Peloponnesus was the proper concern of the people who live in the area and of a representative government of the people, under the Greek-Litton arrangement it is Litton who draws up the overall development plan. "In Greece," explains Tex Thornton, "our objective is not to single out one economic activity, but to apply the systems approach to building a future for that historic nation."

What specifically did Litton's space-age systems-oriented management propose for launching Greece out of its morass of poverty and underdevelopment and into the modern era? "Our primary thrust," Allan explained, "is to develop tourism." If tourism were indeed a lever of development, rather than one of the chief syndromes of economic dependence and underdevelopment, then the West Indies, Spain and Greece itself would long ago have become industrial nations. Old-fashioned imperialism begins to look economically progressive compared to what Litton is proposing! The old imperialists at least dug a mine, built a port (financed by the colony's taxes) and ran a road or a railway from the mine to the port. What Litton has in mind, according to one business magazine, are "hotels, roads leading to hotels, the airport where hotel guests can land, supplies of food and water, handicraft manufacture [for tourist trading posts, no doubt], recreation facilities," etc. In other words, a Disneyland economy with an ample supply of colorful locals to service the pavilions and their visitors. Naturally, Litton's Stouffer Division will supply the hotels.

Perhaps the worst aspect of this is that Allan knows Litton's plan is a bitter prescription for the Greeks. In person he will admit that it won't really meet the long-term needs of the Greek economy. But if there is something offensive about the transformation of the crucible of Western civilization into another Honolulu, then again, worse things could happen. "I don't approve of it, and I hope Greece won't have it happen," Allan told RAMPARTS, "but gee, Honolulu in ten years has gone from here to here [raising his hand over his head] as far as volume of input is concerned."

In addition to the Honolulu complex, Litton has plans for "agricultural development." These feature a system of artesian wells which Allan says would save about $72 million over the cost of a planned system of irrigation dams. Litton also has assigned its computers to wrestle with the problem of the price of brussels sprouts in the West German market, and it is talking of making Crete a major producer of this basic foodstuff. Finally, an international developer from Wichita, Kansas, has submitted a plan to Litton proposing the construction of 300 townhouses, at a cost of $7000 each, in the Western Peloponnesus. The average Greek—for whom the houses, needless to say, are not planned—would have to spend his entire annual income for more than 15 years to buy such an item.

If Litton succeeds in its "development" plans, it is evident that the result will be merely to extend the economic and social blight which has characterized Greece's postwar dependence on the United States and on U.S. investment in tourism, oil refining (Esso-Pappas) and Coca-Cola. However, there are signs that Litton may not be succeeding even in this modest endeavor. Under the terms of the original contract of May 1967, Litton had committed itself, as a starter, to attracting $60 million in foreign capital to Greece by May 1969. With two-thirds of the period gone, Litton has attracted only $3.5 million, or about six per cent of its projected goal. Most of this investment represents Litton's own capital; none of it is in industrial or agricultural projects. Not only has Litton failed to attract any substantial capital (or to invest much of its own), even the research and feasibility studies were not prepared by its own high-powered managerial talent. According to highly placed sources, Litton has been digging up old economic feasibility studies prepared by academics (including the arch opponent of the military regime, Andreas Papandreou), Greek government economists and economic consultants.

All this led to rumors that the junta would not renew the contract with Litton in May. To scotch these rumors, Litton announced plans for a $3 million German brewery, a $350,000 electronics assembly plant (a Litton subsidiary), a $3.8 million Stouffer hotel in Crete and a multimillion dollar tourist complex in the Western Peloponnesus. But while speculation developed as to whether these plans would materialize, Litton was dramatically upstaged by another entrant onto the scene, the newly-wed Aristotle Onassis.

Ten days after Washington had resumed delivery of major military equipment to Greece, thus offering its imprimatur for the regime and a new guarantee of its stability, Onassis announced his own systems approach: a $400 million investment package (the largest ever made in Greece) in tourist

facilities, an airport in Athens, an aluminum processing plant (in conjunction with Reynolds) with a companion thermo-electric power plant, a shipyard, and an oil refinery which, according to initial reports, would be "bound to make more money than all the action in Las Vegas." So it seems that for all his private plane trips and brussels sprouts, Tex Thornton may have been out-hustled by a local boy.

If Onassis has upstaged Litton it is not simply on the basis of national solidarity. The Greek government finds Onassis important because he deals in the kind of old-line imperial enterprises that are part of the basic economy—he owns one of the world's great tanker fleets and will soon be producing his own oil. In contrast, Litton's major thrust is in advanced technologies and knowledge industries geared to markets in highly developed environments. So all it could really attempt in Greece was to exploit the government without exploiting the economy, and there is just not enough loose money around in the country to sustain such an arrangement. The opportunities of underdevelopment were enticing, but Litton was ill-equipped to profit from them.

The perfect situation for Litton would be an underdeveloped area with an overdeveloped government which would be less discerning about results than the colonels. An impossible dream?

Not at all. Litton had already found it—at home.

[CONTRACTING POVERTY]

"THE INPUT—THE RAW MATERIAL—that is fed into this machine is people. The output is people. It is the function of this machine to transform these people." That is the philosophy of "education" held by John H. Rubel, vice president of Litton's Economic Development Division, as expressed in a letter to Sargent Shriver. Rubel, formerly assistant secretary of Defense under Robert McNamara, is credited with having convinced Shriver to award Job Corps contracts to private enterprise rather than strictly to educational institutions. Of course, it was only fair that Litton should get one of the first contracts: the Parks Job Corps Center in Pleasanton, California.

Litton's predictably titled Educational Systems Division includes many valuable properties, such as the American Book, D. Van Nostrand and Chapman-Reinhold publishing companies. They also serve as program administrators for Oakland Community College in Bloomfield Hills, Michigan. Its most important enterprise, however, is the Parks Center, because the Job Corps is the opening wedge for Litton's entrance into the potential treasure houses of social welfare and education.

Litton's public relations department celebrates the Parks Job Corps camp as a free enterprise success story. Recently, Parks placed its 5000th "graduate" in a job; the center has thus placed more of its graduates than any other Job Corps camp in the country. Of course, the PR men neglect to mention that the number one "employer," accounting for roughly 40 per cent of Parks' graduates, is the U. S. military.

Litton administrators consider Viet-Nam a highly desirable placement for their predominantly black corpsmen. The waiting room of the placement office, where each graduate of the nine-month course goes to inquire about future employment, is plastered with posters urging, nondenominationally, enlistment in the Army, Navy, Air Force or Marines. A life-size cardboard cutout of a sharp looking black soldier salutes the graduate as he steps in the door. Piles of brochures invite him to learn "The Secret of Getting Ahead in Today's Action Army." And lest the message be forgotten, on the way out a flashing sign reminds him: DESIRABLE LOCATION—YOUR U. S. ARMY—TRAINING GUARANTEED WITH BIG BUSINESS—YOUR CHOICE OF SCHOOLS—STEADY ADVANCEMENT.

Of course where enticement fails, there is always induction. Every week an IBM print-out announces the names of those at the Parks Center who have turned eighteen. Each one must then register for the draft with a Litton employee, conveniently certified by the local Hayward board. Upon graduation, Litton notifies the corpsman's draft board of his new educational achievements. (Litton arranges for the majority of its enrollees at Parks to receive a high school equivalency diploma, which makes those who had been deferred due to low scores on the Army mental aptitude exam eligible for retesting.) Al Cassell, the head of placement at the Parks Center, explained: "We get draft notices by the hundreds every day. We furnish the draft board with information relative to the training level achieved by the young man. . . . We take him to Hayward and have him retested. . . . If he passes . . . the Hayward testing center notifies his local board, and they in turn will usually draft him."

Even if the corpsman does not improve his score on the test, his new high school diploma might well make him eligible for induction. At one time, in a kind of reciprocal trade arrangement, Litton kept a Job Corps recruiter at the frequently embattled Oakland Induction Center in California. Many ineligible draftees, led to believe that they would become qualified for a high paying job in industry, enrolled in the program only to find themselves returned full circle at the end of the course. Two sergeants from Hayward go out to the Parks Job Corps Center every day. No other prospective employers have permanent recruiters there.

VERNON ALDEN, PRESIDENT OF OHIO UNIVERSITY, envisioned the Job Corps as a place that would "offer a new environment where hopes can be lifted and skills developed free from the shackles of oppressive and antagonistic surroundings." So much for visions.

Litton's Job Corps center, located on an unused Navy base, is surrounded by a barbed wire fence with checkpoints manned by Litton-employed guards. The 2000 corpsmen sleep in open bay Army barracks, wear green uniforms, march to their meals at the mess hall, and are hauled off to the brig when they misbehave. The young men arriving at Parks are not exactly prepared for such an environment. Most of them have been signed up by the Litton recruiters who are stationed throughout the poverty areas of the nation advertising the wealth of opportunity in California. Since Litton's contract with the Office of Economic Opportunity (OEO) depends on a sufficient number of enrollees, the recruiters use every possible means to lure them. Of course, they give the standard come-on: training for a good-paying job, the equivalent of a high school diploma, $30-a-month spending money, a $50-a-month bonus upon graduation for time completed, and a chance to get away from home. There is also exotic talk of pools and girls, private rooms with TV's—even draft deferments!

If getting them there is half the battle for Litton, keeping them there is the other half. When a new enrollee decides that

life was better back home, even though home may have been a decaying urban slum, his request to leave is met with hostility by Litton officials. He is told that he cannot leave for at least 90 days for any reason other than a death in the immediate family. Moreover, if he wants to quit at any time prior to the end of his nine-month course, he must pay his own way home, often halfway across the country.

Those who protest this policy too loudly are "quieted" by muscular counselors or hauled off to the brig. Some become desperate. A psychiatric social worker at Parks reported that he had been assigned to work with a young boy from Dallas, Texas, who had sliced his arm open in an attempt to get out. But even with all of Litton's tenacity, 55 per cent drop out before the end of the course.

Justice at Camp Parks is supposed to be administered by a Center Review Board (CRB) comprised of corpsmen and Litton people. But by disciplinary counselor Lindsay Johnson's own admission, the board is his rubber stamp: "I have a good working relationship with the CRB," he notes. "They do whatever I tell them to."

While Job Corps discipline is harsh, it is not really like the Army's. As one Parks teacher told RAMPARTS, "It isn't feasible to take these kids off the streets . . . and put them in the equivalent of boot camp, especially since the counselors aren't armed." Rather, Litton does try, in its own words, to "rehabilitate the entire social perspective" of the corpsmen, including particularly their work ethics and attitude toward authority. As Pat Coughlin, Parks' program coordinator for occupational training told us, "If the boss tells [the corpsman] to pick up a broom and sweep the floor, he's got to learn not to tell the boss what to do with the broom."

If the physical surroundings at the Parks Center are grim and the general atmosphere intimidating, the educational operation is laughable. The Basic Education program is intended to bring the corpsman's reading and arithmetic skills up to a level appropriate to the specific job skills in which he is to be trained. The curriculum materials for the reading course, developed by Litton, are somewhat unusual. The pre-test, which determines the student's reading level before he takes the course, and the post-test, which determines his level upon completion of the course, are identical. In addition, the actual teaching materials used during the course and those used to measure any improvement contain the same text and exercises as do the pre-test and post-test. Of course, this setup merely passes off the repeatedly coached memorization of a particular passage as the ability to read. But schemes like this enable Litton to present impressive statistical evidence "documenting" their expertise in educating underprivileged youth—a cruel but profitable joke. When a Parks teacher complained that all the enrollees were only learning how to improve their scores on one particular test, the head of Litton's curriculum development at Parks replied, "We're not doing anything here that college fraternities don't do for their members." True enough. Still, no college fraternity has yet been awarded a $25 million government contract to educate ghetto youth.

Aside from such relatively subtle deceptions, there is doubt about the simple veracity of the figures used in the statistics Litton has put out about Parks. According to Professor William Austin, former president of the Parks Federation of Teachers and Counselors, "Public relations officers kept putting out fake figures. . . . One would hear about this number of corpsmen being placed in job positions and this number of corpsmen demonstrating academic success by various grade levels. . . . All of it was nonsense. . . . There was so much pressure on supervisors to produce figures that in general people just faked them. . . . Fifty per cent or more of the corpsmen didn't make it to class . . . if a corpsman quit after having completed just one module out of 15 in the total training, he would be considered a 'graduate.' "

Austin feels that educating the corpsmen is not Litton's primary concern. "The corpsmen didn't mean a damn thing," Austin reported. "There was a lot of very expensive equipment around which nobody had any idea how to use. . . ."

ALONG WITH ITS DISPLAY OF EDUCATIONAL INGENUITY in the management of the Job Corps Center, Litton has exhibited those lucrative skills which have made it a leader among defense contractors. It subcontracts to its own divisions as a means of maximizing profits while minimizing service. Litton originally received from OEO a $12.8 million cost-plus contract with a fixed but redeterminable fee for running the Job Corps Center. It then decided to buy unnecessary textbooks from the American Book Publishing Company, a member of Litton Educational Systems. A General Accounting Office (GAO) investigation later showed that $337,000 worth of American Book Publishing Company textbooks lined closet shelves at Parks. According to a copyrighted story in the Denver Post, "Among the books it bought for Job Corpsmen, many of whom could barely read, were textbooks on the theory of relativity, the stock market and the slide rule."

This same GAO report noted that there was, in the words of the San Francisco Chronicle, "a devastating picture of high costs, waste and disciplinary problems at a Job Corps Center [Parks] in California. After two years of operation the estimated cost of the Center had jumped from $12.8 million to $25.5 million, the dropout rate was 55 per cent and only eight per cent of the enrollees were placed in jobs related to their training."

Given what is known about Parks, it is not surprising that a great deal of racism is exhibited there. One new employee, upon arriving at the gate, was met by a guard who hailed him with, "So you're another one coming out here to help these dumb niggers." But far more unnerving was the surrealistic scene—straight out of *Invisible Man*—when a Litton executive flew over Parks in his private plane dropping dollar bills to the corpsmen assembled below. Litton officials amused themselves by watching the young men trample each other in a frantic effort to grab the money. A former Litton employee remarked that the object of the "airlift" was to "see how fast the niggers could run."

Litton, in keeping with a gentleman's agreement with officials of the semi-suburban towns near Camp Parks, has forbidden corpsmen to enter them. Young men from the Parks Center have reported that whenever they ventured into one of the neighboring communities, they were returned to Parks by local police, although they had created no disturbances. Litton's idea of community relations is to keep the cages locked during the week and to bus the corpsmen on weekends to "hospitality houses" in the nearby cities of San Francisco and Oakland.

According to Professor Austin, living conditions and

sanitary facilities at Parks were at times worse than those in the big city ghettos the corpsmen came from. At one point, hygiene conditions in the dormitories were so bad that Austin approached public health people at the University of California to ask what could be done. The answer seemed to be "nothing," because the center was located on a military base leased to a private company, and no one knew if county health officials had any right to enter the base.

IF LITTON WAS RUNNING PARKS SO POORLY, why didn't the government step in and enforce its contract? The answer is that in the spring of 1967, the OEO did try to enforce part of its contract with Litton. The teachers union at Parks had been refused a room to meet in at the center after working hours, a denial which violated both the National Labor Relations Act and Job Corps bulletin 67-12. Despite the intervention of W. P. Kelly, a director of the Job Corps; Richard Groulx, an executive of the Alameda County Central Labor Council; and several arbitrators from the OEO office in Washington, Litton was able not only to refuse to meet with anyone, but also to fire the president, two vice presidents and the secretary-treasurer of the teachers union for "disloyalty to the company." The last OEO arbitrator, Hyman Bookbinder, commented to Groulx and union officials that the OEO was unable to enforce the terms of its contract with Litton.

During the teachers' strike at Parks that resulted from Litton's action, Senators Robert Kennedy, Joseph Clark and George Murphy of the Senate Subcommittee on Employment, Manpower and Poverty, were in San Francisco on a nationwide tour of the Poverty Program. The senators curiously reversed their original plan to visit Parks, and showed no interest in discussing the situation there with Parks teachers and corpsmen. Cynics said it was possibly because Litton was one of the largest contributors to the Democratic Party, of which Kennedy and Clark were members.

In a recent paper, Professor Austin observed, "Job Corps facilities have been a popular form of educational experimentation for these companies, allowing them to train their staffs and develop materials on taxpayers' dollars." The real profits will come, it is hoped, from supplying the physical plant, audio-visual equipment, curriculum materials and "experts" to educational programs in large cities.

Companies like Litton are planning to subcontract a city's *complete* school system, claiming to be able to meet whatever contractual standards are set more "efficiently" than local school boards could. This will be a tempting offer to the often hard-pressed, bewildered city officials whose school systems have been bogged down by almost total impotence. And for the community, dumping the whole complex educational crisis into the lap of Litton's "experts" would seem a blessed relief.

[CONCLUSION]

BUT COMMUNITY EXHAUSTION WITH social problems is by no means the only thing that the process of business supplanting government has going for it. Government agencies depend on the political influence of business to help them compete for funds and authority. Those which engage in lucrative contracting methods naturally receive the most enthusiastic support, while recalcitrant agencies and programs suffer. This was the pattern in military contracting in the '50s, when prime contracting started with the Air Force and spread to the Army, and later to the Navy. The Air Force was contracting out whole weapons systems, and the contractors, naturally, became a powerful lobby for that service. Thus the Army found itself losing valuable missiles appropriations in Congress to its rival. The Air Force had upped the ante, and the Army was forced to meet the price. Like a protection syndicate, business gives security to those who cooperate with it.

Now, as government social agencies struggle for funds, the Wall Street Journal reports that, "Business is turning into an important force for pushing embattled domestic proposals through Congress." And an executive of the Department of Housing and Urban Development—whose special advisor, General Bernard Adolph Schriever, is called the "space general" for his role in NASA—is quoted as saying: "Each agency has gradually developed a list of firms interested in its field . . . we don't keep them turned on all the time, but we know how to turn them on. . . ."

Among the businessmen who are throwing their support behind constructive social welfare programs is James J. Ling, mastermind of Ling-Temco-Vought, which ranks 38th in Fortune magazine's 1968 listings, six notches ahead of Litton. A recent interview with Ling in the Chicago Tribune indicates the perspective of one of the most important new men of conglomerate power. If and when L-T-V reaches a point where it absorbs the competition or where it is number one on Fortune's list, reports the Tribune, Ling would be willing to consider a political role for himself.

Ling usually votes Republican, though he contributed to the Kennedy, Johnson and Humphrey campaigns and was a delegate to this year's Democratic convention. He doubts that he has the temperament to obtain elective office, but he might accept a cabinet post, preferably as secretary of Defense or secretary of Health, Education and Welfare. Ling's ideas on the latter position are described by the Tribune as "interesting." And so they are. Says Ling: "Once you make a taxpayer of these hard-core unemployables, you're moving towards a solution. It's the old Hitler solution. You teach them by force. You make it mandatory and send them to a government compound. Males at twenty-one, females at eighteen. You teach them personal hygiene, the rudiments of life. It's nothing new. The New Deal, with its NRA, CCC, etc., made tremendous social reforms."

One doesn't know what transpired between the interviewer and the wizard of Dallas at this point; the report continues: "Then again, Ling admits: 'I can't buy it, it opposes free will. But if you could only computerize it,' he sighs. 'Figure the requirements of industry, how many of *this* skill and *that* skill are required, take all the people who want to learn and can't, seek them out. . . .' "

Corporations like L-T-V and Litton Industries are feeding the whole range of social problems into their computers. Will they be the ones called upon to solve them? It may be that there are just enough people who will take comfort in the idea that however bad things look, Big Brother is already there extending a helping hand.

Researchers on this story: Jan Austin, William Goodman, Jack Scott, Lee Webb, Peter Wiley.

PORTRAITS OF A FEW CONGLOMERATE COMPANIES

LING-TEMCO-VOUGHT, INC.

LTV was formed in 1953 as an electronics firm, and had grown through a consolidation of three companies in the aerospace and electronic field. Ten years ago, LTV, then Ling Electronics, employed 675 people in five plants. In 1967 LTV employs 21,000 and is made up of four separate corporations, each listed separately on the stock exchange.

The combination of LTV and Wilson & Co. will total 43,000 employees, over $1.6 billion in annual sales, and $26 million in profits.

An IUD Coordinated Bargaining Committee brings together the 15 international unions at Ling Temco Vought.

TEXTRON, INC.

Textron, old when compared to LTV and Litton, was formed in 1928 as Franklin Rayon Corp., as a textile manufacturer. By 1956 Textron's nine textile plants were overshadowed by its 53 non-textile operations; sales totaled $246 million.

In 1966 textile operations have been abandoned. 1966 sales of $1.1 billion are derived from 50,000 employees in some 28 divisions which were formerly independent companies. Their products include Bell Helicopters, Shaeffer pens, and Shuron sunglasses.

Chairman Rupert Thompson of Textron explains: "We buy a profit center and expect it to do a terrific job without coordination."

An IUD Coordinated Bargaining Committee brings together the 13 international unions at Textron.

GULF & WESTERN

Less than a decade ago, Gulf & Western was a producer of auto parts known as Michigan Bumper Corp., which then changed its name to Michigan Plating and Stamping Co.

Gulf and Western abandoned its limited lines due to the efforts of Charles G. Blukdorn, an Austrian-born security analyst who first acquired control of Michigan Plating.

Gulf & Western's growth accelerated sharply early last year when it acquired the New Jersey Zinc Co., and has taken another big spurt in increased sales and profits when it merged with Paramount Pictures, which is in the movie, records and television business.

Acquisitions pending include Desilu Productions, Famous Player, Canadian Corp. (which operates 250 indoor and 50 outdoor theatres), South Puerto Rico Sugar Corp., North & Judd Manufacturing Co. (a hardware producer), Collyer Insulated Wire Co., and Tyler Pipe and Foundry Co.

An IUD Coordinated Bargaining Committee brings together the 10 international unions at Gulf & Western.

ITT

International Telephone and Telegraph Corporation is the world's 10th biggest industrial employer, with 185,000 workers in 51 countries—32,000 of them in North America. Founded in 1920 as a holding company for telephone and telegraph companies in Puerto Rico and Cuba, it has expanded into a host of unrelated fields.

ITT has bought Airport Parking Co. of America, which operates parking facilities at airports in 59 U.S. cities, as well as 88 downtown garages and parking lots at 30 motels and at 14 hospitals.

Avis Rent-a-Car, the country's best known "number two" rental company, is part of ITT. So are National Auto Rental, National Truck Renting & Narco Parking Systems. The ITT ownership label is on Bobbs-Merrill, Aetna Finance Co., Universal Life Insurance Co. and a planned hotel in Tunisia.

Now the FCC has aproved the controversial merger of ITT and American Broadcasting Co. ABC is in radio, television, records, film distribution, three electronic companies, some farm publications, and 399 theaters in 34 states.

If the merger goes through, the ITT-ABC giant will employ 200,000 people and have annual sales of over $2.6 billion.

An IUD Coordinated Bargaining Committee brings together the eight international unions at ITT.

LITTON INDUSTRIES, INC.

Litton Industries was formed in 1953 as Electro Dynamics Corp. It started off with two plants and 300 employees. In 14 short years it has become a real case study of conglomerates and it epitomizes the new idea of what a corporation should be.

From its original two plants and 300 people, Litton in 1967 is a corporation producing 9,000 products in 188 plants with 76,000 employees. Products range from shipbuilding to space products to typewriters, from display counters to off-shore oil drilling.

From 1956 to 1966 sales went from $15 million to $1.2 billion, and profits from $1 million to close to $55 million.

Litton isn't stopping here. Pending acquisitions include Stouffer Foods, which has 41 restaurants, produces frozen foods, and has 8,000 employees. Rust Engineering, when merged into Litton, will bring over 8,000 additional employees and contribute approximately $225 million in annual sales.

An IUD Coordinated Bargaining Committee brings together the 11 international unions at Litton Industries.

FMC

FMC's history goes back 40 years when it was formed as John Beam Manufacturing Co., a tiny food-machinery company. It began to diversify into a wide variety of machinery, defense equipment, chemicals and fiber operations. In 1964, FMC bought American Vicose for $114 million cash.

In a decade FMC has sprung from 16,100 employees, $294 million in sales, and $16 million in profits of 43,000 employees, over a billion dollars in sales, and $63 million in profits.

One of the company's major pending acquisitions is Link Belt, which will add 1,157 employees and $213 million in sales.

An IUD Coordinated Bargaining Committee brings together the 13 international unions at FMC.